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**Application Proof of**

**SHENHUA HOLDINGS LIMITED**

**參花實業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(the “**Company**”)

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**SHENHUA HOLDINGS LIMITED**

**參花實業控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

[REDACTED]

**Number of [REDACTED] under the** : [REDACTED] Shares (subject to the  
[REDACTED] [REDACTED])  
**Number of [REDACTED]** : [REDACTED] Shares (subject to  
reallocation)  
**Number of [REDACTED]** : [REDACTED] Shares (subject to the  
[REDACTED] and reallocation)  
[REDACTED] : Not more than HK\$[REDACTED] per  
[REDACTED] and expected to be not  
less than HK\$[REDACTED] per  
[REDACTED], plus brokerage of 1%,  
SFC transaction levy of 0.0027%, AFRC  
transaction levy of 0.00015% and Stock  
Exchange trading fee of 0.00565%  
(payable in full on application and  
subject to refund)  
**Nominal Value** : HK\$0.001 per Share  
[REDACTED] : [REDACTED]

**Sole Sponsor**



[REDACTED]

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The [REDACTED] have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable U.S. state securities laws. The [REDACTED] are being offered and sold only outside of the United States in offshore transactions in reliance on Regulation S.

Prior to making an investment decision, prospective investors should consider carefully all of the information contained in this document, including the risk factors set out in the section headed "Risk Factors" in this document.

The [REDACTED] (for itself and on behalf of the [REDACTED]), may, with our consent, reduce the number of [REDACTED] being offered under the [REDACTED] and/or the indicative [REDACTED] range at any time on or prior to the morning of the last day for lodging applications under the [REDACTED]. In such case, an announcement will be published on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [shenhuamianfen.com](http://shenhuamianfen.com) not later than the morning of the day which is the last day for lodging applications under the [REDACTED]. Details of the arrangement will then be announced by us as soon as practicable. For further information, see the sections headed "Structure and Conditions of the [REDACTED]" and "How to Apply for the [REDACTED]" in this document.

The obligations of the [REDACTED] under the [REDACTED] are subject to termination by the [REDACTED] (for itself and on behalf of the [REDACTED]) if certain grounds arise prior to 8:00 a.m. on the [REDACTED]. Please see the section headed "[REDACTED] — [REDACTED] Arrangements and Expenses — The [REDACTED] — Grounds for termination" in this document for further details.

[REDACTED]

[REDACTED]

**IMPORTANT**

[REDACTED]

**IMPORTANT**

[REDACTED]

**EXPECTED TIMETABLE**

[REDACTED]

**EXPECTED TIMETABLE**

[REDACTED]

**EXPECTED TIMETABLE**

[REDACTED]

**EXPECTED TIMETABLE**

[REDACTED]



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*The contents of our Company's website at [shenhuamianfen.com](http://shenhuamianfen.com) do not form part of this document.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. Because this is a summary, it does not contain all the information that may be important to you and is qualified in its entirety by, and should be read in conjunction with, the full text of this document. You should read this document in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed "Risk Factors" in this document. You should read that section carefully before you decide to invest in the [REDACTED]. Various expressions used herein are defined in the sections headed "Definitions" and "Glossary of Technical Terms" in this document.*

## OVERVIEW

We are a leading manufacturer of specialty flour products in Hebei, the PRC. Established in 2002, we have been selling flour products and flour by-products under our brand "Shenhua (參花)" for over 20 years. We have been awarded the designations of State Key Leading Enterprise in Agricultural Industrialisation\* (農業產業化國家重點龍頭企業) and Hebei Province's Key Leading Enterprise in Agricultural Industrialisation\* (河北省農業產業化重點龍頭企業) by national and provincial governmental authorities. According to the F&S Report, we ranked third in Hebei in terms of specialty flour sales volume in 2023, with a market share of approximately 3.7%. Specialty flour is a segment of the overall PRC flour market that has grown rapidly in recent years, as reflected in the increase in specialty flour production volume in the PRC from approximately 20.5 million tonnes (representing 29.6% of the overall flour production) in 2019 to 26.3 million tonnes (representing 37.5% of the overall flour production) in 2023 at a CAGR of 6.4%.

Notably, we have attained a leading position in the PRC heat-treated flour market. As a prime example of our advanced research and development capabilities, we launched our heat-treated specialty flour products in April 2021. Heat-treating is a leading production technique in the PRC market that can eliminate microbiological contaminants and increase water absorption capacity of flour. When applied in flour production, heat-treating can promote the functional attributes of our flour products, including extended freshness and improved quality permitting further production of dough and end food products with an enhanced texture. As reported by F&S, heat-treating of flour, while increasingly prevalent globally, is not widely performed in the PRC due to entry barriers such as the high acquisition costs of the requisite specialised production equipment and the technical know-how required. As an early mover, we stand to reap the benefits of being able to penetrate the market before the entrance of other market participants and secure a larger market share. In terms of heat-treated flour production volume in 2023, we ranked second in the PRC with a market share of approximately 29.7%.

We have been actively seeking to advance our heat-treating capabilities. To strengthen our technical expertise and further improve our industry standing, we are endeavouring to establish an accredited industry standard in the PRC in relation to heat-treated flour through collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院). As at the Latest Practicable Date, the proposed industry standard has already been drawn up and the accreditation is subject to completion of the review and assessment process by the relevant governmental authorities.

Leveraging our know-how and expertise in relation to design of flour product formulations, we have been able to produce flour products tailored to the wide-ranging and evolving tastes and preferences of consumers and needs of food product manufacturers. During the Track Record Period, we had manufactured and sold a diverse portfolio of flour products, which comprised over 110 general specialty flour products (tailored for making specific food products, such as bread, pastries, noodles, dumplings and cakes), over 10 heat-treated specialty flour products (being advanced versions of specialty flour products that carry superior functional attributes) and four all-purpose flour products (suitable for making a wide variety of food products). We had also sold flour by-products derived from the flour production process, such as wheat middlings and bran.

## SUMMARY

The table below presents a segmental revenue breakdown of our Group during the Track Record Period:

	FY2021		FY2022		FY2023	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Flour products</b>						
– General specialty flour	320,399	64.1	262,059	55.9	317,781	58.4
– Heat-treated specialty flour	96,970	19.4	140,088	29.9	141,879	26.1
– All-purpose flour	16,718	3.3	4,808	1.0	5,395	1.0
Sub-total	434,087	86.8	406,955	86.8	465,055	85.5
<b>Flour by-products and others</b>	65,909	13.2	61,619	13.2	78,908	14.5
<b>Total</b>	<b>499,996</b>	<b>100.0</b>	<b>468,574</b>	<b>100.0</b>	<b>543,963</b>	<b>100.0</b>

We take pride in the consistency in flour quality and performance that we are able to deliver, which, to the best of the knowledge of our Directors, is instrumental in guaranteeing the smooth and steady production and operations of our customers. Particularly, for those large-scale food product manufacturers that have adopted automated production, any fluctuation in quality or efficacy of the input flour could potentially disrupt their entire production process. We believe quality and performance consistency is the prime feature of our flour products that has enabled us to win the trust and confidence of our customers, including renowned and established corporations in the PRC.

### OUR PRODUCTS

We offer a wide variety of flour products under our brand “Shenhua (參花)” to meet the diversified needs of our customers. Our flour products can be divided into the following classes, categories and types:

Product class	Product category/ Reportable segment	Product type	Description
<i>Specialty flour products</i>			Flour products comprised of flour with varying gluten content levels and characteristics, which are tailored for making specific food products (such as bread, pastries, noodles, dumplings and cakes).
	General specialty flour products		Specialty flour products that have not been heat-treated.
		Pure general specialty flour products	Specialty flour products consisting purely of non-heat-treated specialty flour and not mixed with other ingredients.

**SUMMARY**

<b>Product class</b>	<b>Product category/ Reportable segment</b>	<b>Product type</b>	<b>Description</b>
		Pre-mixed flour products	Mixtures generally consisting of specialty flour and other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat). They include all major ingredients required for food production and can readily be converted into specific end food products just by adding some basic substances (such as water). Examples of the end food products that can be produced include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou.
	<b>Heat-treated specialty flour products</b>		Specialty flour products that have undergone the further production stage of heat-treating and carry extended freshness and a stronger water absorption capacity as compared with general specialty flour products.
		Pure heat-treated specialty flour products	Specialty flour products consisting purely of heat-treated specialty flour.
		Blended specialty flour products	Specialty flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour. As these two types of flour are already blended in optimised and standardised portions when delivered, downstream users will not need to perform the blending process themselves, permitting increase in production efficiency and reduction in production costs.
<i>All-purpose flour products</i>	<b>All-purpose flour products</b>	All-purpose flour products	Flour products comprised of flour with a medium gluten content, which are intended for general applications and suitable for producing a wide variety of food products.
<i>Flour by-products and others</i>	<b>Flour by-products and others</b>	Flour by-products and others	Flour by-products, namely wheat middlings and bran, are substances produced as by-products in our flour production process.

## SUMMARY

We launched our heat-treated specialty flour products in April 2021, which witnessed a rapid growth in terms of revenue during the Track Record Period. Our sales of heat-treated specialty flour products amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million for FY2021, FY2022 and FY2023 respectively, representing a CAGR of 21.0%. In line with consumer preference, we have primarily been supplying our heat-treated flour products in blended form. Downstream users stand to streamline their production workflow as the heat-treated specialty flour is already blended with non-heat treated specialty flour in optimised and standardised portions when delivered. This allows downstream users to reduce production costs and other operating costs (such as research and development expenses).

We have also introduced pre-mixed flour products with a view to simplifying the production process of specific end food products to the largest possible extent. Since all major ingredients required are included in optimised portions as a package and provided together with production directions, the entire production process of the end food products becomes much more straightforward, and users can largely dispense with research and development work, design of product formulations, selection and procurement of raw materials, and acquisition and maintenance of production equipment. As part of our business strategies, we intend to expend resources developing our retail channels via popular e-commerce platforms in the PRC, where our target customers will primarily be individual consumers. We envisage that our pre-mixed flour products will be well received by the individual consumers via this sales channel, given the ease, convenience and cost savings such products bring in food production. We therefore expect our pre-mixed flour products to play a pivotal role in the development of our online retail channels with prospects for sales growth. For details, please refer to the section headed "Business — Business Strategies — Expand our sales network and further develop our brand 'Shenhua (参花)'" in this document.

### OUR CUSTOMERS

During the Track Record Period, we had sold our flour products and flour by-products to customers primarily including food processors (i.e. customers which purchased our flour products for further processing into end food products) and wholesalers (i.e. customers which purchased our flour products for onward sale to their customers). For FY2021, FY2022 and FY2023, our sales to our five largest customers accounted for approximately 48.6%, 61.7% and 63.2% of our total revenue (with 27.0%, 22.0% and 19.0% being attributable to our largest customer) respectively. To the best of the knowledge of our Directors, none of our Directors, their close associates or our Shareholders owning more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period at the relevant times. For further details, please refer to the section headed "Business — Customers" in this document.

### OUR SUPPLIERS

During the Track Record Period, we had purchased the principal raw material used in our production process, i.e. wheat, from suppliers (including state-owned enterprises and well-established corporations principally engaged in sales of agricultural products) primarily located in Hebei, Shandong, Henan and Tianjin. We maintain a list of approved suppliers from which we source our raw materials consisting of more than 40 suppliers as at the Latest Practicable Date. For FY2021, FY2022 and FY2023, our purchases from our five largest suppliers accounted for approximately 63.0%, 68.4% and 70.8% of our total purchases, (with 21.0%, 39.9% and 19.4% being attributable to our largest supplier) respectively. To the best of the knowledge of our Directors, none of our Directors, their close associates or our Shareholders owning more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our top five suppliers during the Track Record Period at the relevant times. For further details, please refer to the section headed "Business – Suppliers" in this document.

## SUMMARY

### COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our position as one of the leading specialty flour manufacturers in Hebei: (i) we enjoy a leading position in the specialty flour segment of the PRC flour manufacturing industry; (ii) we have strong product development capabilities and a diversified product portfolio; (iii) we place great emphasis on the safety, quality and performance consistency of our products; (iv) we are based in Hebei, a major wheat production area which is also proximate to the major grain consumption areas in the PRC; and (v) we have a dedicated, experienced and insightful management team. For further details, please refer to the section headed “Business — Competitive Strengths” in this document.

### BUSINESS STRATEGIES

To continue to expand our business and increase our market share in the flour manufacturing industry, and to further the accomplishment of our business objectives, we plan to implement the following strategies: (i) enhancing our production capabilities through enriching our production facilities; (ii) expanding our sales network and further developing our brand “Shenhua (參花)”; and (iii) developing new products and further diversifying our product range. For further details, please refer to the section headed “Business — Business Strategies” in this document.

### OUR MILESTONES

Our history began in 2002 with the establishment of Shenhua Flour to carry out manufacturing and sale and flour products and flour by-products, and since then we were led by Mr. Yao, our Controlling Shareholder, who is a veteran in the flour products industry. For further details, please refer to the section headed “History, Reorganisation and Corporate Structure — History and Development” in this document.

[REDACTED]

We have entered into a subscription agreement, which constituted [REDACTED] with the Guofu HK in the course of the [REDACTED]. For further details, please refer to the sections headed “History, Reorganisation and Corporate Structure — [REDACTED]” in this document.

### OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme), Mr. Yao (through Affluent Aspire, the principal business of which is investment holding) will be interested in [REDACTED] Shares, representing [REDACTED]% of the Shares in issue. As such, Mr. Yao and Affluent Aspire will be regarded as a group of Controlling Shareholders which hold a controlling interest in our Company upon completion of the [REDACTED] and the Capitalisation Issue. For details, please refer to the section headed “Relationship with Controlling Shareholders” in this document.

### CONTINUING CONNECTION TRANSACTIONS

We have entered into, and are expected to continue, certain transactions which would constitute continuing connected transactions under Chapter 14A of the Listing Rules after the [REDACTED], which include (i) the Framework Sales Agreement (I), (ii) Framework Sales Agreement (II) and (iii) the Factory Lease Agreement. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], waiver in relation to the non-exempt continuing connected transactions between us and our connected persons under Chapter 14A of the Listing Rules. For further details, in particular the historical amount and the proposed annual caps of these transactions, please refer to the section headed “Connected Transactions” in this document.

## SUMMARY

### KEY FINANCIAL DATA

#### Selected Data from Consolidated Statements of Profit or Loss

	FY2021 RMB'000	FY2022 RMB'000	FY2023 RMB'000
Revenue	499,996	468,574	543,963
Gross profit	50,430	62,290	68,769
Profit before taxation	32,229	45,459	40,797
Profit for the year attributable to equity shareholders of the Company	32,054	45,256	40,497

During the Track Record Period, we primarily generated revenue from the sales of our flour products, which amounted to approximately RMB434.1 million, RMB407.0 million and RMB465.1 million, representing approximately 86.8%, 86.8% and 85.5% of our total revenue for FY2021, FY2022 and FY2023, respectively.

The continuous increase in our gross profit during the Track Record Period was mainly driven by (i) our introduction of heat-treated specialty flour products in April 2021, in relation to which we enjoyed a competitive edge over our competitors, coupled with our strategies to promote our heat-treated specialty flour products; and (ii) the adjustment in our product portfolio with our effort focused on specialty flour products, which generally carry a higher gross profit margin.

Please refer to the section headed "Financial Information — Description of Selected Items in the Consolidated Statements of Profit or Loss" in this document for further details.

#### Selected Data from Consolidated Statements of Financial Position

	As at 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Current assets	293,887	521,665	436,951
Current liabilities	296,503	274,164	428,837
Net current (liabilities)/assets	(2,616)	247,501	8,114
Non-current assets	331,106	326,281	566,442
Non-current liabilities	52,859	253,072	213,399
Net assets	275,631	320,710	361,157

Our current assets increased as at 31 December 2022 as compared with the balance as at 31 December 2021 mainly due to the increase in inventories and prepayments, deposits and other receivables as we procured a larger volume of wheat in FY2022, and the recognition of an amount due from third party which was non-trade in nature. Such amount due from third party was fully settled in February 2023. Our current assets decreased as at 31 December 2023 as compared with the balance as at 31 December 2022 mainly due to the decrease in prepayments, deposits and other receivables due to the delivery to us of the previously prepaid wheat, partially offset by the increase in trade receivables and cash and cash equivalents which is in line with our revenue growth in FY2023.

Our current liabilities decreased as at 31 December 2022 as compared with the balance as at 31 December 2021 as a result of the decrease in our short-term bank and other loans and the decrease in our trade payables. Our current liabilities increased as at 31 December 2023 as compared with the balance as at 31 December 2022 mainly due to the increase in our short-term bank and other loans as a result of the reclassification of our long term loans to short term loans, and the increase in our secured and guaranteed loans to satisfy the funding needs in respect of grain procurement and/or storage arrangement between our Group and the local governments and the replenishment of our working capital.

Please refer to the section headed "Financial Information — Description of Selected Items of Consolidated Statements of Financial Position" in this document for further details.



## SUMMARY

### Selected Data from Consolidated Cash Flow Statements

	FY2021 RMB'000	FY2022 RMB'000	FY2023 RMB'000
Net cash generated from/(used in) operating activities	3,824	(160,634)	(125,445)
Net cash (used in)/generated from investing activities	(3,641)	(17,608)	24,102
Net cash generated from financing activities	7,647	166,582	101,783
Net increase/(decrease) in cash and cash equivalents	7,830	(11,660)	440

Please refer to the section headed "Financial Information — Liquidity and Capital Resources" in this document for further details.

### Key Financial Ratios

	As at/for the year ended 31 December		
	2021	2022	2023
Gross profit margins	10.1%	13.3%	12.6%
Net profit margins	6.4%	9.7%	7.4%
Return on equity	11.6%	14.1%	11.2%
Return on total assets	5.1%	5.3%	4.0%
Interest coverage (times)	4.3	3.7	2.6
Current ratio (times)	1.0	1.9	1.0
Quick ratio (times)	0.6	1.2	0.6
Gearing ratio	104.9%	147.5%	166.0%
Net debt to equity ratio (times)	1.0	1.5	1.7

For further details, please refer to the section headed "Financial Information — Summary of Key Financial Ratios" in this document.

### [REDACTED] STATISTICS

	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] HK\$	Based on an [REDACTED] of HK\$[REDACTED] per [REDACTED] HK\$
[REDACTED] (Note 1)	[REDACTED]	[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets per Share (Note 2)	[REDACTED]	[REDACTED]

Notes:

- (1) [REDACTED] is calculated based on the number of Shares expected to be in issue following completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Share which may be allotted and issued pursuant to exercise of the [REDACTED] or any option that may be granted under the Share Option Scheme), i.e. [REDACTED] Shares.
- (2) The unaudited [REDACTED] adjusted net tangible assets per Share is calculated by dividing the unaudited [REDACTED] adjusted consolidated net tangible assets attributable to equity shareholders of the Company by the number of Shares expected to be in issue following completion of the [REDACTED] and the Capitalisation Issue (without taking into account any Share which may be allotted and issue pursuant to exercise to the [REDACTED] or any option that may be granted under the Share Option Scheme), i.e. [REDACTED] Shares. The unaudited [REDACTED] adjusted consolidated net tangible assets attributable to equity shareholders of the Company is the sum of the consolidated net tangible assets attributable to equity shareholders of the Company as at 31 December 2023 and the estimated net [REDACTED] from the [REDACTED].

## SUMMARY

For further details, please refer to “Unaudited [REDACTED] Financial Information” in Appendix II to this document.

### USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] to HK\$[REDACTED] per [REDACTED] and assuming that the [REDACTED] is not exercised at all, we estimate that net [REDACTED] of approximately HK\$[REDACTED] will be received from the [REDACTED], after deducting the [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]. We intend to use the net [REDACTED] from the [REDACTED] as follows:

Use of [REDACTED]	% of net [REDACTED]	HK\$ million
<b>Enhance our production capabilities through enriching our production facilities</b>	[REDACTED]	[REDACTED]
• Acquire additional heat-treating facilities	[REDACTED]	[REDACTED]
• Construct additional silos	[REDACTED]	[REDACTED]
• Conduct improvement works in respect of our warehouses for storage of heat-treated specialty flour products	[REDACTED]	[REDACTED]
<b>Expand our sales network and further expand our brand “Shenhua (參花)”</b>	[REDACTED]	[REDACTED]
• Enlarge our customer base through participation in domestic trade fairs	[REDACTED]	[REDACTED]
• Develop our online retail channels	[REDACTED]	[REDACTED]
• Adopt initiatives to promote our brand and our products	[REDACTED]	[REDACTED]
<b>Develop new products and further diversify our product range</b>	[REDACTED]	[REDACTED]
• Acquire additional machinery	[REDACTED]	[REDACTED]
• Recruit additional members of research and development staff	[REDACTED]	[REDACTED]
<b>Repay certain existing borrowings from bank and other financial institutions</b>	[REDACTED]	[REDACTED]
<b>General working capital</b>	[REDACTED]	[REDACTED]

For further details, please refer to the section headed “Future Plans and Use of [REDACTED]” in this document.

### [REDACTED] EXPENSES

Our [REDACTED] expenses mainly include (i) [REDACTED]-related expenses, such as [REDACTED] fees and commissions, and (ii) non-[REDACTED]-related expenses, comprising professional fees paid to our Reporting Accountants and legal advisors for their services rendered in relation to the [REDACTED] and the [REDACTED], and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total [REDACTED]

## SUMMARY

expenses (based on the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), accounting for approximately of [REDACTED]% of our gross [REDACTED]. Among such estimated total [REDACTED] expenses, we expect to pay [REDACTED]-related expenses of approximately RMB[REDACTED] (equivalent to HK\$[REDACTED]), professional fees for our Reporting Accountants and legal advisors of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and other fees and expenses of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]). An estimated amount of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) of our [REDACTED] expenses, accounting for approximately [REDACTED]% of our gross [REDACTED], was or is expected to be expensed through the statement of profit or loss and the remaining amount of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), accounting for approximately [REDACTED] of our gross [REDACTED], is expected to be recognised directly as a deduction from equity upon the [REDACTED]. During the Track Record Period, we recognised [REDACTED] expenses of approximately RMB6.4 million, RMB0.7 million and RMB5.1 million for each of FY2021, FY2022 and FY2023 in our consolidated statements of profit or loss and other comprehensive income, respectively.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period, we recorded a significant increase in revenue for the first quarter of 2024 as compared with the revenue recorded for the first quarter of 2023. Such increase was mainly due to (i) the seasonality effect brought about by the Spring Festival and (ii) our continued efforts in promoting our specialty flour products as well as our heat-treated specialty flour products by enlarging our wholesale network in the PRC. Our sales typically experience an upswing in demand during the several months/weeks leading up to the Spring Festival. In 2024, the Spring Festival fell in mid-February as opposed to late-January in FY2023, boosting our sales in early 2024 as compared to the sales in corresponding period in 2023.

Subsequent to the Track Record Period and up to the Latest Practicable Date, there had not been any material changes to our principal business. Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading position since 31 December 2023 and there has been no event since 31 December 2023 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document.

### WORKING CAPITAL

Our Directors are of the opinion that taking into account the financial resources available to us, including cash flow from operating activities, available bank and other loan facilities, cash resources and the estimated net [REDACTED] from the [REDACTED], we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this document.

### DIVIDENDS AND DIVIDEND POLICY

We did not declare or pay any dividend or distribution during the Track Record Period.

As a Cayman Islands company, any declaration and payment of dividends by our Company, as well as the amount of dividends, will be subject to our Articles of Association and the Cayman Companies Act. No dividend however, shall be declared in excess of the amount

## SUMMARY

recommended by our Board. The declaration, payment and amount of dividends will depend on our financial condition, earnings, capital requirements and surplus, our general financial condition, contractual and legal restrictions, our ability to receive dividend payments from our subsidiaries, and other factors that our Directors deem relevant. As at the Latest Practicable Date, we did not have any specific dividend policy nor any pre-determined dividend payout ratio.

Chinese laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS Accounting Standards. Our subsidiaries in the PRC that are foreign-invested enterprises are required to set aside part of their net profit as statutory reserves in accordance with the requirements of relevant PRC laws and the provisions of their respective articles of association. These portions of these subsidiaries' net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future. Since we rely on our subsidiaries' dividends as the source of funds to pay dividends, these restrictions may limit or completely prevent us from paying dividends.

### COMPLIANCE

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not been involved in any non-compliance incident of material importance.

### LITIGATION

As at the Latest Practicable Date, there were no claims or litigations known to our Directors to be pending or threatened against any member of our Group which could have a material adverse effect on our business, financial condition or results of operations.

### RISK FACTORS

There are certain risks involved in our operations which may be beyond our control. These risks are further described in the section headed "Risk Factors" in this document. You should read the entire section carefully before deciding whether to invest in the [REDACTED]. The major risks faced by us include the following: (i) we face intense competition from our competitors in the flour manufacturing industry in the PRC; (ii) our business is subject to changing customer tastes, preferences, perceptions and demand; (iii) our high gearing ratio, net current liabilities and net operating cash outflow positions could expose us to liquidity risk; (iv) we do not enter into long-term supply agreements with our suppliers and are faced with insecurity of supply and purchase price of wheat; and (v) fluctuations in the price and interruptions in the supply of wheat may significantly affect our operation and financial position.

## DEFINITIONS

*In this document, unless the context requires otherwise, the following words and expressions shall have the following meanings.*

"Accountants' Report"	the accountants' report set out in Appendix I to this document
"Affluent Aspire"	Affluent Aspire Limited (豐志有限公司), a company incorporated under the laws of BVI on 8 February 2019 with limited liability, which was wholly owned by Mr. Yao as at the Latest Practicable Date, and is a Controlling Shareholder holding 98.0% of the total issued share capital of our Company as at the Latest Practicable Date
"AFRC"	Accounting and Financial Reporting Council  [REDACTED]
"Articles" or "Articles of Association"	the amended and restated articles of association of our Company conditionally adopted on [●] 2024 and which will take effect from the [REDACTED], a summary of which is set out in Appendix IV to this document, and as amended or supplemented from time to time
"Audit Committee"	the audit committee of our Board
"Board of Directors" or "Board"	the board of Directors of our Company
"Business Day(s)" or "business day(s)"	any day(s) (excluding Saturday(s), Sunday(s) and public holiday(s) in Hong Kong) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the allotment and issue of [REDACTED] Shares to be made upon capitalisation of a certain sum standing to the credit of the share premium account of our Company, as referred to in "Further Information about our Company and its Subsidiaries — 3. Resolutions in Writing of Our Shareholders Passed on [●] 2024" in Appendix V to this document

## DEFINITIONS

[REDACTED]

"Chairman"	the chairman of the Board
"China" or "PRC"	the People's Republic of China which, for the purpose of this document and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Companies Act" or "Cayman Companies Act"	the Companies Act, Cap. 22 (As Revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Companies (WUMP) Ordinance" or "Companies (Winding Up and Miscellaneous Provisions) Ordinance"	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Company", "our Company", "we" or "us"	Shenhua Holdings Limited 參花實業控股有限公司, the holding company of our Group after the Reorganisation and the [REDACTED] vehicle for the [REDACTED], which is an exempted company with limited liability incorporated on 9 May 2019 in the Cayman Islands and the Shares of which are to be [REDACTED] on the Main Board of the Stock Exchange
"Controlling Shareholder(s)"	has the meaning ascribed to it under the Listing Rules and, unless the context requires otherwise, refers to Mr. Yao and Affluent Aspire
"Corporate Governance Code"	principles and code provisions as set out in the Corporate Governance Code and Corporate Governance Report as set out in Appendix C1 to the Listing Rules
"COVID-19"	coronavirus disease 2019
"CSRC"	the China Securities Regulatory Commission (中國證券監督管理委員會)

## DEFINITIONS

<p>"Customer [<i>Letter</i>]" or "Customer Group [<i>Letter</i>]"</p>	<p>the customer or group of customers of our Group identified by the capital letter stated, whose details are set forth in the section headed "Business — Customers — Five largest customers" in this document or which are otherwise referred to in the section headed "Business — Customers — Third party payment" in this document</p>
<p>"Dali Foods"</p>	<p>Dali Foods Group Company Limited (達利食品集團有限公司), an exempted company incorporated in the Cayman Islands on 4 November 2014 whose shares were listed on the Main Board of the Stock Exchange (stock code: 3799) during the period from 20 November 2015 to 31 August 2023 and an Independent Third Party</p>
<p>"Dali Group"</p>	<p>collectively, Dali Foods and its subsidiaries</p>
<p>"Deed of Indemnity"</p>	<p>the deed of indemnity dated [●] 2024 and executed by our Controlling Shareholders in favour of our Company and our subsidiaries to provide certain indemnities, further details of which are set out in "Other Information — 15. Tax and Other Indemnities" in Appendix V to this document</p>
<p>"Director(s)"</p>	<p>the director(s) of our Company</p>
<p>"EIT"</p>	<p>Enterprise Income Tax</p>
<p>"EIT Law"</p>	<p>the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法)</p>
	<p>[REDACTED]</p>
<p>"Executive Director(s)"</p>	<p>executive director(s) of our Company</p>
<p>"Extreme Conditions"</p>	<p>the occurrence of "extreme conditions" as announced by any government authority of Hong Kong due to serious disruption of public transport services, extensive flooding, major landslides, large-scale power outage or any other adverse conditions before Typhoon Signal No. 8 or above is replaced with Typhoon Signal No. 3 or below</p>

## DEFINITIONS

"F&S Report" or "Frost & Sullivan Report"	an independent research report prepared by Frost & Sullivan for the purpose of the [REDACTED]
"Food Safety Law"	the Food Safety Law of the PRC (中華人民共和國食品安全法)
"Foreign Investment Catalogue"	the Guidance Catalog of Industries for Foreign Investment (外商投資產業指導目錄) as promulgated jointly by the MOFCOM and the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) and amended from time to time
"Frost & Sullivan"	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant commissioned by us to prepare the F&S Report
"FY[ <i>year</i> ]"	the financial year ended or ending (as the case may be) on 31 December of the year stated. For example, "FY2021" refers to the year ended 31 December 2021 and "FY2025" refers to the year ending 31 December 2025
	[REDACTED]
"Group", "our Group", "we", "our" or "us"	our Company and our subsidiaries or, where the context so requires, with respect to the period before which our Company became the holding company of our current subsidiaries, our Company's current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be)
"Guofu HK"	Guofu (Hong Kong) Holdings Limited (國富(香港)控股有限公司), a company incorporated in Hong Kong on 25 March 2006 with limited liability, which was jointly owned as to 65% by Hebei Guofu Agricultural Investment Group Company Limited* (河北省國富農業投資集團有限公司) and as to 35% Hebei Shunde Investment Group Company Limited* (河北順德投資集團有限公司) and a direct Shareholder holding 2.0% Shares of our Company as at the Latest Practicable Date



## DEFINITIONS

"Haze Success"

Haze Success Limited (嵐勝有限公司), a company incorporated under the laws of BVI on 16 May 2019 with limited liability and a direct wholly owned subsidiary of our Company as at the Latest Practicable Date

[REDACTED]

"Hong Kong", "HK" or "HKSAR"

the Hong Kong Special Administrative Region of the PRC

"Hong Kong dollars", "HK\$" or "HKD"

Hong Kong dollars, the lawful currency of Hong Kong

## DEFINITIONS

[REDACTED]

"IASB"	International Accounting Standards Board
"IAS(s)"	International Accounting Standards issued by the IASB
"IFRS(s)" or "IFRS Accounting Standards"	IFRS Accounting Standards, as issued from time to time by the International Accounting Standards Board
"Independent Non-executive Director(s)"	independent non-executive director(s) of our Company
"Independent Third Party(ies)"	any entity(ies) or person(s) who, as far as our Directors are aware after having made all reasonable enquiries, is/are not connected person(s) within the meaning ascribed thereto under the Listing Rules

[REDACTED]

## DEFINITIONS

[REDACTED]

"[REDACTED]"	the general unconditional mandate given to our Directors by our Shareholders relating to the issue of Shares, as further described in "Further Information about our Company and its Subsidiaries — 3. Resolutions in Writing of our Shareholders Passed on [●] 2024" in Appendix V to this document
"Latest Practicable Date"	[22 May 2024], being the latest practicable date prior to the publication of this document for the purpose of ascertaining certain information contained in this document
	[REDACTED]
"Listing Division"	the Listing Division of the Stock Exchange
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended, supplemented or otherwise modified from time to time
"M&A Rules"	Regulation on Mergers and Acquisitions of Domestic Companies by Foreign Investors (關於外國投資者併購境內企業的規定), as amended, supplemented or otherwise modified from time to time
"Main Board"	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operating in parallel with GEM of the Stock Exchange
"Memorandum" or "Memorandum of Association"	the amended and restated memorandum of association of our Company conditionally adopted on [●] 2024 and will take effect from the [REDACTED], a summary of which is set out in Appendix IV to this document, and as amended or supplemented from time to time

## DEFINITIONS

"MOFCOM"	the Ministry of Commerce of the PRC (formerly known as the Ministry of Foreign Trade and Economic Cooperation of the PRC) (中華人民共和國商務部)
"NDRC"	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
"Mr. Yao"	Mr. Yao Zhiwan (姚志萬先生), one of our Controlling Shareholders, an Executive Director and the Chairman of the Board, chief executive officer of our Company, father of Mr. Yao Wei
"Mr. Yao Wei"	Mr. Yao Wei (姚巍先生), an Executive Director, and chief financial officer of our Company, son of Mr. Yao
"Nomination Committee"	the nomination committee of our Board

[REDACTED]

"PRC government" or "State"	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context otherwise specifies, any of them
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## DEFINITIONS

"[REDACTED]" the investment in our Company undertaken by Guofu HK before the [REDACTED], details of which are set out in the paragraph headed "History, Reorganisation And Corporate Structure — [REDACTED]" in this document

[REDACTED]

"document" this document, which is being issued in connection with the [REDACTED]

[REDACTED]

"Regulation S" Regulation S under the U.S. Securities Act

"Remuneration Committee" the remuneration committee of our Board

## DEFINITIONS

"Reorganisation"	the corporate reorganisation of our Group in preparation for the [REDACTED] as described in the section headed "History, Reorganisation and Corporate Structure — Reorganisation" in this document
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to our Directors by our Shareholders, further details are set out in "Further Information about our Company and its Subsidiaries — 3. Resolutions in Writing of our Shareholders Passed on [●] 2024" in Appendix V to this document
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"SAFE"	the State Administration of Foreign Exchange of the PRC (中華人民共和國外匯管理局)
"SAT"	the State Administration of Taxation of the PRC (中國國家稅務總局)
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO" or "Securities and Futures Ordinance"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of nominal value of HK\$0.001 each in the share capital of our Company
"Share Option Scheme"	the [REDACTED] share option scheme conditionally adopted by our Company on [●] 2024, a summary of principal terms of which is set out in "14. Share Option Scheme" in Appendix V to this document
"Shareholder(s)"	holder(s) of the Shares
"Shenhua Flour"	Gu'an County Shenhua Flour Co., Ltd.* (固安縣參花麵粉有限公司), formerly named Gu'an County Dadi Flour Processing Company Limited* (固安縣大地麵粉加工有限公司), a limited liability company established under the laws of PRC on 9 January 2002 and an indirect wholly owned subsidiary of our Company as at the Latest Practicable Date

## DEFINITIONS

"Shenhua HK" Shenhua Industrial HK Limited (參花實業香港有限公司), a company incorporated under the laws of Hong Kong on 24 July 2019 with limited liability and an indirect wholly owned subsidiary of our Company as at the Latest Practicable Date

[REDACTED]

"Sole Sponsor" Zhongtai International Capital Limited (中泰國際融資有限公司), a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO

[REDACTED]

"State Council" the State Council of the PRC (中華人民共和國國務院)

[REDACTED]

"Stock Exchange" The Stock Exchange of Hong Kong Limited

"Supplier [*Letter*]" or "Supplier Group [*Letter*]" the supplier or group of suppliers of our Group identified by the capital letter stated, whose details are set forth in the section headed "Business — Suppliers — Five largest suppliers" in this document

"Takeovers Code" The Codes on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended modified and supplemented from time to time

"Track Record Period" FY2021, FY2022 and FY2023

"ultimate beneficial owner(s)" means, in relation to a company, natural person(s) who can, directly or indirectly, exercise or control the exercise of one-third or more of the voting power at general meetings of the company

[REDACTED]

## DEFINITIONS

"United States" or "U.S."	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
"USD", "US dollars" or "US\$"	United States dollars, the lawful currency of the United States
"WFOE"	Langfang Gu'an County Shenhua Enterprise Management Company Limited* (廊坊固安縣參花企業管理有限公司), a wholly-foreign owned enterprise established under the laws of PRC on 15 October 2019 with limited liability and indirectly wholly-owned by our Company
"%"	per cent

*In this document:*

- 1. Unless the context otherwise requires, the terms "associate", "close associate", "connected person", "connected transaction", "core connected person", "subsidiary" and "substantial shareholder" shall have the meanings given to such terms in the Listing Rules.*
- 2. Unless expressly stated or otherwise required by the context, all data are as at the Latest Practicable Date.*
- 3. Unless otherwise specified, all references to any shareholding in our Company in this document assume the [REDACTED] is not exercised and do not take into account of any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme.*

*The English translations of certain original names and titles in Chinese are marked with "\*" and included in this document for identification purpose only. In the event of any inconsistency between such original Chinese names and titles and their English translations, the original Chinese names and titles shall prevail.*



## GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains explanations of certain terms used in this document as they relate to our Company and are used in this document in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.*

"all-purpose flour (通用麵粉)"	flour with a medium gluten content intended for general applications and suitable for producing a wide variety of food products
"all-purpose flour products (通用粉產品)"	the class of flour products produced from all-purpose flour
"base flour (基礎粉)"	flour which is either produced by our Group from wheat or procured from external suppliers. In our flour mix formulation process, different types of base flour are blended together according to our product formulations with other materials (such as additives) added to formulate the desired flour mix
"blended specialty flour products (混合專用粉產品)"	the type of specialty flour products that are produced by blending heat-treated specialty flour with non-heat-treated specialty flour. As these two types of flour are already blended in optimised and standardised portions when delivered, downstream users will not need to perform the blending process themselves before applying the heat-treated specialty flour in production, permitting increase in production efficiency and reduction in production costs as compared with using our pure heat-treated specialty flour products
"CAGR"	compound annual growth rate, calculated by subtracting one from the result of dividing the ending value by its beginning value raised to the power of one divided by the period length
"Construction Permit"	Permission Certificate for Construction Commencement* (建築工程施工許可證) issued by the local construction committees or equivalent authorities in the PRC in respect of the commencement of construction projects
"flour by-products (麵粉的副產品)"	the class of products that are substances produced as by-products in our flour production process, such as wheat middlings and bran

## GLOSSARY OF TECHNICAL TERMS

"GB" or "GB/T"	GuoBiao* (國標), the national standards published by the Standardization Administration of the PRC (中國國家標準化管理委員會) which are either mandatory (which are prefixed GB) or recommended (which are prefixed GB/T)
"general specialty flour products (普通專用粉產品)"	the category of specialty flour products that have not been heat-treated, comprising the product types of pure general specialty flour products and pre-mixed flour products
"GFA"	gross floor area
"gluten"	a protein composite found in foods manufactured from wheat that gives elasticity to dough, enabling it to rise and keep its shape during the baking process
"HACCP"	Hazard Analysis and Critical Control Points, a systematic preventative approach to food safety that addresses physical, chemical and biological hazards as a means of prevention rather than finished product inspection. HACCP is used in the food industry to identify potential food safety hazards, so that key actions, known as Critical Control Points can be taken to reduce or eliminate the risk of the hazards being realised. The system is used at all stages of food production and preparation processes. HACCP principles have been promoted and incorporated into food safety legislation in many countries around the world
"heat-treating (熱處理)"	a leading production technique in the PRC market that can eliminate microbiological contaminants and increase water absorption capacity of flour. When applied in flour production, heat-treating can promote the functional attributes of our flour products, including extended freshness and improved quality permitting further production of dough and end food products with an enhanced texture
"heat treated flour"	flour that underwent heat-treating to modify its properties and to eliminate microbiological contaminants

## GLOSSARY OF TECHNICAL TERMS

“heat-treated specialty flour products (熱處理專用粉產品)”	the category of specialty flour products that have undergone the further production stage of heat-treating and carry extended freshness and a stronger water absorption capacity as compared with general specialty flour products, comprising the product types of pure heat-treated specialty flour products and blended specialty flour products
“ISO”	the International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“IT”	information technology
“Planning Permit”	Permission Certificate of Construction Work Planning* (建設工程規劃許可證) issued by the local urban planning administration authorities or equivalent authorities in the PRC in respect of urban and rural planning work before the commencement of construction projects
“pre-mixed flour products (預拌粉產品)”	the type of specialty flour products that are mixtures consisting of specialty flour and other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat) and can readily be converted into specific end food products (such as waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou) just by adding some basic substances (such as water)
“pure heat-treated specialty flour products (純熱處理專用粉產品)”	the type of specialty flour products that consist purely of heat-treated specialty flour and is not blended with non-heat-treated specialty flour
“pure general specialty flour products (純普通專用粉產品)”	the type of specialty flour products that consist purely of non-heat-treated specialty flour and is not mixed with other ingredients
“specialty flour (專用麵粉)”	flour with varying gluten content levels and characteristics tailored for making specific food products (such as bread, pastries, noodles, dumplings and cakes)

## GLOSSARY OF TECHNICAL TERMS

"specialty flour products  
(專用粉產品)"

the class of flour products produced from specialty flour, comprising the product categories of general specialty flour products and heat-treated specialty flour products

"sq.m."

square meter

## FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of [REDACTED]" in this document. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those set out in "Risk Factors" in this document, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and operating plans;
- our capital expenditure and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- our ability to identify and successfully take advantage of new business development opportunities; and
- the regulatory environment and industry outlook in respect of the industry and markets in which we operate.

The words "aim", "anticipate", "believe", "can", "consider", "continue", "could", "estimate", "expect", "forecast", "going forward", "intend", "may", "plan", "seek", "will", "would", "is/are likely to" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to:

- our operations and business prospects;
- our ability to maintain relationships with major customers and suppliers;
- changes in laws, regulations or policies of the cities and regions where we operate and relating to any aspect of our business and/or the industry we engage in;
- competition for, among other things, financial resources and skilled personnel;
- our ability to manage and expand our business as planned;
- inflationary pressure and/or interest rate and exchange rate fluctuations;
- foreign currency restrictions;
- changes in general economic environment or market conditions in the cities and regions where we operate;

## FORWARD-LOOKING STATEMENTS

- catastrophic losses from fires, floods, windstorms, earthquakes, diseases or other adverse weather conditions or natural disasters; and
- the risk factors discussed in this document as well as other factors that are beyond our control.

Subject to the requirements of the Listing Rules and other applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this document might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this document are qualified by reference to the cautionary statements set forth in this section as well as the risks and uncertainties discussed in "Risk Factors" in this document.

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]



**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

[REDACTED]

**Rounding of figures**

Certain amounts and percentage figures, such as share ownership, financial and operating data, included in this document may have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

**Currency conversion**

Solely for your convenience, this document contains translations of certain RMB amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the RMB amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of RMB amounts into Hong Kong dollars have been made at the rate of RMB1.0 to HK\$1.0980.

**INFORMATION ABOUT THIS DOCUMENT AND THE [REDACTED]**

Language

If there is any inconsistency of this document and its Chinese translation, the English version of this document shall prevail. For ease of reference, the names of the Chinese laws and regulations, government authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this document in both the Chinese and English languages. In the event of any inconsistency, the Chinese version shall prevail.

[REDACTED]

## RISK FACTORS

*Prospective investors should consider carefully all the information set forth in this document and, in particular, should consider the following risks and special considerations in connection with an investment in our Company before making any investment decision in relation to the [REDACTED]. The occurrence of any of the following risks may have an adverse effect on the business, results of operations, financial conditions and prospects of our Group.*

*This document contains certain forward-looking statements regarding plans, objectives, expectations and intentions of our Group which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this document. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this document. The [REDACTED] of the [REDACTED] could decline due to any of these risks, and you may lose all or part of your investment.*

There are certain risks relating to an investment in the Shares. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to doing business in the PRC; (iv) risks relating to the [REDACTED] and the Shares; and (v) risks relating to statements made in this document and from other sources.

### RISKS RELATING TO OUR BUSINESS

#### **We face intense competition from our competitors in the flour manufacturing industry in the PRC**

Competition in the flour manufacturing industry in the PRC is intense and the industry is fragmented with approximately 3,000 to 4,000 flour manufacturers in 2023 that were above a designated size (i.e. having annual main business revenue of RMB20.0 million or above). While we believe that we are competitive in the flour manufacturing industry, there are factors which may affect our competitiveness including factors such as, brand recognition, quality and pricing. Further, even where we are competitive, some of our competitors may have substantially greater financial resources, product development capabilities or better brand recognition than us, which in turn may allow them to improve their production and market capabilities, diversify their product portfolio, upgrade their production facilities and recruit experienced management personnel. We cannot assure that we will be able to react to and match the business strategies of our competitors, in a timely manner or at all. We also cannot assure you that our competitors will not actively engage in activities that are designed to undermine our brand and reputation or influence consumer confidence in our products. In addition, new competitors may seek to enter or expand into our industry. If we are unable to compete effectively with our competitors or if we fail to remain competitive, our business, financial condition and results of operations could be materially and adversely affected. For further details, please refer to the section headed "Industry Overview — Competitive landscape of flour market in China and Hebei" in this document.

## RISK FACTORS

**Our business is subject to changing customer tastes, preferences, perceptions and demand. If we are unable to successfully develop new products, our business and financial conditions may be adversely affected**

The success of our Group is contingent upon our understanding and ability to meet the demand and expectations of our customers, which is in turn subject to consumer preferences, income and spending patterns. Consumer tastes and perceptions for flour and carbohydrate products and dietary habits may change from time to time. With rising consumer income in the PRC, there may be a shift towards other grains or mixtures of grains such as barley, quinoa, millet and buckwheat.

We have strived to cater to the wide-ranging and evolving tastes and preferences of consumers through continuous updates to and advancement of our product portfolio. If we are unable to anticipate, identify or adapt our products to such changes in consumer preferences, there may be a decline in the demand for our products. Our future growth will also largely depend on our ability to continue to introduce new products and adapt our existing products. As we introduce new products and/or adapt our existing products, there is also no guarantee that such new products will be well received by the market and profitable. All these may have significant implications for our business, results of operations and financial conditions. Further, while it is expected that flour products will remain a significant part of the diet of PRC residents, there can be no guarantee that their dietary structure will not continue to shift towards a greater focus on meats and fruits and vegetables. If such trend significantly increase, it may also have a negative impact on the demand for our flour products and materially and adversely affect our business, results of operations and financial conditions.

**Our high gearing ratio, net current liabilities and net operating cash outflow positions could expose us to liquidity risk**

During the Track Record Period, our business operations were partially funded by bank and other loans and this may continue to be the case in the future. As at 31 December 2021, 2022 and 2023, our bank and other loans amounted to approximately RMB289.1 million, RMB472.9 million and RMB599.6 million respectively, and our gearing ratio was 104.9%, 147.5% and 166.0%, respectively. We also recorded net current liabilities of approximately RMB2.6 million as at 31 December 2021, which arose mainly because we have used short-term bank loans and other borrowings to finance our general working capital needs and capital expenditure. Please refer to the sections headed "Financial Information — Summary of key financial ratios" and "Financial Information — Liquidity and capital resources — Cash flows" in this document for details of our gearing ratio, net current liabilities and cash positions during the Track Record Period. As we intend to continue to partially fund our operations through bank loans and other borrowings, there is no assurance that we will not record net current liabilities or have high gearing ratio in the future which may have a material adverse impact upon our business, financial condition and results of operation. The high gearing ratio and net current liabilities position could expose us to liquidity risks which could (i) increase our vulnerability under adverse economic or industry condition; (ii) restrict our ability to make necessary capital expenditure or develop business opportunities; and (iii) limit our ability to obtain further funding from debt financing, and as such our business, operating results and financial condition could be materially and adversely affected.

## RISK FACTORS

In addition, we recorded net operating cash outflows during FY2022 and FY2023 which was primarily attributable to, among others, the increase in prepayments, deposits and other receivables during the corresponding financial years. We cannot assure you that we will be able to generate positive cash flows from our operating activities in the future. If we are unable to generate sufficient cash flow from our operations or otherwise unable to obtain sufficient funds to finance our operations or satisfy our current liabilities in a timely manner, our business operations, our liquidity and our ability to raise funding may be materially and adversely affected by our net current liabilities and negative cash flow from operations. There can be no assurance that we will maintain sufficient working capital, revenues or raise necessary funding to pay off our current liabilities and meet our capital commitments. In such circumstances, our business, financial position, results of operations and prospects may be materially and adversely affected.

### **We do not enter into long-term supply agreements with our suppliers and are faced with insecurity of supply and purchase price of wheat**

The principal raw material used in the production of our flour products is wheat; hence, our profitability is dependent on the continuous supply of wheat at a commercially reasonable price. Other major raw materials used in our production process include base flour, additives and package materials. For FY2021, FY2022 and FY2023, the cost of wheat as our major raw material accounted for approximately 82.4%, 81.6% and 92.1% of our total cost of sales.

For FY2021, FY2022 and FY2023, our purchases from our five largest suppliers accounted for approximately 63.0%, 68.4% and 70.8% of our total purchases respectively. As we do not enter into long-term supply agreements with our suppliers, there is no assurance that our suppliers will continue to supply the required raw materials to us in a timely manner or at all. Further, the price of raw materials is generally determined at the time of purchase; in the lack of long-term supply agreements, we are subject to fluctuations in the price of raw materials. If our suppliers are not able or unwilling to supply the raw materials in our required quantity and at our desired price or we are not able to secure alternative suppliers in a timely manner, our business, financial condition and operating results may be materially and adversely affected.

### **Fluctuations in the price and interruptions in the supply of wheat may significantly affect our operation and financial position**

External events causing fluctuations in wheat market price and/or interruptions in wheat supply can have a significant impact on our operation and financial position. Historically, the outbreak of the COVID-19 pandemic, extreme weather events and the uncertainties brought by the Russo-Ukrainian war had resulted in a rise in wheat prices in 2022, generally increasing the costs of sales of the flour manufacturers alike.

In addition, the PRC government publishes the "Notice Announcing the Wheat Minimum Purchase Price" on an annual basis; when the market price falls below the applicable administered price, the relevant state owned enterprises will procure wheat from the market at the minimum purchase price so as to maintain wheat price at an established minimum price. Although the notice does not restrict the price at which we may procure our wheat per se, the price-regulating policy of the PRC government may affect the market price of wheat and thereby indirectly affect our purchase prices of wheat.

## RISK FACTORS

In addition, if there is any severe crop failure in regions from which we typically procure wheat, we may have to resort to suppliers in other regions or overseas, which may increase our procurement costs. Crop failures may also lead to delay in delivery of wheat from our suppliers to us and affect our production schedule. In the event that we are unable to fulfil orders from our customers on schedule, our reputation and business relationships with our customers may be damaged and we may be exposed to liabilities associated with breaches of contracts.

There is no assurance that there will be no recurrence of the outbreak of pandemic in the major crop-growing areas in the world. Such outbreaks, together with the measures that the PRC government may impose to control wheat market price and the crop failures that may arise from time to time, could materially and adversely affect our financial conditions, results of operations and prospects.

### **We may not be able to price our products at our desired margins as a result of any decrease in our bargaining power or changes in market conditions**

We set prices for our products primarily based on cost-plus pricing policy and our ability to set favourable prices at our desired margins as well as to accurately estimate costs has, amongst other factors, a material impact on our profitability. For each of FY2021, FY2022 and FY2023, our gross profit margin was approximately 10.1%, 13.3% and 12.6%, respectively. We cannot assure you that we will be able to maintain our pricing or bargaining power or that our gross profit margin will not be driven down by market conditions or other factors. In the event that we see higher pricing pressure due to intensified competition from other manufacturers, or if we otherwise lose bargaining power due to weaker demand for our products, we may need to lower the prices and the margins for our products. Moreover, we may not be able to accurately estimate our costs or pass on all or part of any increase in our costs of production, in particular the costs of raw materials to our customers, as such, our results of operations could be materially and adversely affected.

### **Our business could be materially and adversely affected if we are unable to maintain our business relationships with major customers or continue transacting with them on existing terms and scale, given that our customers were highly concentrated during the Track Record Period**

During the Track Record Period, we generated approximately 48.6%, 61.7% and 63.2% of our total revenue from our five largest customers. Our concentration in our major customers may also result in difficulty for us to negotiate with such customers for satisfactory prices for our flour products and flour by-products and commercial terms. We generally do not have binding purchase commitments from our major customers and our sales are typically made on the basis of individual purchase orders, further we are also not the exclusive supplier for these customers. There is no assurance that these customers will not purchase from other suppliers whom they perceive to offer equal or superior products or services, or who offer lower prices than us, therefore, there is no certainty that we will continue to generate revenue from these customers. In the event that our customers offer less favorable terms to us for the purchase of our flour products, we may need to reduce our selling prices in order to maintain our business volume and relationship with them. Further, if there is a reduced demand from our customers, we may also need to reduce our selling prices or direct additional resources in order to attract other customers to maintain our historical business volume. Accordingly, the selling price of our



## RISK FACTORS

flour products, as well as our business and financial performance are susceptible to the trends or fluctuations in the procurement by our customers. Even if our customers do not choose to seek alternative suppliers, if the demand for our major customers' products deteriorates or if there are any other developments adverse to our major customers such as any significant changes in the operations or financial condition of our major customers, their demand for our flour products and flour by-products may be affected which may result a material and adverse effect on our business, operating results and financial conditions.

### **Our business could be materially and adversely affected if we are unable to maintain our business relationships with major suppliers or continue transacting with them on existing terms and scale, given that our suppliers were highly concentrated during the Track Record Period**

Our suppliers consist primarily of suppliers of wheat. For FY2021, FY2022 and FY2023, our purchase from our top five suppliers accounted for approximately 63.0%, 68.4% and 70.8% of our total purchases, whereas our purchases from our largest supplier amounted to 21.0%, 39.9% and 19.4% of our total purchases respectively. If we are unable to maintain our business relationship with any of our major suppliers or if any of them otherwise ceases to supply raw materials to us on the same or comparable terms or scale, or at all, we could experience shortages of raw materials and disruptions to our production schedule, which could have a negative impact on our order fulfilment capacity and reputation among our customers. In addition, we may have to expend time and resources seeking wheat supply from alternative suppliers. If we are unable to find suitable replacement suppliers in a timely manner, or at all, our business and results of operations could be materially and adversely affected.

### **Our business is dependent upon the strength of our brand and reputation**

During the Track Record Period, our Group's products were mainly sold under our brand "Shenhua (参花)", as such we are highly dependent upon the strength of our brand's reputation in order to generate sales for our products. There can be no assurance that we will be able to maintain a good reputation and strong brand image. Our brand and reputation may be materially and adversely affected by a number of factors, many of which are outside of our control, including:

- adverse associations with the quality of our products;
- the effects of counterfeit products purporting to be our products;
- lawsuits and regulatory investigations against us or otherwise relating to our products or industry including product liability claims or complaints; and
- improper or illegal conduct by our employees, whether or not authorized by us.

If we fail to maintain a good reputation or a strong brand image, as a result of these or other factors, our products may be perceived unfavorably by our customers and the public and our business and business prospects could be materially and adversely affected.

## RISK FACTORS

### **We may be adversely affected by any potential food safety and health issues in respect of our raw materials and finished products or in the general food industry in the PRC**

Food safety and health issues may arise with respect to our raw materials or flour and flour by-products as a result of numerous factors, many of which may be outside our control, including as a result of actions by our suppliers or wholesale customers. There can be no assurance that food safety and health issues relating to our raw materials or finished products will not occur during the transportation, production, distribution or sales processes. If our raw materials or finished products are alleged or found to be spoiled, contaminated, tampered with, incorrectly labeled, unsafe or otherwise associated with food safety incidents, we could be subject to product liability claims, adverse publicity, regulatory investigation, intervention or penalties, product returns, any of which may result in lower demand and prices for our products, increase costs and cause interruption to our operations as well as damage to our brand and reputation. As such, our business, financial condition, results of operations and prospects may be materially and adversely affected.

### **We are subject to various risks relating to third-party payments**

During the Track Record Period, some of our Group's customers (the "**Relevant Customers**") settled, through third party payors (the "**Third Party Payors**"), all or part of the amounts (the "**Third Party Payment**") due to us in respect of our sales (the "**Third Party Payment Arrangement**"), until we ceased to accept the Third Party Payment Arrangement as valid payment arrangement by our customers in the beginning of FY2022. The aggregate amount of the Third Party Payment received during FY2021 amounted to approximately RMB135.2 million, representing 27.0% of our total revenue for the year. For FY2021, the Third Party Payment Arrangement involved 113 Relevant Customers, of which three were among our five largest customers in FY2021. For more details, please refer to the section headed "Business — Customers — Third Party Payments" in this document.

We may be subject to various uncertainties and risks as a result of the Third Party Payment Arrangement. Since there is no contractual relationship between us and the Third Party Payors, the Third Party Payors may demand return of the amounts we have received from them under the Third Party Payment Arrangement. In the event that the Third Party Payors become bankrupt or insolvent, the liquidators of the Third Party Payors may also initiate claims against us for such amounts. Furthermore, we may be exposed to money laundering risks as we do not have full knowledge about the source, legality and genuineness of funds of the Third Party Payors. If any claims or legal proceedings are brought against us by any Third-Party Payors or liquidators of the Third Party Payors in respect of the payments under the Third Party Payment Arrangement, or by any governmental or regulatory authorities for non-compliance with the relevant laws and regulations in the PRC or elsewhere in connection with such payments, we may have to expend significant financial and managerial resources defending such claims and legal proceedings. Moreover, any involvement in legal proceedings for money laundering charges may damage our reputation and hinder us from maintaining our business relationships with existing customers and extending our clientele, adversely affecting our results of operations.

## RISK FACTORS

### **We face potential risks relating to prepayments to our suppliers**

Owing to the absence of long-term supply agreements between our suppliers and us and the significant impact on wheat supply and market price that can result from events beyond our control, our Group had entered into prepayment arrangements with our suppliers to secure wheat supply. As at 31 December 2021, 2022 and 2023, our Group's prepayments for purchase of raw materials amounted to approximately RMB55.5 million, RMB217.4 million and RMB117.9 million respectively. There is no guarantee that our suppliers could or would deliver the prepaid raw materials in accordance with our agreed schedule and fully perform their contractual obligations, or that they will not be subsequently subject to insolvency or liquidation proceedings. If any of these occurs, we may encounter shortage in supply, and if we are unable to recover our prepayments made, we may further suffer financial losses. Our business, operating results and financial condition may be materially and adversely affected as a result.

### **We have limited control over the operations of our wholesaler customers. Actions taken by our wholesalers may materially and adversely affect our business, prospects and reputation**

During the Track Record Period, our sales to wholesalers were approximately RMB167.1 million, RMB226.6 million and RMB360.0 million, which accounted for 33.4%, 48.4% and 66.2% of our total revenue respectively.

We have limited ability to manage the activities of our wholesaler customers. Our wholesaler customers are independent from us; they may take any action out of their own causes and volition, and such actions may not necessarily align with our interest. For example, they may sell products supplied by other flour manufacturers that can substitute or otherwise compete with our products. As we do not impose resale price requirement, territorial limit or any other kind of restriction on how our wholesaler customers may resell our products to their own customers under the agreements entered into between our wholesaler customers and us, vicious competition may arise between different wholesaler customers as they resell our flour products in the same markets. Our wholesaler customers may also fail to adequately promote our flour products. All such behaviour and omission could have a detrimental impact on the sales of our flour products.

Furthermore, we could be held liable for actions taken by our wholesaler customers, including any violations of applicable law in connection with the sales of our products. Our brand and reputation and the price of our products could also be materially and adversely affected if we become the target of any negative publicity as a result of actions taken by our wholesaler customers.

### **We may be subject to potential adverse consequences due to our lack of valid certificates and permits in respect of certain properties we occupied in the PRC**

As at the Latest Practicable Date, we had obtained the Real Estate Title Certificates in respect of the majority of the buildings comprising the industrial complex located at our current production base. Such Real Estate Title Certificates cover 13 buildings with an aggregate GFA of approximately 76,532.90 sq.m. Regarding the remaining portion of our current production base with an aggregate GFA of 12,279.10 sq.m. representing approximately 13.8% of the entire production base in terms of GFA, we had only obtained the state-owned construction land use rights and our application for the requisite Real Estate Title Certificates remained outstanding

## RISK FACTORS

as at the Latest Practicable Date. Such buildings had not been used by us for production purposes up to the Latest Practicable Date.

As advised by our PRC Legal Advisers, the title defects may result in the imposition of certain penalties. According to the relevant regulations, the authorities may impose maximum financial penalty of approximately RMB3.9 million and order rectification of the breaches. Further, there is no assurance that we will not encounter any obstacle in obtaining the requisite permits and certificates (including the Construction Planning Permits and the Construction Permits) and in completing the requisite construction completion acceptance and registration procedures, or that we could in the end obtain all necessary title certificates in respect of such buildings. There is also no assurance that the relevant government authorities will not impose administrative penalty on us, or order suspension of usage or demolition of such buildings in the future. In any such event, the tenancy arrangements under which we have leased parts of such buildings to our business partners could possibly become invalidated. For details of our property title defects, the relevant laws and regulations, the remedial actions taken, the views of our PRC Legal Advisers and the relevant tenancy arrangements, please refer to the Section headed "Business — Properties" in this document.

### **We intend to expand our heat-treating capacity while the heat-treating of flour products in the PRC is at a relatively early phase of development**

We intend to apply approximately HK\$[REDACTED] or [REDACTED]% of the net [REDACTED] of the [REDACTED] to enhance our production capabilities of heat-treated specialty flour products through acquisition of additional heat-treating facilities. Although the heat-treating of flour is increasing in prevalence globally and has been undertaken commonly by international corporations, this production stage is not widely performed in the PRC, and only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour at the moment. According to the F&S Report, the sales value of heat-treated flour in the PRC is expected to grow at a CAGR of approximately 7.4% from 2023 to 2028. While the market for heat-treated flour is expected to grow, we cannot assure you that it will grow as projected and given the relatively small historical and forecasted market share of heat-treated flour in the PRC flour market, we cannot assure you that there will be sufficient demand for our products that contain heat-treated flour. If our heat-treated specialty flour products are not well received by our customers, our results of operations, financial condition and profitability may be materially and adversely affected.

### **If we are unable to maintain the existing level of utilization rates at our production facilities, our margins and profitability may be materially and adversely affected**

For FY2021, FY2022 and FY2023, the utilisation rate of our wheat processing capacity was approximately 76.6%, 76.9% and 75.9% respectively, and the utilisation rate of our heat-treating capacity was 78.6%, 78.5% and 81.8% respectively. The utilisation rates of our production facilities depend primarily on the demand for our products. Our utilisation rates may also be affected by various other factors, such as skills of our employees, the upkeep of our production equipment, our product mix and weather conditions. There is no assurance that we will be able to maintain comparable levels of output and utilisation rates in the future. In the event that we are unable to maintain the existing level of utilisation rates for any or all of our production facilities, our business, financial condition and operating results may be materially and adversely affected.

## RISK FACTORS

### **Any failure to maintain an effective quality control system could have a material and adverse effect on our business, financial conditions and results of operations**

The quality of our products is dependent upon the effectiveness of our quality control systems and our ability to ensure that our employees adhere to our quality control policies and guidelines. While we have measures in place to ensure the quality of our raw materials and finished products, there is no guarantee that our measures are sufficient or effective, if our raw materials or finished products are alleged or found to be spoiled, contaminated, tampered with or is otherwise unsafe and not in compliance with the relevant rules and regulations, we could be subject to product liability claims, adverse publicity and regulatory investigations, any of which may result in increased costs as well as damage to our brand and reputation. For details of our quality control measures, please refer to the section headed "Business — Quality control" in this document. Further, any failure in our quality control system which results in the production of defective or substandard products may lead to delays in the delivery of our products or product recalls, which could have a material and adverse impact on our business, financial conditions and results of operations.

### **Unexpected disruptions to our production facilities or production process may materially and adversely affect our business operations**

Our business operations are heavily dependent on the smooth operations of our production base, where all our production machinery and equipment are situated. These production machinery and equipment are subject to operating risks, such as equipment failures, disruptions in power supply, industrial accidents, labour shortage, strike, fire or natural disasters. If any unanticipated or prolonged interruption of our operations at our production base happens due to any of the aforesaid risks, we may not be able to deliver our products to our customers in a timely manner or at all. As a result, our relationship with our customers could be materially and adversely affected due to our failure and we may also be subject to contractual claims for compensation from our customers, which may materially and adversely affect our business, financial conditions and results of operations.

### **Our ability to compete may be hampered if our intellectual property rights are infringed by third-parties or if we are alleged or found to have infringed on the intellectual property rights of others**

We operate in an industry in which we and our competitors may utilize or own similar technology. As at the Latest Practicable Date, we had five registered trademarks, a registered domain name and two registered copyrights in the PRC. We cannot assure you that the measures we have undertaken will be sufficient to safeguard our intellectual property rights and we may be required from time to time to institute litigation or other forms of proceedings to enforce or defend our intellectual property rights. Litigation and other forms of proceedings may be time-consuming and expensive, with the outcome certain. On the other hand, we also cannot assure you that third parties may not raise a claim of intellectual property infringement against us, consequently, we may become subject to legal proceedings and claims relating to the intellectual property rights of third parties. Successful infringement claims by third parties against us may subject us to substantial monetary liabilities, require us to obtain licenses (which we may not be able to obtain on commercially reasonable terms or at all), pay on-going royalties, modify aspects of our technology or subject us to injunctions prohibiting the production and sale of products or the use of our technologies, any of which could materially and adversely harm our business and reputation.

## RISK FACTORS

**We may not be successful in maintaining our growth or implementing our business strategies. Further, additional costs or charges arising from the implementation of our business plans may lower our profitability**

Our business strategies as set forth in the section headed "Business — Business Strategies" in this document are based on assumptions of future events, which are inherently unascertainable at the present date. These assumptions may not hold true or prove to be correct, which could affect the commercial viability of our business plans. Accordingly, the implementation of our business strategies involves uncertainties and risks.

In addition, as disclosed in the sections headed "Business — Business Strategies — Expand our sales network and further develop our brand 'Shenhua (參花)' — Development of online retail channels" and "Future Plans and Use of [REDACTED] — Expand our sales network and further develop our brand 'Shenhua (參花)' — Development of online retail channels" in this document, we intend to use part of the net [REDACTED] from the [REDACTED] to develop our retail channels, which will primarily comprise direct sales of our flour products to individual consumers via popular e-commerce platforms in the PRC, as a means to enhance our market penetration and increase our income streams. We plan to increase our presence on e-commerce platforms in the PRC by promoting and selling our flour products on major social platforms such as Douyin and Xiaohongshu. At present, the development of our online retail channels is still at a preliminary stage, and we have yet to amass experience and expertise in relation to operation and management of online retail stores. We have also yet to gain familiarity with the e-commerce market environment, and the market reception of our online retail channels and the products to be made available via this channel may deviate from our expectations.

Accordingly, there can be no assurance that our business plans will be implemented as intended or scheduled (in terms of time, and costs or otherwise) or at all. If we fail to effectively and efficiently implement our business plans, we may not be able to achieve desirable and profitable results. There may also be other unexpected events or factors hindering us from achieving the desired outcome as we implement our business plans. Our financial condition, operating results and growth prospects may be materially and adversely affected if we cannot successfully execute our business plans to produce positive results.

**We may not be eligible to or able to enjoy the enterprise income tax exemptions under the EIT Law**

According to the EIT Law, and the Notice of Ministry of Finance and SAT on Publishing the Scope of the Preliminary Processing of Farm Produce Eligible for Preferential Corporate Income Tax Policies (Trial) (財政部、國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知) since 1 January 2008 income derived from primary processing of agricultural products has been exempt from EIT. As the manufacturing of flour products by our Group is recognized as primary processing of agricultural products, we have been granted enterprise income tax exemption for the assessable profit of our Group arising from the production and sale of flour products. For details, please refer to Note 7 of the Accountants' Report in Appendix I to this document. There is no assurance that the enterprise income tax exemption that was granted to us will continue in the future as the EIT Law or the relevant tax rules and regulations may change over time. If we are unable to enjoy the enterprise income tax exemption under the EIT Law and other tax rules in the future, our profitability may be materially and adversely affected.

## **RISK FACTORS**

### **We require various approvals, licenses and permits to operate our businesses in the PRC**

In accordance with the laws and regulations of PRC we are required to maintain various approvals, licenses and permits in order to operate our business. Please see the section headed “Business — Licenses and permits” in this document for a summary of our licenses, approvals or permits and the section headed “Regulatory Overview” in this document for a summary of the licenses we are required to obtain. Most of these licenses are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation. There can be no assurance that we will be able to obtain or renew all of the approvals, licenses and permits required for our business operations upon the expiration of the relevant licenses in a timely manner or at all. If we cannot obtain and/or maintain all licenses required by us to operate our business, planned new business operations and/or expansion may be delayed and our on-going business could be interrupted.

Further, to maintain our licenses, we are required to comply with the relevant laws and regulations and any changes to the relevant laws and regulations may require substantial resources on our part to ensure compliance. Where we are unable to comply with the relevant laws and regulations, we may have to incur significant expense and divert substantial management time to resolving any deficiencies. We may also experience adverse publicity arising from such non-compliance with government regulations that negatively impacts our brand. We may also experience difficulties or failures in obtaining the necessary approvals, licenses and permits for our business.

### **We rely on Independent Third Party logistics service providers**

During the Track Record Period, we engaged Independent Third Party logistics service providers for the transport or delivery of our products to various locations designated by our customers. As disclosed in the section headed “Business — Business Strategies — Expand our sales network and further develop our brand ‘Shenhua (參花)’ — Development of online retail channels” in this document, we will expend resources developing direct sales of our flour products to individual consumers via popular e-commerce platforms in the PRC, where we will have to rely on delivery services provided by external service providers in fulfilling the orders that may be placed by consumers from all parts of the country.

If the logistics service providers fail to comply with the transportation arrangements or any regulatory requirements, they may fail to transport or deliver our products to our customers in a timely manner or at all. We may also face difficulties in finding suitable alternative service providers to replace any existing service provider that has failed to discharge their obligations to our satisfaction. Further, we may be liable for any losses suffered by our customers as a result of the delivery failures and our business, financial performance and operations may therefore be adversely and materially affected.

### **Our customers may delay and/or default in their payments to us**

We are subject to the credit risk that our customers may fail to make prompt payments of monies due to us or at all and our liquidity is dependent on our customers making prompt payments of monies due to us. During the Track Record Period, we generally provided credit terms of up to three months to our customers and as at 31 December 2021, 2022 and 2023, our

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trade receivables (net of loss allowance) amounted to approximately RMB78.8 million, RMB86.0 million and RMB121.1 million respectively, accounting for approximately 26.8%, 16.5% and 27.7% of our total current assets, respectively. As at 31 December 2021, 2022 and 2023, our trade receivables turnover days were 44, 64 and 70 for FY2021, FY2022 and FY2023, respectively. For details, please refer to the section headed "Financial Information — Trade receivables" in this document. We cannot assure you that we will be able to recover all or any part of the amounts due from our customers within the agreed credit terms or at all. Furthermore, in the event that disputes arise between us and our customers, we may require a longer period of time than the credit period offered to collect payments. The uncertainties or failure in the settlement of our receivables by our customers may negatively affect our cash flows, our business, results of operations and financial condition.

### **Our business operation may be adversely affected by changes in social trends and governmental policies related to environmental, social, and governance (ESG) matters**

As a flour manufacturer, we are subject to potential risks arising from changes in social trends and governmental policies related to ESG matters. Such changes may affect our business model and operating environment. For example, if there is a shift towards more stringent regulations in relation to environmental protection (such as greenhouse gas emissions, waste and recycling), we may face increased compliance costs and operational challenges. Similarly, if there is a growing demand for flour products that are developed and manufactured through an environmentally friendly process, we may need to adapt our production line and invest in new technologies and process to reduce our environmental footprint. Moreover, changes in governmental policies related to ESG issues may impact on our access to funding and other resources critical to our business activities, and our business growth may in turn be inhibited.

### **Our insurance coverage may not be sufficient to cover the risks relating to our operations and potential losses**

Our operations are subject to hazards and risks that are typically associated with manufacturing operations which may cause significant injury or damage to person or property. No assurance can be given that our insurance coverage will be sufficient to cover all types of, or be sufficient to cover the full extent of any loss, theft of or damage to property or injury to person for which we may be held liable. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the destruction of buildings and other facilities due to fire or natural disasters such as hurricanes, severe winter storms, flood, droughts or earthquakes will severely affect our ability to continue our operations and may cause significant property damage and personal injuries. Our existing insurance policies may not be sufficient to compensate us for any losses arising from damage to our buildings, equipment and infrastructure. In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any events and any losses or liabilities that are not covered by our current insurance policies may have a material adverse impact on our business, financial condition, results of operations and prospects.



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### **We rely on our key management personnel**

Our future success is highly dependent on the ongoing efforts of our management and key personnel, including, among others, Mr. Yao and Mr. Yao Wei. We rely on such management and key personnel for their capabilities in developing new and maintaining existing customer relationships and developing new products and their extensive knowledge of and experience in the flour manufacturing industry. We may not be able to retain the services of our management or key personnel or attract and retain new management or key personnel in the future. We may also be unable to attract or retain the specialized personnel required to achieve our business objectives, and failure to do so could adversely affect our business and prospects. In addition, we depend upon the continued service of skilled managerial and technical personnel. In the event that any member of our management or any of our key personnel leave our employment, we may not be able to replace them easily and our technical know-how and product development capability, may be reduced, further we may also lose customers, business partners and other key staff members.

### **RISKS RELATING TO OUR INDUSTRY**

#### **The industry in which we operate is highly regulated, with extensive laws and regulations relating, in particular, to food safety**

We manufacture and sell food products intended for human consumption in the PRC and the industry is subject to extensive government laws and regulations. To operate our business, we are required to comply with the relevant laws and regulations such as the Food Safety Law of the PRC which also sets out stringent safety standards with respect to food and food additives, packaging and information to be disclosed on the packaging, as well as safety requirements for food production and production sites, facilities and equipment used for the transportation and sale of food. In addition, food and drug administrations at or above county level are empowered to conduct random testing of food and, along with the quality supervision departments at or above the county level, are empowered to enter production facilities to conduct on-site inspections, sample testing of foods, food additives and food-relating products. Further, as an enterprise undertaking the task of grain procurement and/or storage arrangements assigned by the local government, we are also subject to certain standards and requirements

There can be no assurance that the existing laws and regulations relating to food safety or otherwise will not be amended, supplemented or tightened in the future imposing more stringent or extensive measures, the compliance of which may require us to incur significant capital expenditures or increase our production cost and as such our profitability could be significantly affected.

#### **Changes in the PRC government's policy on foreign investments may materially and adversely affect our business and results of operations**

According to the Foreign Investment Catalogue (2015 Revision) (《外商投資產業指導目錄》(2015修訂)), the business we operate, being the purchasing of wheat and processing of flour was once classified as a "restricted" foreign investment industry. However, pursuant to the Foreign Investment Catalogue (2022 Edition) (《鼓勵外商投資產業目錄(2022年版)》) and the Special Administrative Measures for Admission of Foreign Investments (Negative List) (2021 Edition)

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(《外商投資准入特別管理措施(負面清單)》(2021年版)) the flour production and wheat processing industry permits foreign investment. Neither the Catalogue of Encouraged Industries for Foreign Investment (2022 version) (《鼓勵外商投資產業目錄(2022年版)》) nor the Special Administrative Measures for Admission of Foreign Investments (Negative List) (2021 Edition) (《外商投資准入特別管理措施(負面清單)》(2021年版)) provide for any specific restrictions as to the percentage of equity interest that can be held by foreign investors. There can be no assurances that the PRC government will not impose any specific restrictions or issue any specific guidance and measures in regards to the percentage of equity interest that can be held by foreign investors in businesses such as ours and/or impose any other restrictive guidance and measures in regards to foreign investors. In such an event, our Group will be required to comply with such legal requirements which may require us to undertake certain restructuring measures which may result in us incurring significant capital expenditures or ceasing operations until such restructuring measures are complete. Where we are required to expend significant capital expenditures or cease operations until we are in compliance with the relevant legal requirements, our business, financial condition and results of operations may be materially and adversely affected.

### RISKS RELATING TO DOING BUSINESS IN THE PRC

#### **We may be adversely affected by changes in political, social and economic conditions, as well as governmental policies, in the PRC**

During the Track Record Period, all of our revenue was derived from the sales of our products to customers in the PRC and substantially all of our assets and business operations are also currently located in the PRC. Accordingly, our business, financial condition and results of operations are subject to social and economic developments in the PRC to a significant degree. Besides, the global political, social and economic conditions are evolving rapidly and could adversely affect the PRC's economic growth. Any financial or economic crisis in any major markets of the world and any geopolitical tensions could slow down or even hinder the economic growth of the PRC, and may in turn adversely affect the business operation, financial condition or performance of our Group.

In recent years, the PRC government has been implementing economic reform measures from time to time, with emphasis on the use of market forces to drive economic development. Any such governmental policies or measures may from time to time be modified or revised. Implementation of these governmental policies or measures, or any significant change thereof, may have positive effect on the PRC's overall economic growth, but we cannot assure you that they might not adversely affect us or the industry in which we operate.

#### **We may be deemed a PRC resident enterprise under the EIT Law and be subject to PRC taxation on our worldwide income**

Our Company is a holding company incorporated under the laws of the Cayman Islands. Under the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its "de facto management bodies" located within the PRC, such enterprise may be recognized as a PRC tax resident enterprise and be subject to the unified income tax at a rate of 25% on its worldwide income. The implementation rules to the EIT Law define the term "de facto management body" as a body that has a material and overall management control over the

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business, personnel, accounts and properties of the of enterprise. In April 2009, SAT issued the Notice regarding the Determination of Chinese-Controlled Overseas Incorporated Enterprises as PRC Tax Resident Enterprises on the Basis of De Facto Management Bodies which was partially revised by SAT in December 2017 setting out certain criteria for specifying what constitutes a "de facto management body" in respect of enterprises that are established offshore by PRC enterprises. However, no such criteria are provided in these or other publications of SAT in respect of enterprises established offshore by private individuals or foreign enterprises like us, it is therefore unclear whether we will be deemed to be a "PRC tax resident enterprise" for the purposes of the EIT Law even though substantially all of our operations and management are currently based in the PRC. We are currently not treated as a PRC tax resident enterprise by the relevant tax authorities, nevertheless, there can be no assurance that we will not be treated as a PRC tax resident enterprise under the EIT Law in the future and be subject to the unified income tax. In the event that we are subject to the unified income tax, our income tax expenses may increase significantly and have a material adverse effect on our net profit and profit margins.

### **Our Company is a holding company and our ability to pay dividends is primarily dependent upon the earnings of, and distributions by, our subsidiary in the PRC**

Our Company is a holding company incorporated under the laws of the Cayman Islands with limited liability. The majority of our business operations are conducted through our subsidiary in the PRC Shenhua Flour and hence, our turnover and profit are derived from our subsidiary in the PRC, as such our ability to pay dividends to our Shareholders is primarily dependent upon the earnings of our subsidiaries in the PRC and their distribution of funds to us, primarily in the form of dividends. The ability of our subsidiary in the PRC to make distributions to us depends upon, amongst others, its distributable earnings. Under the PRC law, payment of dividends is only permitted out of accumulated profits according to PRC accounting standards and regulations, and our subsidiary in the PRC are also required to set aside part of its after-tax profits to fund certain reserve funds that are not distributable as cash dividends. Other factors such as cash flow conditions, restrictions on distributions contained in our PRC subsidiary's articles of associations, restrictions contained in any debt instruments, withholding tax and other arrangements will also affect the ability of our subsidiary in the PRC to make distributions to us. These restrictions could reduce the amount of distributions that we receive from our subsidiary in the PRC, which in turn would restrict our ability to pay dividends on the Shares. The amounts of distributions that any of the subsidiaries of our Group has declared and made in the past are not indicative of the dividends that we may pay in the future. There is no assurance that we will be able to declare or distribute any dividend in the future.

### **Dividends payable by us to our foreign investors and gains on the sale of our Shares may be subject to withholding taxes under the PRC tax laws**

Under the EIT Law and its implementation rules, subject to any applicable tax treaty or similar arrangement between the PRC and the jurisdiction of residence of the relevant investors that provides for a different income tax arrangement, enterprise income tax at the rate of 10.0% is applicable to dividends payable to investors that are "non-resident enterprises" (being investors which have no establishment or place of business in the PRC, or no actual connection between their income and their establishment or place of business in the PRC enterprise) to the extent such dividends are sourced within the PRC. Similarly, any gain realized on the transfer of

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the shares of a PRC enterprise by such enterprise investors is also subject to 10.0% PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC unless a treaty or similar arrangement otherwise provides. Under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation rules, dividends from sources within the PRC paid to foreign individual investors who are not PRC residents are generally subject to a PRC withholding tax at a rate of 20%, and gains from PRC sources realized by such investors on the transfer of shares are generally subject to 20% PRC income tax, in each case, subject to any reduction or exemption set forth in applicable tax treaties and PRC laws. If we are considered as a PRC "resident enterprise", it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the applicable PRC tax laws to withhold PRC enterprise income tax or individual income tax on our dividends payable to our foreign Shareholders, or if you are required to pay PRC enterprise income tax or individual income tax on the transfer of the Shares, the value of your investment or return on your investment in our Shares may be materially adversely affected.

### **Currency conversion and changes in the exchange rate between RMB and other currencies could negatively affect our financial condition, operations and our ability to pay dividends**

Our Group needs to convert RMB into foreign currencies for the payment of dividends, if any, to Shareholders, which is subject to the PRC rules and regulations on currency conversion. In the PRC, SAFE regulates the conversion of RMB into foreign currencies. Foreign invested enterprises (are required to apply to SAFE or its local branches for Foreign Exchange Registration Certificates. Under the relevant PRC foreign exchange laws and regulations, payment of current account items, including profit distributions and interest payments are permitted to be made in foreign currencies without prior government approval but are subject to certain procedural requirements. Strict foreign exchange control continues to apply to capital account transactions, which must be approved by and/or registered with SAFE. We cannot assure you that the PRC regulatory authorities will not impose further regulations on foreign exchange transactions for current-account items, including payment of dividends.

Furthermore, in 2005, the PRC revalued the exchange rate of the RMB to the USD and abolished the pegging of the RMB solely to the USD as applied in the past. Instead, it is pegged against a basket of currencies. We cannot assure you that in the future the PRC will not revalue RMB or permit its substantial appreciation. Any increase in the value of RMB may adversely affect the growth of the PRC economy and competitiveness of various industries in the PRC, including the industries in which our Group operates, which could in turn affect the financial condition and operations of our Group. Fluctuations in exchange rates for USD may also adversely affect the value, translated or converted into RMB, of our net assets, earnings and any declared dividends. We may incur new debt financings which may include foreign currency denominated borrowings. Any adverse fluctuations in exchange rates among these foreign currencies may materially and adversely affect our results of operations.

### **PRC regulations on direct investments and loans by offshore holding companies to PRC entities may delay or limit us from making additional capital contributions or loans to our major PRC subsidiary**

In utilizing the [REDACTED] of the [REDACTED] in the manner described in the section headed "Future Plans and Use of [REDACTED]" in this document, our Company, as the

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offshore holding company of our PRC operating subsidiary, may make loans and additional capital contributions to our PRC subsidiary or a combination thereof. Any loans to our PRC subsidiary are subject to PRC regulations and approvals. For example, loans by our Company to our subsidiary in the PRC which are foreign-invested enterprises to finance their activities cannot exceed statutory limits and must be registered with SAFE or its local counterpart. In addition, any capital contributions to our PRC subsidiary must be approved by MOFCOM or its local counterpart. We cannot assure that we will be able to obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiary. If we fail to obtain such registrations or approvals, our ability to use the [REDACTED] of the [REDACTED] may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

### **You may experience difficulties in effecting service of legal process and enforcing judgments against us and our officers**

Our Company was incorporated under the laws of the Cayman Islands and a substantial part of our businesses, assets and operations are located in the PRC. In addition, most of our Directors and officers are residents of the PRC. As a result, it may not be possible to effect service of legal process upon us or our Directors and officers in the PRC. Moreover, a judgment of a court of another jurisdiction may be reciprocally recognized or enforced if the jurisdiction has a treaty with the PRC or if judgements of the PRC courts have been recognized before in that jurisdiction (subject to the satisfaction of other requirements). The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts of a number of western countries. Therefore, it may be difficult for you to enforce against us and our Directors and officers in the PRC any judgments obtained from non-PRC courts.

Under the current arrangement for reciprocal enforcement of arbitral awards between the PRC and Hong Kong, awards made by the PRC arbitral authorities that are recognized under the Arbitration Ordinance can be enforced in Hong Kong. Hong Kong arbitration awards are also enforceable in the PRC. On 14 July 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matters. Under this arrangement, where any designated People's Court or Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement, any party concerned may apply to the relevant People's Court or Hong Kong court for recognition and enforcement of the judgment. On 18 January 2019, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by Courts of the Mainland and of the Hong Kong Special Administrative Region (《關於內地與香港特別行政區法院相互認可和執行民商事案件判決的安排》) ("REJ Arrangement"), which established a more comprehensive mechanism for reciprocal recognition and enforcement of judgments in civil and commercial matters between the Hong Kong and the PRC. On 26 October 2022 the Hong Kong Legislative Council has passed The Mainland Judgments in Civil and Commercial Matters (Reciprocal Enforcement) Ordinance (the "MJREO") to implement the REJ Arrangement. And the Supreme People's Court of the PRC promulgated a judicial interpretation to implement the REJ Arrangement, which came into effect on 29 January 2024.

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Although we will be subject to the Listing Rules and the Takeovers Code upon [REDACTED], our Shareholders will not be able to bring actions on the basis of violation of the Listing Rules or the Takeovers Code, which do not have the force of law in Hong Kong, and must rely on the Stock Exchange and SFC to enforce their rules.

### **PRC laws and regulations may be subject to further interpretation and enforcement**

Our subsidiaries and operations are principally based in the PRC and are subject to the laws and regulations of the PRC. The PRC legal system is based on statutory laws. Under this system, prior court decisions may be cited for reference but do not have binding precedential effect. Since 1979, the PRC Government has been developing a comprehensive legal system and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, property title, foreign investment, commerce, taxation and trade. As these laws and regulations are relatively new and evolving, and because of the limited volume of published cases and judicial interpretations and the non-binding nature of prior court decisions, the interpretation and enforcement of these laws and regulations involves some uncertainty as other civil law countries. Such uncertainties may lead to difficulties in enforcing our rights and in resolving disputes with any persons, and could result in unanticipated costs and liabilities.

### **RISKS RELATING TO THE [REDACTED] AND THE SHARES**

**There has been no prior public market for the Shares. The [REDACTED] volume and market price of the Shares following the [REDACTED] may be volatile**

Prior to the [REDACTED], there was no public market for our Shares. The initial [REDACTED] range to the public for the Shares was the result of negotiations between our Group and the [REDACTED] (for itself and on behalf of the other [REDACTED]), and the [REDACTED] may differ significantly from the market price for the Shares following the [REDACTED]. Our Group has applied for the [REDACTED] of and permission to [REDACTED] in the Shares on the Stock Exchange. However, the [REDACTED] does not guarantee that an active liquid public [REDACTED] market for the Shares will develop. In addition, the price and [REDACTED] volumes of the Shares may be volatile. Factors such as variations in the revenue, earnings and cash flows or any other developments of our Group may affect the volume and price at which the Shares will be traded.

**Sale or perceived sale of substantial amounts of the Shares in the public market after the [REDACTED] could materially and adversely affect the prevailing market price of the Shares**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the Listing Rules and further undertakings in favor of us, however there is no assurance that our Controlling Shareholders (whose interests may differ from those of other Shareholders) will not dispose of their Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

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Upon completion of the [REDACTED] and the Capitalization Issue (assuming that the [REDACTED] is not exercised and without taking into account of any shares which may be granted upon the exercise of any options which may be granted under the Share Option Scheme), our Controlling Shareholders will own [REDACTED]% of the Shares in issue (without taking into account of the Shares which may be issued upon the exercise of the [REDACTED] and issued upon the exercise of options under the Share Option Scheme) and will therefore have significant influence over the operations and business strategy of our Group. Accordingly, they will have the ability to require our Group to effect corporate actions according to their own desires. The interests of our Controlling Shareholders may not always coincide with the best interests of other Shareholders. If the interests of any of our Controlling Shareholders conflict with the interests of other Shareholders, or if any of our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of other Shareholders, our Company or those other Shareholders may be materially and adversely affected as a result.

**There may be limited liquidity in our Shares and volatility in the price of our Shares on Main Board which could result in substantial loss for investors purchasing our Shares under the [REDACTED]**

Our Shares have not been traded in an open market prior to the completion of the [REDACTED] and the [REDACTED] may not serve as an indicator of the price of our Shares as traded on Main Board in the future.

The [REDACTED] is the result of negotiations among us, the Sole Sponsor and the [REDACTED] (for itself and on behalf of the other [REDACTED]), and may be different from the market prices for our Shares after the [REDACTED]. There is no assurance that an active and liquid public [REDACTED] market of our Shares will develop upon the [REDACTED] or if it does develop, that it may be sustained for any period of time after the [REDACTED]. The market price and [REDACTED] volume of our Shares may fluctuate significantly and rapidly as a result of the following factors, among other things, some of which are beyond our control:

- variation in our results of operation;
- our inability to compete effectively in the market;
- changes in securities analysts' analysis of our financial performance;
- our announcement of significant acquisitions, dispositions, strategic alliances or joint ventures;
- addition or departure of our key personnel;
- fluctuations in market prices and [REDACTED] volume of our Shares;
- our involvement in litigation;
- penalties from the relevant authorities in respect of any possible non-compliance in our operations; and

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- general economic and stock market conditions in Hong Kong.

All such factors may result in significant fluctuations in the market price and/or transaction volume of our Shares. There is no assurance that such changes will not occur.

### **Issue of new Shares under the Share Option Scheme or any future equity fund raising exercise will have a dilution effect and may affect our profitability**

We have conditionally adopted the Share Option Scheme but no option has been or will be granted thereunder prior to the [REDACTED]. Any exercise of the options to be granted under the Share Option Scheme in the future will result in a dilution in the shareholding of our Shareholders in our Company and may result in a dilution in the earnings per Share and net asset value per Share. The fair value of the share options at the date on which they are granted with reference to the valuer's valuation will be charged as share-based expense, which may adversely affect our Group's results of operations.

### **Purchasers of the Shares will experience immediate dilution and may experience further dilution if our Group issue additional Shares in the future**

The [REDACTED] of our Shares is higher than the net tangible asset value per Share immediately prior to the [REDACTED] and the Capitalisation Issue. Therefore, purchasers of the Shares in the [REDACTED] will experience an immediate dilution in the unaudited [REDACTED] adjusted consolidated net tangible assets value of HK\$[REDACTED] per Share, based on the maximum [REDACTED] of HK\$[REDACTED] per [REDACTED]. In order to expand its business, we may consider offering and issuing additional Shares in the future. Purchasers of the Shares may experience dilution in the net tangible assets value per Share if our Group issues additional Shares in the future to investors at a price which is lower than the then net tangible assets value per Share.

### **Since there will be a gap of several days between pricing and the [REDACTED] of the Shares, holders of the Shares are subject to the risk that the price of the Shares could fall during the period before the [REDACTED] of the Shares begin**

The [REDACTED] of our Shares is expected to be determined on the [REDACTED], however, our Shares will not commence [REDACTED] on the Stock Exchange until they are delivered and there may be a gap of several days between the two. As a result, investors may not be able to sell or otherwise in the Shares during that period and accordingly, holders of the Shares are subject to the risk that the price of their Shares could fall before [REDACTED] begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [REDACTED] begins.

### **We may require additional funding for future growth**

We may be presented with opportunities to expand our business through acquisitions in the future. Under such circumstances, secondary issue(s) of securities after the [REDACTED] may be necessary to raise the required capital to capture these growth opportunities. If additional funds are raised by means of issuing new equity securities in the future to new



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and/or existing Shareholders after the [REDACTED], such new Shares may be priced at a discount to the then prevailing market price. Inevitably, if existing Shareholders are not offered an opportunity to participate, their shareholding interest in our Company will be diluted. Also, if we fail to utilise the additional funds to generate expected earnings, this could adversely affect our financial results and in turn exerts pressure on the market price of our Shares. Even if additional funds are raised by means of debt financing, any additional debt financing may, apart from increasing interest expense and gearing ratio, contain restrictive covenants with respect to dividends, future fund raising exercises and other financial and operational matters.

### **RISKS RELATING TO STATEMENTS MADE IN THIS DOCUMENT AND FROM OTHER SOURCES**

#### **Certain statistics and facts in this document are derived from various official government sources and publications or other sources and have not been independently verified**

This document includes certain statistics and facts that are extracted from official government sources and publications or other sources. We believe that such statistics and facts are prepared by the relevant sources after having taken reasonable care. Whilst our Company believes that it is prudent for us to rely on such statistics and facts, there is no assurance that such statistics and facts are free from error or mistake. The statistics and facts from these sources have not been independently verified by our Company, our Directors, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED], or any of their respective directors, affiliates or advisers or any other party involved in the [REDACTED] and no representation is given as to their accuracy and completeness. Due to possible flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this document may be inaccurate or may not be comparable to statistics produced for other economies and should not be relied upon. Furthermore, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such statistics or facts.

#### **Forward-looking statements contained in this document are subject to risks and uncertainties**

This document contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "intend", "may", "plan", "seek", "should", "will", "would" or similar terms. Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Investors of our Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements based on are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations that our plans or objectives will be achieved and investors should not place undue reliance on such

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forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to the section headed "Forward-looking Statements" in this document for further details.

**We strongly caution you not to place any reliance on any information contained in press articles, media coverage and/or research analyst reports regarding us, our industry or the [REDACTED]**

There may be press articles, media coverage and/or research analyst reports regarding us, our industry or the [REDACTED], which may include certain financial information, financial projections and other information about us that do not appear in this document. We have not authorized the disclosure of any such information in the press, media or research analyst reports. We do not accept any responsibility for any such press articles, media coverage or research analyst reports or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our Shares, you should rely only on the financial, operational and other information included in this document.

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the [REDACTED], we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

### WAIVER PURSUANT TO RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally requires us to have at least two of our Executive Directors to be ordinarily residents in Hong Kong. However, our Company would not be able to satisfy the requirements under Rule 8.12 of the Listing Rules for the following reasons:

- (a) none of our Executive Directors has been or will be ordinarily resident in Hong Kong;
- (b) the principal business and operations of our Company are based, managed and conducted in the PRC;
- (c) for the purposes of the operations and management of our Group, appointing additional Executive Directors who are ordinarily resident in Hong Kong will not only increase the administrative expenses of our Group, but will also reduce the effectiveness and responsiveness of the Board in making decisions for our Group, especially when business decisions are required to be made on a timely basis. In addition, appointing new Executive Directors, who may not be familiar with the operations of our Group, to the Board for the sole purpose of satisfying the requirements of Rule 8.12 of the Listing Rules may not be in the best interest of our Group and its Shareholders as a whole. In particular, they will not be able to fully understand the daily operations of the core business of our Group or fully appreciate the circumstances surrounding or affecting the core business operations and development of our Group from time to time, as they will not be physically present in the operation and management base of our Group in the PRC all the time. As such, such Executive Directors may not be able to exercise their discretion on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the operations and development of our Group; and
- (d) each of our existing Executive Directors has a vital role in the business and operations of our Group and it is of paramount importance for them to remain to be physically close to our Group's operations in the PRC. Relocating any of our existing PRC-based Executive Directors to Hong Kong would require time to process the application for residency in Hong Kong and the application will be burdensome and costly for our Company and may not enable the relevant Executive Directors to perform their strategic roles in our Group. Since such Directors, after the relocation, will not be physically present at the operation and management base of our Group in the PRC all the time, they may encounter the aforesaid management difficulties.

We do not and in the foreseeable future will not, have sufficient management presence in Hong Kong.

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange [has granted], a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules, subject to the following conditions:

- (a) we have appointed, and will continue to maintain, Mr. Yao Wei, one of our Executive Directors and Mr. Tang Yu Him, our Company secretary, as our authorised representatives pursuant to Rule 3.05 of the Listing Rules, and they will serve as the principal channel of communication at all times between the Stock Exchange and our Company. Each of our authorised representatives is authorised to communicate on behalf of our Company with the Stock Exchange. Each of our authorised representatives will be readily contactable by the Stock Exchange, and if required, will be able to meet with the Stock Exchange to discuss any matters in relation to our Company in short notice. For further biographical details of Mr. Yao Wei and Mr. Tang Yu Him, please refer to the sections headed "Directors and Senior Management – Executive Directors" and "Directors and Senior Management – Company secretary" in this document;
- (b) we have provided the authorised representatives and the Stock Exchange the contact details of each Director, including mobile phone numbers, office phone numbers and email addresses. Each of the authorised representatives has means to contact all Directors (including our Independent Non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any reason;
- (c) all of our Directors who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents or will be able to apply for valid travel documents to travel to Hong Kong and will be able to meet the Stock Exchange within a reasonable period of time when required;
- (d) we have appointed Zhongtai International Capital Limited (the "**Compliance Adviser**") as the compliance adviser of our Company, pursuant to Rule 3A.19 of the Listing Rules, to act as our Company's additional channel of communication with the Stock Exchange from the [REDACTED] to the date on which our Company distributes its financial results for the first full financial year immediately after the [REDACTED] in accordance with Rule 13.46 of the Listing Rules. The Compliance Adviser will provide our Company with professional advice on ongoing compliance with the Listing Rules. We will ensure that the Compliance Adviser has prompt access to our Company's authorised representatives and Directors who will provide information and assistance in connection with the performance of the Compliance Adviser's duties as the Compliance Adviser. Our Company will inform the Stock Exchange promptly in respect of any change in the Compliance Adviser;

## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (e) meetings between the Stock Exchange and our Directors could be arranged through the authorised representatives or the Compliance Adviser of our Company or directly with our Directors within a reasonable time frame; and
- (f) we will keep the Stock Exchange up to date in respect of any change to the contact details of the authorised representatives. Our Company will only change the authorised representatives after notifying the Stock Exchange of such change, the reasons and having made an appropriate replacement.

### WAIVER FROM STRICT COMPLIANCE WITH CHAPTER 14A OF THE LISTING RULES

Our Group has entered into certain transactions which would constitute non-exempt continuing connected transactions under Chapter 14A the Listing Rules after the [REDACTED]. Further particulars about such transactions together with the application for a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules are set out in "Connected Transactions" in this document.

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**DIRECTORS**

<b>Name</b>	<b>Address</b>	<b>Nationality</b>
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*Executive Directors*

Mr. Yao Zhiwan (姚志萬先生)	9-3-101, Phase 1, Yingguogong Yongdinghe Kongquecheng Gu'an County, Langfang City Hebei Province the PRC	Chinese
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Mr. Yao Wei (姚巍先生)	9-3-302, Phase 1, Yingguogong Yongdinghe Kongquecheng Gu'an County, Langfang City Hebei Province the PRC	Chinese
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*Independent Non-executive Directors*

Mr. Chan Yuk Hiu Taylor (陳玉曉先生)	Flat G, 22/F Tower 2 Vision City 1 Yeung Uk Road Tsuen Wan Hong Kong	Chinese
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Ms. Shi Jingmin (史靜敏女士)	No. 401, Unit 2, Building 1 No. 187 Tiyu Street Yuhua District, Shijiazhuang City Hebei Province the PRC	Chinese
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Mr. Huang Weining (黃衛寧先生)	No. 1800, Lihu Avenue Wuxi, 214122 the PRC	Chinese
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Please refer to the section headed "Directors and Senior Management" in this document for further information on our Directors.

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**PARTIES INVOLVED IN THE [REDACTED]**

**Sole Sponsor**

**Zhongtai International Capital Limited**  
19th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Central  
Hong Kong

[REDACTED]

**Legal advisers to our Company**

*As to Hong Kong law*

**Wan & Tang**  
2408, World-Wide House  
19 Des Voeux Road Central  
Central  
Hong Kong

*As to PRC law*

**Jingtian & Gongcheng**  
34/F, Tower 3  
China Central Place  
77 Jianguo Road  
Beijing 100025, the PRC

*As to Cayman Islands law*

**Conyers Dill & Pearman**  
29/F, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Legal advisers to the Sole Sponsor  
and [REDACTED]**

*As to Hong Kong law*

**Chiu & Partners**  
40/F, Jardine House  
1 Connaught Place  
Hong Kong

*As to PRC law*

**Commerce & Finance Law Offices**  
12-14th Floor, China World Office 2  
No. 1 Jianguomenwai Avenue  
Beijing 100004, China

**DIRECTORS AND PARTIES INVOLVED IN THE [REDACTED]**

**Auditors and reporting accountants**

**KPMG**

*Certified Public Accountants*

*Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance*

8th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

[REDACTED]

**Property valuer**

**Cushman & Wakefield Limited**

27/F, One Island East

Taikoo Place

18 Westlands Road

Quarry Bay

Hong Kong

**Internal control consultant**

**BT Corporate Governance Limited**

2nd Floor, 625 King's Road

North Point

Hong Kong

**Industry consultant**

**Frost & Sullivan (Beijing) Inc.,**

**Shanghai Branch Co.**

Suite 2504

Wheelock Square

1717 Nanjing West Road

Shanghai

the PRC



## CORPORATE INFORMATION

<b>Registered office</b>	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	2408, World-Wide House 19 Des Voeux Road Central Central Hong Kong
<b>Headquarters in the PRC</b>	Emerging Industry Demonstration Zone Gu'an County, Hebei Province, the PRC (中國河北省固安縣新興產業示範區)
<b>Company's website</b>	<b>shenhuamianfen.com</b> <i>(Note: The contents of this website do not form part of this document)</i>
<b>Company secretary</b>	<b>Mr. Tang Yu Him (鄧裕謙先生)</b> <i>(Solicitor of Hong Kong)</i> 2408, World-Wide House 19 Des Voeux Road Central Central Hong Kong
<b>Authorised representatives</b>	<b>Mr. Yao Wei (姚巍先生)</b> 9-3-302, Phase 1, Yingguogong Yongdinghe Kongquecheng Gu'an County, Langfang City Hebei Province the PRC  <b>Mr. Tang Yu Him (鄧裕謙先生)</b> 2408, World-Wide House 19 Des Voeux Road Central Central Hong Kong
<b>Audit committee</b>	Mr. Chan Yuk Hiu Taylor (陳玉曉先生) ( <i>Chairman</i> ) Ms. Shi Jingmin (史靜敏女士) Mr. Huang Weining (黃衛寧先生)
<b>Remuneration committee</b>	Ms. Shi Jingmin (史靜敏女士) ( <i>Chairman</i> ) Mr. Chan Yuk Hiu Taylor (陳玉曉先生) Mr. Huang Weining (黃衛寧先生)

**CORPORATE INFORMATION**

**Nomination committee**

Mr. Huang Weining (黃衛寧先生) (*Chairman*)  
Mr. Chan Yuk Hiu Taylor (陳玉曉先生)  
Ms. Shi Jingmin (史靜敏女士)

[REDACTED]

**Compliance adviser**

**Zhongtai International Capital Limited**  
19th Floor, Li Po Chun Chambers  
189 Des Voeux Road Central  
Hong Kong

**Principal bankers**

**Agricultural Bank of China Limited**  
**Gu'an County Sub-branch**  
No. 43 Xinyuan Street  
Gu'an County, Hebei Province  
the PRC

**Agricultural Development Bank of China**  
**Gu'an County Sub-branch**  
5th Floor, Post Office Building  
Xinzhong Street  
Gu'an County, Hebei Province  
the PRC

## INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan, an independent global consulting firm and reflects estimates of market conditions in which our Group operates. Our Directors believe that the sources of information contained in this section are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Frost & Sullivan and set out in this section has not been independently verified by our Company, our Group, the Sole Sponsor, any of our or their respective directors, officers and representatives or any other party involved in the [REDACTED], except Frost & Sullivan, and neither they give any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.

### SOURCES OF INFORMATION

Our Group has engaged Frost & Sullivan, an Independent Third Party, to conduct a study of the flour market in the PRC. We agreed to pay Frost & Sullivan a fee of RMB1,302,000 for the preparation of the Frost & Sullivan Report, and our Directors consider that such fee reflects market rates.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has five offices in the PRC and Hong Kong and direct access to the most knowledgeable experts and market participants in the Flour industry.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary interviews. Secondary research involves information integration of data and publication from publicly available resources, including official data and announcements from the PRC government departments, and market research on industry and enterprise player information issued by our major competitors. Primary interviews are conducted with relevant institutions to obtain objective and factual data and prospective predictions. The information and statistics as set out in this section have been extracted from the Frost & Sullivan Report.

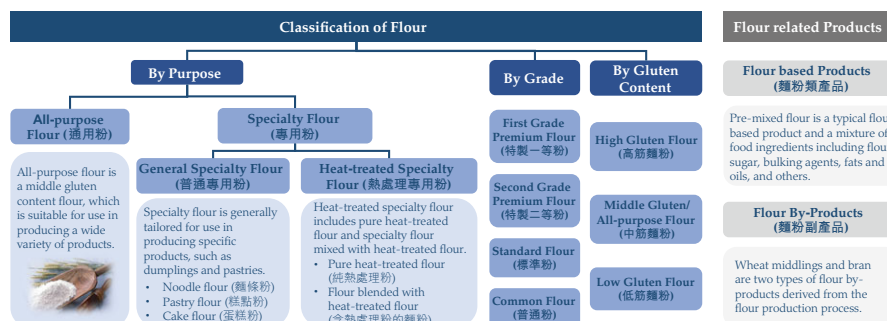
In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain steady growth in the Forecast Period (as defined below); (ii) China's social, economic, and political environment is likely to remain stable in the Forecast Period; and (iii) Market drivers such as increasing disposable income, upgraded living standard, increasing demand for high-end healthy food, growing demand for and preference on specialty flour, and government supports are likely to drive the growth of flour market in the PRC.

### OVERVIEW OF FLOUR MARKET IN THE PRC

#### Definition and Classification

Flour is a powder mainly made by grinding raw grains, most commonly wheat. Flour is widely used as a main ingredient of the staple food in many different cuisine cultures such as bread in western cuisine cultures and noodles in Asian cuisine cultures.

Flour can be classified by (i) the purpose for use, (ii) grade, and (iii) gluten content, according to the National Standards of PRC (GB). By purpose for use, the flour can be divided into all-purpose flour and specialty flour. By grade, the flour can be divided into first grade premium flour, second grade premium flour, standard flour and common flour. By gluten content, the flour can be classified into high gluten flour (gluten content  $\geq 30.0\%$ ), middle gluten flour or all-purpose flour ( $24.0\% \leq$  gluten content  $< 30.0\%$ ), and low gluten flour (gluten content  $< 24.0\%$ ).

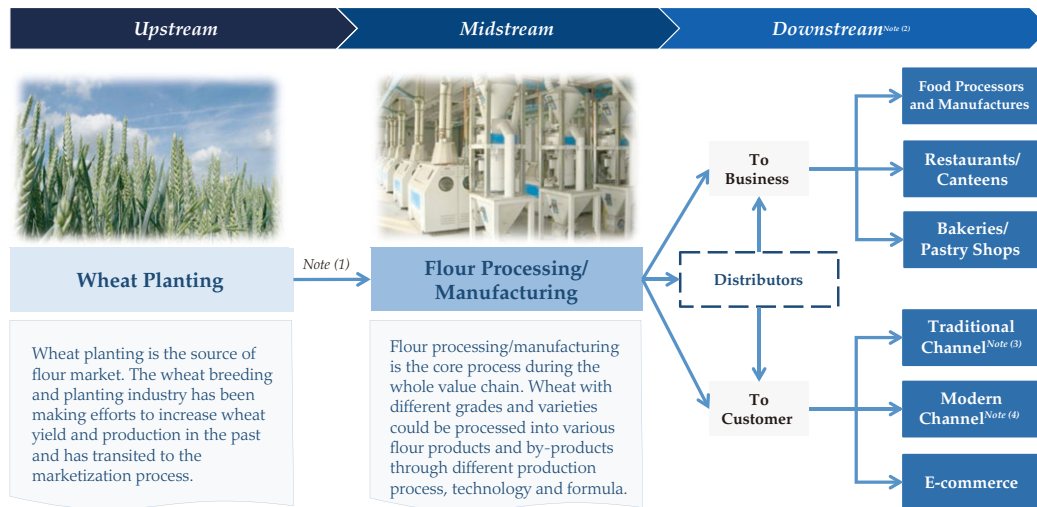


Source: Frost & Sullivan

## INDUSTRY OVERVIEW

### Value chain of Flour Market

The following flow chart sets out the value chain of flour market:



Notes:

1. The government procurement and reserve volume of wheat depends on the market supply and demand situation.
2. The proportion of export among all the distribution channels is less than 1%.
3. Traditional channel includes grain and oil wholesale market, grocery store, and small independent store.
4. Modern channel includes hypermarket, supermarket, and chain convenient store.

Source: Frost & Sullivan

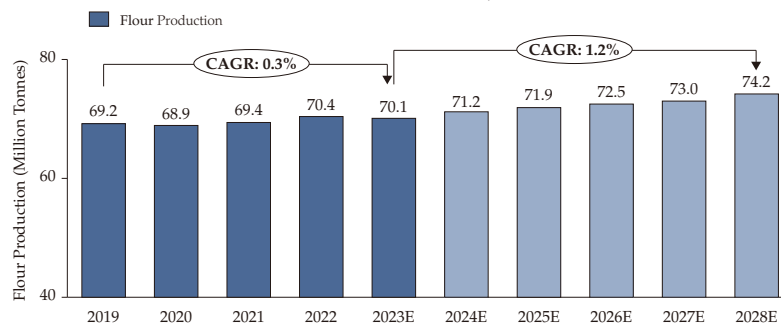
### Flour Production and Consumption in China

Wheat is the most widely cultivated cereal crop in the world, with China being the largest producer of wheat in the world. Given the flour is mainly made by grinding wheat, the flour production in general is in line with that of wheat in China.

The flour production in China slightly increased from 69.2 million tonnes in 2019 to 70.1 million tonnes in 2023.

Wheat production is subject to a variety of growing conditions, including weather, humidity and rainfall. However, with continued advances in agricultural technology, Frost & Sullivan believes that domestic wheat and flour production is expected to maintain an upward trend from 2024 to 2028 (the "Forecast Period"). Flour production is expected to increase to 74.2 million tonnes in 2028, with a CAGR of 1.2% from 2023 to 2028.

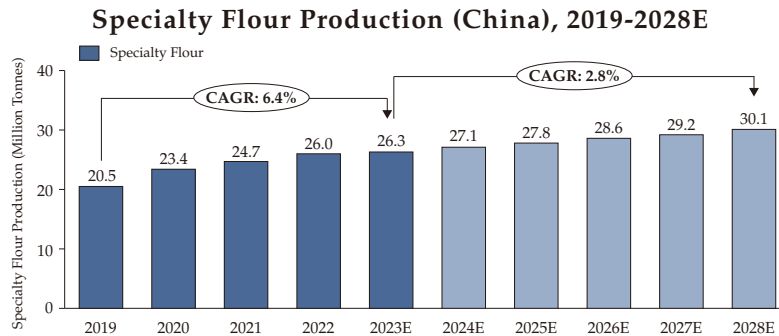
**Flour Production (China), 2019-2028E**



Source: China National Grain and Oils Information Center, Frost & Sullivan

The production of specialty flour in China has increased rapidly from 20.5 million tonnes in 2019 to 26.3 million tonnes in 2023, representing a CAGR of 6.4% from 2019 to 2023, and accounting for 37.5% of overall flour production in 2023. Thanks to the increasing demand for specialty flours for various applications in different industries according to their specific requirements, the production of specialty flour is expected to grow at a faster pace than the overall industry, accounting for approximately 40.6% of overall flour production in 2028, with a CAGR of 2.8% from 2023 to 2028.

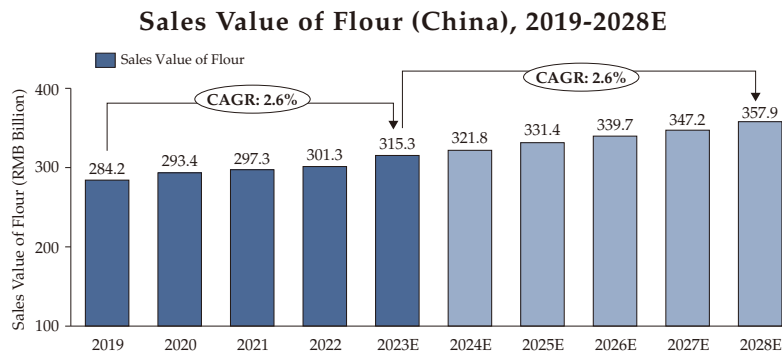
## INDUSTRY OVERVIEW



Source: China National Grain and Oils Information Center, Frost & Sullivan

### Market size of Flour in China by Revenue

The sales value of flour in China increased from RMB284.2 billion in 2019 to RMB315.3 billion in 2023, with a CAGR of 2.6%. The popularity of specialty flour, particularly heat-treated flour will drive up the price of flour in the Forecast Period, as specialty flour and heat-treated flour are of higher quality and the products they make taste better. Therefore, the sales value of flour in China is expected to increase further to RMB357.9 billion by 2028, representing a CAGR of 2.6% from 2023 to 2028.

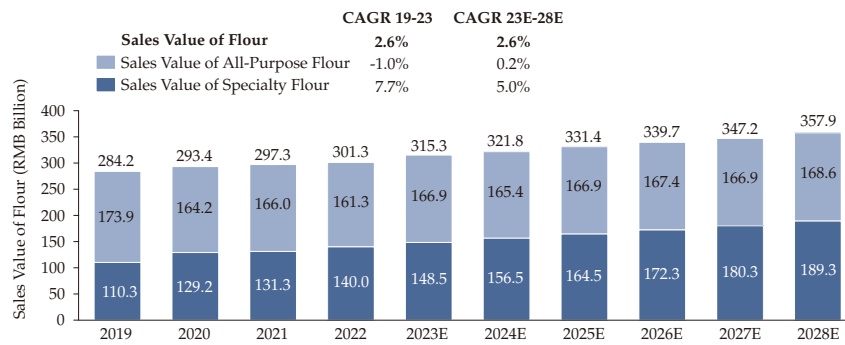


Source: China National Grain and Oils Information Center, Frost & Sullivan

Flour is one of the main raw materials used for producing staple food such as noodles, steamed bun, and dumplings. As the demand for specialty flour increases continuously, the sales value of specialty flour expands accordingly. From 2019 to 2023, the sales value of specialty flour and all-purpose flour realized CAGRs of 7.7% and -1.0%, respectively, with the contribution of specialty flour to the total sales value of flour increasing from 38.8% to 47.1% during the same period. The sales value of specialty flour is expected to increase with a CAGR of 5.0% from 2023 to 2028. Though the demand and consumption for the flour is relatively stable, the flour consumption structure has been changing over the years. Chinese demand for higher grades of flour continues to grow as high- and middle-income consumers in first-tier and second-tier cities continue to shift to greater consumption of convenient and healthy foods, resulting in rapid development of higher grades flour and specialty flour in China. For food processor companies and restaurants, specialty flours are most often used to achieve popular end products. Flour consumption over the Forecast Period is expected to grow steadily mainly due to the popularity and penetration of heat-treated flour, resulting in improvement of the overall quality of flour, including both all-purpose flour and specialty flour which are to undergo heat-treatment process, helping to drive overall flour consumption and sales.

## INDUSTRY OVERVIEW

### Sales Value of Flour by Purpose (China), 2019-2028E



Source: China National Grain and Oils Information Center, Frost & Sullivan

### Consumption and Total Addressable Market ("TAM") of Heat-treated Flour and Pre-mixed Flour in China

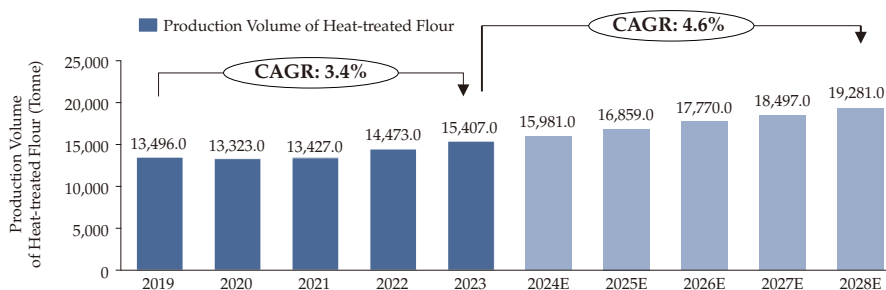
Heat-treated flours are in essence an upgrade of specialty flour and refer to specialty flours which underwent heat treatment to modify their properties and to eliminate microbiological contaminants. They can replace the additives used such as modified starches in the high-end specialty flour mixture.

Heat-treated flours can be either sold as a standalone end product (pure heat treated flours) or in a blended form with other specialty flour depending on the customers' needs, for instance, whether to blend the pure heat treated flours with the non-heat treated counterparts by themselves according to the desired premium level and quality.

Pure heat treated flour is a premium product with a relatively higher price than non-heat treated flours. In general, flour manufacturers would include both pure heat treated flours and blended specialty flours in their product portfolios to cope with the demand of different customers.

The market size in terms of production volume for heat-treated flour increased from 13,496.0 tonnes in 2019 to 15,407.0 tonnes in 2023, representing a CAGR of 3.4% during the period. After several years of development and technological upgrading, the market size of heat-treated flour is expected to increase rapidly over the Forecast Period compared to the historical period. Generally, heat-treated flours have an extended shelf life of one year compared to regular flour products. Therefore, due to the longer shelf life of flour products and better characteristics such as texture and softness, the market size in terms of production volume for heat-treated flour is expected to reach 19,281.0 tonnes in 2028, representing a CAGR of 4.6% from 2023 to 2028.

### Production Volume of Heat-treated Flour (China), 2019-2028E

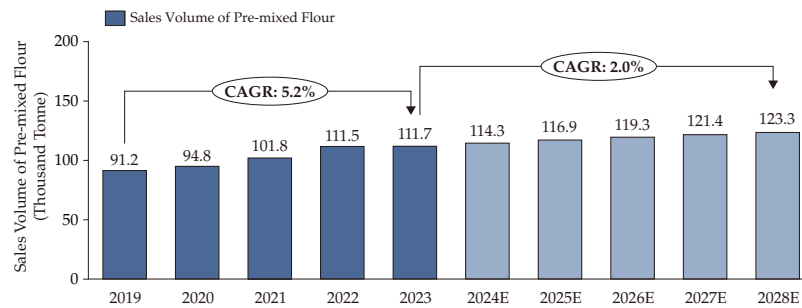


Source: Frost & Sullivan

Pre-mixed flour is a typical flour-based product and a mixture of food ingredients including flour, sugar, bulking agents, fats and oils, and others. The sales volume of pre-mixed flour in the PRC has increased rapidly from approximately 91.2 thousand tonnes in 2019 to approximately 111.7 thousand tonnes in 2023, representing a CAGR of approximately 5.2% from 2019 to 2023. Due to the time-saving and high efficiency characteristics of pre-mixed flour, the demand and application of pre-mixed flour is expected to reach approximately 123.3 thousand tonnes in 2028, representing a CAGR of approximately 2.0% from 2023 to 2028.

## INDUSTRY OVERVIEW

### Sales Volume of Pre-mixed Flour (China), 2019-2028E

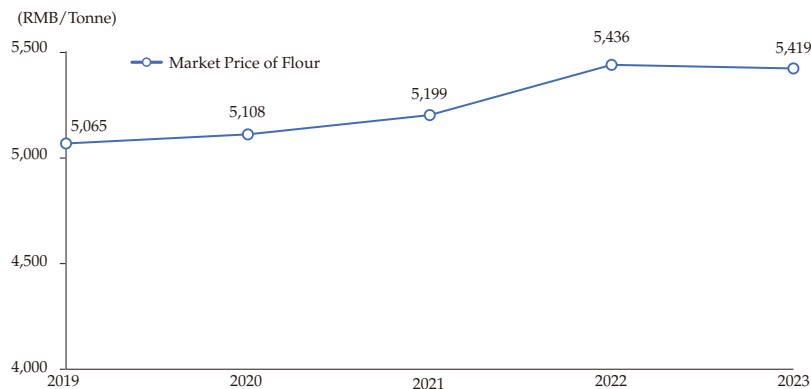


Source: Frost & Sullivan

The market price of flour in China is mainly affected by factors such as supply and demand dynamics, competition, production costs, transportation and distribution costs, government policies, and weather variations in wheat harvests. According to the National Development and Reform Commission of the PRC, the market price of flour increased from RMB5,065 per tonne in 2019 to RMB5,419 per tonne in 2023, with a CAGR of 1.7% during the period.

As a result of the numerous extreme weather events in 2022 and the prolonged Russo-Ukrainian war, which caused disaster losses, wheat yields and quality were severely affected, leading to a significant increase in the market price of flour in 2022. The market price of flour declined slightly in 2023, but is expected to remain on an upward trend over the forecast period.

### Market Price of Flour (China), 2019-2023



Source: National Development and Reform Commission of the PRC, Frost & Sullivan

## Market Drivers

### *Rising per capita income and purchasing power*

Flour is one of the main ingredients of staple food in Chinese culinary culture for thousands of years. Expenditures on flour and flour-made products have increased steadily along with the rising per capita income and purchasing power of the Chinese consumers.

### *Increasing demand for specialty flour products*

With the growth of Chinese economy and urbanization process, customers in China are demanding for diversified products of flour. Besides using all-purpose flour for staple food, the demand for specialty flour products that are designed for use in applications such as dim sum and bakery/pastry is increasing recently. In addition, specialty flour focus on not only the appearance, but also the taste and texture of food compared to all-purpose flours, which appeals to an increasing number of high quality food processors, restaurants, bakeries and pastry shops, as well as sophisticated customers. Such demand is likely to drive the consumption of specialty flour products in China and the proportion of specialty flour in overall flour products consumption.

## INDUSTRY OVERVIEW

### *Growing preference on specific flour products*

With the rising per capita income in China, people’s living standard has been upgrading greatly in recent years. At the same time, people’s awareness on health is rising. This lead to an increasing number of consumers to purchase high-end branded food products with higher price and quality such as high-end healthy foods and products made of heat-treated specialty flour, which further drives the development of flour market in China.

### *Support from government*

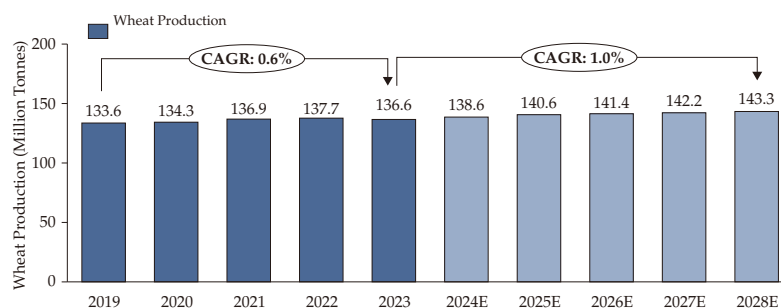
To ensure the continuous development of flour market in China, government has launched a series of policies and regulations to ensure and foster the flour and flour-made products market. For example, China’s government has published “Development Planning on Food Processing Industry (2011-2020) (《糧食加工業發展規劃(2011–2020年)》)” and suggested focusing on the development of new types of nutritional and healthy grain products such as specialty flour. In 2021, the 14th Five-Year Plan of China incorporates the food security strategy into the national five-year plan for the first time, placing further demands on comprehensive food production capacity. Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部) issued “Opinions on the In-depth Promotion of Quality Food Projects (《關於深入推進優質糧食工程的意見》)” to encourage large agricultural and food enterprises to develop.

### **Cost Analysis of China’s Flour Market**

Wheat is the major material for flour processing. According to the National Bureau of Statistics, the wheat production witnessed a slight growth from 2019 to 2023, representing a CAGR of 0.6%. In 2023, the wheat production contributed 19.6% of total grain production in China.

The wheat harvest in relation to quality and yield is influenced by weather and agricultural technology. In 2017, China introduced hybrid wheat varieties with higher yields (about 6.8 tonnes per hectare) as well as higher tolerance to drought, pests, and disease. According to China National Grain and Oils Information Center (the “CNGOIC”), China produces approximately 4 million tonnes of high quality wheat annually. Thanks to the growing planted area of high quality wheat and rising yield, the wheat production in China is projected to maintain a modest increase and reach 143.3 million tonnes by 2028.

**Wheat Production (China), 2019-2028E**



Source: National Bureau of Statistics; China National Grain and Oils Information Center (CNGOIC), Frost & Sullivan

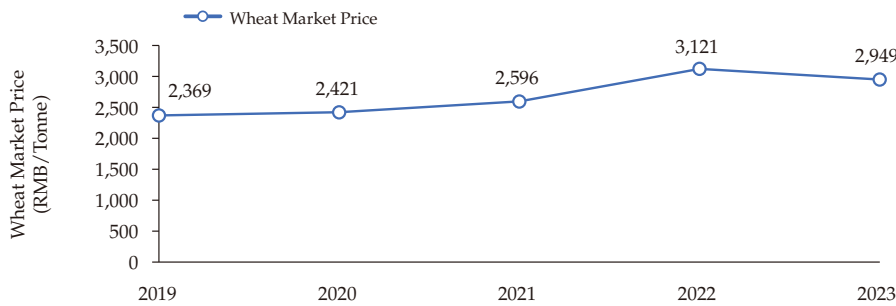
The wheat price in China is relatively stable from 2019 to 2021. The wheat average market price peaked at RMB3,121 per tonne in 2022 . Wheat prices may be affected by various external factors, including climate and environmental conditions (i.e. pest plague), commodity market prices, currency fluctuation, and government policy changes.

In 2022, the negative impact of COVID-19, extreme weather events, and the uncertainties brought by the Russo-Ukrainian War raised wheat prices. In 2023, the wheat prices still remained at a high level, reaching an average of RMB2,949 per tonne due to market uncertainties in the globe. It is expected that wheat market price will slightly increase from 2023 to 2028, and to reach around RMB3,200 per tonne in 2028.



## INDUSTRY OVERVIEW

### Wheat Average Market Price (China), 2019-2023



Source: National Bureau of Statistics, National Development and Reform Commission, Frost & Sullivan

### The Market Challenges Faced by the Market Players

The flour market is relatively stable, but there are still some factors that will affect flour manufacturers, such as the decline in flour production caused by insufficient supply of raw materials, the decline in sales value of flour caused by the decrease in market demands, and the government's new policies to tighten the supervision of flour manufacturers.

#### Entry Barriers

##### *Initial capital investment*

It is crucial for new entrants in flour processing market to have sufficient capital to operate manufacturing base. It includes faculty rental, staff hiring, equipment purchasing and marketing costs. For players who want to achieve sizable scales in flour market, set-up capital is essentially important. Thus, the capital investment set a high barrier for those new entrants.

##### *Network with sales channels and wholesalers*

Flour products can be sold in multi-channels, such as supermarkets, convenience stores, online platforms, as well as food processing industry and restaurants, etc. However, without a extensive wholesale network, it is rather difficult to penetrate into these retail channels. For new market entrants, it is crucial to establish good relationship with sales channels and wholesalers to promote and distribute their products.

##### *Market knowledge and management of food quality and safety*

Market knowledge such as wheat selection, processing technology and the matching of different kind of wheat directly affects the taste, flavour and the safety of processed food. Chinese consumers are becoming increasingly conscious about adopting a healthy lifestyle. It is crucial to ensure food quality and safety as any issue regarding food quality and safety could lead to consumer complaints or even up to legal level. Both could result in negative impacts on company's image and reputation. For new entrants, the administration of food quality and safety is difficult as it involves lots of steps like raw material procurement, flour processing, packaging and food storage. Any problems occurred during the processes could lead to serious food safety problems. Thus, food quality and safety is a big entry barrier for new market players.

##### *Technical expertise*

With the quality of people's living standards continuously improve, food variety and quality are also improving, and the deep processing technology of flour is also in line with the requirements of the continuous social development. For example, heat treating technique on specialty flour is a new technology that has been developed and widely used in Europe and the United States in the production process of flour in recent years. Most of the flour product manufacturers in China have not mastered the technology on heat treatment processing, and it is even more difficult for new entrants to have advanced technical conditions.

##### *Brand awareness*

Flour market is a highly competitive. As there are a wide variety of flour products for consumers to choose from, brand is often among the key factors for purchasing decision. A good brand often tells the customer that their product is in good quality, safe and reflects the consumers' discerning taste. For new market entrants, it's not easy to establish a strong brand image in a short period of time, while brand promotion like advertisement and other activities are time consuming and costly. Thus, brand awareness and brand recognition among consumers gives new market entrants another big challenge.

## INDUSTRY OVERVIEW

### Future Outlook

#### *Optimization of product structure*

Flour manufacturers are increasingly focusing on enhancing their R&D capabilities to drive innovation and optimize their product structure. Through robust R&D efforts, manufacturers seek to explore new processing technologies, ingredient formulations, and milling techniques that can result in a variety of flour with superior characteristics. Optimizing product structure involves tailoring flour compositions to meet the diverse needs of consumers, food processors, and the broader food industry. For example, heat-treated specialty flour and pre-mixed flour under specialty flour product class are increasingly popular with downstream customers.

#### *Standardization of production process*

To survive and enhance competitiveness in the flour market, flour manufacturers must make efforts and focus on the improvement of quality of products through optimizing the production process and increasing the standardization of production process. At the same time, as the living standard of Chinese consumers improves, consumers are focusing on the quality of flour products which urges flour manufacturers to control and improve the production process.

#### *Boom C-end Flour Market*

With the growing concern for food safety and health, as well as the increasing demand for baking and steaming, home baking and steaming will become an important trend, which will drive the C-end flour market in China. Meanwhile, the invention and the increased supply of high quality flour, especially pre-mixed flour and high quality specialty flour, on the supply side offers the possibility for C-end consumers to make their own flour products.

In addition, the development of the Internet and the convenience of online shopping will prompt consumers to choose to buy flour in particular the pre-mixed flour products which are available in small package size online more often, and at the same time offering customers the benefits of convenient product comparisons and promotions.

### COMPETITIVE LANDSCAPE OF FLOUR MARKET IN CHINA AND HEBEI

In China, the flour manufacturing industry is highly fragmented with approximately 3,000 to 4,000 flour manufacturers (enterprises above designated size, i.e. having annual main business revenue of RMB20.0 million or above) in 2023.

Competition in the flour industry in the PRC is intense. Factors which may affect the competitiveness include brand recognition, quality, and pricing, etc. Some of our competitors may have substantially greater financial resources, product development capabilities or better brand recognition than us, which in turn may allow them to improve their production and market capabilities, diversify their product portfolio, upgrade their production facilities and recruit experienced management personnel.

In 2023, top five flour manufacturers accounted for approximately 42.6% of total flour manufacturers in China in terms of flour sales volume. The Group ranked between 31st and 35th amongst all flour manufacturers in the PRC with a market share of approximately 0.2% in 2023 in terms of flour sales volume.

As one of the main production areas and consumption areas of flour, all of the top five flour manufacturers in the PRC have set up factories in Hebei. The flour market in Hebei is relatively concentrated, with top five participants occupying 85.1% of market share in terms of flour sales volume in 2023. The Group ranked between 11th and 15th amongst all flour manufacturers in Hebei Province, with a market share of approximately 1.5% in 2023 in terms of flour sales volume in Hebei Province.

## INDUSTRY OVERVIEW

Due to higher requirements on raw materials and production technology compared to all-purpose flour, there are only dozens of specialty flour manufacturers in Hebei. Therefore, the specialty flour manufacturing industry in Hebei is relatively concentrated in 2023. In 2023, the Group ranked between 16th and 20th in the PRC in terms of specialty flour sales volume and ranked the 3rd in Hebei in terms of specialty flour sales volume of 119.2 thousand tonnes. The following table sets forth the major players in the market in Hebei:

### Ranking and Market Share of Top Five Specialty Flour Companies in terms of Specialty Flour Sales Volume (Hebei), 2023

Ranking	Flour corporates	Specialty flour sales volume (Thousand Tonnes)	Market share (%)
1	Company A	1,961.9	61.1%
2	Company B	134.7	4.2%
3	<b>The Group</b>	<b>119.2</b>	<b>3.7%</b>
4	Company C	91.5	2.8%
5	Company D	62.8	2.0%
	<b>Top five</b>	<b>2,370.1</b>	<b>73.8%</b>
	<b>Total</b>	<b>3,212.0</b>	<b>100.0%</b>

Notes:

1. The Group's data is provided by the Group.
2. Company A is a private enterprise founded in 1989, with its headquarters located in Hebei Province. Company A is principally engaged in the production of flour and noodles.
3. Company B is an A-share listed company founded in 2005, with its headquarters located in Shanghai. Company B is principally engaged in edible oils refining, flour and rice production, etc.
4. Company C is a private company founded in 2006, with its headquarters located in Hong Kong. Company C is principally engaged in the production of flour, as well as the processing and selling of oilseeds, rice, wheat, and beer raw materials.
5. Company D is a private enterprise founded in 1996, with its headquarters located in Hebei Province. Company D is principally engaged in the production of flour and noodles.

Source: Frost & Sullivan

In 2023, the top three heat-treated flour companies accounted for 89.8% of the total heat-treated flour market in China in terms of heat-treated flour production volume. In 2023, the Group ranked 2nd in terms of heat-treated flour production volume, with a market share of 29.7%.

### Ranking and Market Share of Top Three Heat-treated Flour Companies in terms of Heat-treated Flour Production Volume (China), 2023

Ranking	Heat-treated flour companies	Heat-treated flour production volume (Tonnes)	Market share (%)
1	Company C	6,200	42.8%
2	<b>The Group</b>	<b>4,302</b>	<b>29.7%</b>
3	Company D	2,500	17.3%
	<b>Top three</b>	<b>13,002</b>	<b>89.8%</b>
	<b>Total</b>	<b>15,407</b>	<b>100.0%</b>

Note:

1. The Group's data is provided by the Group.

Source: Frost & Sullivan

## REGULATORY OVERVIEW

### PRINCIPAL REGULATIONS ON FLOUR PRODUCTION AND WHEAT PROCESSING INDUSTRY

#### Policies Relating to Foreign Investment In the Flour Production and Wheat Processing Industry

Investment activities in the PRC by foreign investors are principally governed by the Catalogue of Encouraged Industries for Foreign Investment (2022 version) (《鼓勵外商投資產業目錄(2022年版)》) (the “**Encouraging List**”) and The Special Administrative Measures (Negative List) for Access of Foreign Investment (2021 version) (《外商投資准入特別管理措施(負面清單)(2021年版)》) (the “**Negative List**”). The Encouraging List, which was issued on 26 October 2022 and came into effect on 1 January 2023, sets out the encouraged industries for foreign investment, and the Negative List, which was issued on 27 December 2021 and came into effect on 1 January 2022, sets out special administrative measures in respect of the access of foreign investments in a centralized manner. The Encouraging List and the Negative List form the framework for foreign investment in China and classify the business into three categories: “encouraged”, “restricted”, “prohibited”. Industries listed into the Encouraging List and not listed into the Negative List shall be deemed as falling into the “Permitted” category unless restricted by other PRC law. According to the Encouraging List and the Negative List, the flour production and wheat processing is a permitted foreign investment project.

#### Food Safety

According to the Food Safety Law of the People’s Republic of China (《中華人民共和國食品安全法》) (Order No. 81 of the President) promulgated on 28 February 2009 by the National People’s Congress, last amended on 29 April 2021 and became effective on the same date, food producers and traders shall be liable for the safety of the food produced or traded by them. Food production and trading enterprises shall establish a sound food safety management system; strengthen the training and know-how of their employees in the area of food safety; conduct inspections on food; and carry out food production and trading in accordance with the law. The food safety administrations of the people’s government at the county level or above shall perform their duties relating to food safety supervision and administration and have the authority to take the relevant measures to supervise and inspect the compliance of producers and traders with the law. The State implements a licensing system for the food production and trading. A person who engages in food production, food selling or catering services shall obtain the license in accordance with the law. If the food producers and traders carry out food production or trading without a food production or trading license, the food safety administration of the people’s government at the county level or above shall confiscate the illegal proceeds, food and food additives illegally produced or traded in, and the tools, equipment, raw materials and other articles used in the illegal production or trading. If the value of the food or food additives in such illegal production or trading is less than RMB10,000, a fine of not less than RMB50,000 but not more than RMB100,000 shall be imposed. If the value of the food or food additives in such illegal production or trading is RMB10,000 or more, a fine of not less than ten times but not more than 20 times the value shall be imposed.

According to the Implementation Rules of the Food Safety Law of the People’s Republic of China (《中華人民共和國食品安全法實施條例》) (Order No. 721 of the State Council) promulgated on 20 July 2009 by the State Council, last amended on 26 March 2019 and became effective on 1

## REGULATORY OVERVIEW

December 2019, food producers and traders shall, in accordance with laws, regulations and food safety standards, engage in production and business operation activities, establish a sound food safety management system, and take effective measures to prevent and control food safety risks, thus ensuring food safety. Each people's government at or above the county level shall establish an unified and authoritative food safety supervision and management system and strengthen their capability in terms of food safety supervision and management. The food safety supervision and management department and other relevant departments of each people's government at or above the county level shall, in accordance with the laws, perform their duties, strengthen their coordination and cooperation and effectively carry out food safety supervision and management work.

### Food Production Licensing

According to the Administrative Measures for Food Production Licensing (《食品生產許可管理辦法》) (Order No.24 of the State Administration for Market Regulation) promulgated by the State Administration for Market Regulation on 2 January 2020, and became effective on 1 March 2020, a food production license shall be obtained in accordance with the law to engage in food production activities within the territory of the PRC. The State Administration for Market Regulation shall be responsible for the supervision and guidance of the nationwide food production licensing administration. Local departments for market regulation or above the county level shall be responsible for the food production licensing supervision and administration within their respective administrative areas.

### Grain Purchase

According to the Regulation on the Administration of Grain Circulation 《糧食流通管理條例》 (Order No. 740 of the State Council) promulgated on 26 May 2004 and last amended on 15 February 2021 and effective on 15 April 2021, business operators engaged in grain purchasing (hereinafter referred to as "**grain purchasers**") shall have the capacity adapted to the varieties and quantity of grain purchased. An enterprise engaged in grain purchasing (hereinafter referred to as "**grain purchase enterprise**") shall record the name, address, person in charge, storage facilities and other information of the enterprise with the grain and reserve administrative department of the people's government at the county level of the place of purchase. In purchasing grain, grain purchasers shall comply with the state grain quality standards, determine prices on the basis of quality and shall not harm the interests of farmers and other grain producers. The grain seller shall be paid in time and shall not be delayed in payment. In order to ensure market supply and protect the interests of grain farmers, the State Council may, when necessary, decide to implement policy-based purchase and storage of key grain varieties in major grain producing areas in light of the food security situation and the financial situation. The grain and reserve administrative department shall, according to this Regulation, supervise and inspect grain operators' grain purchase, storage, and transportation activities, and purchase and sales activities of policy-based grain, and the implementation of the national statistical system for grain circulation.

According to the Notice on Announcing the Wheat Minimum Purchase Price in 2024 《關於公佈2024年小麥最低收購價格的通知》 (Fa Gai Jia Ge [2023] No. 1314) issued by NDRC, the Ministry of Finance, the Ministry of Agriculture and Rural Affairs, National Food and Strategic Reserves Administration and the Agricultural Development Bank of China on 26 September

## REGULATORY OVERVIEW

2023, the State will continue to implement the minimum purchase price policy in the main wheat producing areas in 2024. With the approval of the State Council, the lowest purchase price of wheat (third class) produced in 2024 will be RMB118 per 50kg.

### Grain Reserve

According to the Regulation on the Administration of Grain Circulation 《糧食流通管理條例》 (Order No. 740 of the State Council), the State implements a grain reserve system at different levels between central and local governments. Grain reserves system is used to regulate grain supply and demand, stabilize the grain market, and respond to major natural disasters or other emergencies.

According to the Administration Measures of Local Grain Reserves in Hebei Province 《河北省地方儲備糧管理辦法》 (Ji Zheng Zi [2023] No.6) issued by the People's Government of Hebei Province on 7 October 2023, and the Administration Measures of Municipal Grain Reserves in Langfang City 《廊坊市市級儲備糧管理辦法》 (Lang Zheng [2021] No. 20) issued by the People's Government of Langfang City on 24 December 2021, enterprises undertaking the task of grain reserve at the provincial and municipal levels shall strictly implement the national standards, technical specifications and various business management systems related to provincial and municipal grain reserves, to ensure that the provincial and municipal grain reserves in storage reach the quality level specified in the purchase and rotation plan, and meet the quality standards set by the State. The provincial and municipal development and reform departments, grain administrative departments and financial departments shall, in accordance with their respective duties, supervise and inspect the implementation of grain laws and regulations by storage enterprises. If the relevant competent authority find that there are defects in quality, safety and quantity of the provincial or municipal grain reserves, it may order the storage enterprises to make rectification; if the storage enterprises no longer have the qualification of storage, the competent authority may cancel their storage task according to the regulations.

### LAWS AND REGULATIONS RELATING TO THE PROTECTION OF CONSUMER RIGHTS AND INTERESTS

According to the Law of the People's Republic of China on the Protection of Consumer Rights and Interests (《中華人民共和國消費者權益保護法》) (Order No. 7 of the President) promulgated on 31 October 1993 by the Standing Committee of the National People's Congress, last amended on 25 October 2013 and became effective on 15 March 2014, a consumer shall be entitled to require the business operator to provide the goods and services that meet the requirements of safeguarding personal and property safety. Consumers, whose legitimate rights and interests are infringed while purchasing or using goods, have the legal right to claim for compensations from the sellers concerned. Where the liability is with the manufacturers or other sellers who provide the goods to the said sellers, the sellers shall, after paying the compensations, have the right to claim compensations from the manufacturers or the other sellers.

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### LAWS AND REGULATIONS RELATING TO TAXES

#### Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) (Order No. 23 of the President) promulgated on 16 March 2007 by the National People's Congress, last amended and implemented on 29 December 2018 and the Implementation Rules of the Enterprise Income Tax Law of the People's Republic of China (《中華人民共和國企業所得稅法實施條例》) (Order No. 714 of the State Council) promulgated on 6 December 2007 by the State Council and last amended and implemented on 23 April 2019, enterprises are divided into resident enterprises and non-resident enterprises. Enterprises established inside China in accordance with the law are considered as resident enterprises. Resident enterprises typically pay an enterprise income tax at the rate of 25% on its income originating from both inside and outside China. Enterprises established according to the law of a foreign country or region, with its "de facto management bodies" located within China are also deemed as resident enterprises. Non-resident enterprises that have establishment or place of business in the PRC shall pay EIT in relation to income sourced within China and obtained by such establishment or place of business, as well as income generated from outside the PRC but with actual connections to such establishment or place of business at the tax rate of 25%. Non-resident enterprises that have no establishment or place of business in the PRC, or no actual connection between their income and their establishment or place of business in the PRC, must pay EIT in relation to income sourced within the PRC at a reduced tax rate of 10%. The income from primary process of agricultural products engaged by enterprises shall be exempted from EIT.

According to the Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (for Trial Implementation) (《關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知》) (Cai Shui [2008] No.149) promulgated on 20 November 2008 and implemented on 1 January 2008, and the Supplementary Notice of the Ministry of Finance and the State Administration of Taxation on the Scope Relating to the Primary Processing of Agricultural Products Eligible for the Preferential Enterprise Income Tax (《關於享受企業所得稅優惠的農產品初加工有關範圍的補充通知》) (Cai Shui [2011] No.26) promulgated on 11 May 2011 and implemented on 1 January 2020, the scope of primary processing of agricultural products under preferential policies of EIT includes primary processing of wheat (flour and various types of special flour made through simple processing of wheat, i.e. cleaning, proportioning, milling, screening, classing, packaging, etc.). The aforementioned products of the primary processing of wheat include bran, wheat chaff and wheat kernel.

#### Value-added tax

According to the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例》) (Order No. 691 of the State Council) promulgated by the State Council on 13 December 1993 and last revised on 19 November 2017, the Implementation Rules of the Provisional Regulations on Value-added Tax of the People's Republic of China (《中華人民共和國增值稅暫行條例實施細則》) (Order No. 65 of the Ministry of Finance) revised by the Ministry of Finance on 28 October 2011 and implemented on 1 November 2011, the Notice of the Ministry of Finance and the State Administration of Taxation

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on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) (Cai Shui [2018] No.32), which was promulgated by the Ministry of Finance and the State Administration of Taxation of the PRC on 4 April 2018, and became effective from 1 May 2018, and the Announcement on Relevant Policies for Deepening Value-Added Tax Reform (《關於深化增值稅改革有關政策的公告》) (Announcement of the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs [2019] No.39), which was promulgated by the Ministry of Finance, the State Administration of Taxation and General Administration of Customs of the PRC on 20 March 2019, and became effective on 1 April 2019, all entities and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, the sale of services, intangible assets and immovable property or the import of goods within the territory of the PRC shall be subject to value-added tax. The value-added tax rates shall be 13%, 9%, 6% and 0%, depending on specific tax items.

### Urban Maintenance and Construction Tax and Education Surcharges

According to the Interim Measures in City Maintenance and Construction Tax of the People's Republic of China (《中華人民共和國城市維護建設稅暫行條例》) (Order No. 588 of the State Council) promulgated by the State Council on 8 February 1985 and amended on 8 January 2011 and the City Maintenance and Construction Tax Law of the People's Republic of China (《中華人民共和國城市維護建設稅法》) (Order No. 51 of the President), promulgated by the Standing Committee of the National People's Congress on 11 August 2020 and will implement on 1 September 2021, where entities or individuals are subject to paying consumption tax, value-added tax, such units or individuals are also subject to pay urban maintenance and construction tax. The payment of city maintenance and construction tax is based on the actual amount of consumption tax, value-added tax paid by the entities and individuals. If such taxpayers are located in the urban area, the tax rate is 7%; if such taxpayers are located in counties or towns, the tax rate is 5%; for those taxpayers whose location is neither in the urban area nor counties or towns, the tax rate is 1%.

According to the Provisional Regulations on Imposing Additional Education Surcharge (《徵收教育費附加的暫行規定》) (Order No. 588 of the State Council) issued by the State Council on 28 April 1986 and last amended on 8 January 2011, where entities and individuals pay consumption tax, value-added tax, and business tax, they are also subject to education surcharge. The education surcharge is based on the actual amount of the value-added tax, business tax and consumption tax paid by each unit and individual. The education surcharge rate is 3%, which is paid simultaneously with the value-added tax, business tax and consumption tax.

According to the Notice of the State Council on Unifying Domestic and Foreign-funded Enterprises and Individual Urban Maintenance and Construction Taxes and Educational Surcharges System (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》) (Guo-Fa [2010] No.35) promulgated on 18 October 2010 by the State Council and became effective on 1 December 2010, urban maintenance and construction tax and education surcharge shall be applicable to foreign-invested enterprises, foreign enterprises and foreign individuals.



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### LAWS AND REGULATIONS RELATING TO CONSTRUCTION

#### Land Administration

According to the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》), which was promulgated on 25 June 1986, last amended on 26 August 2019 and become effective on 1 January 2020 by the Standing Committee of the National People's Congress and relevant regulations, the urban land in the PRC belongs to the state and land in rural and suburban areas (except as otherwise owned by the state), as well as farm housing land, individual land plots and mountainous land, belongs to relevant farming collectives.

State-owned land and land owned by farming collectives may, according to the law, be provided for use by organized work units (including enterprises) or individuals. Enterprises or individuals wishing to use the State-owned land must apply for and obtain a state-owned land use rights certificate from the competent land administration. Pursuant to relevant regulations and rules, generally speaking, state-owned land use rights are valid for a period of 70 years in respect of land for residential use, 40 years in respect of land for commerce, tourism and entertainment purposes, and 50 years in respect of land for industrial use or for comprehensive utilization or other purposes.

#### Regulations on Construction Projects

According to a series of construction-related laws and regulations of the PRC, including but not limited to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) last amended and became effective on 23 April 2019, the Construction Law of the PRC (《中華人民共和國建築法》) last amended and became effective on 23 April 2019, the Measures for the Administration of Construction Permits for Construction Projects (《建築工程施工許可管理辦法》) last amended and became effective on 30 March 2021, the Regulation on the Quality Management of Construction Projects (《建設工程質量管理條例》) last amended and became effective on 23 April 2019, and the Regulations on the Completion and Acceptance of Housing Construction and Municipal Infrastructure Projects (《房屋建築和市政基礎設施工程竣工驗收規定》) promulgated and became effective on 2 December 2013, before obtaining the Real Estate Title Certificate, the developer of a construction project is required to obtain various permits, certificates and other approvals, including but not limited to the land use right certificate, the construction land planning permit, the Permission Certificate of Construction Work Planning and the Construction Permit in relation to such construction project. After completion of a construction project, a construction project owner shall organize the design, construction, and project supervision contractors concerned and other relevant contractors to conduct completion-based acceptance, and submit an acceptance report to the competent construction administrative departments or other relevant departments for the record.

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### LAWS AND REGULATIONS RELATING TO DIVIDEND DISTRIBUTION

According to The Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (Order No. 26 of the President) promulgated on 15 March 2019 and implemented on 1 January 2020, a foreign investor may, in accordance with the law, freely transfer inward and outward its contributions, profits, capital gains, income from asset disposal, royalties of intellectual property rights, lawfully obtained compensation or indemnity, income from liquidation and so on within the territory of China in CNY or a foreign currency.

According to the Arrangement between the Mainland and the Hong Kong Special Administrative Region Avoidance of Double Taxation and the Prevention of Fiscal Evasion of Taxes of Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) promulgated by the State Administration of Taxation of the PRC on 21 August 2006, if Hong Kong residents directly own at least 25% interest in PRC companies that pay out dividends, the tax on Hong Kong residents should not exceed 5% of the total dividend received. If Hong Kong residents directly own less than 25% of interests in PRC companies that pay out dividends, then the tax imposed on these Hong Kong residents should not exceed 10% of the total dividend received.

According to the Notice of the State Administration of Taxation on the Issues Concerning the Implementation of the Dividend Clauses of Tax Treaty Agreements (《關於執行稅收協定股息條款有關問題的通知》) (Guo-Shui-Han No. 81 [2009]) issued on 20 February 2009, if the dividend paid by a PRC resident company is received by the resident taxpayers of tax treaty contracting party, and taxed at the rate specified in the relevant tax treaty, they must fulfil the following requirements before they can enjoy the tax benefit: (1) the resident taxpayer who receives the dividend must be a company according to the tax treaty; (2) in the total owner's interests and voting shares of the PRC resident company, the proportion directly owned by the resident taxpayers is in compliance with the prescribed ratio; and (3) at any time within 12 consecutive months before the dividend is obtained, the capital ratio of the PRC resident company directly owned by the resident taxpayers must comply with the ratio prescribed in the tax treaty.

According to the Administrative Measures for Entitlement to Treaty Benefits for Non-resident Taxpayers (《非居民納稅人享受協定待遇管理辦法》) (Announcement of the State Taxation Administration [2019] No.35) issued on 14 October 2019 and became effective on 1 January 2020, where non-resident taxpayers judge by themselves that they meet the conditions for entitlement to treaty benefits, they may obtain such entitlement themselves at the time of making tax declarations, or at the time of making withholding declarations via withholding agents. At the same time, they shall collect, gather and retain relevant materials for future reference in accordance with the provisions of these Measures, and shall accept the follow-up administration of tax authorities.

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### LAWS AND REGULATIONS RELATING TO THE ESTABLISHMENT, OPERATION AND MANAGEMENT OF WHOLLY FOREIGN-OWNED ENTERPRISES

The establishment, operation and management of companies in the PRC shall comply with the Company Law of the People's Republic of China (《中華人民共和國公司法》) (Order No. 15 of the President) promulgated by the Standing Committee of the National People's Congress on 29 December 1993 and became effective on 1 July 1994 (hereinafter referred to as the "Company Law"). The Company Law was last amended on 29 December 2023 and became effective on 1 July 2024. The Company Law also applies to foreign-invested limited liability companies. If there are other laws governing foreign investment in place, such laws shall prevail.

According to The Foreign Investment Law of the People's Republic of China (《中華人民共和國外商投資法》) (Order No. 26 of the President) promulgated on 15 March 2019 by the National People's Congress and implemented on 1 January 2020, the State maintains a system of pre-entry national treatment plus a negative list management for foreign investment, as in the treatment given to foreign investors and their investment at the stage of investment admission shall be no less than that to domestic investors and their investment and special management measures shall be adopted for the admission of foreign investment in specific areas. After the implementation of this law, the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures (《中華人民共和國中外合資經營企業法》), the Law of the People's Republic of China on Foreign-Invested Enterprises (《中華人民共和國外資企業法》), and the Law of the People's Republic of China on Sino-Foreign Contractual Joint Ventures (《中華人民共和國中外合作經營企業法》) shall be repealed simultaneously.

### LAWS AND REGULATIONS IN RELATION TO FOREIGN EXCHANGE MANAGEMENT

The foreign exchange management system of the PRC is relatively strict and has undergone various reforms. The State Council promulgated on 29 January 1996 and implemented on 1 April 1996, and last amended and gave effect on 5 August 2008 the Regulations on the Administration of Foreign Exchange of the People's Republic of China (《中華人民共和國外匯管理條例》) (Order No. 532 of the State Council) (hereinafter referred to as the "Foreign Exchange Management Regulations" (《外匯管理條例》)) which is the current major foreign exchange management regulations applicable to foreign exchange receipts and payments or foreign exchange operations of domestic institutions and domestic individuals, as well as foreign exchange receipts and payments or foreign exchange operations of overseas institutions and overseas individuals in PRC.

According to the current Foreign Exchange Management Regulations (《外匯管理條例》), the PRC government allows domestic institutions and domestic individuals to retain foreign funds and no longer requires mandatory sales settlement. The foreign exchange income can be transferred back to the PRC or kept abroad. RMB current accounts are convertible in the PRC. For the foreign exchange income under current accounts of domestic enterprises, these enterprises may decide whether to reserve or sell to financial institutions that operate foreign exchange settlement and sales in accordance with relevant provisions of the State. While for foreign exchange expenditures under current accounts in domestic enterprises, these enterprises may pay with their own valid foreign exchanges as needed with valid documents or foreign exchanges purchased from a financial institution that operates foreign exchange settlement and sales in accordance with the provisions of the foreign exchange administrative

## REGULATORY OVERVIEW

department of the State Council relating to foreign exchange payments and purchases. Overseas institutions and overseas individuals who invest directly in the PRC or engage in the issuance or trading of securities or derivatives and domestic institutions or domestic individuals directly invest abroad or engage in the issuance or trading of overseas securities or derivative products shall go through the procedures for foreign exchange approval and registration. If a domestic enterprise borrows external debt or provides external guarantees, it shall go through the formalities of registration of foreign debts or external guarantees. Where any foreign exchange income on capital account is to be retained or sold to a financial institution engaged in foreign exchange settlement and sales business, an approval shall be obtained from the relevant foreign exchange administrative authority, other than where no approval is required under state provisions. Foreign exchange and foreign exchange settlement funds under capital accounts shall be used in accordance with the purposes approved by the relevant competent authorities and foreign exchange administration authorities.

According to the Circular Concerning Relevant Issues on the Foreign Exchange Administration of Offshore Investing and Financing and Round-Trip Investing by Domestic Residents through Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (Hui-Fa [2014] No.37) issued on 4 July 2014 by SAFE, domestic residents (including domestic institutions and domestic resident natural persons) should register with the local foreign exchange bureau (SAFE or its branches) for foreign exchange registration of overseas investment before making capital contributions to offshore special purpose companies with legal assets or interests at home or abroad. Resident individuals include PRC citizens holding PRC ID cards or Chinese citizens holding other domestic legal identity documents, as well as foreign individuals who do not have legal identity documents in the PRC but are residing in the PRC due to economic reasons.

Notice of the State Administration of Foreign Exchange on Further Simplifying and Improving the Foreign Exchange Administration Policy for Direct Investment (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (Hui-Fa [2015] No. 13) promulgated by SAFE on 13 February 2015 and became effective on 1 June 2015 stated that domestic residents may set up or control special-purpose companies through qualified banks without having to go through first-time foreign exchange registration with the local foreign exchange authorities. According to the Notice of the State Administration of Foreign Exchange on the Reform of Foreign Exchange Capital Settlement Management Methods for Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (Hui-Fa [2015] No. 19) promulgated by SAFE on 30 March 2015 and implemented on 1 June 2015 and Notice of State Administration of Foreign Exchange on Reforming and Regulating the Foreign Exchange Capital Settlement Management Policies (《國家外匯管理局關於改革和規範資本項目結匯管理政策通知》) (Hui-Fa [2016] No. 16) promulgated by SAFE on 9 June 2016 and became effective on the same date, foreign exchange capital of foreign-invested enterprises shall be voluntarily settled; out of the foreign exchange capital of foreign-invested enterprise's capital account, those sum that are confirmed by the foreign exchange bureau's currency contribution interest (or registered by the bank for currency contribution) can, according to the actual need for business operation, be settled at a bank. It is intended that the ratio of the foreign exchange capital funds of foreign investment enterprises be tentatively set at 100%. SAFE may adjust the above ratio in a timely manner according to the international inter-countries' balance of payments. In addition, the capital of foreign-invested enterprises and the RMB funds obtained from the settlement of foreign exchange shall not be used for the following purposes: (1) it shall not be

## REGULATORY OVERVIEW

used directly or indirectly for expenses outside the enterprises' scope of business operations or for matters prohibited by national laws and regulations; (2) except as otherwise provided by laws and regulations, it may not be used directly or indirectly for securities investment or other investment except for principal guaranteed products of bank; (3) it shall not be used for the granting of loans to non-affiliated enterprises except for where it is expressly permitted within its scope of business; (4) apart from real estate enterprises, the funds shall not be used to pay for the purchase of real estate or construction of real estate which is not for self-use.

### REGULATIONS RELATING TO MERGERS AND ACQUISITIONS BY FOREIGN INVESTORS

According to the Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (Order [2009] No.6 of the Ministry of Commerce) promulgated by the Ministry of Commerce, the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the Securities Regulatory Commission and SAFE on 8 August 2006, became effective on 8 September 2006, amended on 22 June 2009 and became effective on the same date, the following situations may be considered as acquisition of domestic enterprises by foreign investors: (1) if foreign investors purchase shareholdings which belong to shareholders of domestic non-foreign-invested enterprises (hereinafter referred to as "domestic companies") or subscribe for capital increase of domestic companies, so that the domestic companies' status is changed to become foreign-invested enterprises; (2) if the foreign investors set up foreign-invested enterprises and through an agreement entered into by such an enterprise to purchase the assets of domestic enterprises and operate the assets; (3) foreign investors agree to purchase the assets of domestic enterprises, and use the assets to invest in the establishment of the foreign-invested enterprises to operate the asset. When a foreign investor purchases a domestic enterprise through merger or acquisition in order to establish a foreign-invested enterprise, it shall adhere to the provisions of the relevant authority and apply for approval, report to the administration and registration authority and complete the formalities of the change in registration or establishment registration.

### REGULATIONS RELATING TO INTELLECTUAL PROPERTY

#### Trademark law

According to the Trademark Law of the People's Republic of China (《中華人民共和國商標法》) (Order No. 29 of the President) promulgated by the Standing Committee of the National People's Congress on 23 August 1982, last amended on 23 April 2019 and came into effect on 1 November 2019, the exclusive right to use the registered trademark is limited to the approved trademark and the approved use of goods. The registered trademark is valid for ten years from the date of approval of the registration. Upon expiration of the registered trademark, the registrant needs to renew the trademark within twelve months before the expiration in accordance with the provisions for renewal procedures for the use of the trademark. Each renewal registration is valid for ten years. Without the permission of the registered trademark owner, the use of the same or similar trademarks on the same commodity, or the use of the same or similar trademarks on similar commodities which may cause confusion, constitutes an infringement of the exclusive right to use the registered trademark. While the infringement leads to disputes, the parties concerned shall settle such disputes through negotiations; where

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no negotiation is prospective or fails, the trademark registrant or any interested party may file a lawsuit before the People's Court or request the administrative department for industry and commerce for handling. Where the aforesaid infringement is confirmed, the administrative department for industry and commerce shall order the infringer to cease such infringement, confiscate and destroy the infringing goods and tools used in producing such goods or forging logos of the registered trademark. In the event of illegal business revenue amounting to over RMB50,000, a fine up to five times of the revenue may be imposed; in the event of no illegal business revenue or illegal business revenue amounting to less than RMB50,000, a fine up to RMB250,000 may be imposed; in the event of trademark infringement of more than two times within five years or other serious circumstances, a heavier punishment shall be given.

### Copyright

According to the Copyright Law of the People's Republic of China (《中華人民共和國著作權法》) (Order No. 62 of the President) promulgated by the Standing Committee of the National People's Congress on 7 September 1990 and last amended on 11 November 2020 and came into effect on 1 June 2021, works of Chinese citizens, legal persons, or organizations without legal personality, whether published or not, shall enjoy copyright protection, which include, among others, works of literature, art, natural science, social science, engineering technology and computer software. Copyright infringement will give rise to various civil liabilities, which include claims to cease the infringement activities, apologizing to the copyright owners, and compensating the loss suffered by the copyright owner. In severe cases, copyright infringements may also result in fines and/or administrative or criminal liabilities.

### Domain Name

According to the Administrative Measures on the Internet Domain Names (《互聯網域名管理辦法》), promulgated by the Ministry of Industry and Information Technology (the "MIIT") on 24 August 2017 and came into effect on 1 November 2017, the registration of domain names in PRC is on a "first-apply-first-registration" basis. Applicants for registration of domain names shall provide the true, accurate and complete information of their identities to domain name registration service institutions. The applicant will become the domain name holder upon the completion of the application procedure.

## REGULATIONS RELATING TO ENVIRONMENT PROTECTION

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》) (Order No.9 of the President) promulgated by the Standing Committee of the National People's Congress on 26 December 1989, last revised on 24 April 2014 and became effective on 1 January 2015, the environmental protection department of the State Council formulates national environmental quality standards. The people's governments of provinces, autonomous regions, and municipalities may formulate local environmental quality standards for projects that are not regulated by the national environmental quality standards; for projects that are regulated by the national environmental quality standards, local environmental quality standards that are stricter than national environmental quality standards may be formulated. Local environmental quality standards shall be reported to the competent department of environmental protection under the State Council for the record. The competent department of environmental protection under the State Council shall formulate national

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pollutant discharge standards in accordance with national environmental quality standards and national economic and technological conditions. The people's governments of provinces, autonomous regions, and municipalities may formulate local pollutant discharge standards for projects that are not regulated by the national pollutant discharge standards; for project that are regulated by the national pollutant discharge standards, local pollutant discharge standards that are stricter than national pollutant discharge standards can be formulated. Local pollutant discharge standards shall be reported to the competent department of environmental protection under the State Council for the record.

According to the Environmental Impact Assessment Law of the People's Republic of China (《中華人民共和國環境影響評價法》) (Order No.24 of the President), which was promulgated on 28 October 2002 by the Standing Committee of the National People's Congress, last amended on 29 December 2018 and became effective on the same day, the assessment of the environmental impact caused by construction projects should be classified and managed by the State according to the seriousness of the impact of the construction projects. The construction unit shall organise the preparation of the environmental impact report, the environmental impact report form or the environmental impact registration form (hereinafter referred to as the environmental impact assessment documents) in accordance with the following provisions: (1) if the construction project may cause significant environmental impact, the environmental impact report shall be prepared in order to provide a comprehensive assessment of the impact caused; (2) if the construction project is likely to cause minor environmental impact, an environmental impact report form should be prepared to analyse or specifically evaluate the environmental impact; (3) if the environmental impact is small and no environment assessment is required, an environmental impact registration form shall be submitted. The catalogues of environmental impact assessment classification management of construction projects shall be formulated and announced by the department of ecological environment of the State Council. If the environmental impact assessment documents of a construction project have not been submitted for review in accordance with the law or approved upon review by the approval authority, the construction unit shall not start construction.

## REGULATIONS RELATING TO PRODUCTION SAFETY

Pursuant to the Production Safety Law of the People's Republic of China (《中華人民共和國安全生產法》) (Order No. 88 of the President) promulgated by the Standing Committee of the National People's Congress on 29 June 2002, last amended on 10 June 2021 and became effective on 1 September 2021, production and business operation entities shall observe this law and other relevant laws and regulations concerning the production safety, strengthen the administration of production safety, establish and improve their production safety responsibility systems and production safety regulations and rules, improve conditions for safe production, promote the development for the standardisation of safe production, enhance the level of production safety and ensure safe production is in place. Production and business operation entities should offer education and training programmes to their employees, ensuring that they possess the necessary knowledge of production safety, are familiar with the relevant regulations and rules for safe production and the rules for safe operation, and master the skills for safe operations for their own positions, while also getting to know the emergency measures for dealing with accidents and are aware of their own rights and obligations in terms of safe production. Operating personnels shall not perform duties before undergoing and passing safe production trainings.

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### REGULATIONS RELATING TO LABOUR AND SOCIAL SECURITY

#### Regulations relating to labour

According to the Labour Law of the People's Republic of China (《中華人民共和國勞動法》) (Order No. 24 of the President) which was promulgated by the Standing Committee of the National People's Congress on 5 July 1994, last revised on 29 December 2018 and became effective on the same date, the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) (Order No. 73 of the President) which was promulgated on 29 June 2007, revised on 28 December 2012 and became effective on 1 July 2013, and the Implementation Rules of the Labour Contract Law of the People's Republic of China (《中華人民共和國勞動合同法實施條例》) (Order No. 535 of the State Council) which was promulgated by State Council on 18 September 2008 and became effective on the same date, employment under a labour contract is the basic form of employment adopted by PRC enterprises. The employer shall conclude a written labour contract with the employee within one month from the date of employment.

#### Social insurance and housing provident fund

According to the Social Insurance Law of the People's Republic of China (《中華人民共和國社會保險法》) (Order No. 25 of the President), promulgated by the Standing Committee of the National People's Congress on 28 October 2010, last revised on 29 December 2018 and became effective on the same date, the Interim Measures for the Collection of Social Insurance Fees (《社會保險費徵繳暫行條例》) (Order No. 710 of the State Council) promulgated by the State Council on 22 January 1999, amended on 24 March 2019 and became effective on the same date, the Work Injury Insurance Ordinance (《工傷保險條例》) (Order No. 586 of the State Council) issued by the State Council which was promulgated on 27 April 2003, amended on 20 December 2010 and became effective on 1 January 2011, the Unemployment Insurance Regulations (《失業保險條例》) (Order No. 258 of the State Council) issued by the State Council and implemented on 22 January 1999, the Trial Measures for Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) (Lao Bu Fa No. 504 [1994]) promulgated by the former Ministry of Labour and Social Security of the PRC on 14 December 1994 and implemented on 1 January 1995, employer shall pay social insurance premiums for the employees of the unit on time and in full, including basic pension insurance, unemployment insurance, basic medical insurance, work injury insurance and maternity insurance. If the employer fails to pay social insurance premiums in full and on time, the social insurance premium collection agency has the right to order it to pay or make up the difference within a time limit, and further charge late payment fee of 0.05% of the social insurance premium per day from the date of default. In case of further delay in payment, a fine of more than one times but not more than three times the amount owed will be charged by the relevant administrative department.

According to the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》) (Order No. 710 of the State Council) which was promulgated on 3 April 1999, amended on 24 March 2019 and became effective on the same date by the State Council, the employer shall pay the housing provident fund for the workers on time and in full. If the employer fails to pay or pay less than the required housing provident fund within the time limit, the housing provident fund management centre shall order it to pay within a time limit; if it is not paid after the deadline, the management centre may apply to the people's court for compulsory payment.



## REGULATORY OVERVIEW

### REGULATIONS RELATING TO OVERSEAS LISTINGS

On 17 February 2023, the China Securities Regulatory Commission (the “**CSRC**”) issued the Tentative Administrative Measures for Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) and five supporting guidelines (collectively referred to as the “**Tentative Measures on Listing**”), which has been approved by the State Council and took effect on 31 March 2023.

The Tentative Measures on Listing brings all overseas listing activities including both direct and indirect overseas offering and listing under regulation by adopting a filing-based administration system. The Tentative Measures on Listing applies to domestic companies directly or indirectly issuing securities overseas or listing their securities overseas. Domestic companies that seek to offer and list securities on overseas markets shall fulfill the filing procedure with the CSRC and report relevant information. Overseas offerings and listings that involve security review in accordance with relevant laws and regulations should duly perform security review procedures. Overseas offerings and listings (i) that are explicitly prohibited by specific PRC laws and regulations, (ii) that constitute threat to or endanger national security, (iii) where the PRC domestic enterprises, their controlling shareholder or actual controller of the issuer is involved in corruption, bribery, embezzlement, misappropriation of property and certain criminal offenses of disrupting the order of the socialist market economy in the past three years, (iv) where the PRC domestic enterprises of the issuer are involved in criminal offense or administrative penalties with serious circumstances and there are no clear conclusions yet, or (v) that involve material ownership dispute over the equity held by the controlling shareholder or the shareholder controlled by the controlling shareholder or the actual controller, are explicitly forbidden by the Tentative Measures on Listing (the “**Forbidden Circumstances**”). Domestic companies that seek to offer and list securities on overseas markets can raise funds and pay dividend in foreign currency or RMB.

The Tentative Measures on Listing details the filing procedures and regulatory requirements on overseas offering and listing activities by domestic companies. The Tentative Measures on Listing specifies the filing entity and procedures. For direct overseas offering and listing, the issuer shall fulfill the filing obligations; for indirect overseas offering and listing, the issuer shall designate a major domestic operating entity to fulfill the filing obligations. Where an issuer makes an application for initial public offering on an overseas market, the filing entity shall submit to the CSRC filing documents within 3 working days after such application is submitted.

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On 24 February 2023, the CSRC, the Ministry of Finance, the National Administration of State Secrets Protection, the National Archives Administration of China issued the Provisions on Strengthening the Confidentiality and File Management Work Related to the Overseas Issuance and Listing of Securities by Domestic Enterprises (《關於加強境內企業境外發行證券和上市相關保密和檔案管理工作的規定》) (the "**Provisions of Confidentiality and File Management**"), which took effect on 31 March 2023. The Provisions of Confidentiality and File Management specifies that during the overseas issuance of securities and listing activities of domestic enterprises, domestic enterprises and securities companies and securities service institutions that provide relevant securities services shall, by strictly abiding by the relevant laws and regulations of the PRC and the requirements therein, establish sound confidentiality and file work systems, take necessary measures to implement confidentiality and file management responsibilities, and shall not leak national secrets and undermine national and public interests. Files such as the work manuscripts generated in the PRC by securities companies and securities service institutions that provide relevant securities services for overseas issuance and listing of securities by domestic enterprises shall be kept in the PRC. Without the approval of relevant competent authorities, it shall not be transferred overseas by any means such as carrying or shipping or transferred to overseas institutions or individuals by any means such as information technology. Where files or copies thereof with significant preservation value to the state and society need to be transferred outside of the PRC, it shall be subject to the approval procedures in accordance with relevant PRC regulations.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### HISTORY AND DEVELOPMENT

The history of our Group can be traced back to January 2002 when Shenhua Flour was founded in its former name Gu’an County Dadi Flour Processing Company Limited\* (固安縣大地麵粉加工有限公司) (“**Dadi Flour**”). At the time of its establishment, the registered capital of Dadi Flour was RMB500,000 and was held as to 80% by Mr. Yao, our Executive Director, our Chairman and chief executive officer, and 20% by Mr. Zhang Zhenliang (張振良先生) (“**Mr. Zhang**”) (deceased), a former business partner and brother-in-law of Mr. Yao. The registered capital of Dadi Flour was funded by the own financial resources of Mr. Yao and Mr. Zhang respectively. In April 2002, the name of Dadi Flour changed to Shenhua Flour. For the biography of Mr. Yao, please refer to the section headed “Directors and Senior Management” in this document.

As at the Latest Practicable Date, our production was conducted through our PRC operating subsidiary, Shenhua Flour, which operated our production facility in Gu’an County, Hebei Province, the PRC, and principally engages in flour and flour by-products manufacturing business. For further information of our products and production facilities, please refer to the paragraphs headed “Business — Products” and “Business — Production — Production facilities and equipment — Production facilities” in this document.

The table below sets out some of our major events and milestones in the development of our business up to the Latest Practicable Date:

Year	Milestone event
2002	Shenhua Flour was established and the brand “Shenhua (參花)” was launched to the market.
2007	We started to manufacture specialty flour products.
2013	We first obtained ISO 22000 certification.
2014	We were recognised as a Hebei Province’s Key Leading Enterprise for Agricultural Industrialisation* (河北省農業產業化重點龍頭企業) by the People’s Government of Hebei Province (河北省人民政府) and we continued to be recognized in 2017, 2019 and 2021 respectively.
2015	Our trademark  was registered as “Well-known Trademark” by the Trademark Office of China National Intellectual Property Administration.
2017	We were recognised as a Hebei Province’s Agricultural Technology Little Giant* (河北省農業科技小巨人) by the Hebei Provincial Department of Science and Technology (河北省科學技術廳).

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Milestone event
2018	Our current production base was put into operation and the maximum wheat processing capacity per day of our production lines was increased to 800 tonnes.
2019	<p>We were recognised as a National Key Leading Enterprise in Agricultural Industrialisation* (農業產業化國家重點龍頭企業) by the Ministry of Agriculture, National Development and Reform Commission, Ministry of Finance, Ministry of Commerce, The People's Bank of China, State Taxation Administration, China Securities Regulatory Commission and All China Federation of Supply and Marketing Cooperatives.</p> <p>We continued to be recognised as a Langfang Municipal's Key Leading Enterprise for Agricultural Industrialisation* (廊坊市農業產業化重點龍頭企業) by the People's Government of Langfang Municipal (廊坊市人民政府).</p>
2020	<p>We were recognised as a Demonstration Enterprise of the National Safe Grain and Oil Demonstration Project (全國放心糧油示範工程示範企業) by China Grain Industry Association (中國糧食行業協會).</p> <p>We started to manufacture pre-mixed flour products.</p>
2021	<p>We were recognised as a Hebei Province Specialty Food Brand (河北省食品特色品牌) by Hebei Province Food Industry Association (河北省食品工業協會).</p> <p>We started to manufacture heat-treated specialty flour products.</p> <p>We collaborated with Chinese Academy of Agricultural Sciences (中國農業科學院) on research on heat-treated flour product quality and properties.</p>
2023	Our specialty flour products for noodles and mantou (饅頭) were both recognised as 2022 Yanzhao Good Grain and Oil Product (Wheat Flour) (2022年度“燕趙好糧油”產品(小麥粉)) by Hebei Province Grain Economics Association (河北省糧食經濟學會).
2024	During the Track Record Period and up to the Latest Practicable Date, we had manufactured and sold over 110 general specialty flour products, over 10 heat-treated specialty flour products and four all-purpose flour products.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### CORPORATE DEVELOPMENT

As at the Latest Practicable Date, our Group comprised our Company, Haze Success, Shenhua HK, WFOE and Shenhua Flour. We underwent the Reorganisation for the purpose of the [REDACTED], further details of which are set out in the paragraph headed "Reorganisation" below.

#### Our Group

The table below sets out some brief details of our Company and its subsidiaries as at the Latest Practicable Date:

Entity	Date of incorporation/ establishment	Place of incorporation/ establishment	Amount of registered capital/ authorized/ issued share capital	Amount of paid up capital	Principal activities
Our Company	9 May 2019	Cayman Islands	HK\$380,000	HK\$1	Investment holding
Haze Success	16 May 2019	BVI	US\$50,000	US\$100	Investment holding
Shenhua HK	24 July 2019	Hong Kong	HK\$1	HK\$1	Investment holding
WFOE	15 October 2019	PRC	HK\$20 million	– <i>(Note)</i>	Investment holding
Shenhua Flour	9 January 2002	PRC	RMB27.31 million	RMB27.31 million	Manufacturing and sale of flour products and flour by product

*Note:* According to the articles of association of WFOE, the registered capital of WFOE has to be fully paid up by December 2029.

#### Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 May 2019. At the time of its incorporation, the initial authorised share capital of our Company was HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each. On the date of its incorporation, one Share was allotted, issued to, and fully paid by the initial subscriber, who then on the same day transferred that one Share to Affluent Aspire which was wholly owned by Mr. Yao, and additional 99 Shares were allotted, issued to, and fully paid by Affluent Aspire.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Pursuant to the Subscription Agreement (as defined below in this section) and as part of the Reorganisation and [REDACTED], 880 Shares were allotted and issued to Affluent Aspire on 21 May 2020 and 20 Shares were allotted and issued to Guofu HK on 25 May 2020, respectively. Subsequent to the completion of the [REDACTED], our Company was owned as to 98% by Affluent Aspire and 2% by Guofu HK. The relevant Shares issued to Affluent Aspire and Guofu HK had been credited as fully paid as at the Latest Practicable Date. For further details, please refer to the paragraph headed "[REDACTED]" in this section below.

Please also refer to the section headed "Statutory And General Information — Further information about our Company and its subsidiaries — 2. Changes in authorised and issued share capital of our Company" in this document for further details of the changes in our Company's share capital.

### **Haze Success**

Haze Success was incorporated as an investment holding company in the BVI with limited liability on 16 May 2019. The number of authorised shares of Haze Success is 50,000 shares of US\$1.00 each. On 2 July 2019, 100 shares in Haze Success were allotted, issued to, and fully paid by our Company. As a result, Haze Success became a direct wholly owned subsidiary of our Company.

### **Shenhua HK**

Shenhua HK is an investment holding company which was incorporated in Hong Kong on 24 July 2019. On the date of its incorporation, one share in Shenhua HK was allotted, issued to, and fully paid by Haze Success at a total subscription price of HK\$1. As a result, Shenhua HK became wholly owned by Haze Success.

### **WFOE**

WFOE is a wholly foreign owned enterprise established by Shenhua HK in the PRC on 15 October 2019. As at the date of its establishment, the registered capital of WFOE was HK\$20 million. WFOE has been wholly owned by Shenhua HK since its establishment.

### **Shenhua Flour**

Shenhua Flour was established in the PRC on 9 January 2002. At the time of its establishment, the registered capital of Shenhua Flour was RMB500,000 and was held as to 80% by Mr. Yao and 20% by Mr. Zhang.

On 26 October 2005, the registered capital of Shenhua Flour increased from RMB500,000 to RMB20 million. Subsequent to the increase in the registered capital, Shenhua Flour remained to be held as to 95% by Mr. Yao and 5% by Mr. Zhang. The amount of increase in the registered capital, being RMB19.5 million had been fully paid up by 26 October 2005.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 30 November 2007, Mr. Yao, Mr. Zhang and Hebei Province Agricultural Investment Company\* (河北省農業投資公司) ("**Hebei Agricultural**") entered into an investment agreement, pursuant to which the registered capital of Shenhua Flour was increased from RMB20 million to RMB27.31 million, with the RMB7.31 million being contributed by Hebei Agricultural. Subsequent to the increase in the registered capital, Shenhua Flour was owned as to 69.57% by Mr. Yao, 3.66% by Mr. Zhang and 26.77% by Hebei Agricultural.

On 24 December 2011, Mr. Zhang entered into an equity transfer agreement with Mr. Yao for the transfer of 3.66% equity interests in Shenhua Flour to Mr. Yao at the consideration of RMB1 million, which were determined based on the then paid up registered capital of Shenhua Flour in the amount of RMB27.31 million. Subsequent to the transfer, Shenhua Flour was owned as to 73.23% by Mr. Yao and 26.77% by Hebei Agricultural.

On 1 April 2012, because of the relevant government authorities' decision to change the investment entity in Shenhua Flour, Hebei Agricultural entered into an equity transfer agreement with Hebei Guofu Agricultural Investment Group Company Limited\* (河北省國富農業投資集團有限公司) ("**Guofu Investment**") for the transfer of its 26.77% equity interests in Shenhua Flour to Guofu Investment at nil consideration. Subsequent to the transfer, Shenhua Flour was owned as to 73.23% by Mr. Yao and 26.77% by Guofu Investment.

After six years of investment in Shenhua Flour, Guofu Investment has made a decision based on their assessment on its investment portfolio to divest from Shenhua Flour in 2018. On 28 November 2018, Guofu Investment entered into an equity transfer agreement for the transfer of its 26.77% equity interests in Shenhua Flour to Mr. Yao for the consideration of RMB59.7442 million, which were determined with reference to the valuation on the net asset value of Shenhua Flour as at 31 May 2018 by a qualified valuer. Subsequent to the transfer, Shenhua Flour was wholly owned by Mr. Yao.

During the course of preparation for the [REDACTED] application, we invited Guofu HK, being a subsidiary of Shenhua Flour's previous investor, Guofu Investment, to consider investing into our Company as a [REDACTED]. For further details of Guofu HK's [REDACTED], please refer to the paragraph headed "[REDACTED]" in this section below.

On 10 April 2020, Mr. Yao entered into an equity transfer agreement with WFOE for the transfer of his equity interests in Shenhua Flour to WFOE for the consideration of RMB27.31 million, which were determined based on the amount of the registered capital of Shenhua Flour. The business licence of Shenhua Flour was renewed and issued by the Administrative Examination and Approval Bureau of Gu'an County\* (固安縣行政審批局) on 9 May 2020. Subsequent to the transfer, Shenhua Flour became a direct wholly owned subsidiary of WFOE.

As at the Latest Practicable Date, Shenhua Flour also held 0.47% equity interests of Hebei Gu'an Rural Commercial Bank Company Limited\* (河北固安農村商業銀行股份有限公司), of which Mr. Yao is one of the directors.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

[REDACTED]

**Background of our [REDACTED]**

### *Guofu HK*

Guofu HK is a company incorporated in Hong Kong with limited liability, which was owned as to 65% by Guofu Investment and 35% by Hebei Shunde Investment Group Company Limited\* (河北順德投資集團有限公司) (“**Shunde Investment**”). Guofu Investment was wholly owned by the State Owned Assets Supervision and Administration Commission Hebei Provincial People’s Government (河北省人民政府國有資產監督管理委員會) (“**Hebei SOASAC**”), an organisation directly under the Hebei Provincial People’s Government (河北省人民政府). Hebei Guofu Henglian Agriculture and Animal Husbandry Co., Ltd.\* (河北國富恒聯農牧有限公司), one of our top five suppliers for the years ended 31 December 2023, is wholly-owned by Guofu Investment. For further details, please refer to the sections headed “Business — Suppliers — Five largest suppliers” in this document. Shunde Investment was wholly owned by Xingtai Municipal Government Investment and Financing Management Center\* (邢台市政府投融資管理中心), an organisation under Xingtai Municipal Finance Bureau\* (邢台市財政局). Shunde Investment principally engages in urban infrastructure projects and other government investment projects, operating urban construction assets on behalf of Xingtai Municipal Government, operating and managing the assets of enterprises and institutions, and operating franchise projects authorised by the PRC government.

Guofu HK has been acquainted with Mr. Yao through Hebei Agricultural since the investment of Hebei Agricultural in Shenhua Flour in 2007, with Guofu Investment and Hebei Agricultural both being state-owned enterprises under the Hebei Provincial People’s Government. Incorporated on 25 March 2006, Guofu HK principally engages in financial and investment services.

Other than the [REDACTED], a balance of an advance of RMB110.0 million to our Group by affiliated companies of Hebei SOASAC (details of which are set out in the section headed “Financial Information — Indebtedness” in this document) as at the Latest Practicable Date, to the best knowledge and belief of our Directors, Guofu HK and its ultimate beneficial owner, Hebei SOASAC, are Independent Third Parties. Our Directors believe that Guofu HK decided to invest in our Group as it was optimistic about the business prospects of our Group. The investment of Guofu HK was financed by Guofu HK’s internal resources.

### **The Subscription Agreement**

On 21 May 2020, our Company entered into a subscription agreement (the “**Subscription Agreement**”) with Guofu HK, pursuant to which Guofu HK, as a strategic investor, agreed to subscribe for and our Company agreed to issue 20 Shares, representing 2% of the total issued share capital of our Company as enlarged by such subscription at a consideration of HK\$5.0 million. The allotment and issue of 20 Shares to Guofu HK were completed on 25 May 2020. The consideration was settled in full by Guofu HK on 25 May 2020 by a payment made by Guofu HK to our Company. As a result, Guofu HK became a Shareholder of our Company, holding 2% of the then issued share capital of our Company.



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### FURTHER DETAILS OF [REDACTED]

#### Further details of the investment by Guofu HK

Date of the Subscription Agreement:	21 May 2020
Consideration:	HK\$5.0 million
Basis of consideration:	a price-to-earnings ratio (based on the after-tax profit attributable to the shareholders of Shenhua Flour, the principal operating subsidiary of the Company for the year ended 31 December 2019 in the amount of approximately RMB36,866,000 (equivalent to approximately HK\$40.0 million) as referred to in the unaudited combined financial statements of Shenhua Flour for the financial year ended 31 December 2019 of approximately 6.25 times have been adopted.
Date of payment:	25 May 2020
Cost per Share paid by [REDACTED] (taking into account the Capitalisation Issue):	approximately HK\$[REDACTED]
Discount to [REDACTED] range (Notes 1 and 2):	approximately [REDACTED]%
Strategic benefits that Guofu HK would bring:	<p>Our Directors believe that the investment made by Guofu Investment through Guofu HK, as shareholder of our Company, will bring strategic benefits to our Group by providing possible business development opportunities and connections to our Group through meetings amongst potential investors in the area in light of Guofu Investment's connections and social status in Hebei Province where our Group is based, and investments which Guofu Investment has made.</p> <p>Our Directors believe that the investment made by Guofu HK will serve as additional capital for our business and increase our liquidity to strengthen our Group's financial position.</p>

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Shareholding in our Company upon completion of the Reorganisation and [REDACTED] on a fully diluted basis:	20 Shares (representing 2% of the total issued share capital of our Company upon completion of the [REDACTED])
Shareholding in our Company immediately following completion of the Capitalisation Issue and the [REDACTED]:	[REDACTED] Shares (representing [REDACTED]% of the total issued share capital of our Company upon completion of the Capitalisation Issue and the [REDACTED])
Relationship with our Group:	Save as disclosed in the paragraph headed "[REDACTED] — Background of our [REDACTED] — Guofu HK" in this section above, Guofu HK and its ultimate beneficial owner, Hebei SOASAC, are both Independent Third Parties.
Use of proceeds:	The entire net proceeds from Guofu HK of HK\$5,000,000 has been injected to our Company on 25 May 2020. All such net proceeds being HK\$5,000,000 from Guofu HK has been and will be utilised as general working capital of our Group. As at the Latest Practicable Date, the net proceeds from Guofu HK have been fully utilised.
Lock-up period:	6 months from the [REDACTED]
Public float:	The Shares to be held by Guofu HK upon [REDACTED] will be considered as part of the public float for the purpose of Rules 8.08 and 8.24 of the Listing Rules.
Special rights given to Guofu HK:	Nil

*Notes:*

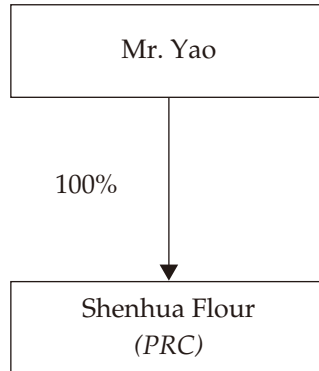
1. Calculation is based on a total of [REDACTED] Shares, being the number of Shares in issue immediately upon completion of the Capitalisation Issue and the [REDACTED] (assuming that the [REDACTED] and the options which may be granted under the Share Option Scheme are not exercised).
2. Calculation is based on HK\$[REDACTED] per Share, being the mid-point of [REDACTED] range stated in this document.

The Sole Sponsor has confirmed that the [REDACTED] is in compliance with Chapter 4.2 of the Guide For [REDACTED] issued by the Stock Exchange (issued in December 2023).

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### REORGANISATION

The shareholding and group structure of our Group prior to our Reorganisation is as follows:



Our Group underwent the Reorganisation prior to [REDACTED] which involved the following steps:

#### **Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 May 2019. At the time of its incorporation, the initial authorised share capital of our Company was HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each. On the date of its incorporation, one Share was allotted, issued to, and fully paid by the initial subscriber, who then on the same day transferred that one Share to Affluent Aspire, which was wholly owned by Mr. Yao, and additional 99 Shares were allotted, issued to, and fully paid by Affluent Aspire.

#### **Incorporation of Haze Success**

Haze Success was incorporated as an investment holding company in the BVI with limited liability on 16 May 2019. The number of authorised shares of Haze Success is 50,000 shares of US\$1.00 each. On 2 July 2019, 100 shares in Haze Success was allotted, issued to, and fully paid by our Company. As a result, Haze Success became a direct wholly owned subsidiary of our Company.

#### **Incorporation of Shenhua HK**

Shenhua HK is an investment holding company which was incorporated in Hong Kong on 24 July 2019. On the date of its incorporation, one share in Shenhua HK was allotted, issued to, and fully paid by Haze Success at a total subscription price of HK\$1. As a result, Shenhua HK became wholly owned by Haze Success.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

### Establishment of WFOE

WFOE is a wholly foreign owned enterprise established by Shenhua HK in the PRC on 15 October 2019. As at the date of its establishment, the registered capital of WFOE was HK\$20 million. WFOE has been wholly owned by Shenhua HK since its establishment.

### Acquisition of the entire equity interests in Shenhua Flour by WFOE

On 10 April 2020, Mr. Yao entered into an equity transfer agreement with WFOE for the transfer of his equity interests in Shenhua Flour to WFOE for the consideration of RMB27.31 million, which were determined based on the amount of the registered capital of Shenhua Flour. The business licence of Shenhua Flour was renewed and issued by the Administrative Examination and Approval Bureau of Gu'an County\* (固安縣行政審批局) on 9 May 2020. Subsequent to the transfer, Shenhua Flour became a direct wholly owned subsidiary of WFOE.

Upon completion of the Reorganisation in May 2020, our Company became the holding company of our Group.

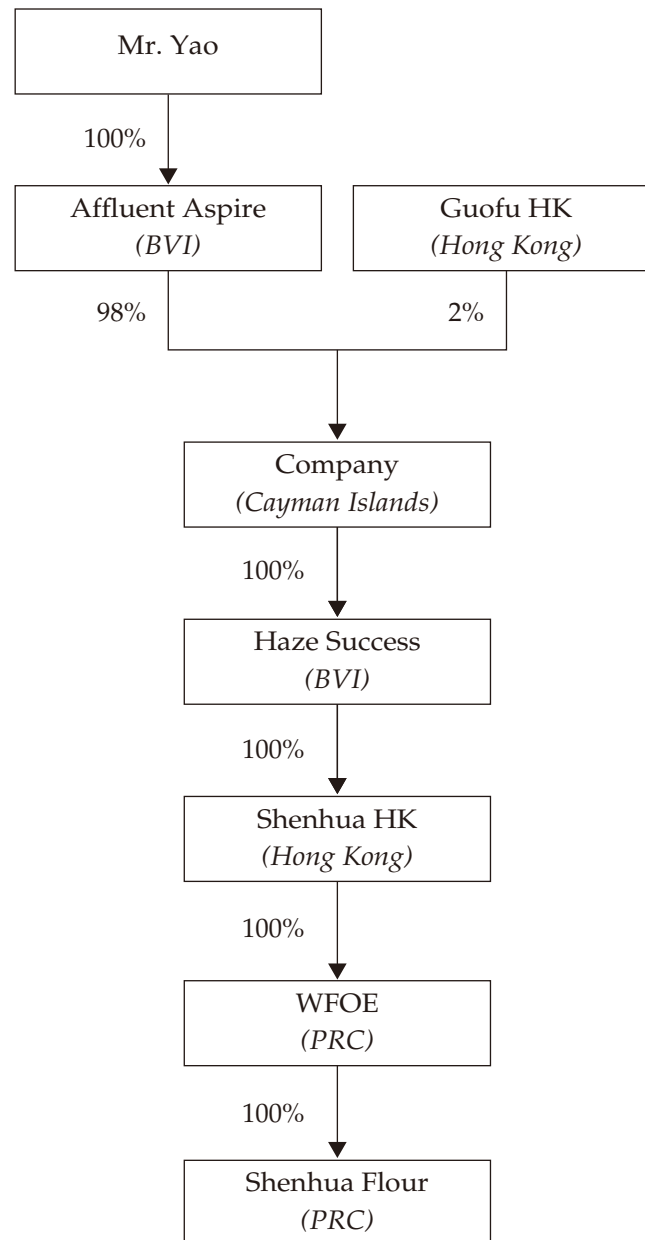
[REDACTED]

On 21 May 2020, our Company entered into the Subscription Agreement with Guofu HK pursuant to which Guofu HK agreed to subscribe for and our Company agreed to issue 20 Shares, representing 2% of the total issued share capital of our Company as enlarged by such subscription for a consideration of HK\$5.0 million. 880 Shares were allotted and issued to Affluent Aspire on 21 May 2020 and 20 Shares were allotted and issued to Guofu HK on 25 May 2020 respectively. The consideration was properly and legally completed and settled by Guofu HK on 25 May 2020 by a payment made by Guofu HK to our Company. Subsequent to the completion of the [REDACTED], our Company was owned as to 98% by Affluent Aspire and 2% by Guofu HK. The relevant Shares issued to Affluent Aspire and Guofu HK had been credited as fully paid as at the Latest Practicable Date. For further details, please refer to the paragraph headed "[REDACTED]" in this section.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

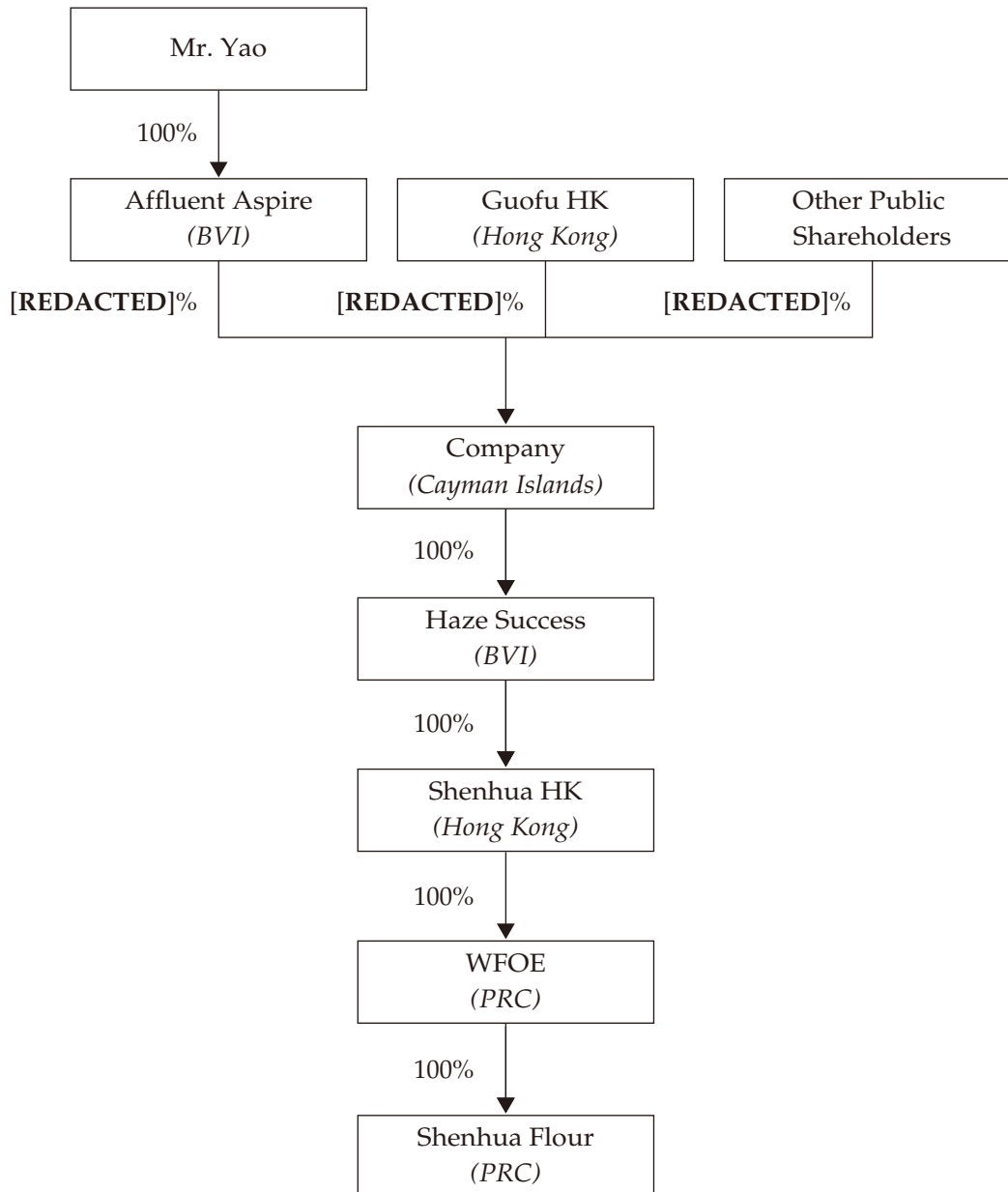
### CORPORATE AND SHAREHOLDING STRUCTURE

The following chart shows the corporate and shareholding structure of our Company immediately after the Reorganisation but before completion of the Capitalisation Issue and the [REDACTED] (assuming that the [REDACTED] and the options which may be granted under the Share Option Scheme are not exercised at all):



## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart shows the corporate and shareholding structure of our Company immediately following completion of the Capitalisation Issue and the [REDACTED] (assuming that the [REDACTED] and the options which may be granted under the Share Option Scheme are not exercised at all):



As at the Latest Practicable Date, each of the acquisitions and equity transfers pursuant to the Reorganisation has been properly and legally completed and settled, including all applicable regulatory approvals having been obtained.

## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

### **M&A RULES**

According to Article 11 of the M&A Rules, where a domestic company or enterprise, or a domestic natural person, through an overseas company established or controlled by it/him, acquires a domestic company which is related to or connected with it/him, approval from MOFCOM is required.

As advised by our PRC Legal Advisers, our individual Controlling Shareholder, Mr. Yao, is not regarded as a PRC domestic natural person under the M&A Rules as he had been a permanent resident of Republic of Guinea-Bissau prior to the acquisition of Shenhua Flour by our Group. Accordingly, the Reorganisation is not subject to Article 11 of the M&A Rules, and it is not necessary for us to obtain approval from MOFCOM for the Reorganisation.

### **FOREIGN EXCHANGE REGISTRATION UNDER SAFE CIRCULAR NO. 37 AND SAFE CIRCULAR NO. 13**

According to SAFE Circular No. 37 as modified by SAFE Circular 13, PRC residents, including PRC individuals, are required to file foreign exchange registration with designated banks before it injects assets or equity interests in an offshore special purpose vehicle which is directly established or indirectly controlled by the PRC residents for the purpose of investment and financing. In addition, in the event that any change of basic information (including PRC resident shareholders, name and operation term) or any change involving material events (including increase or decrease in investment amount, share transfer or exchange, or merger or division) arises in respect of the registered offshore special purpose vehicle, the foreign exchange registration shall be updated.

Mr. Yao has effected registration as required under the SAFE Circular No. 37 and the SAFE Circular No. 13 on 25 June 2019.

### **PRC LEGAL COMPLIANCE**

Our PRC Legal Advisers confirmed that all material approvals and permits (where applicable) required under the PRC laws and regulations in respect of the Reorganisation as described in this section have been obtained in all material respects, and the procedures and steps involved are in compliance with relevant PRC laws and regulations.

### **SHARE OPTION SCHEME**

Please refer to the section headed "Statutory And General Information — 14. Share Option Scheme" in Appendix V to this document for a summary of the principal terms of the Share Option Scheme.

## BUSINESS

### OVERVIEW

We are a leading manufacturer of specialty flour products in Hebei, the PRC. Established in 2002, we have been selling flour products and flour by-products under our brand "Shenhua (參花)" for over 20 years. We have been awarded the designations of State Key Leading Enterprise in Agricultural Industrialisation\* (農業產業化國家重點龍頭企業) and Hebei Province's Key Leading Enterprise in Agricultural Industrialisation\* (河北省農業產業化重點龍頭企業) by national and provincial governmental authorities. According to the F&S Report, we ranked third in Hebei in terms of specialty flour sales volume in 2023, with a market share of approximately 3.7%. Specialty flour is a segment of the overall PRC flour market that has grown rapidly in recent years, as reflected in the increase in specialty flour production volume in the PRC from approximately 20.5 million tonnes (representing 29.6% of the overall flour production) in 2019 to 26.3 million tonnes (representing 37.5% of the overall flour production) in 2023 at a CAGR of 6.4%.

Notably, we have attained a leading position in the PRC heat-treated flour market. As further elaborated below, we have applied the heat-treating technique to our production of specialty flour products to improve their functional attributes. In terms of heat-treated flour production volume in 2023, we ranked second in the PRC with a market share of approximately 29.7%. To strengthen our technical expertise and further improve our industry standing, we are endeavouring to establish an accredited industry standard in the PRC in relation to heat-treated flour through collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院). As at the Latest Practicable Date, the proposed industry standard has already been drawn up and the accreditation is subject to completion of the review and assessment process by the relevant governmental authorities. We also enjoy a favourable geographical location as compared with fellow flour manufacturers operating in some other parts of the PRC: as a major wheat production area in the PRC, Hebei is also adjacent to certain major grain consumption areas in the PRC; strategically located in Hebei, we enjoy easy access to both supply of wheat (being the major raw material required in our production process) and the flour product markets (including manufacturers of downstream products).

Our production base in Hebei stretches across a site area of 74,346.92 sq.m. and comprises an eight-storey automated production facility and storage and employee facilities. We regard our effort in quality control and dedication to research and development as our major competitive advantages that have allowed us to gain the recognition of our customers. We adhere to stringent quality control procedures and have sought to adopt the newest technologies in our production, including production machinery mostly purchased from a reputable Swiss manufacturer. We have also committed ourselves to product development; our production base houses a testing laboratory where product testing is performed to fine-tune the formulations of our existing products and new product development projects are undertaken from time to time. With our emphasis on quality control and sound product development capabilities, we aim to offer flour products that can measure fully up to the expectations of consumers and food product manufacturers as to safety, quality, functional attributes and performance consistency.



## BUSINESS

Leveraging our know-how and expertise in relation to design of flour product formulations, we have been able to produce flour products tailored to the wide-ranging and evolving tastes and preferences of consumers and needs of food product manufacturers. A prime example of our advanced research and development capabilities is the development of our heat-treated specialty flour products, which we successfully launched in April 2021. Our production base is equipped with two production lines with an aggregate maximum daily wheat processing capacity of approximately 800 tonnes, and one additional processing line comprised of heat-treating facilities with a maximum daily flour processing capacity of approximately 20.4 tonnes. Heat-treating is a leading production technique in the PRC market that can eliminate microbiological contaminants and increase water absorption capacity of flour. When applied in flour production, heat-treating can promote the functional attributes of our flour products, including extended freshness and improved quality permitting further production of dough and end food products with an enhanced texture. As reported by F&S, heat-treating of flour, while increasingly prevalent globally, is not widely performed in the PRC. This is attributable to the relatively high costs of importing the requisite specialised production equipment from overseas suppliers, and the technical know-how in relation to wheat selection, flour product formulations and heat-treating parameters that have to be first acquired in order to produce heat-treated flour with optimal functional attributes and performance characteristics. Only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour at the moment. As an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products, we stand to reap the benefits of being able to penetrate the market before the entrance of other market participants and secure a larger market share. We have been actively seeking to advance our heat-treating capabilities; in this connection, we are working in collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院) on researches on heat-treated specialty flour production methodology, with a view to formulating the assessment criteria and key performance indicators, revising the raw material requirements and production parameters and establishing an accredited industry standard in the PRC in relation to heat-treated specialty flour.

During the Track Record Period, we had manufactured and sold a diverse portfolio of flour products, which comprised over 110 general specialty flour products (tailored for making specific food products, such as bread, pastries, noodles, dumplings and cakes), over 10 heat-treated specialty flour products (being advanced versions of specialty flour products that carry superior functional attributes) and four all-purpose flour products (suitable for making a wide variety of food products). We had also sold flour by-products derived from the flour production process, such as wheat middlings and bran.

## BUSINESS

As we started to perform heat-treating of flour, we launched our heat-treated specialty flour products in April 2021, which witnessed a rapid growth in terms of revenue during the Track Record Period. Our sales of heat-treated specialty flour products amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million for FY2021, FY2022 and FY2023 respectively, representing a CAGR of 21.0%. Having undergone the further production stage of heat-treating, our heat-treated specialty flour products carry extended freshness and a stronger water absorption capacity, and hence higher sales values and gross profit margins, as compared with our general specialty flour products. An additional advantage of using heat-treated specialty flour products is that it can avoid the need for additives such as modified starches in the production process, which will translate into cost savings. Our heat-treated specialty flour products come in two forms, namely (1) pure heat-treated specialty flour products, i.e. flour products consisting purely of heat-treated specialty flour; and (2) blended specialty flour products, i.e. flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour.

Towards the end of FY2020, we also rolled out pre-mixed flour products, i.e. mixtures that consist of specialty flour and other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat) and can readily be converted into specific end food products just by adding some basic substances (such as water). Examples of the end food products that can be produced using our tailored pre-mixed flour products include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou. By introducing pre-mixed flour products to the market, we aim to simplify the production process of specific end food products to the largest possible extent. Since all major ingredients required are included in optimised portions as a package and provided together with production directions, users of our pre-mixed flour products are relieved of the need to attend to raw material selection and design of product formulations and the entire production process of the end food products becomes much more straightforward. In addition, the users can largely dispense with research and development work in relation to the end food products, procurement of raw materials and acquisition and maintenance of production equipment on their part; the associated operating costs and human resource expenses can therefore be brought down. As a result, food production is made more accessible, easily manageable and cost-effective to individual consumers and small-sized food processors such as bakeries and restaurants operating on a limited scale. Building upon the experience gained during the Track Record Period in design, development and production of pre-mixed flour products, we will endeavour to promote and popularise our pre-mixed flour products among the target market. As part of our business strategies, we intend to expend resources developing our retail channels via popular e-commerce platforms in the PRC, where our target customers will primarily be individual consumers. As at the Latest Practicable Date, we were working on the setup of our online stores with display of our flour products and designs facilitating livestream shopping. We envisage that our pre-mixed flour products will be well received by the individual consumers via this sales channel, given the ease, convenience and cost savings such products bring in food production. We therefore expect our pre-mixed flour products to play a pivotal role in the development of our online retail channels with prospects for sales growth. For details, please refer to the paragraphs headed "Business Strategies — Expand our sales network and further develop our brand 'Shenhua (參花)'" in this section.

**BUSINESS**

The table below presents a segmental revenue breakdown of our Group during the Track Record Period:

	FY2021		FY2022		FY2023	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Flour products</b>						
– General specialty flour (Note 1)	320,399	64.1	262,059	55.9	317,781	58.4
– Heat-treated specialty flour (Note 2)	96,970	19.4	140,088	29.9	141,879	26.1
– All-purpose flour (Note 3)	16,718	3.3	4,808	1.0	5,395	1.0
Sub-total	434,087	86.8	406,955	86.8	465,055	85.5
<b>Flour by-products and others</b> (Note 4)	65,909	13.2	61,619	13.2	78,908	14.5
<b>Total</b>	<u>499,996</u>	<u>100.0</u>	<u>468,574</u>	<u>100.0</u>	<u>543,963</u>	<u>100.0</u>

Notes:

- (1) Specialty flour products are tailored for making specific food products. Specialty flour products that have not been heat-treated are categorised as general specialty flour products. We offered two types of general specialty flour products during the Track Record Period, namely (a) pure general specialty flour products (i.e. flour products consisting purely of general specialty flour and not mixed with other ingredients); and (b) pre-mixed flour products (i.e. mixtures that consist of specialty flour and other ingredients; all pre-mixed flour products fell into this segment as they had been produced using non-heat-treated specialty flour only during the Track Record Period).
- (2) Heat-treated specialty flour products are specialty flour products that have undergone the further production stage of heat-treating for extended freshness and a stronger water absorption capacity. We offered two types of heat-treated specialty flour products during the Track Record Period, namely (a) pure heat-treated specialty flour products (i.e. flour products consisting purely of heat-treated specialty flour and not blended with other flour); and (b) blended specialty flour products (i.e. flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour).
- (3) All-purpose flour products are for general applications and can be used to make a wide variety of food products.
- (4) The segment of flour by-products and others include substances such as wheat middlings and bran that are produced as by-products in our flour production process.

We pride ourselves on the consistency in flour quality and performance that we are able to deliver, which, to the best of the knowledge of our Directors, is instrumental in guaranteeing the smooth and steady production and operations of our customers. Particularly, for those large-scale food product manufacturers that have adopted automated production, any fluctuation in quality or efficacy of the input flour could potentially disrupt their entire production process. We believe quality and performance consistency is the prime feature of our flour products that has enabled us to win the trust and confidence and become the supplier of choice of our customers, including renowned and established corporations in the PRC. For example, the Dali Group, a leading branded food and beverage group in the PRC, had been

## BUSINESS

purchasing our flour products throughout the Track Record Period as one of our top five customers. The Dali Group is principally engaged in manufacture and sale of household consumption products, snack food and ready-to-drink beverage in the PRC under a diversified multi-brand product portfolio. Another salient example of our customer base is Gu'an County Zhongfu Agricultural Development Co., Ltd.\* (固安縣眾富農業發展有限公司), a state-owned enterprise established by the State-owned Assets Administration Services Centre of Gu'an County\* (固安縣國有資產運行服務中心) with registered capital of RMB100 million that was also one of our top five customers during the Track Record Period. Other notable corporations among our top 10 customers during the Track Record Period include (1) subsidiaries of Fujian Panpan Foodstuff Co., Ltd.\* (福建盼盼食品有限公司), a national flagship enterprise in agricultural industrialisation principally engaged in production of puffed and baked food products and health drinks in the PRC, among others; and (2) Beijing Wudeli Shuangqing Commerce & Trading Co., Ltd.\* (北京五得利雙青商貿有限公司), one of the prominent flour suppliers in Beijing according to the F&S Report.

### COMPETITIVE STRENGTHS

We believe the following competitive strengths have contributed to our position as one of the leading specialty flour manufacturers in Hebei:

#### **We enjoy a leading position in the specialty flour segment of the PRC flour manufacturing industry**

Established in 2002, we have been manufacturing and selling flour products and under our brand "Shenhua (參花)" for over 20 years. In 2007, we started to manufacture specialty flour products and have since established ourselves as one of the leading specialty flour manufacturers in Hebei. Throughout the Track Record Period, we had dedicated ourselves to production and sale of specialty flour products, which served as our core revenue driver and contributed over 80.0% of our revenue for each financial year during the Track Record Period. According to the F&S Report, our Group ranked third in Hebei in terms of specialty flour sales volume in 2023, with a market share of approximately 3.7%. We have been awarded the designations of State Key Leading Enterprise in Agricultural Industrialisation\* (農業產業化國家重點龍頭企業) and Hebei Province's Key Leading Enterprise in Agricultural Industrialisation\* (河北省農業產業化重點龍頭企業) by national and provincial governmental authorities. We believe that through our sustained operation in the flour manufacturing industry in the PRC, we have successfully established "Shenhua (參花)" as an acknowledged brand, and the significant brand recognition we have built among users of flour products is a core competitive strength we enjoy over fellow flour manufacturers.

In particular, in April 2021, we started to perform heat-treating of flour and launched our heat-treated specialty flour products. We have since attained a leading position in the PRC heat-treated flour market and ranked second in the PRC in terms of heat-treated flour production volume in 2023 with a market share of approximately 29.7%. According to the F&S Report, heat-treating of flour has become increasingly prevalent globally and been undertaken commonly by international corporations. At present, however, this production stage is not widely performed in the PRC. This is attributable to the relatively high costs of importing the requisite specialised production equipment from overseas suppliers, and the technical know-how in relation to wheat selection, flour product formulations and heat-treating

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parameters that have to be first acquired in order to produce heat-treated flour with optimal functional attributes and performance characteristics. Only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour at the moment, including our Group and several other sizeable domestic flour manufacturers, among others. Having commenced sale of heat-treated specialty flour products in April 2021, we are an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products. This has put us in a position to penetrate the market before the entrance of other market participants and secure a larger market share. Given the PRC government's policy on reformation of the flour manufacturing industry to promote food quality and the global trend, an increasing number of flour manufacturers in the PRC are expected to gradually undertake flour heat-treating in an attempt to capture the opportunities under the anticipated growth in the PRC heat-treated flour market. We have in place a production line for flour heat-treating that has already been put into operation and have amassed experience and expertise in production of heat-treated specialty flour products. We are therefore ahead of some of the other flour manufacturers in the PRC in terms of readiness for production of heat-treated specialty flour products and will enjoy a significant competitive edge over these manufacturers as they seek to enter the heat-treated flour market.

Our Directors believe that our leading position in the specialty flour segment of the PRC flour manufacturing industry has had a significant contribution to our business growth. Our market standing has been instrumental in promoting our brand image. With the brand awareness and market influence we have built up, we have gained trust and confidence in our capability and dependability as a flour manufacturer among both existing and potential customers and business partners. This ensures the sustainability of our income streams and facilitates further expansion of our customer base and collaboration with a broader range of suppliers and service providers, and is conducive to the execution of our business strategies in general.

### **We have strong product development capabilities and a diversified product portfolio**

We have remained steadfast in improving our existing products and enriching our product portfolio by developing new products that address our customers' needs. Under the lead of our experienced management team, we from time to time engage in discussions with our customers as to end users' preferences, modify the formulations of our existing products and/or carry out research and development work in respect of new products, and enhance our product portfolio accordingly. To support our product development work, we have established our in-house testing laboratory, where product testing can be performed with a view to fine-tuning the formulations of our existing products and new product development projects can be undertaken. In 2021, we had supplemented our research and development infrastructure through the purchases of a series of new equipment, including, among others, grain analysers, glutomatic-gluten index systems, rheofermentometer, farinograph and extensograph. As we design and develop new products, we would typically start with testing of different types of wheat and analysis of their properties and characteristics. With the flour properties and characteristics desired to be created in mind, we would draw up the flour product formulations and conduct pilot production of the required types of flour on a small scale. We would then blend the types of flour produced based on the formulations designed by us. Specifically, through mixing and matching different types of wheat and flour in various combinations and proportions in the gristing and flour mix formulation processes, flour products of varying

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features (in terms of properties and performance characteristics) can be developed to suit particular production uses. The resultant flour mix may be further tested and made into end food products such as noodles or bread, such that we can evaluate and gain empirical insights into the functional attributes, efficacy and performance consistency of the flour mix through observing the practical application process and analysing the quality of the end food products produced (in terms of, for example, texture and taste). We believe that our research and development workflow and know-how and expertise in relation to design of flour product formulations have enabled us to produce flour products tailored to the specific preferences of consumers and needs of food product manufacturers and gain the recognition of our customers.

Capitalising on our strong research and development capabilities, we manufacture and sell a wide variety of flour products to meet the diversified needs of our customers. Our flour products can be divided into two classes, namely all-purpose flour products, i.e. flour with a medium gluten content suitable for producing a wide variety of food products, and specialty flour products, i.e. flour with varying gluten content levels and characteristics tailored for making specific types of food products (such as bread, pastries, noodles, dumplings and cakes). During the Track Record Period, we had manufactured and sold over 110 general specialty flour products, over 10 heat-treated specialty flour products and four all-purpose flour products.

We regard our development and launch of heat-treated specialty flour products as a prime example of our advanced research and development capabilities. Heat-treating is a leading production technique in the PRC flour manufacturing industry that can eliminate microbiological contaminants in flour such as certain types of blights and microbes, which is conducive to maintenance of flour freshness over an extended period of time. Apart from that, heat-treating can enhance flour quality by increasing its water absorption capacity, such that dough with a finer texture and increased viscosity can be made; this will, in turn, improve the volume, texture and softness of the end food products made from the flour and therefore, heat-treated flour is particularly apt for production of cakes, muffins and cookies. According to the F&S Report, heat-treating of flour has become increasingly prevalent globally and been undertaken commonly by international corporations. At present, however, only a small number of large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour. Having commenced sale of heat-treated specialty flour products in April 2021, we are an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products. We have been actively seeking to advance our heat-treating capabilities; in this connection, we are working in collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院) on researches on heat-treated flour production methodology and the relevant parameters, promotion of heat-treated specialty flour product quality and properties and key performance indicators affecting application characteristics of heat-treated specialty flour under different circumstances. Through such research efforts, we aim to further enhance our production techniques and reduce our production costs. Specific intended outcome of the collaboration includes formulating the scope of application, assessment criteria and key performance indicator, revising the raw material requirements and production parameters and establishing an accredited industry standard in the PRC in relation to heat-treated specialty flour.

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We have sought to further diversify and distinguish our product portfolio by the addition of pre-mixed flour products. Our specialty flour product offerings during the Track Record Period included over 40 pre-mixed flour products, i.e. mixtures that consist of flour and other ingredients such as sugar, milk powder, yeast, baking powder, egg powder and fat. The major advantage of our pre-mixed flour products lies in the ease, convenience and cost-savings they bring in food production, as they include all major ingredients required in optimised portions as a package and are provided together with production directions. Users can readily convert our pre-mixed flour products into specific end food products just by adding some basic substances (such as water). Examples of the end food products that can be produced using our tailored pre-mixed flour products include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou. Users of our pre-mixed flour products are relieved of the need to attend to raw material selection and design of product formulations. In addition, the users can largely dispense with research and development work in relation to the end food products, procurement of raw materials and acquisition and maintenance of production equipment on their part; the associated operating costs and human resource expenses can therefore be brought down. Our pre-mixed flour products may have particular appeal for individual consumers and small-sized food processors such as bakeries and restaurants operating on a limited scale. Using our pre-mixed flour products, the entire production process of the end food products can be simplified and become more accessible, easily manageable and cost-effective, opening up opportunities for the individual consumers and food processors to further develop their own food products. With a streamlined production process, those food processors with limited resources also stand to maximise their levels of operation within their budgetary constraints. As part of our business strategies, we intend to expend resources developing our retail channels via popular e-commerce platforms in the PRC, where our target customers will primarily be individual consumers. We envisage that our pre-mixed flour products will be especially well received by individual consumers via this sales channel given that they are oriented towards their needs, among others. We therefore expect our pre-mixed flour products to play a pivotal role in the development of our online retail channels. For details, please refer to the paragraphs headed "Business Strategies — Expand our sales network and further develop our brand 'Shenhua (参花)'" in this section.

To ensure effective and swift execution of our product development plans, we have been driven to bolster our research and development capabilities. As at 31 December 2023, we had 18 staff members in our quality control, research and development department, of which nine were dedicated to product research and development; such research and development staff had, on average, over seven years of work experience in the flour manufacturing industry. Our research and development expenses amounted to approximately RMB1.8 million, RMB1.6 million and RMB1.5 million for FY2021, FY2022 and FY2023 respectively, and we had introduced over 40 new specialty flour products in total during the Track Record Period.

We believe that our unswerving dedication to advancement of our product portfolio and our wide array of flour products on offer have allowed us to successfully capture the diverse demand of our customers. With our sound product development capabilities, we will keep up with our endeavour to cater to the wide-ranging and evolving tastes and preferences of consumers in the swiftest possible manner. As we seek to expand our retail channels, our responsiveness to consumer needs will be crucial to our success in the implementation of this business strategy, allowing us to stay competitive in the flour manufacturing industry.

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### **We place great emphasis on the safety, quality and performance consistency of our products**

We place great emphasis on the safety, quality and performance consistency of our products to safeguard the health of consumers, our industry reputation and the operations of our customers.

As a responsible manufacturer of food products, we pay due regard to food safety and do our utmost in our production process to eliminate possible causes of food safety issues that may arise as our products are applied. As at 31 December 2023, we had seven quality control staff members in our quality control, research and development department who were specifically designated for performing tests to ensure the quality of our products. We have put in place a series of quality control measures and procedures in our raw material procurement and production processes, and our finished products are stored in our climate-controlled warehouses to prevent degradation in quality depending on product properties and characteristics and customers' requirements. Sample checks are carried out on all types of finished products before delivery to our customers to ensure to make sure that they meet both our internal standards and the requisite regulatory standards. For further details of our quality control measures, please refer to the paragraphs headed "Our Quality Control Framework" in this section. In this connection, we have obtained international certifications including GB/T 22000-2006/ISO 22000:2005 — Food safety management system, ISO 9001:2015 — Development and production of wheat flour, FSSC 22000 — Food safety system certification, GB/T 27341-2009 HACCP system (General requirements for food processing plant) and GB 14881-2013 — The national food safety standard (General hygienic regulation for food manufacturing).

We recognise that it is of paramount importance to our customers, especially food processors which constituted our largest customer category during the Track Record Period, that the flour products we supply are consistent in quality and performance. Such customers include large-scale food product manufacturers that have adopted automated production for operative and cost efficiency. To the best of the knowledge of our Directors, these manufacturers prefer to use our specialty flour products as raw materials for the very reason that such flour products are tailored for making specific food products, allowing them to simplify their workflow and maximise the degree of automation in their production process and thus bring their automation design to fruition. Whenever the raw materials fed into the system are found to be substandard or vary in efficacy, the entire production process may possibly become interrupted resulting in energy and resource wastage and additional costs, and the automation design may be frustrated. For this reason, such customers attach the utmost significance to the quality and performance consistency of the flour products supplied by us. As an additional means to guarantee the quality and performance consistency of our products, we have sought to equip our production base with the newest technologies. The production machinery in our eight-storey automated production facility is mostly purchased from a reputable Swiss manufacturer, which comprises, among others, (1) an automated monitoring system that allows more precise control and tracking in the production process; (2) intelligent flour production equipment that permits reduced reliance on the skill level of workers and an uninterrupted production process; (3) sieves incorporating designs to increase impurity removal efficiency and prevent loss of fine wheat in the cleaning process; (4) machines to carry out partial peeling of wheat in the cleaning process to lower the amount of microorganism (especially fungi) and heavy metals contained in the wheat; (5) advanced grain mills adopting intelligent feeder systems to improve uniformity in milling and minimise deviations from standard, allowing the



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finished flour products to meet high-level food safety requirements; and (6) machines for killing insects in the finished flour products that can effectively diminish the risks that insects will grow or reproduce in the flour as it is stored and increase its safety in application. Further, rather than solely relying on our existing suppliers to provide quality raw materials, during the Track Record Period, our procurement department has been actively exploring the possibility of procuring quality raw materials from other potential suppliers in all parts of the country. Given the endeavours we have made to maintain and secure the quality and performance consistency of our products, we believe that we are capable of assuring the smooth and steady automated production and operations of our customers.

Our endeavour in upholding the high product safety, quality and performance consistency standards we have developed is well recognised: we have been awarded the Gu'an County Government Quality Award\* (固安縣政府質量獎) by The People's Government of Gu'an County and the title of Hebei Province's Agricultural Technology Little Giant\* (河北省農業科技小巨人) by the Hebei Provincial Department of Science and Technology. We consider our stringent quality control measures and procedures, employment of the newest technologies in our production process and policy on sourcing of quality raw materials as notable examples of our determined efforts to ensure our customers' expectations as to product safety, quality and performance consistency are met. This is of particular significance in view of the mounting concern among PRC consumers over food safety and the prevalence of automation in production of food products. We further believe that our commitment in this regard will serve to enhance our brand reputation and standing, which will conduce to our long-term success in the flour manufacturing industry.

### **We are based in Hebei, a major wheat production area which is also proximate to the major grain consumption areas in the PRC**

Hebei is home to our headquarters and production base, where our operating activities are primarily carried out.

By virtue of its ideal natural environmental for growing grains and intensive use of arable land, Hebei has the capacity to achieve high grain output to satisfy both domestic consumption and external demand. When it comes to wheat production, having regard to the climate and ecological conditions, state of development and production and species of wheat grown, a number of regions in the PRC have been identified as superior wheat growing regions. Among them is the Huang-Huai-Hai region, which comprises, among others, Hebei. This is the largest winter wheat growing region in the PRC and focuses on growing wheat with a medium to high gluten content. According to the statistics released by the Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部), in terms of both the size of growing area and the production volume of wheat in 2022, Hebei ranked within top five among all provincial-level administrative divisions in the PRC, with wheat fields stretching for over 2.2 million hectares and more than 14.7 million tonnes of wheat produced.

On the other hand, major grain consumption areas in the PRC are characterised by a higher degree of economic prosperity and population density, with which come a lack of land for agricultural use and insufficient production of grains to meet domestic demand. In this connection, the major grain production areas are designated to help fill the shortfall in grain supply through export to the major grain consumption areas, such that national food security

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can be safeguarded as a whole. As a major grain production area, Hebei borders two prominent major grain consumption areas, namely Beijing and Tianjin, which serve as sources of robust demand for the flour products processed and produced from wheat in Hebei.

Based in Hebei which is a major wheat production area, we are assured of secure supply of wheat, the prime item of raw materials needed by us for production purpose, such that the chances of any supply shortage and resultant disruption to our production schedule can be kept to the minimum. At the same time, our proximity to the major grain consumption area means that we are well-positioned to capture the demand for flour products from downstream users (including manufacturers of downstream products) in both the domestic market and the neighbouring regions and that our sales are likely to be sustainable and scalable. We consider that our favourable geographical location accords us competitive advantages over our peers operating in some other parts of the country.

### **We have a dedicated, experienced and insightful management team**

We are led by an experienced management team, each member of which possesses extensive industry knowledge and has been played a pivotal role in driving our development. Mr. Yao, our Chairman, executive Director and chief executive officer, has more than 20 years of experience in the flour manufacturing industry, and Mr. Yao Wei, our executive Director and chief financial officer, has over nine years of experience in the flour manufacturing industry, specialising in financial and administration management. Our senior management includes, among others, Mr. Wang Xiaoran, the head of sales of our Group with over 12 year of experience in relation to flour sales, Mr. Zhao Xin, the head of research and development of our Group with over six years of experience in respect of research and development work, and Mr. Zhang Tao, our chief engineer officer with more than six years of experience in the engineering field.

As reported by F&S Report, heat-treating of flour has gained increasing prevalence in the global market and become commonly adopted as part of the production process among many international corporations. As the flour manufacturing industry undergoes reformation to promote food quality under the direction of the PRC government and in line with the global trend, a greater number of flour manufacturers in the PRC are expected to eventually undertake heat-treating of flour in an attempt to capture the opportunities under the anticipated growth in the PRC heat-treated flour market. Cognisant of the industry developments and future trends, our management had the foresight to take the initiatives to develop our heat-treating capacity and roll out our heat-treated specialty flour products, which have been well received by the market. We have since established ourselves as one of the leading flour manufacturers in the PRC in relation to production and supply of heat-treated flour market, ranking second in the PRC in terms of heat-treated flour production volume in 2023 with a market share of approximately 29.7%.

Given the expertise and industry experience of each individual member of our dedicated management team, we believe that we will continue to benefit from the insights of our management and be well-placed to stay responsive to and cope with the dynamic market conditions in the flour manufacturing industry. For further information on the background and credentials of our management team, please refer to the section headed "Directors and Senior Management" in this document.

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### BUSINESS STRATEGIES

To continue to expand our business and increase our market share in the flour manufacturing industry, and to further the accomplishment of our business objectives, we plan to implement the following strategies:

#### **Enhance our production capabilities through enriching our production facilities**

We see room for further expansion of our business under the prevailing market conditions. We believe that through enriching our production facilities and enhancing our production capabilities, we will be well primed to make the most of the market opportunities.

#### *Our production capability enhancement plan*

To enable our Group to take full advantage of the opportunities in the heat-treated flour market, we intend to enhance our production capabilities through acquisition of additional heat-treating facilities. With such new facilities, our plan is to equip our production base with one additional line for heat-treating of specialty flour. We expect that such facilities will have been fully installed by March 2026 and be officially put into operation in May 2026 (the intervening time being time needed to carry out machinery testing). The acquisition will permit us to scale up our heat-treating capacity such that we will become capable of making available for sale a larger volume and variety of heat-treated specialty flour products, which have grown into one of our core revenue drivers since they were launched in April 2021. As these flour products carry features valued by our customers and therefore higher sales values and gross profit margins than our other products, we believe the enhancement of our relevant production capabilities will give a boost to our revenue and profit.

#### *The benefits of heat-treating of flour*

According to the F&S Report, heat-treating is a leading production technique in the PRC flour manufacturing industry that can eliminate microbiological contaminants in flour such as certain types of blights and microbes, which is conducive to maintenance of flour freshness over an extended period of time. Apart from that, heat-treating can enhance flour quality by increasing its water absorption capacity, such that dough with a finer texture and increased viscosity can be made; this will, in turn, improve the volume, texture and softness of the end food products made from the flour and therefore, heat-treated flour is particularly apt for production of cakes, muffins and cookies. The adoption of the heat-treating technique in our production process has allowed us to promote the functional attributes of our flour products. We believe this is central to maintenance of our competitiveness and reputation in the industry, given, particularly, the mounting attention to food quality and concern over food safety among PRC consumers.

An additional advantage of using our heat-treated flour products is that it allows our customers save on additives. Certain additives, such as modified starches, can be dispensed with in the production of end food products where heat-treated flour is used.

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### *Our existing heat-treated specialty flour products*

Specifically, we have applied heat-treating to certain of our specialty flour products to further strengthen their customer appeal. Our existing heat-treating facilities are incorporated into a single heat-treating line that came into operation in April 2021 with a maximum daily flour processing capacity of approximately 20.4 tonnes. As disclosed in the paragraphs headed "Production — Production Facilities and Equipment — Production facilities" in this section, the utilisation rate of our heat-treating capacity was approximately 78.6%, 78.5% and 81.8% for FY2021, FY2022 and FY2023 respectively, exhibiting an upward trend during the Track Record Period.

The heat-treated specialty flour products offered by us during the Track Record Period included both pure heat-treated specialty flour products and blended specialty flour products, i.e. flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour. In line with consumer preference, we have primarily been supplying our heat-treated flour products in blended form. Our blended specialty flour products have been favoured by our customers at large over our pure heat-treated specialty flour products because downstream users stand to streamline their production workflow and thereby achieve cost savings using our blended specialty flour products. As the heat-treated specialty flour is already blended with non-heat treated specialty flour in optimised and standardised portions when delivered, downstream users will not need to perform the blending process themselves before applying the heat-treated specialty flour in production. This permits downstream users to increase production efficiency and reduce production costs. Research and development work on their part on the blending methodology and parameters can also be saved, such that their operating costs can be cut down.

The seven blended specialty flour products rolled out by us during the Track Record Period included frozen dumpling flour (速凍餃子粉), frozen noodle flour (速凍麵條粉), frozen bun flour (速凍包子粉), premium Chinese steamed bun flour (精品饅頭粉), premium cake flour (精品蛋糕粉), frozen baijimo flour (速凍白吉饅粉) and flatbread flour (燒餅粉). Since we launched our heat-treated specialty flour products in April 2021, a rapid growth had been recorded in respect of such products in revenue terms. Our sales of heat-treated specialty flour products amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million during FY2021, FY2022 and FY2023 respectively, representing a CAGR of 21.0%. We have attained a leading position in the PRC heat-treated flour market and ranked second in the PRC in terms of heat-treated flour production volume in 2023.

### *Commercial reasons underlying our heat-treating capability enhancement plan*

As reported by F&S, heat-treating of flour has become increasingly prevalent globally and been undertaken commonly by international corporations. At present, however, this production stage is not widely performed in the PRC. This is attributable to the relatively high costs of importing the requisite specialised production equipment from overseas suppliers, and the technical barrier in terms of the expertise required in relation to production methodology and operational technicalities. Only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour at the moment, including our Group and several other sizeable domestic flour manufacturers, among others. Given the PRC government's initiatives to reform the flour manufacturing industry to promote food quality, the global trend of adoption

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of heat-treating technology and the growing consumer awareness in the local market as a result of the launch of heat-treated flour products by the leading manufacturers in the PRC, an increasing number of flour manufacturers in the PRC are expected to gradually undertake heat-treating of flour in an attempt to capture the opportunities under the anticipated growth in the PRC heat-treated flour market. Having commenced sale of heat-treated specialty flour products in April 2021, we are an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products. This has put us in a position to penetrate the market before the entrance of other market participants and secure a larger market share.

Our Directors recognise that a growing number of domestic flour manufacturers are likely to enter the heat-treated flour market as their scale of operation grows so as to increase their competitiveness and to cater to market demand for quality flour products. While the plans of these flour manufacturers may be underway, as an early mover in the industry, we have in place a heat-treating line that has already been put into operation and have amassed experience and expertise in production of heat-treated specialty flour products through commercial production for over two years. We are therefore ahead of these manufacturers in terms of readiness for production of heat-treated specialty flour and will enjoy a significant competitive edge over these manufacturers as they seek to enter the market. Such advantages lay the foundation for us to aggressively pursue increases in sales of our heat-treated specialty flour products. By expanding our heat-treating capacity during this relatively preliminary phase of development of flour heat-treating operations in the PRC, our goal is to maintain or, where possible, extend our edge as a leading supplier of heat-treated specialty flour products in the PRC with a further increase in market share.

According to the F&S Report, due to the benefits of heat-treating of flour, the market size in terms of sales value of heat treated flour is expected to grow from approximately RMB238.0 million in 2023 to RMB340.8 million in 2028 at a CAGR of 7.4%. As heat treating is a value-added service, specialty flour products that have undergone the further production stage of heat-treating generally carry higher selling prices. We are confident that our efforts to increase our volume and variety of heat-treated specialty flour products on offer will be in line with the consumer preferences and market trends and welcomed by our customers, and accordingly we will reap rewards and be able to strengthen our position in the specialty flour segment of the overall PRC flour manufacturing industry.

### *Ancillary production facilities to be developed*

To complement our plan to enhance our heat-treating capabilities, we also intend to further expand and improve our ancillary production facilities to cater for the foreseeable increase in our production volume of heat-treated specialty flour products. In the light of the expected growth in demand for our heat-treated specialty flour products and given the proposed enhancement of our relevant production capabilities, we will erect 10-12 new silos so as to increase our total flour storage capacity. Such new silos will be used to store the input flour (in the form of specialty flour mix) to be applied in the heat-treating process and the finished products to be generated (i.e. heat-treated specialty flour products) pending transfer to the packaging line. In addition, we will build a new warehouse equipped with temperature-control facilities for enhanced storage of our packaged heat-treated specialty flour products.

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### *Net [REDACTED] from the [REDACTED] allocated*

We intend to apply approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range) or [REDACTED]% of the net [REDACTED] from the [REDACTED] to enhance our production capabilities through enriching our production facilities during FY2025 and FY2026. For further details of the allocation and utilisation timeframe of the net [REDACTED], please refer to the section headed "Future Plan and Use of [REDACTED]" in this document.

### **Expand our sales network and further develop our brand "Shenhua (參花)"**

Leveraging our position as one of the leading specialty flour manufacturers in Hebei, we intend to expand our sales network and further develop our brand "Shenhua (參花)" through various means.

### *Enlargement of customer base*

Since 2009, we have developed solid business relationships with renowned and established corporations in the PRC. While we anticipate that our sales to such existing customers will remain our major revenue contributors, we had during the Track Record Period devoted, and intend to continue to devote, resources to developing business relationships with a vast array of customers in various provinces across the PRC so as to increase our market share and penetration at the national level. To this end, during the Track Record Period, our Group had in place policies on building business relationships with new customers. In general, the sales staff in our sales, marketing and e-commerce department would approach end users of flour products such as food processors, food product manufacturers, wholesalers, restaurants and bakeries in order to (i) ascertain their suppliers (such as wholesalers), with whom we would seek to establish business relationships; and (ii) gain insights into the current needs and preferences of the end users in relation to flour products. To ensure continuous and sustainable growth in our customer base, we will adhere to this strategy and further the implementation of it by means of active participation in domestic trade fairs. This will increase the visibility and stature of our Group in the industry, such that we could gain recognition from a wider group of downstream market players, including without limitation end users and wholesalers of flour products, and become better placed to attract new customers. At the same time, we will seize this invaluable opportunity to directly approach potential new customers for business development purposes.

### *Development of online retail channels*

Meanwhile, we will also expend resources developing our retail channels, which will primarily comprise direct sales of our flour products to individual consumers via popular e-commerce platforms in the PRC. Consumers from all parts of the country may place orders for our products through such platforms, and the well-developed logistics networks in the PRC permits us to fulfil the orders given the wide geographic coverage of delivery service providers. Our Directors view it as an opportunity to extend our reach into certain other parts of the country and enhance our market penetration, while at the same time enriching our income streams.

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As the customers we are able to reach through e-commerce platforms will predominantly be individual consumers, we envisage that our pre-mixed flour products will be particularly sought-after among our products on offer via this sales channel. This is because such products include all major ingredients required for food production in optimised portions, which are provided as a package together with production directions; users can readily convert such products into specific end food products just by adding some basic substances (such as water). Oriented towards the needs of less well-resourced downstream users, such products may have particular appeal for individual consumers given the ease, convenience and cost savings they bring in food production. We therefore expect our pre-mixed flour products to play a pivotal role in the development of our online retail sales channel, and as such products are made directly available to individual consumers online, we foresee an increase in their popularity and sales.

In preparation for our e-commerce operation, we have established a dedicated team comprising senior management staff, customer service officer and warehousing and logistics staff. We have also lined up an external service provider to assist us in setting up and operating online stores on popular e-commerce platforms in the PRC. As at the Latest Practicable Date, we were working on the setup of our online stores with display of our flour products and designs facilitating livestream shopping.

The development of our online retail channel is still at a preliminary stage at present, and it is our goal to step up our effort and increase our presence on e-commerce platforms in the PRC by promoting and selling our flour products on major social platforms such as Douyin and Xiaohongshu. To support the execution of our online retail channel development strategy, we will enlarge our e-commerce team through recruiting additional staff to provide support in relation to administration, graphic design, customer services and warehousing and logistics. We will also continue to enlist the professional advice and assistance of external e-commerce operation service provider in relation to marketing and promotion and running of our online stores, with a view to increasing store traffic, optimising user experience and promoting effectiveness in customer engagement and acquisition. Specific areas of support may include implementation of marketing and promotion plans and recommendations for engagement of key opinion leaders (KOLs) for product promotion, among others.

### *Promotion of brand and products*

On top of the above, we intend to take initiatives to promote our brand “Shenhua (參花)” and the products offered by us under the brand from time to time. We will actively utilise different advertising channels to further increase public awareness of our brand and products in accordance with the current trend. For instance, we will arrange for advertisements to be placed both online (i.e. in the user interface of mobile applications, public accounts of instant messaging applications, or advertising space on websites) and offline (i.e. at third-party physical retail stores or in other prominent positions in local communities). As we participate in trade fairs, we will also take the opportunity to promote our products through direct interaction with visitors of the trade fairs.

## BUSINESS

### *Net [REDACTED] from the [REDACTED] allocated*

We intend to designate approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range) or [REDACTED]% of the net [REDACTED] from the [REDACTED] to expand our sales network and further develop our brand "Shenhua (參花)" during FY2025 and FY2026. For further details of the allocation and utilisation timeframe of the net [REDACTED], please refer to the section headed "Future Plan and Use of [REDACTED]" in this document.

### **Develop new products and further diversify our product range**

Under the lead of our experienced management team, we from time to time engage in discussions with our customers as to end users' preferences and, accordingly, undertake research and development work in respect of new products to adjust our product portfolio. As we design and develop new products, we would typically start with testing of different types of wheat and analysis of their properties and characteristics. With the flour properties and characteristics desired to be created in mind, we would draw up the flour product formulations and conduct pilot production of the required types of flour on a small scale. We would then blend the types of flour produced based on the formulations designed by us. Specifically, through mixing and matching different types of wheat and flour in various combinations and proportions in the gristing and flour mix formulation processes, flour products of varying features (in terms of properties and performance characteristics) can be developed to suit particular production uses. For further details of our product development workflow, please refer to the paragraphs headed "Product Research and Development" in this section. We believe that our research and development workflow and know-how and our expertise in relation to product formulations have enabled us to produce flour products tailored to the specific preferences of consumers and the needs of food product manufacturers. Further elaboration on our competitive edge is set forth in the paragraphs headed "Competitive Strengths — We have strong product development capabilities and a diversified product portfolio" in this section.

We take pride in our product development capabilities: through designing and launching products that cater to the demand of our customers, we can effectively gain the recognition of our customers as a flour supplier with ambition and dedication that moves with the times, and thus differentiate ourselves from our competitors. During the Track Record Period, we had manufactured and sold a diverse portfolio of flour products comprising over 110 general specialty flour products (including over 40 pre-mixed flour products), over 10 heat-treated specialty flour products (including seven blended specialty flour products) and four all-purpose flour products.

According to the F&S Report, there are a couple of factors that have further driven the development of the PRC flour market. Firstly, the per capita annual disposable income in the PRC is forecasted to grow from approximately RMB39,218 in 2023 to RMB51,687 in 2028 at a CAGR of approximately 5.7%. The rising per capita income has brought about a material lift in the PRC residents' living standard in recent years. At the same time, as the PRC residents become more health conscious, there is an increasing preference for high-end healthy foods and products made of whole wheat flour and/or flour developed from other grains which are perceived to offer higher nutritional value or other health benefits. Apart from that, the popularity of pre-made dishes in both the PRC and the global markets has translated into a demand for easy-to-use flour products.



## BUSINESS

Given the expected growth in demand for high-end flour products and easy-to-use flour products, we will conduct further market research to identify and gain insights into the exact consumer preferences and flour product development trends. Leveraging our expertise in design of product formulations, we will develop new flour mixes and/or adapt our existing flour products that are suited to the prevailing preferences and trends in the flour market. Specifically, we will undertake new flour product development initiatives in the following three areas:

**(1) *Heat-treated specialty flour products***

During the Track Record Period, we had rolled out heat-treated specialty flour products, which have the major advantages of extended freshness and a stronger water absorption capacity. According to the F&S Report, given the PRC government's policy on reformation of the flour manufacturing industry to promote food quality and the global trend, F&S anticipates that an increasing number of flour manufacturers in the PRC is expected to gradually undertake heat-treating of flour in an attempt to capture the opportunities under the anticipated growth in the PRC heat-treated flour market. Please refer to the paragraphs headed "Business Strategies — Enhance our production capabilities through enriching our production facilities — The need to enhance our heat-treating capabilities from an industry perspective" in this section for a full discussion of the market potential of heat-treated specialty flour products in the PRC. As detailed in such paragraphs, we propose to scale up our heat-treating capacity through acquisition of additional facilities for performing heat-treating of specialty flour. On top of that, we will in parallel develop new heat-treated specialty flour products that may be used to produce or prepare muffins, puffs, waffles, fried chickens, dumplings and cold noodles. We believe that all such efforts combined will serve to bring our production and supply of heat-treated specialty flour products to the next level.

**(2) *Pre-mixed flour products***

Our pre-mixed flour products are supplied in a ready-made form, in the sense that it can be directly used to produce the end food products without the complications of adding other major ingredients. The introduction of pre-mixed flour products has turned production of end food products into a more accessible, easily manageable and cost-effective process by rendering it unnecessary for the users to acquire expertise and exercise judgement in selecting, preparing and processing the ingredients. For instance, users of pre-mixed flour products are relieved of the tasks of determining the proportions of other major ingredients to be added and ensuring all such ingredients are properly mixed. The entire production process of the end food products becomes much more straightforward. In addition, the users can largely dispense with research and development work in relation to the end food products, procurement of raw materials and acquisition and maintenance of production equipment on their part; the associated operating costs and human resource expenses can therefore be brought down. This also helps guarantee consistency in quality of the final food products.

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At present, producers of pre-mixed flour products are primarily western brands, and demand for domestically produced pre-mixed flour products has been on the rise due to the PRC government's policy of promoting domestic brands. Building on our experience of launching over 40 pre-mixed flour products accumulated during the Track Record Period, we intend to enhance our ability to produce pre-mixed flour products and develop new pre-mixed flour products which may be used to produce cakes (such as velvet cakes, high-fibre cakes and rainbow cakes) and bread (such as whole-grain bread, cereal bread and mochi). This will also complement our strategy in relation to development of our retail channels via popular e-commerce platforms in the PRC, where our pre-mixed flour products are expected to play a pivotal role as they are particularly likely to appeal to the target customers via this sales channel. For details, please refer to the paragraphs headed "Business Strategies — Expand our sales network and further develop our brand 'Shenhua (參花)'" in this section.

### *(3) Pure general specialty flour products*

On top of the wide array of general specialty flour products we had manufactured and sold during the Track Record Period, we intend to further enrich our product offerings by designing and developing pure general specialty flour products for producing additional types of food products. Based on our product development plans, we will focus our research and development work on pure general specialty flour products tailored for steamed or boiled recipes. The new products to be developed include pure general specialty flour products with a lower gluten content that can be used to produce mantou in Southern Chinese style, which is characterised by its finer and fluffier texture as compared with mantou in Northern Chinese style that is already covered by our existing general specialty flour product portfolio. Another major new product to which we will devote our research and development resources is pure general specialty flour product having a slightly higher gluten content suited to production of Chinese stuffed bun with a fluffy and elastic texture. Our Directors are confident that the introduction of such new pure general specialty flour products can answer the needs of those consumers looking to prepare high quality steamed or boiled food items.

In this regard, we have been collaborating with a tertiary institution on product development, with a view to introducing new pure general specialty flour products tailored for preparation of steamed or boiled food items.

### *Net [REDACTED] from the [REDACTED] allocated*

We intend to set aside approximately HK\$[REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range) or [REDACTED] of the net [REDACTED] from the [REDACTED] to develop new products and diversify our product range during FY2025 and FY2026. For further details of the allocation and utilisation timeframe of the net [REDACTED], please refer to the section headed "Future Plan and Use of [REDACTED]" in this document.

## BUSINESS

### BUSINESS MODEL

Based in Hebei, our Group principally manufactures and sells flour products and flour by-products under our brand “Shenhua (参花)” to customers located in over 20 provincial-level administrative divisions in the PRC. Our flour products can generally be categorised into general specialty flour products, heat-treated specialty flour products and all-purpose flour products. We also sell substances such as wheat middlings and bran that are produced as by-products in the flour production process. In addition to manufacturing and selling flour products and flour by-products, we have also provided flour and wheat storage to the local government in Hebei.

Our business model can generally be summarised as follows:



#### Procurement of Raw Materials

The primary raw material used in our production process is wheat, which we primarily purchased from suppliers primarily located in Hebei, Shandong, Henan and Tianjin during the Track Record Period. Other major raw materials we use include base flour, additives and packaging materials.

To ensure the quality of our raw materials, we maintain a list of approved suppliers and would, as a general practice, procure raw materials from suppliers on the list. For further details, please refer to the paragraphs headed “Suppliers” in this section.

#### Marketing and Sales

During the Track Record Period, our customers were principally food processors and wholesalers and we would keep in touch with them to strengthen our business relationships, seek their views on the quality and performance of our products and explore opportunities for further business collaboration.

#### Mass Production

We aim to employ up-to-date equipment in the production of our flour products. Our production base is equipped with two production lines (with an aggregate maximum daily wheat processing capacity of approximately 800 tonnes) and one additional processing line for heat-treating (with a maximum daily flour processing capacity of approximately 20.4 tonnes). Our production lines are operated throughout the year, except on public holidays in the PRC and working days on which inspection, repair, maintenance or cleaning and/or preparatory work for wheat processing are performed. For further details, please refer to the paragraphs headed “Production — Production Process” in this section.

## BUSINESS

### Quality Control

We attach the utmost importance to the safety, quality and performance consistency of our products. We have put in place a series of quality control measures and procedures which cover incoming raw materials, our production process and our finished products. As at 31 December 2023, we had seven quality control staff members in our quality control, research and development department. The international certifications we have been awarded include GB/T 22000-2006/ISO 22000:2005 Food safety management system, ISO 9001:2015 Development and production of wheat flour, FSSC 22000 Food safety system certification, GB/T 27341-2009 HACCP system (General requirements for food processing plant) and GB 14881-2013 The national food safety standard (General hygienic regulation for food manufacturing). For further details, please refer to the paragraphs headed "Our Quality Control Framework" in this section.

### Inventory Management

To ensure the quality and freshness of our raw materials and finished flour products and avoid excessive inventory storage costs, we have implemented various inventory control measures whereby inflows and outflows of raw materials and finished flour products are tracked and recorded, among others. For further details, please refer to the paragraphs headed "Inventory Control" in this section.

### Delivery and After-sales Service

Our products may be delivered to our customers by Independent Third Party logistics service providers engaged by us or by our customers. Alternatively, our customers may opt to collect the products ordered themselves directly from our warehouses or storage facilities. After delivery, we may follow up with our customers regarding, amongst others, the quality and performance of our products supplied.

## PRODUCTS

We offer a wide variety of flour products and flour by-products under our brand "Shenhua (參花)" to meet the diversified needs of our customers. Our flour products can be divided into two main product classes, namely all-purpose flour products and specialty flour products. Specialty flour products are further classified into two categories, namely general specialty flour products and heat-treated specialty flour products. Our general specialty flour products include particularly pre-mixed flour products, i.e. mixtures that consist of specialty flour and other ingredients that can readily be converted into specific end food products just by adding some basic substances (such as water). During the Track Record Period, we also sold flour by-products derived from the flour production process, such as wheat middlings and bran.

**BUSINESS**

The table below sets forth the sales volume and the average selling price of our products during the Track Record Period:

	FY2021		FY2022		FY2023	
	Sales volume (tonnes)	Average selling price (RMB per kg)	Sales volume (tonnes)	Average selling price (RMB per kg)	Sales volume (tonnes)	Average selling price (RMB per kg)
<b>Flour products</b>						
- General specialty flour	100,039	3.20	72,205	3.63	86,280	3.68
- Heat-treated specialty flour	26,399	3.67	33,973	4.12	32,960	4.30
- All-purpose flour	6,736	2.48	1,620	2.97	1,854	2.91
Sub-total	133,174		107,798		121,094	
<b>Flour by-products</b>	35,748	1.84	29,287	2.10	39,510	2.00
<b>Total</b>	<u>168,922</u>		<u>137,085</u>		<u>160,604</u>	

**Flour Products**

Throughout the Track Record Period, we had been manufacturing and selling two classes of flour products, namely all-purpose flour products and specialty-flour products.

Since the beginning year of our Track Record Period, we had been offering general specialty flour products and heat-treated specialty flour products as two different categories of specialty flour products. Our heat-treated specialty flour products came in two forms, namely pure heat-treated specialty flour products and blended specialty flour products. Our pre-mixed flour products were another specific form of specialty flour products offered by us and since they were produced using non-heat-treated specialty flour during the Track Record Period, they fell under the general specialty flour product category.

As the major ingredient of various food products that are customarily integral to the Chinese food culture, flour products are relatively invariable in terms of both product nature and consumption pattern. Therefore, flour products can have a long-lasting product cycle ranging from several decades to several hundred years. The product life cycle of flour products normally consists of the four typical stages of introduction, growth, maturity, and decline. Having been available in the market for an extended period of time and widely accepted by consumers, all-purpose flour products are in the maturity stage characterised by stable sales and have become commodified, where manufacturers focus on maintaining market share through product differentiation, pricing strategies, and marketing efforts. On the other hand, specialty flour products have a shorter history and are relatively newer to the market. Collectively as a class of products, specialty flour products are in the growth stage; in particular, heat-treated specialty flour products, as one of the latest categories of products on offer under this product class, is still in the introduction stage.

**BUSINESS**

The table below sets forth our product classification and further details of each type of our flour products on offer during the Track Record Period:

Product class	Product category/ Reportable segment	Product type	Description	Sale commencement year	Number of products sold during the Track Record Period	Average price range during the Track Record Period
<i>All-purpose flour products</i>	All-purpose flour products	All-purpose flour products	All-purpose flour products are comprised of flour with a medium gluten content. They are intended for general applications and is suitable for producing a wide variety of food products, as the midpoint they occupy in the spectrum of gluten content allows them a higher degree of compatibility and versatility. By virtue of the wide usage, all-purpose flour is one of the types of flour most commonly available to the public.	2002	four	Approximately RMB2.5 to RMB3.0 per kg
<i>Specialty flour products</i>			<p>Specialty flour products are comprised of flour with varying gluten content levels and characteristics tailored for making specific food products (such as bread, pastries, noodles, dumplings and cakes).</p> <p>Each specialty flour product is specifically adapted to production of the corresponding food products, taking advantage of the characteristics of its individual gluten level and of the types of wheat from which it is made. High-gluten-content flour ensures high elasticity in the dough made, which is apt for bread production. Low-gluten-content flour permits dough with a fine, crumbly texture to be made, rendering them ideal for production of cakes and pastries. Specialty flour products are most often used by food processors and restaurants to produce end food products with characteristics desired or commonly recognised by the public.</p> <p>We had manufactured and sold over 120 specialty flour products in total during the Track Record Period, which can be divided into the following categories and types of flour products.</p>			

**BUSINESS**

Product class	Product category/ Reportable segment	Product type	Description	Sale commencement year	Number of products sold during the Track Record Period	Average price range during the Track Record Period
	<b>General specialty flour products</b>		Specialty flour products that have not been heat-treated are categorised as general specialty flour products.			
		Pure general specialty flour products	Specialty flour products consisting purely of non-heat-treated specialty flour and not mixed with other ingredients are referred to as pure general specialty flour products.	2007	over 70	Approximately RMB3.2 to RMB3.7 per kg
		Pre-mixed flour products	Pre-mixed flour products are mixtures that consist of specialty flour and other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat). The major advantage of pre-mixed flour products lies in the ease, convenience and cost-savings they bring in food production, as they include all major ingredients required in optimised portions as a package and are provided together with production directions. Users can readily convert our pre-mixed food products into specific end food products just by adding some basic substances (such as water). Examples of the end food products that can be produced include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou.	2020	over 40	Approximately RMB8.8 to RMB34.1 per kg
	<b>Heat-treated specialty flour products</b>		Heat-treated specialty flour products are specialty flour products that have undergone the further production stage of heat-treating and carry extended freshness and a stronger water absorption capacity as compared with general specialty flour products. They are therefore distinguished by their advanced quality and functional attributes.			
		Pure heat-treated specialty flour products	Specialty flour products consisting purely of heat-treated specialty flour and not blended with non-heat-treated specialty flour are referred to as pure heat-treated specialty flour products.	2021	four	Approximately RMB9.6 to RMB10.3 per kg

**BUSINESS**

Product class	Product category/ Reportable segment	Product type	Description	Sale commencement year	Number of products sold during the Track Record Period	Average price range during the Track Record Period
		Blended specialty flour products	Blended specialty flour products are produced by blending heat-treated specialty flour with non-heat-treated specialty flour. As these two types of flour are already blended in optimised and standardised portions when delivered, downstream users will not need to perform the blending process themselves before applying the heat-treated specialty flour in production. Research and development work on their part on the blending methodology and parameters can also be saved. Downstream customers generally favour using our blended specialty flour products because this allows them to achieve higher efficiency and cost reductions in food production, as compared with using our pure heat-treated specialty flour products.	2021	seven	Approximately RMB3.5 to RMB4.2 per kg
Flour by-products and others	Flour by-products and others	Flour by-products and others	During the Track Record Period, we mainly sold two flour by-products, namely wheat middlings and bran, which were substances produced as by-products in our flour production process. Wheat middlings comprise fine particles of bran, shorts, germ, flour and other fractions that are leftovers from the flour production process. Bran is the outer layer of the wheat kernel. These flour by-products are commonly used as animal feed.	2003	five	Approximately RMB1.8 to RMB2.1 per kg

**Growth Momentum Generated by Our Heat-treated Specialty Flour Development**

As we enhance our production capabilities, we aim to offer a larger volume and variety of heat-treated specialty flour products to our customers. When a holistic view is taken, our Directors consider our heat-treated specialty flour development a potential growth driver that can contribute to the overall growth of our specialty flour products as a whole class of products. The majority of our heat-treated specialty flour products have been and will continue to be offered in blended form. Downstream customers generally favour using our blended specialty flour products because this allows them to achieve higher efficiency and cost reductions in food production, as compared with using our pure heat-treated specialty flour products, as explained in the paragraphs headed "Business Strategies — Enhance our production capabilities through enriching our production facilities — Our existing heat-treated specialty flour products" in this section. On account of the consumer preference, the heat-treated specialty flour developed and produced by us has been and will remain to be primarily mixed with non-heat-treated specialty



## BUSINESS

flour to produce blended specialty flour products. In this sense, heat-treated specialty flour is an added ingredient in our specialty flour products. While classified as different business segments for financial reporting purposes, our general specialty flour products and heat-treated specialty flour products (including primarily blended specialty flour products) are both specialty flour products in essence and fall into the same product class. Our blended specialty flour products are essentially an upgrade to our general specialty flour products, where heat-treated specialty flour is added to extend the freshness and increase the water absorption capacity of our existing specialty flour products. The development of heat-treated specialty flour is our response to the market trend of rising demand for quality flour products. It is a move tactically made by our Group to improve the functional attributes and to expand the applicability and target markets of our specialty flour products, so as to strengthen and broaden the customer appeal and stimulate the sales of this product class. The launch of heat-treated specialty flour products forms part of our product enhancement strategy aimed at driving growth in sales of specialty flour products as a whole, rather than introduction of a new product class that will serve as a competitive threat to an existing product class of our Group.

From another perspective, the introduction of heat-treated specialty flour products could diversify our product portfolio and present our customers with additional choices. Our heat-treated specialty flour products are the advanced versions of specialty flour products that carry superior functional attributes. By virtue of the differences in functional attributes and price levels, our heat-treated specialty flour products and general specialty flour products (with no heat-treated specialty flour content) can be considered products catering for separate groups of target customers and are therefore classified into different product categories: our heat-treated specialty flour products are apt for those customers which particularly value their advanced functional attributes (in terms of extended freshness and a stronger water absorption capacity), such as large-scale food product manufacturers; on the other hand, users which have a smaller operating scale or are otherwise more cost-conscious may opt for our general specialty flour products. As our heat-treated specialty flour products and general specialty flour products can clearly be differentiated from each other, the development and enrichment of our heat-treated specialty flour product portfolio will allow us to address the needs and concern of a wider spectrum of customers and have them covered within our target customer range. We can thus expand our income streams and stand to achieve further growth in overall sales. As we market our heat-treated specialty flour products, we have put the emphasis on their core features and the associated values. Through this, we seek to reach the target customers and build up the popularity of our heat-treated specialty in the target market, with a view to positioning our heat-treated specialty flour products as a distinctive category of products easily distinguishable from our other flour products as perceived and recognised by our customers.

## BUSINESS

### PRODUCTION

#### Production Facilities and Equipment

##### *Production Facilities*

Our current production base commenced operations in August 2018 and is located in Gu'an County, Langfang City, Hebei Province, the PRC. It houses our 8-storey automated production facility and storage and employee facilities.

Our production base is equipped with two production lines each with a maximum daily wheat processing capacity of approximately 400 tonnes, and one additional processing line comprised of heat-treating facilities with a maximum daily flour processing capacity of approximately 20.4 tonnes.

Details of our wheat processing capacity and relevant utilisation rates during the Track Record Period are set forth in the table below:

	FY2021	FY2022	FY2023
Wheat processing capacity (tonnes)			
<i>(Note 1)</i>	200,000	162,800	200,400
Actual volume of wheat processed			
(tonnes)	153,139	125,190	152,128
Utilisation rate <i>(Note 2)</i>	76.6%	76.9%	75.9%

*Notes:*

- (1) The wheat processing capacity of our Group for a financial year represents the maximum aggregate volume of wheat our production facilities could process for that financial year determined on the assumptions that (i) all of our wheat processing facilities were in an operable condition on each of the 365 calendar days falling within that financial year, except for public holidays in the PRC, and working days on which our wheat processing facilities were not in operation due to inspection, repair, maintenance or cleaning and/or preparatory work for wheat processing; and (ii) on each such day on which our wheat processing facilities were operable, (a) all of our wheat processing lines were functioning at full capacity, and (b) our wheat processing facilities had been operating for 24 hours per day.

Our wheat processing capacity decreased in FY2022 as compared with FY2021 primarily because of the increase in frequency in FY2022 of (i) maintenance and repair of our wheat processing facilities, which were conducted during the times of the COVID-19 pandemic; and (ii) cleaning of our wheat processing facilities as anti-pandemic measures amid severe outbreaks of the pandemic. As the pandemic had gradually become contained in FY2023, our wheat processing capacity returned to a level comparable to that for FY2021.

- (2) The utilisation rate for a financial year is calculated by dividing the actual volume of wheat processed by our Group during the financial year by our designed wheat processing capacity for that financial year.

The utilisation rate of our wheat processing capacity had remained stable throughout the Track Record Period.

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In relation our major production stage of heat-treating, details of our processing capacity and relevant utilisation rates during the Track Record Period are set forth in the table below:

	FY2021	FY2022	FY2023
Heat-treating capacity (tonnes) <i>(Note 1)</i>	4,085	5,233	5,262
Actual volume of heat-treated specialty flour produced (tonnes) <i>(Note 2)</i>	3,210	4,105	4,302
Utilisation rate <i>(Note 3)</i>	78.6%	78.5%	81.8%

*Notes:*

- (1) The heat-treating capacity of our Group for a financial year represents the maximum volume of specialty flour our heat-treating facilities could process for that financial year determined on the assumptions that (i) our heat-treating facilities were in an operable condition on each of the 365 calendar days falling within that financial year since they were put into operation, except for public holidays in the PRC, company holidays and working days on which our heat-treating facilities were not in operation due to inspection, repair, maintenance or cleaning; and (ii) on each such day on which our heat-treating facilities were operable, (a) our heat-treating line was functioning at full capacity, and (b) our heat-treating facilities had been operating for 24 hours per day, except during the downtime required for activation and shutdown of our heat-treating facilities.

Our heat-treating capacity for FY2021 fell below that for each of the other two financial years in the Track Record Period as it only took into account the capacity of our heat-treating facilities for the period of approximately eight months since our heat-treating line came into operation in April 2021. Our heat-treating capacity for each of FY2022 and FY2023 represented our heat-treating capacity on a full-year basis.

- (2) The actual volume of heat-treated specialty flour produced will be used in the production of (i) our pure heat-treated specialty flour products (consisting purely of heat-treated specialty flour); and (b) blended specialty flour products (i.e. produced by blending heat-treated specialty flour with non-heat-treated specialty flour).
- (3) The utilisation rate for a financial year is calculated by dividing the actual volume of heat-treated specialty flour produced by our Group during the financial year by our heat-treating capacity for that financial year.

The utilisation rate of our heat-treating capacity remained stable in FY2021 and FY2022. The utilisation rate increased in FY2023 as a result of our increased demand for heat-treated specialty flour for production of our heat-treated specialty flour products, including both pure heat-treat specialty flour products and blended specialty flour products.

### *Machinery and Equipment*

The principal machinery and equipment used at our production base during the Track Record Period were generally provided by a Swiss-based international group which principally engages in the engineering and sale of industrial process technologies and solutions for the food and feed industry. They were comprised primarily of machines and equipment for (a) cleaning and conditioning; (b) milling; (c) blending, dispensing and packaging; and (d) heat-treating.

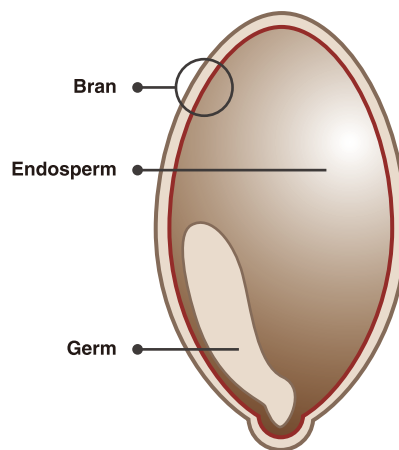
## BUSINESS

### Machinery and Equipment Maintenance

To ensure that our operations can operate without disruptions throughout the year, our production facilities and machineries may be shut down from time to time to carry out periodic inspections and maintenance. Our employees are generally responsible for the day-to-day inspection and maintenance works of our production facilities and machineries and annual inspection and maintenance works will generally be carried out by external professionals. Where there are material problems relating to our production facilities and machineries, we would also engage external technicians to carry out the necessary repair. During the Track Record Period, we did not experience any material or prolonged interruption in the production of our products as a result of equipment or machinery failure.

### Production Process

The raw materials used in our production process is primarily wheat, which can principally be categorised into hard wheats such as hard white wheat and hard red spring wheat which generally have a moderate to high level of gluten and soft wheats such as soft white wheat and soft red winter wheat which generally have a low level of gluten. The production of our flour products primarily involves the separation of the wheat kernel into its principal constituent parts, namely, the bran, endosperm and the germ through the milling process. Set out below for illustrative purposes is the anatomy of a wheat kernel:



#### *The composition of wheat kernel*

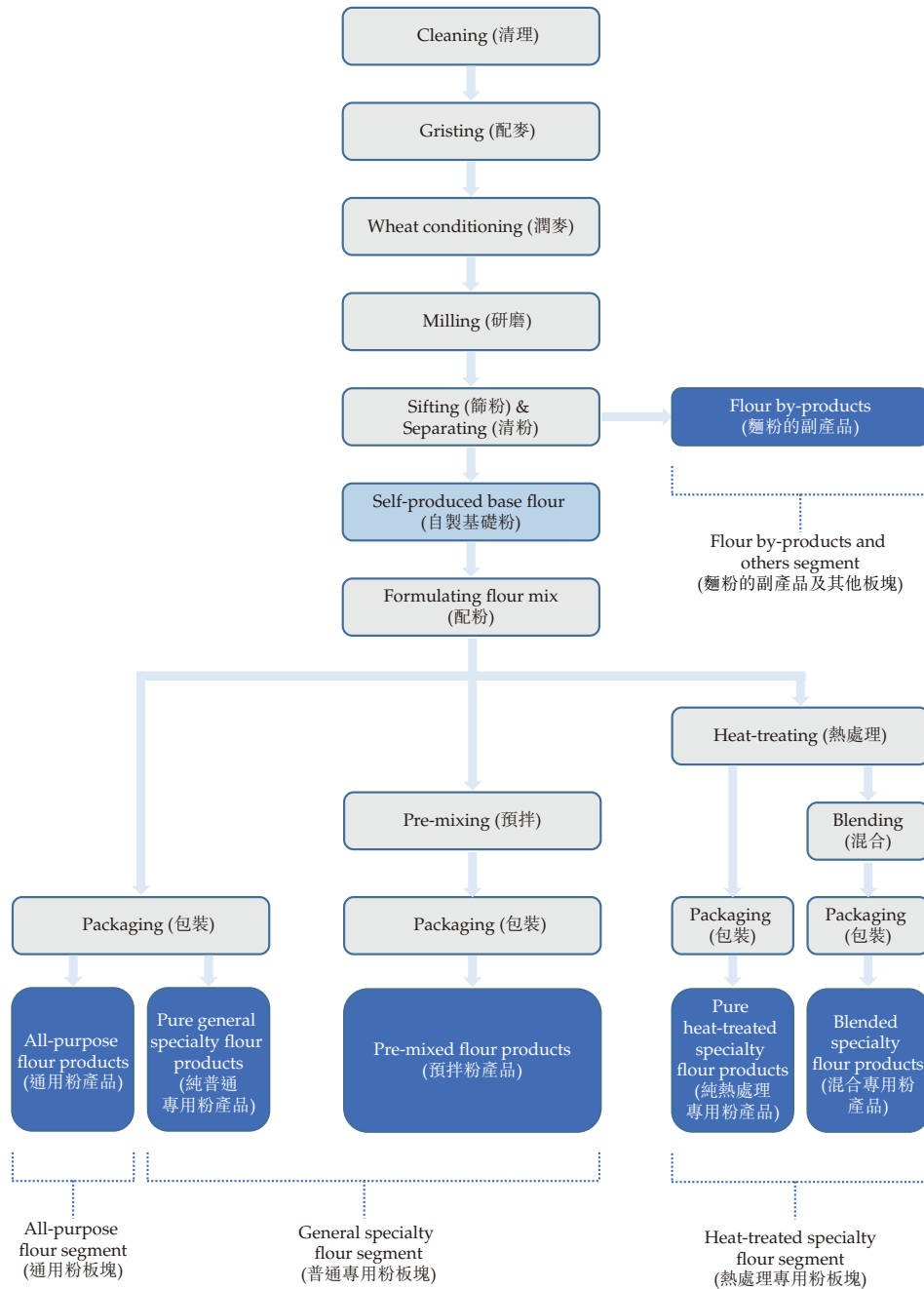
The **bran** is the hard outer layer of the wheat kernel and is particularly rich in dietary fiber and essential fatty acids. Due to its high oil content, bran is subject to rancidification which can be ameliorated through "heat-treat" processes. Bran is commonly used as animal feed though it is often used to enrich bread.

The **endosperm** is the part of the wheat kernel that lies just under the bran coating. It is the largest part of the wheat kernel and is used for the production of flour, it is also rich in carbohydrates, proteins, and essential nutrients.

The **germ** is the reproduction part of the wheat kernel and is a rich source of vitamin E, B vitamins, and minerals.

## BUSINESS

The types of flour products and flour by-products sold by our Group under our different reportable segments during the Track Record Period were produced through a series of production stages. Set forth below are the key stages in our production process:



**Legends:**

- denotes a type of products sold by our Group during the Track Record Period
- denotes a reportable segment as presented in the Accountants' Report

## BUSINESS

### *Cleaning (清理)*



Once transported from our on-site storage facilities to our production facilities, the wheat to be processed first goes through procedures designed to remove impurities and debris such as dirt and pebbles, so as to make sure that it is in a clean and pure state before milling begins. An electromagnet will also be used to screen out pieces of metal which may have been mixed in with the wheat during harvest.

### *Gristing (配麥)*

After cleaning, different types of wheat may be blended together (i.e. gristed) in various proportions based on their gluten content, with a view to creating a wheat mix that will permit production of flour with the desired properties and characteristics. The wheat mix may also vary so as to achieve other features, such as specific flour colours.

Types of wheat with a moderate gluten content are used for production of all-purpose flour. Having a medium gluten content, all-purpose flour is generally suitable for producing a wide variety of food products. Owing to its extensive applications, all-purpose flour is widely used by the public and commonly available for sale.

On the other hand, specialty flour is produced from types of wheat with varying gluten content levels and generally suitable for production of specific food products. Specialty flour with a higher gluten content brings higher elasticity to the dough, from which bread can be made. Specialty flour with a lower gluten content can be used to make dough with a fine, crumbly texture and is suitable for producing cakes and pastries. Specialty flour is most often used by food processors and restaurants to produce food products with characteristics desired or commonly recognised by the public.

### *Wheat conditioning (潤麥)*

After gristing, the wheat mix will be conditioned in preparation for milling. Wheat conditioning involves producing a uniform moisture content throughout the individual wheat kernel, which is generally done through adding moisture. This serves to prevent the breakup of the bran during the milling process, and to facilitate separation of the endosperm and other parts of the wheat kernel later on at the milling stage.



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### *Milling (研磨)*

Milling involves passing the wheat kernels through a series of metal rollers to crush and separate the different parts of each wheat kernel, namely bran (the outer layer of the wheat kernel), endosperm (the largest part of the wheat kernel) and germ (the innermost portion of the wheat kernel). The endosperm is used for production of our flour products.



### *Sifting (篩粉) and separating (清粉)*



After the wheat mix has been milled, the resulting particles are sifted based on size through sieving machines to extract the flour and screen out any residual particles. Based primarily on the wheat mix used, the self-produced base flour extracted will take the form of either all-purpose flour or specialty flour and be used for further processing.

The bran, together with the wheat middlings comprised of other leftovers from the flour production process, constitutes flour by-products commonly used as animal feed. The flour by-products extracted at this stage will be packaged for sale and are commonly used as animal feed.

### *Formulating flour mix (配粉)*

During our product research and development process, with the flour properties and characteristics desired to be created in mind, we would draw up the flour product formulations. Through mixing and matching different types of wheat and flour in various combinations and proportions in the gristing and flour mix formulation processes, flour products of varying features (in terms of properties and performance characteristics) can be developed to suit specific needs in production of end food products.

At this stage, we may blend together different types of base flour according to our product formulations and add in other materials (such as additives) to formulate the desired flour mix in the form of either all-purpose flour or specialty flour. While we generally prefer to use base flour derived from our own production process, we may occasionally also include one or more types of externally procured base flour in the basket of base flour to be blended, where this is required to formulate flour mix carrying the intended features. For example, it may not be practicable for us to produce certain types of base flour with the desired characteristics due to unavailability of the requisite raw materials in the surrounding areas. Under such circumstances, we may procure base flour from other flour manufacturers.

The flour mix formulated may be sold as all-purpose flour products or pure general specialty flour products. A portion of the specialty flour mix formulated will be further processed by means of pre-mixing or heat-treating.

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### *Pre-mixing (預拌)*



As a further stage applicable exclusively to production of our pre-mixed flour products, we pre-mix the specialty flour mix formulated with other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat). As a mixture containing most necessary ingredients for food production, the resultant pre-mixed flour products can readily be converted into specific end food products just by adding some basic substances (such as water).

### *Heat-treating (熱處理)*

Separately, selected types of the specialty flour mix formulated are subject to heat treatments to modify their properties and performance characteristics. Heat-treating is a leading production technique in the PRC flour manufacturing industry that can eliminate microbiological contaminants in flour such as certain types of blights and microbes, which is conducive to maintenance of flour freshness over an extended period of time. Apart from that, heat-treating can enhance flour quality by increasing its water absorption capacity, such that dough with a finer texture and increased viscosity can be made; this will, in turn, improve the volume, texture and softness of the end food products made from the flour and therefore, heat-treated flour is particularly apt for production of cakes, muffins and cookies. Upon completion of heat-treating, heat-treated specialty flour is derived, which may be offered as pure heat-treated specialty flour products or transferred to the next production stage of blending.



### *Blending (混合)*

From a practical perspective, heat-treated specialty flour has to be blended with non-heat-treated specialty flour before it can be applied in production of end food products. In line with consumer preference, we may supply our heat-treated flour products in the form of blended specialty flour products, which are produced by blending heat-treated specialty flour with non-heat-treated specialty flour. As these two types of flour are already blended in optimised and standardised portions when delivered, downstream users will not need to perform the blending process themselves, permitting increase in production efficiency and reduction in production costs.



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### *Packaging (包裝)*

The flour mix formulated may be directly transferred to our packaging line for sale as all-purpose flour products or pure general specialty flour products. A portion of the specialty flour mix formulated will be pre-mixed with other ingredients, or heat-treated and/or blended with non-heat-treated specialty flour, and the pre-mixed flour products, pure heat-treated specialty flour products and blended specialty flour products derived will be packaged for sale afterwards.



Once sent to our packaging line, our flour products will be packaged according to their specifications and stored at our on-site storage facilities pending delivery to our customers. Our product packages bear information relating to product type and production date for ease of inventory control.

### **OUR QUALITY CONTROL FRAMEWORK**

Our Directors believe that quality control is one of the key elements for producing consistent products that are capable of meeting the specifications of our customers and that our ability to deliver quality products is one of our competitive advantages. As such, our Group has in place quality control measures which are in line with international as well as national standards for each step of the production process to ensure that the products we produce are capable of meeting our requirements. As at 31 December 2023, we had 18 staff members in our quality control, research and development department and we have been awarded international certifications including GB/T 22000-2006/ISO 22000:2005 — Food safety management system, ISO 9001:2015 — Development and production of wheat flour, FSSC 22000 — Food safety system certification, GB/T 27341-2009 — HACCP system (General requirements for food processing plant) and GB 14881-2013 — The national food safety standard (General hygienic regulation for food manufacturing).

### **Quality Control Measures Relating to Our Raw Materials**

When sourcing our major raw materials, such as wheat, our procurement staff will generally obtain samples from the potential suppliers for initial testing. Our quality control staff will perform laboratory testing on the samples to ensure that it is capable of meeting our specifications. In general, our tests will cover areas including the following:

- Moisture content
- Mineral content
- Viscosity analysis
- Color analysis

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- Gluten content and characteristics analysis

Once testing is complete, our quality control staff will issue a report advising on the suitability of the wheat to be purchased and/or used. If the wheat sample is approved by us, our procurement department will be notified and they may then begin liaising with the relevant supplier as to the quantity, price and delivery details.

When the raw materials are delivered by the suppliers to our warehouses, our quality control staff will ensure that the quantity delivered corresponds with the purchase orders and will also conduct random sample checks on whether the quality of the wheat purchased meet our requirements. If the batch of raw materials is found to be substandard, our management team will be notified and the batch may be returned to the relevant supplier.

### **Quality Control and Assurance Relating to the Production Process**

Our quality control staff will conduct quality checks at key control points in the production process in order to ensure that the production system is operating within acceptable parameters and that there is no contamination or impurities which could affect our products. Our production system is a closed production system which generally does not allow for impurities to enter into the system. To ensure that our production system remains closed and operates within acceptable parameters, regular maintenance and inspections are carried out. Aside from monitoring the proper functioning of our production system, we will also obtain samples of our products from each stage of the production process to ensure that they are in line with the required specifications.

### **Quality Assurance Relating to Our Finished Products**

Our finished products are packaged and stored at our on-site storage facilities before they are delivered to our customers. The packaging materials for our finished products contain details as to the production dates of the finished products and our finished products are stored according to their nature and production date which enables us to manage our inventory and reduce spoilage. To ensure the quality of our finished products and to prevent degradation as a result of fluctuations in temperature and humidity, our storage facilities are equipped with cooling systems to regulate temperature.

Aside from preventing the degradation of our finished products, we also conduct sample checks on every batch of our finished products prior to storage and delivery to ensure that they meet relevant national safety standards in respect of food quality and safety as well as our own internal standards.

After delivery to our customers, our customer service personnel in our sales and marketing department may conduct follow ups as to customer feedback and will handle any complaints which are also reported to our management team.

## BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we did not experience any customer complaints which had a material adverse effect on our business or results of operations, nor did we experience any voluntary or mandatory recalls as a result of requests by the PRC government.

### INVENTORY CONTROL

Our Group's inventory consists primarily of (i) raw materials such as wheat and base flour, and (ii) finished products including flour that has been mixed and blended to the specifications of our customers and has been packaged as per their request as well as packaged flour by-products. Our Group's inventory is stored at our production base and we have implemented various inventory control measures to ensure that (i) we will have sufficient raw materials and ancillary materials for our production requirements; (ii) the production process would not be interrupted/delayed because of a shortage of raw materials; and (iii) we will not keep an excessive inventory of finished products. Our major inventory management procedures include the following measures:

- incoming raw materials will be stored according to their nature and their quantities will be recorded in our inventory management system, in particular, incoming wheat will be stored in our silos which are climate controlled;
- finished products will also be stored according to their nature and date of production and their quantities will be recorded in our inventory management system; and
- regular counts are performed to ensure that the quantities of raw materials and finished products correspond with the recorded entries during the relevant period.

To ensure the sufficiency of raw materials to meet our production needs, customer demand and governmental requirements, we have in place internal policy on determining our minimum raw material inventory levels based upon prevailing governmental guidelines, historical demand and our sales projections. In particular, we maintain silos for the storage of wheat as the continuous supply of wheat, being the primary raw material from which our flour products are produced, is vital to our business operation. Any interruption in our wheat supply may render us unable to fulfil the purchase orders from our customers. To mitigate such risks, depending on the market price trend of wheat and availability of supply, we may from time to time make prepayments to our suppliers to ensure stability in our wheat supply.

In addition, we also maintain silos for storage of raw flour pending transfer to the production facilities where they will be blended with other materials and ingredients to produce the finished flour products.

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### SALES AND MARKETING

#### Sales and Marketing

During the Track Record Period, we had sold flour products and flour by-products to customers in the PRC, which principally comprised food processors and wholesalers. In order to strengthen the relationship with our existing customers, our sales and marketing staff will contact them from time to time (including after the sale of our products to them) to enquire about their views on the quality of our products and service. Further, we would also explore potential business opportunities with them whether in the form of additional sales or the development of new products.

Strengthening our business relationships with existing customers aside, during the Track Record Period, we had also devoted extensive efforts in developing business relationships with new customers. In this connection, under our internal policy, the sales staff in our sales, marketing and e-commerce department would approach end users of flour products, such as food processors, food product manufacturers, wholesalers, restaurants and bakeries in order to ascertain their suppliers and to understand why such end users would prefer particular brands or types of flour products. We believe that this type of market research enables us to gain a better understanding of the needs of our customers and their preferences as to functional attributes and performance characteristics of flour products, and the strengths and weaknesses of our products and our competitive position vis-à-vis other flour manufacturers. Once we have located the target customers, our sales staff would seek to build business relations with them highlighting our production capabilities and the strengths of our products.

#### Seasonality

Our sales are affected by seasonality as certain flour products are subject to increases in demand from downstream industries such as food processors during the several months/weeks preceding the Spring Festival. Accordingly, our results of operations may fluctuate over the course of each financial year, and results for any interim period may not be indicative of our results for the full financial year.

#### Pricing Policy

We generally adopt a cost-plus pricing policy when determining the prices of our products. Factors that we may take into account when determining the prices of our products include the raw material costs, production costs and our fixed costs. In addition, we may also consider the prices of our competitors. Where there are material fluctuations in the price of raw materials which may affect our profit margins, we may also adjust the prices of our products.

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### **Product Return Policy**

We have adopted strict quality control measures to ensure the quality of our flour products and flour by-products. It is our policy, that where any of our products are found defective or damaged due to our fault, we will accept its return and arrange for replacements or refund. Further, in limited circumstances we may accept exchanges of our flour products if it does not satisfy the desired use of our customers. Save for the reasons mentioned above, we typically do not permit any return or refund of our products once it is sold. Our sales staff are responsible for receiving and handling the logistics of the return and replacement as well as for reporting the matter to our management. For FY2021, FY2022 and FY2023, the sales return from our customers amounted to approximately RMB0.5 million, RMB0.7 million and RMB0.2 million respectively. Given the above, our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not experience any material returns on sales from our customers.

### **Credit Policy and Payment Methods**

We generally grant to our customers a credit term up to three months for settlement of our invoice, and payment is generally effected by way of bank transfer. The exact duration of the credit period granted by us to each specific customer is determined on a case-by-case basis taking into account a basket of factors, including the corporate background, operating scale, industry standing, financial strength and credit history of the customer, the length and state of our business relationship, our sales strategy and potential for further business development, among others.

We review overdue balances and our receivable balances on an ongoing basis and an assessment as to whether a provision for impairment of trade receivables should be made by our management. During the Track Record Period, we did not make any material provisions in relation to our trade receivables and we did not experience any cancellation of orders or any bankruptcy or default on the part of any of our customers.

### **Logistics and Transportation**

During the Track Record Period, delivery of our finished products to our customers were carried out by Independent Third Party logistics service providers. We are generally responsible for arranging delivery of our finished products to our customers and the risks are passed to those customers when they acknowledge receipt of our products. However, some customers may arrange for delivery of our finished products themselves, in such a case risks pass upon delivery to their logistics service provider. For FY2021, FY2022 and FY2023, we incurred logistics expenses of approximately RMB9.9 million, RMB7.1 million and RMB3.7 million respectively.

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### CUSTOMERS

During the Track Record Period, our customers mainly included food processors and wholesalers. For FY2021, FY2022 and FY2023, we had sold our products to 298, 114, and 92 customers respectively. We do not enter into any long-term sale agreements with our customers; instead, we may enter into short term framework agreements and our sales are generally made through individual purchase orders setting forth the types of products to be sold, the quantities and price and credit terms.

The table below sets forth breakdowns of our number of customers and of our revenue by customer type during the Track Record Period:

	FY2021			FY2022			FY2023		
	<i>No. of customers</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>No. of customers</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>% of revenue</i>	<i>No. of customers</i> <i>(Note 2)</i>	<i>RMB'000</i>	<i>% of revenue</i>
Food processors	40	253,792	50.8	28	200,278	42.7	21	165,078	30.3
Wholesalers	183	167,094	33.4	39	226,573	48.4	42	359,968	66.2
Others <sup>(Note 1)</sup>	77	79,110	15.8	50	41,723	8.9	32	18,917	3.5
<b>Total</b>	<b>298</b>	<b>499,996</b>	<b>100.0</b>	<b>114</b>	<b>468,574</b>	<b>100.0</b>	<b>92</b>	<b>543,963</b>	<b>100.0</b>

Notes:

- (1) "Others" included, among others, animal breeding facilities and timber processors.
- (2) For presentation purpose, customers with the same ultimate beneficial owner(s) are classified into an individual customer group, and each such customer group is regarded as one single customer of our Group. Members within the same customer group may have different principal business activities and as a result the customer group may fall within more than one of the customer types presented in the table above. Therefore, our numbers of customers under the different customer types for each financial year set out in the table above did not add up to our total number of customers for that financial year.

### Principal Customer Types

Our revenue during the Track Record Period was principally derived from the sales of our products to food processors and wholesalers.

- *Food processors:* Our food processor customers are generally customers which purchase our flour products, in particular our specialty flour products for further processing into different food products such as noodles, steamed buns, cakes and bread. These food products may be sold onwards to supermarkets chains and end users.
- *Wholesalers:* Our wholesaler customers are generally customers which purchase our flour products for onward sale to their customers (including other food processors, supermarket chains and retailers). According to the F&S Report, it is common in the flour manufacturing industry to use wholesalers as it enables flour manufacturers to increase their sales and market penetration without the associated risks.

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### Our Relationship with Wholesaler Customers

While our wholesaler customers may resell the flour products purchased from us to their customers, our business is not conducted through a distributorship model for the following reasons:

- we maintain a buyer-seller relationship with our wholesaler customers. We do not retain any ownership control over our products once they are sold to our wholesaler customers;
- no principal-agent relationship is established between us and our wholesaler customers, and all significant risks and rewards associated with our products are transferred to our wholesaler customers upon delivery to and acceptance by them;
- our wholesaler customers are typically not entitled to return to us any of the products sold to them (save for the reasons disclosed in the paragraph headed "Sales and Marketing — Product Return Policy" in this section);
- during the Track Record Period and up to the Latest Practicable Date, we had not experienced any material return of our flour products from our wholesaler customers;
- our wholesaler customers resell the flour products procured from us out of their own causes and on their own initiatives in the ordinary and usual course of their business. They are not part of any collaboration or commercial arrangements with us in relation to distribution of our flour products;
- we do not maintain any resale guideline for our wholesaler customers, nor do we impose any resale price requirement or any other kind of restriction on how our wholesaler customers may resell our products to their own customers under the agreements entered into between our wholesaler customers and us;
- our wholesaler customers are entitled to no special rights or discounts under the agreements entered into between our wholesaler customers and us as compared with our other customers; and
- flour products are by nature products with a limited shelf life. It would not make commercial sense or be in the interest of our wholesaler customers to maintain extensive inventory, which renders channel stuffing impracticable.

As our business operation does not involve any distributorship model in effect, our Directors are of the view that (i) our Group does not adopt a distributorship business model as defined in paragraph 4.5 of the Guide for [REDACTED] issued by the Stock Exchange; and (ii) our business operation is not subject to the risks commonly associated with a distributorship business model as particularised in paragraph 4.5 of the Guide for [REDACTED] issued by the Stock Exchange.

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### Salient Terms in Agreements with Our Major Customers

#### *Purchases by Our Major Food Processor Customers*

During the Track Record Period, we would typically enter into framework agreements with our major food processor customers. Set out below are the salient terms of our agreements with our major food processor customers:

Term	:	Our framework agreements generally last for within one year.
Pricing	:	The unit price would either be set out in the framework agreements or to be determined in separate sales orders.
Transportation	:	We generally deliver our products to location designated by our customers.
Product quality	:	The products we supply to our customers are required to meet the relevant national standards or standards fixed by our customers.
Termination	:	In general, the framework agreements do not contain any termination clause.

#### *Purchases by Our Major Wholesaler Customers*

During the Track Record Period, we would typically enter into standardised framework agreements with our major wholesaler customers to formalise our relationships. Set out below are the salient terms of our agreements with our major wholesaler customers:

Term	:	Our standardised framework agreements generally last for one year.
Pricing	:	The price at which our products are supplied to our wholesaler customers are generally determined by us with reference to market conditions.
Transportation	:	Typically delivery is arranged by the wholesaler.
Product quality	:	The products we supply to our wholesaler customers are required to meet the relevant national standards, where there are quality issues after delivery, we will negotiate to resolve the issues.
Termination	:	In general, the framework agreements do not contain any termination clause.



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As confirmed by our Directors, our wholesaler customers did not breach any of the material terms of our framework agreements with them during the Track Record Period and up to the Latest Practicable Date.

### Our Revenue by Geographical Breakdown

Our sales network during the Track Record Period encompassed a significant portion of the PRC as our products were sold to customers located in over 20 provincial level administrative divisions in the PRC. Set out below is a breakdown of our revenue by customer locations during the Track Record Period:

	<b>FY2021</b>		<b>FY2022</b>		<b>FY2023</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
North China	388,334	77.7	394,542	84.2	489,229	89.9
East China	70,128	14.0	49,324	10.5	36,178	6.7
South China	34,311	6.9	15,532	3.3	3,937	0.7
Central China	7,223	1.4	9,176	2.0	14,619	2.7
	<b>499,996</b>	<b>100.0</b>	<b>468,574</b>	<b>100.0</b>	<b>543,963</b>	<b>100.0</b>

### Five Largest Customers

For FY2021, FY2022 and FY2023, our sales to our five largest customers amounted to approximately RMB242.8 million, RMB288.9 million and RMB343.9 million, representing 48.6%, 61.7% and 63.2% of our revenue respectively, whereas sales to our largest customer amounted to RMB135.2 million, RMB103.2 million and RMB103.3 million, representing 27.0%, 22.0% and 19.0% of our revenue respectively.

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The following table sets out the details of our five largest customers during the Track Record Period as well as our total sales to them during the same period.

**For FY2021**

Rank	Customer	Place of establishment and principal business activities	Principal products purchased from us	Year of commencement of business relationship	Typical credit terms and payment method	Sales attributable to the customer (RMB'000)	% of our total revenue
1.	Dali Group (Note 1)	A leading branded food and beverage group in the PRC principally engaged in manufacture and sale of household consumption products, snack food and ready-to-drink beverage in the PRC under a diversified multi-brand product portfolio	General specialty flour products	2012	30 days from settlement date, bank transfer	135,174	27.0%
2.	Customer Group A (Note 2)	A group of companies established in the PRC principally engaged in sale of food products	General specialty flour products, heat-treated specialty flour products, and flour by-products	2018	One to six months, bank transfer	32,789	6.6%
3.	Customer Group B (Note 3)	A group of companies established in the PRC principally engaged in processing and sale of food products, sales of pre-packaged food products and agricultural products, among others	General specialty flour products, heat-treated specialty flour products, all-purpose flour products and flour by-products	2018	Three months, bank transfer	26,208	5.2%
4.	Customer C (Note 4)	Langfang Yijiao Food Co., Ltd.* (廊坊一餃食品有限公司), a company established in the PRC principally engaged in production, processing and sale of convenience foods, pastries and quick-frozen foods, among others	General specialty flour products and heat-treated specialty flour products	2020	Three months, bank transfer	24,389	4.9%
5.	Customer D (Note 5)	A company established in the PRC principally engaged in production, processing and sale of convenience foods	General specialty flour products, heat-treated specialty flour products and flour by-products	2020	Three months, bank transfer	24,274	4.9%
Total sales attributable to our five largest customers						242,834	48.6%

**BUSINESS**

**For FY2022**

Rank	Customer	Place of establishment and principal business activities	Principal products purchased from us	Year of commencement of business relationship	Typical credit terms and payment method	Sales attributable to the customer (RMB'000)	% of our total revenue
1.	Dali Group (Note 1)	A leading branded food and beverage group in the PRC principally engaged in manufacture and sale of household consumption products, snack food and ready-to-drink beverage in the PRC under a diversified multi-brand product portfolio	General specialty flour products	2012	30 days from settlement date, bank transfer	103,204	22.0%
2.	Customer Group E (Note 6)	A group of companies comprising Gu'an County Zhongfu Agricultural Development Co., Ltd.* (固安縣翠富農業發展有限公司), a company established in the PRC principally engaged in provision of corporate management and consultancy services and processing and sale of food products, and its subsidiary, Langfang Zhongce Foodstuff Co., Ltd.* (廊坊眾策食品有限公司), a company established in the PRC principally engaged in manufacture and sale of food products	General specialty flour products and flour by-products	2022	Three to nine months, bank transfer	63,721	13.6%
3.	Customer Group A (Note 2)	A group of companies established in the PRC principally engaged in food processing and sale of food products	General specialty flour products, heat-treated specialty flour products and all-purpose flour products	2018	One to six months, bank transfer	52,265	11.2%
4.	Customer F (Note 7)	A company established in the PRC principally engaged in sale of wheat, corn and agricultural by-products, among others	General specialty flour products, heat-treated specialty flour products, all-purpose flour products and flour by-products	2021	Three months, bank transfer	38,294	8.2%
5.	Customer G (Note 8)	A company established in the PRC principally engaged in sale of oil, agricultural by-products, food and feedstock	General specialty flour products, all-purpose flour products and flour by-products	2021	Three months, bank transfer	31,431	6.7%
Total sales attributable to our five largest customers						288,915	61.7%

**BUSINESS**

**For FY2023**

Rank	Customer	Place of establishment and principal business activities	Principal products purchased from us	Year of commencement of business relationship	Typical credit terms and payment method	Sales attributable to the customer (RMB'000)	% of our total revenue
1.	Customer Group E (Note 6)	A group of companies comprising Gu'an County Zhongfu Agricultural Development Co., Ltd.* (固安縣眾富農業發展有限公司), a company established in the PRC principally engaged in provision of corporate management and consultancy services and processing and sale of food products, and its subsidiary, Langfang Zhongce Foodstuff Co., Ltd.* (廊坊眾策食品有限公司), a company established in the PRC principally engaged in manufacture and sale of food products	General specialty flour products, heat-treated specialty flour products, all-purpose flour products and flour by-products	2022	Three to nine months, bank transfer	103,279	19.0%
2.	Customer Group A (Note 2)	A group of companies established in the PRC principally engaged in food processing and sale of food products	General specialty flour products and heat-treated specialty flour products	2018	One to six months, bank transfer	91,390	16.8%
3.	Dali Group (Note 1)	A leading branded food and beverage group in the PRC principally engaged in manufacture and sale of household consumption products, snack food and ready-to-drink beverage in the PRC under a diversified multi-brand product portfolio	General specialty flour products	2012	30 days from settlement date, bank transfer	64,419	11.8%
4.	Customer F (Note 7)	A company established in the PRC principally engaged in sale of wheat, corn and agricultural by-products, among others	General specialty flour products, heat-treated specialty flour products and flour by-products	2021	Three months, bank transfer	43,489	8.0%
5.	Customer D (Note 5)	A company established in the PRC principally engaged in production, processing and sale of convenience foods	General specialty flour products, heat-treated specialty flour products, all-purpose flour products and flour by-products	2020	Three months, bank transfer	41,362	7.6%
Total sales attributable to our five largest customers						343,939	63.2%

## BUSINESS

*Notes:*

1. Dali Foods is an exempted company incorporated in the Cayman Islands whose shares were listed on the Main Board of the Stock Exchange (stock code: 3799) during the period from 20 November 2015 to 31 August 2023. According to the annual report of Dali Foods, the Dali Group posted approximately RMB20.0 billion in revenue for FY2022. To the best of the knowledge of our Directors, the ultimate beneficial owner of Dali Foods at the relevant times was an Independent Third Party with more than 35 years of experience in food manufacturing industry.
2. Customer Group A comprises three limited liability companies established in the PRC in June 2014, June 2018 and October 2020 with registered capital of RMB10 million, RMB21 million and RMB3 million respectively. To the best of the knowledge of our Directors, these three companies were under common control at the relevant times, with their ultimate beneficial owners being a certain individual and his family members, all of whom were Independent Third Parties. For presentation purposes, these three companies have been classified into the same customer group. To the best of the knowledge of our Directors, the individual had more than 20 years of experience in the food product sale industry.
3. Customer Group B comprises three limited liability companies established in the PRC in January 1994, October 2015 and June 2018 with registered capital of RMB30 million, RMB20 million and RMB50 million respectively. To the best of the knowledge of our Directors, these three companies were under common control at the relevant times, with their ultimate beneficial owners being a certain individual and his spouse, both of whom were Independent Third Parties. For presentation purposes, these two companies have been classified into the same customer group.
4. Customer C is a limited liability company established in the PRC in May 2015 with registered capital of RMB10 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Customer C at the relevant times was Mr. Yao Hongjian (姚宏健), a brother-in-law of our Executive Director Mr. Yao Wei. For further details, please refer to the section headed "Connected Transactions" in this document. To the best of the knowledge of our Directors, Mr. Yao Hongjian had more than 28 years of experience in the sale of pre-packaged products and agricultural products.
5. Customer D is a limited liability company established in the PRC in August 2020 with registered capital of RMB21 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Customer D at the relevant times was an Independent Third Party.
6. Gu'an County Zhongfu Agricultural Development Co., Ltd.\* (固安縣眾富農業發展有限公司) is a state-owned enterprise established in the PRC in March 2022 by the State-owned Assets Administration Services Centre of Gu'an County\* (固安縣國有資產運行服務中心) with registered capital of RMB100 million. Its subsidiary Langfang Zhongce Foodstuff Co., Ltd.\* (廊坊衆策食品有限公司) is a limited liability company established in the PRC in March 2023 with registered capital of RMB10 million.
7. Customer F is a limited liability company established in the PRC in September 2021 with registered capital of RMB5 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Customer F at the relevant times was an Independent Third Party.
8. Customer G is a limited liability company established in the PRC in September 2021 with registered capital of RMB5 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Customer G during the Track Record Period was an individual with approximately 20 years of experience in sales of agricultural products, until Customer G was transferred to a former employee of our Group in December 2023, and both of these individuals were Independent Third Parties.

To the best of the knowledge of our Directors, none of our Directors, their close associates or our Shareholders owning more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our top five customers during the Track Record Period at the relevant times.

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### Customer Concentration

For FY2021, FY2022 and FY2023, our sales to our top five customers accounted for approximately 48.6%, 61.7% and 63.2% of our total revenue, where our sales to our largest customer amounted to 27.0%, 22.0% and 19.0% of our total revenue respectively. Our Directors consider that our customer concentration could primarily be ascribed to our sales to (i) food processors, which have long been one of our core group of customers; and (ii) wholesalers, to whom we have strategically devoted substantially effort to promoting our sales of flour products, in particular general specialty flour products and heat-treated specialty flour products, such that we can take advantage of their extensive sale network to increase the market reach and penetration of our flour products. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our business could be materially and adversely affected if we are unable to maintain our business relationships with major customers or continue transacting with them on existing terms and scale, given that our customers were highly concentrated during the Track Record Period" in this document for further details of the risks that may arise in our business operation as a result of our customer concentration.

According to the F&S Report, in the flour manufacturing industry, flour manufacturers and their customers, especially those with a large operating scale, generally develop a high degree of mutual reliance as a result of the following factors, which could in turn give rise to concentration of sales by the flour manufacturers:

- (i) large-scale food processors generally only enlist a small number of flour manufacturers to supply raw materials to them, as this will serve to alleviate any potential issue relating to material deviations in the quality and consistency of the raw materials in the production process. Further, as these customers generally purchase their raw materials in bulk, flour manufacturers capable of catering to their demand may be limited; and
- (ii) flour manufacturers such as our Group may generally dedicate their attention and resources to dealings with a focused group of major customers, as attending to the diverse needs of a large number of small-scale customers may reduce production efficiency;
- (iii) it is common for flour manufacturers to avail themselves of the sale network of wholesalers to build up their brand recognition and achieve business expansion. As the wholesalers resell the flour products to wide-ranging customers across wide geographical areas through their expansive channels, the flour products will gain increased market reach and penetration to the benefit of the flour manufacturers, especially during the introduction stage of newly launched products (such as our heat-treated specialty flour products). The increase in downstream demand will boost the demand from wholesalers for flour products, which will contribute to sales growth of flour manufacturers. From the perspective of flour manufacturers, it may therefore be conducive to future business growth to build sound long-term business relationships and transact substantially with wholesaler customers; and

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- (iv) wholesalers generally have a preference for procuring flour products from renowned and established flour manufacturers, as a means to secure stable supply of flour products and ensure that the flour products they resell to their customers are of assured quality and performance consistency. This will in turn help secure and enhance their own brand reputation.

**Overlaps between Our Customers and Our Suppliers**

During the Track Record Period, we had sold our flour products and flour by-products to Customer C, one of our top five customers during FY2021, and its associated corporation. As per requests from our customer, we had procured from Customer C staple food products, including buns, cold rice cakes, pies and mantou, for onward sale to the requesting customer as an incidental transaction. Such sales had been recognised as our other net income in FY2021 and FY2022. Set forth below are further details of our transactions with Company C during the Track Record Period:

	Purchase from Customer Group C		Sales to Customer Group C		Gross profit margin
	Purchase RMB	% of total purchase	Revenue RMB	% of total revenue	
FY2021	6,000	0.001%	24,389,000	4.9%	20.8%
FY2022	182,000	0.04%	30,483,000	6.5%	20.9%
FY2023	-	-	12,663,000	2.3%	15.6%

*Note:* The figures in the table above have been subject to rounding adjustments.

In addition, during the Track Record Period, we had sold our flour products and flour by-products to Customer D, one of our top five customers during FY2021 and FY2023, and purchased raw materials including wheat and base flour from Supplier H, one of our top five suppliers during FY2023, for production purposes in our ordinary and usual course of business. To the best of the knowledge of our Directors, the ultimate beneficial owner of Customer D and Supplier H was the same individual at the relevant times. Set forth below are further details of our transactions with Customer D and Supplier H during the Track Record Period:

	Purchase from Supplier H		Sales to Customer D		Gross profit margin
	Purchase RMB	% of total purchase	Revenue RMB	% of total revenue	
FY2021	-	-	24,274,000	4.9%	21.8%
FY2022	6,942,000	1.5%	30,511,000	6.5%	19.8%
FY2023	50,726,000	10.3%	41,362,000	7.6%	16.5%

*Note:* The figures in the table above have been subject to rounding adjustments.

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The gross profit margin we recorded in respect of our sales to Customer Group C and Customer D were higher than our average gross profit margin for FY2021, FY2022 and FY2023 because a substantial portion of our products sold to these customers was heat-treated specialty flour products, which inherently carried relatively higher gross profit margins by virtue of their advanced functional attributes.

Our sales to and purchases from the above customers and suppliers had been negotiated on an individual basis and were neither inter-connected nor inter-conditional. Our Directors confirm that such sales and purchases had been conducted on normal commercial terms and an arm's length basis during the Track Record Period.

**Third Party Payment**

During FY2021, certain customers of our Group (the "Relevant Customers") settled, through third party payors (the "Third Party Payors") all or part of the amount (the "Third Party Payment") due to our Group in respect of our sales (the "Third Party Payment Arrangement"). The aggregate amount of the Third Party Payment received during FY2021 amounted to approximately RMB135.2 million, representing approximately 27.0% of the total revenue for the year. No Third Party Payment Arrangement occurred in FY2022 and FY2023.

For FY2021, the Third Party Payment Arrangement involved 113 Relevant Customers and 144 Third Party Payors. Among the 113 Relevant Customers, three of them were among the top five customers of our Group for FY2021, relevant details are set out as follows:

Rank (in terms of total revenue)	Relevant Customers	FY2021			Total revenue attributable to the Relevant Customers in FY2021 RMB'000
		Third Party Payment amount RMB'000	% of total Third Party Payment amount	% of the total revenue of our Group	
2	Customer Group A	12,749	9.4	2.5	32,789
4	Customer C	16,258	12.0	3.3	24,389
5	Customer D	13,806	10.2	2.8	24,274



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***Top Five Relevant Customers (In terms of the Third Party Payment)***

During FY2021, the aggregate amount of Third Party Payment attributable to the five largest Relevant Customers amounted to approximately RMB79.0 million, representing approximately 58.4% and 15.8% of the total Third Party Payment received in FY2021 (being approximately RMB135.2 million) and the total revenue for FY2021 (being approximately RMB500.0 million), respectively. The following table below sets out the details of the five largest Relevant Customers of our Group during FY2021:

	Relevant Customers	Third Party Payment amount RMB'000	FY2021	% of Third Party Payment amount of the Relevant Customers to the total revenue of our Group in FY2021
			Total revenue attributable to the Relevant Customers in FY2021 RMB'000	
1	Customer H	19,624 <sup>(Note)</sup>	18,075	3.9
2	Customer Group I	16,554 <sup>(Note)</sup>	14,532	3.3
3	Customer C	16,258	24,389	3.3
4	Customer D	13,806	24,274	2.8
5	Customer Group A	12,749	32,789	2.5
	<b>Total</b>	<b>78,991</b>	<b>114,059</b>	<b>15.8</b>

*Note:* The amount is inclusive of receivables from the Relevant Customer outstanding as at 31 December 2020 which was subsequently settled through Third Party Payment Arrangement in FY2021.

During FY2021 and prior to the cessation of the Third Party Payment Arrangement, other than simply accepting the amount paid by the Third Party Payors for and on behalf of the Relevant Customers under the Third Party Payment Arrangement, our Group had not proactively initiated any of the Third Party Payment Arrangement, nor had our Group participated in any separate agreement between the Relevant Customers and their respective Third Party Payors in connection with the Third Party Payment Arrangement. Furthermore, during the Track Record Period and up to the Latest Practicable Date, our Group had not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the Third Party Payors to facilitate or incentivise them in the participation of the Third Party Payment Arrangement.

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***Third Party Payors***

To the best knowledge of our Directors after making all reasonable enquiries, save for two Third Party Payors who were downstream customers of the Relevant Customers, all of those Third Party Payors were either shareholders, legal representatives, beneficial owners, supervisors or employees of the Relevant Customers, or the spouses or relatives of the aforementioned individuals, or for the Relevant Customers which were sole proprietorships, the beneficial owner.

Furthermore, save for (i) one Third Party Payor ("**Third Party Payor A**") who was at the same time (a) the former employee of Customer H, a company which no longer engaged in business in the flour industry since FY2022, and (b) a then shareholder of Customer G, a company established by Third Party Payor A in September 2021 with the intent to take over the business segment in respect of flour and flour by-products wholesaling of Customer H; and (ii) 24 individual Third Party Payors who were individual customers of our Group prior to our Group's adoption of internal control measures which encourage our customers to transact with us through corporate entities instead of as individuals (further details of which are set out below in the paragraphs headed "Customers — Third Party Payment — Reasons for Utilising Third Party Payment Arrangement" in this section), none of the Third Party Payors have any past or present relationship with our Group, our Directors, senior management and substantial shareholders of our Group and their respective associates save for the Third Party Payment Arrangement. To the best knowledge and belief of our Directors, other than the Third Party Payment Arrangement, and save as disclosed in this section, there were no other transactions and/or fund flows between each of the Third Party Payors and our Group. As confirmed by our Directors, all Third Party Payors are Independent Third Parties.

The following table sets forth the breakdown of the types of Third Party Payors and the respective percentage to the total revenue and total amount of the Third Party Payment during the Track Record Period:

<b>Relationship between the Third Party Payor and the customer</b>	<b>Third Party Payment amount RMB'000</b>	<b>FY2021 % of total amount of the Third Party Payment</b>	<b>% of total revenue</b>
Shareholder/legal representative/ beneficial owner	81,542	60.3	16.3
Spouse/relatives of shareholder or beneficial owner	6,930	5.1	1.4
Supervisor/Employee	46,133	34.1	9.2
Downstream customer	602	0.5	0.1
<b>Total</b>	<b>135,207</b>	<b>100.0</b>	<b>27.0</b>

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### *Reasons for Utilising Third Party Payment Arrangement*

The Relevant Customers included, among others, the wholesaler customers and food processor customers of our Group. Based on information provided by these Relevant Customers, the main reasons that the Relevant Customers settled their payments through Third Party Payments Arrangement during FY2021 were as follows:

- certain Relevant Customers being small to medium-size enterprises or those operate under a sole proprietorship model would prefer to settle payments through bank accounts of their shareholders/legal representatives/supervisors/beneficial owners, or their respective relatives for operational convenience;
- certain Relevant Customers, especially small to medium-size enterprises might run their companies as family business, and would settle the payment by their family members;
- certain Relevant Customers might arrange for their business counterparties, such as their customers, to pay our Group on their behalf as a mean to settle the amount such downstream customers due to the Relevant Customers; and
- certain Relevant Customers started to transact with our Group via their corporate entities as our Group had encouraged our individual customers (including the shareholders or the beneficial owners of the Relevant Customers concerned) to transact with our Group via corporate entities, while they continued to use their bank accounts for settlement.

Furthermore, according to the F&S Report, the use of third-party accounts for the settlement of transactions is not uncommon in the flour manufacturing, food distribution and retail industry, especially among those small and medium-sized enterprises in the PRC, including suppliers and customers, as the use of third-party accounts is convenient and flexible for the settlement of business transactions in lower-tier cities and rural areas in the PRC, therefore Third Party Payors might well be accustomed to accepting such additional risks as it is the common practice among the relevant industry.

Notwithstanding the circumstances above, our Group did not proactively initiate any Third Party Payment Arrangement and merely accepted the payments from the Third Party Payors on behalf of the Relevant Customers passively.

### *Legal Compliance in the PRC*

Pursuant to the Criminal Law of the PRC (《中華人民共和國刑法》), the crime of money laundering is committed only if our Group (i) clearly knows that the amount received under the Third Party Payment Arrangement represent proceeds and/or gains obtained from drug-related crimes, crimes committed by criminal organisations, crimes of terrorism, smuggling, bribery and corruption, crimes undermining the financial order of society and financial fraud (the "**Relevant Offences**"); and (ii) commits certain acts as referred to under Article 191 of the Criminal Law of the PRC for the purpose of covering up or concealing the source and nature of the above proceeds or gains.

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To the best knowledge of our Directors after making reasonable enquiries, the amount received under the Third Party Payment Arrangement were only made by the Third Party Payors on behalf of the Relevant Customers under the Relevant Customers' authorisation.

As confirmed by the written confirmations which our Group have obtained from the Relevant Customers and their respective Third Party Payors, representing approximately RMB132.6 million or 98.1% of the total amount under the Third Party Payment Arrangement, the Relevant Customers and their respective Third Party Payors confirmed that our Group's transactions with the Relevant Customers were carried out based on genuine sales transactions. Furthermore, all funds under the Third Party Payment Arrangement were credited directly into the account(s) of our Group maintained at licensed banks in the PRC which are required by the People's Bank of China, the relevant authority in the PRC to put in place anti-money laundering measures and procedures to identify and investigate the customer's identity and legality of the source of funds. The banks could issue notices, warnings or put relevant entities under anti-money laundering investigations for any suspicious transactions identified. Given that our Group had ceased the Third Party Payment since the beginning of FY2022, and has never received any notices, warnings or investigations from any of our Group's correspondent bank(s) in relation to payments settled by the Third Party Payors, our Directors therefore have no grounds to suspect that the Third Party Payments were proceeds or gains from the Relevant Offences and confirmed that they have not committed any acts for the purpose of covering up or concealing any source and nature of any proceeds or gains from any crimes.

Our Group has also obtained written confirmations issued by (i) the State Administration of Taxation – Gu'an County Taxation Bureau (國家稅務總局固安縣稅務局) confirming that during the Track Record Period and up to 7 February 2024 (being the date of issuance of the relevant confirmation), Shenhua Flour had paid all taxes in accordance with the relevant regulations and there had not been any undeclared or overdue tax declaration records, nor any violation of tax laws or regulations; and (ii) the Gu'an Sub-Branch of the People's Bank of China (中國人民銀行固安縣支行) confirming that during the Track Record Period and up to 13 March 2024 (being the date of issuance of the relevant confirmation), no violations of financial laws and regulations were found in respect of Shenhua Flour, and no administrative penalties were imposed on it. In addition, as at the Latest Practicable Date, our Group had not been subject to any investigation, warnings, reprimand or administrative penalty in the PRC in relation to the Third Party Payment Arrangement which occurred in FY2021. As confirmed by our Directors, our Group was not involved in any disputes or proceedings, either threatened or pending, initiated by or against our Group and that there was no instance that our Group was required to return funds to any Third Party Payors or other parties in relation to the Third Party Payments.

Accordingly, the PRC Legal Advisers of our Group are of the view that (i) Third Party Payment Arrangement are not deemed to be in violation of PRC laws and regulations; and (ii) risks of the Third Party Payments being deemed as money laundering under the Criminal Law of the PRC is low. The PRC Legal Advisers of our Group are of the view that pursuant to the PRC Civil Code (《中華人民共和國民法典》), where an ordinary person may appoint agents to perform an action on behalf of him or her, the Relevant Customers are entitled to appointment Third Party Payors as their agents to settle amounts due to our Group on their behalf thus the Third Party Payment Arrangement is not deemed to violate any PRC laws and regulations.

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### *Internal Control Measures Adopted by Our Group*

We have also implemented the internal control measures as summarised below to ensure no recurrence of Third Party Payment Arrangement and preserve the integrity of our Group's financial and accounting information:

- (i) the staff of our Group would ensure that all customers (including both existing and new customers) would become aware of the new policy that our Group would not accept any payment made via Third Party Payors. Prior to entering into any new sales contracts with the customers, the sales department of our Group (the "**Sales Department**") would agree with the customers on (a) the payment method; and (b) the designated bank account(s) of the customers where our Group would be expecting to receive payment from. The Sales Department would also obtain from its customers a copy of their identity document (for individual customers) or business license (for corporate customers). Upon obtaining such documents, the finance department of our Group (the "**Finance Department**"), should upload all information into the accounting system for record keeping. The Sales Department should also specifically remind the customers that no Third Party Payment would be accepted;
- (ii) the Finance Department would record the payment methods, name of the payee company (which should be identical to the name of the relevant customer) and payment account information of the customers of our Group. All customers were requested to make payment using the designated bank accounts that have been registered with our Group (the "**Recorded Bank Accounts**") only, and should there be any need for them to make payment via bank accounts which have not been registered, they should inform our Group in advance. The Finance Department would also verify that such bank accounts belong to the relevant customers;
- (iii) after receiving payments from its customers, the Finance Department would record each bank remittance receipt based on our Group's bank account records and reconcile the bank remittance records with the Sales Department. In cases where the customer's name is not indicated on the bank remittance receipt, the Sales Department would contact the customer to confirm. Should any Third Party Payment be identified, the Finance Department would promptly report such incident to the Sales Department. Upon approval of the senior management of our Group, the Financial Department will initiate the refund procedure and arrange for the refund of the remittance to the relevant Third Party Payor. The Sales Department would also communicate with the relevant customer and request such customer to make payment again through its Recorded Bank Accounts, and remind the customer that no Third Party Payment Arrangement would be accepted;

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- (iv) the Finance Department would also verify the registered owner of the Recorded Bank Accounts in order to ensure that save for the Recorded Bank Accounts of customer(s) with known and properly disclosed and recorded relationship(s) with our Group (for example, Langfang Yijiao, being a connected party of our Group), none of the Recorded Bank Accounts belong to our Group, our Directors, our controlling shareholders and senior management of our Company, in order to ensure authenticity of sales revenue recorded by our Group;
- (v) our Group would conduct periodical reconciliation with its customers regarding the transaction amount during the relevant period, and would verify (a) the amount paid by the customers; (b) the invoice amount during the period in check; and (c) balance due from the customer to ensure consistency of information recorded by the customers, the Sales Department and the Finance Department;
- (vi) the Finance Department would conduct monthly review of the sales ledger to ensure that sales records are timely made, complete, and accurate. Additionally, our Group would conduct periodic internal audit checks on the collection of account receivables of our Group, in order to ensure that there would not be any Third Party Payment Arrangement; and
- (vii) our Group would organise internal training session annually for the Sales Department, Finance Department and relevant senior management in relation to, among others, the importance of (a) the Sales Department communicating with customers and requesting them to use the Recorded Bank Accounts for payment for prevention of Third Party Payment Arrangement; (b) the Finance Department reviewing and monitoring the collection of payments and the appropriate handling procedure upon discovery of any Third Party Payment Arrangement; and (c) senior management having overall control and overseeing the above internal control measures.

Furthermore, in order to prevent fraud and money laundering activities, additional internal control measures are in place:

- (i) appropriate due diligence procedures would be conducted prior to our Group entering into sales or procurement agreements/orders with our customers and suppliers, including but not limited to, requesting for and reviewing the customers/suppliers' business licenses and other operating licenses. The Finance Department, Sales Department, and the general manager would jointly perform credibility assessment on the potential customer; and
- (ii) the Finance Department would also identify any suspicious transactions when it conducts monthly review of the sales and procurement ledgers, and any such transactions will be investigated on.

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The internal control consultant of our Group reviewed the aforementioned internal control measures and did not note any significant deficiency in preventing recurrence of Third Party Payment Arrangement, preserving the integrity of our Group's financial and accounting information and preventing fraud and money laundering activities. The internal control review conducted by the internal control consultant of our Group did not reveal any further acceptance by our Group of Third Party Payment Arrangement as valid payment by our customers since FY2022. The internal control consultant noted seven isolated incidents in FY2022 which had already been identified by our Group and recorded in the reconciliation list, where certain Relevant Customers attempted to settle their amount due to our Group through Third Party Payors that all such incidents had been properly identified and recorded by our Group and refund had been made by our Group in accordance to the internal control measures adopted. Such internal control review did not reveal any non-compliance of internal control policies in relation to the Third Party Payment Arrangement since FY2022.

Based on the internal control measures that have been adopted by our Group and the fact that no non-compliance of internal control policies in relation to the Third Party Payment Arrangement have been identified in FY2022 and FY2023, our Directors are of the view that the aforementioned internal control measures are effective and adequate.

## SUPPLIERS

We use a variety of raw materials during our production process, with wheat being the principal raw material used for production of our flour products. The other major raw materials used by us included base flour, additives and packaging materials. Our flour by-products are generally made through utilising the bran and the residual particles leftover from the flour production process, and therefore no specific raw material is required in this connection. For FY2021, FY2022 and FY2023, our total purchases of raw materials amounted to approximately RMB417.8 million, RMB472.2 million and RMB494.8 million respectively.

The raw materials used in the production of our products during the Track Record Period were sourced from suppliers (including state-owned enterprises and well-established corporations principally engaged in sales of agricultural products) primarily located in Hebei, Shandong, Henan and Tianjin. We strive to source raw materials from multiple suppliers where possible to ensure a stable supply of raw materials. We adopt this multiple sourcing practice with a view to reducing our dependence on any single supplier and thereby reducing the impact on our Group resulting from defaults by particular suppliers or material variations in purchase prices or other transaction terms. As part of our Group's internal control measures, we maintain a list of approved suppliers from which we source our raw materials. We carefully select our suppliers based on a number of criteria, including but not limited to (i) quality and variety of the raw materials offered, (ii) pricing, (iii) market reputation of suppliers, (iv) capacity and availability, (v) past order-fulfilment performance, (vi) payment and delivery terms, and (vii) geographic location. As at the Latest Practicable Date, there were more than 40 suppliers on our approved supplier list.

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The purchase agreements we enter into and the purchase orders we place with our suppliers generally set forth the specifications of the raw materials to be purchased, quantity, price, delivery details and credit period. During the Track Record Period, we did not experience any material shortage or delay in the supply of our raw materials.

### **Salient Terms in Agreements with Our Major Suppliers**

Set forth below are the salient terms of the purchase agreements entered into between our suppliers and us:

Term	:	The contractual term is usually within 1 year.
Pricing	:	The amount and total price are set out in the agreements.
Transportation	:	Our suppliers are generally responsible for the delivery of the raw materials to our production base.
Product quality	:	The origin of the raw materials is usually stated and the raw materials supplied are required to meet certain quality standards such as their water content and gluten level.
Termination	:	In general, the agreements do not contain any termination clause.

### **Five Largest Suppliers**

For FY2021, FY2022 and FY2023, our purchases from our five largest suppliers amounted to approximately RMB263.2 million, RMB322.9 million and RMB350.0 million, representing 63.0%, 68.4% and 70.8% of our total purchases respectively, whereas purchases from our largest supplier amounted to RMB87.8 million, RMB188.5 million and RMB96.0 million, representing 21.0%, 39.9% and 19.4% of our total purchases respectively.



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The following table sets out the details of our five largest suppliers during the Track Record Period as well as our total purchases from them during the same period.

**For FY2021**

Rank	Supplier	Place of establishment and principal business activities	Principal products sold to us	Year of commencement of business relationship	Typical credit terms and payment method	Purchases attributable to the supplier (RMB'000)	% of our total purchases
1.	Supplier A (Note 1)	Hebei Guofu Henglian Agriculture & Farming Co., Ltd.* (河北國富恒聯農牧有限公司), a company established in the PRC principally engaged in wholesale of agricultural and livestock products	Wheat	2020	30 to 60 days, bank transfer	87,822	21.0%
2.	Supplier B (Note 2)	Jingliang (Panjin) Port Logistics Co., Ltd.* (京糧(盤錦)港口物流有限公司), a company established in the PRC principally engaged in purchase and storage of grains, and sale of food products	Wheat	2018	30 days or payment on delivery, bank transfer	71,600	17.1%
3.	Supplier C (Note 3)	Gu'an County Hongsui Farmers' Specialised Cooperative* (固安縣宏德糧食種植專業合作社), an agricultural cooperative formed in the PRC principally engaged in production and sale of agricultural produce for its founding members, storage and logistics	Wheat	2019	Payment before delivery, bank transfer	46,167	11.1%
4.	Supplier D (Note 4)	Huainan City Chunfeng Foodstuff and Oil Co., Ltd.* (淮南市春風糧油食品有限公司), a company established in the PRC principally engaged in processing and sale of flour products, and purchase and sale of agricultural by-products	Base flour	2013	30 days or 60 days, bank transfer	31,884	7.6%
5.	Supplier E (Note 5)	Langfang City Provincial Grain Reserve Co., Ltd.* (廊坊市省級糧食儲備有限公司), a company established in the PRC principally engaged in purchase, storage and sale of grains and agricultural by-products	Wheat	2017	Payment before delivery, bank transfer	25,723	6.2%
Total purchases attributable to our five largest suppliers						263,196	63.0%

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**For FY2022**

Rank	Supplier	Place of establishment and principal business activities	Principal products sold to us	Year of commencement of business relationship	Typical credit terms and payment method	Purchases attributable to the supplier (RMB'000)	% of our total purchases
1.	Supplier A (Note 1)	Hebei Guofu Henglian Agriculture & Farming Co., Ltd.* (河北國富恒聯農牧有限公司), a company established in the PRC principally engaged in wholesale of agricultural and livestock products	Wheat	2020	30 to 60 days, bank transfer	188,474	39.9%
2.	Supplier B (Note 2)	Jingliang (Panjin) Port Logistics Co., Ltd.* (京糧(盤錦)港口物流有限公司), a company established in the PRC principally engaged in purchase and storage of grains, and sale of food products	Wheat	2018	30 days or payment on delivery, bank transfer	47,801	10.1%
3.	Supplier Group F (Note 6)	A group of companies established in the PRC principally engaged in purchase, storage, transportation, processing and sale of grains	Wheat	2022	30 days, bank transfer	33,952	7.2%
4.	Supplier E (Note 5)	Langfang City Provincial Grain Reserve Co., Ltd.* (廊坊市省級糧食儲備有限公司), a company established in the PRC principally engaged in purchase, storage and sale of grains and agricultural by-products	Wheat	2017	Payment before delivery, bank transfer	26,392	5.6%
5.	Supplier C (Note 3)	Gu'an County Hongsui Farmers' Specialised Cooperative* (固安縣宏穗糧食種植專業合作社), an agricultural cooperative formed in the PRC principally engaged in production and sale of agricultural produce for its founding members, storage and logistics	Wheat	2019	Payment before delivery, bank transfer	26,255	5.6%
Total purchases attributable to our five largest suppliers						322,874	68.4%

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**For FY2023**

Rank	Supplier	Place of establishment and principal business activities	Principal products sold to us	Year of commencement of business relationship	Typical credit terms and payment method	Purchases attributable to the supplier (RMB'000)	% of our total purchases
1.	Supplier A (Note 1)	Hebei Guofu Henglian Agriculture & Farming Co., Ltd.* (河北國富恒聯農牧有限公司), a company established in the PRC principally engaged in wholesale of agricultural and livestock products	Wheat	2020	30 to 60 days, bank transfer	95,967	19.4%
2.	Supplier C (Note 3)	Gu'an County Hongsui Farmers' Specialised Cooperative* (固安縣宏德糧食種植專業合作社), an agricultural cooperative formed in the PRC principally engaged in production and sale of agricultural produce for its founding members, storage and logistics	Wheat	2019	Payment before delivery, bank transfer	74,976	15.2%
3.	Supplier B (Note 2)	Jingliang (Panjin) Port Logistics Co., Ltd.* (京糧(盤錦)港口物流有限公司), a company established in the PRC principally engaged in purchase and storage of grains, and sale of food products	Wheat	2018	30 days or payment on delivery, bank transfer	72,963	14.7%
4.	Supplier G (Note 7)	Gu'an Jingran Foodstuff Processing Co., Ltd.* (固安景然食品加工有限公司), a company established in the PRC principally engaged in processing and sale of agricultural products, convenience foods and grains	Wheat	2023	Payment before delivery, bank transfer	55,405	11.2%
5.	Supplier H (Note 8)	Henan Dingtai Foodstuff Co., Ltd.* (河南鼎泰食品有限公司), a company established in the PRC principally engaged in sale and manufacturing of food products, processing of grains and manufacturing of feedstock	Wheat and base flour	2022	Payment before delivery, bank transfer	50,726	10.3%
Total purchases attributable to our five largest suppliers						350,037	70.8%

*Notes:*

- Supplier A is a state-owned enterprise established in the PRC in May 2007 by Hebei Guofu Agricultural Investment Group Company Limited\* (河北省國富農業投資集團有限公司), the holding company of Guofu HK, with registered capital of RMB73 million.

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2. Supplier B is a limited liability company established in the PRC in December 2017 with registered capital of RMB73 million. To the best of the knowledge of our Directors, the holding company of Supplier B at the relevant times was Beijing Grain Group Co., Ltd. \* (北京糧食集團有限責任公司).
3. Supplier C is an agricultural cooperative formed in the PRC in May 2010 with registered capital of RMB3 million. To the best of the knowledge of our Directors, the cooperative members of Supplier C at the relevant times were individual Independent Third Parties.
4. Supplier D is a limited liability company established in the PRC in July 2007 with registered capital of RMB20 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Supplier D at the relevant times was an Independent Third Party with around 20 years of experience in the manufacturing and sale of agricultural products.
5. Supplier E is a limited liability company established in the PRC in December 1983 with registered capital of RMB6 million, wholly owned by the Development and Reform Bureau of Anci District of Langfang City\* (廊坊市安次區發展和改革局).
6. Supplier Group F comprises five limited liability companies established in the PRC in 1997, 2005, 2009, 1990 and 1999 with registered capital of RMB264 million, RMB121 million, RMB73.89 million, RMB87.47 million and RMB101.9 million respectively. These five companies were each wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council\* (國務院國有資產監督管理委員會) at the relevant times. For presentation purposes, these five companies under common control have been classified into the same customer group.
7. Supplier G is a limited liability company established in the PRC in December 2018 with registered capital of RMB31 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Supplier G at the relevant times was an Independent Third Party and a former employee of our Group with approximately 15 years of experience in the grains sale industry.
8. Supplier H is a limited liability company established in the PRC in July 2020 with registered capital of RMB10 million. To the best of the knowledge of our Directors, the ultimate beneficial owner of Supplier H at the relevant times was an Independent Third Party.

To the best of the knowledge of our Directors, none of our Directors, their close associates or our Shareholders owning more than 5% of our issued Shares as at the Latest Practicable Date had any interest in any of our top five suppliers during the Track Record Period at the relevant times. Supplier A is wholly owned by Hebei Guofu Agricultural Investment Group Company Limited\* (河北省國富農業投資集團有限公司), which owns 65% of the issued shares in Guofu HK, a Shareholder holding 2% of our issued share capital as at the Latest Practicable Date. The average purchase price of the wheat supplied by Supplier A fell within the range of purchase prices of the wheat supplied by our other major suppliers during the Track Record Period. Further, the credit terms granted by Supplier A to us of 30 to 60 days and the prepayment arrangements (whereby payments for our orders with Supplier A were made on or before delivery, with a view to securing a stable supply of wheat to ensure our smooth production amid volatility in the wheat market price brought about by the COVID-19 pandemic and the Russo-Ukrainian war) were comparable to the payment arrangements for our transactions with other suppliers (varying from payments on or before delivery to credit periods of up to 60 days). The other key terms of our agreements with Supplier A were also comparable to those we entered into with our other major suppliers during the Track Record Period. Given the above, our Directors confirm that our purchases from Supplier A during the Track Record Period were conducted on arm's-length basis and on normal commercial terms.

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### Supplier Concentration

For FY2021, FY2022 and FY2023, our purchases from top five suppliers accounted for approximately 63.0%, 68.4% and 70.8% of our total purchases, whereas our purchases from our largest supplier amounted to 21.0%, 39.9% and 19.4% of our total purchases respectively. We had opted to procure our raw materials (being predominantly wheat) primarily from these major suppliers during the Track Record Period given the stability in their supply of raw materials that could meet our quality standards. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our business could be materially and adversely affected if we are unable to maintain our business relationships with major suppliers or continue transacting with them on existing terms and scale, given that our suppliers were highly concentrated during the Track Record Period" in this document for further details of the risks that may arise in our business operation as a result of our supplier concentration.

Notwithstanding the relatively high degree of supplier concentration which the proportions of purchases attributable to our top five suppliers during the Track Record Period may suggest, our Directors are of the view that we are not reliant on any single supplier or subject to excessive risks for the following reasons:

- (i) according to the F&S Report, wheat is in abundant supply in the market under normal circumstance. Our Directors believe that in the event of any of our existing suppliers ceasing to supply raw materials to us, we will not experience any material difficulty in sourcing wheat of similar quality from alternative suppliers on largely comparable terms;
- (ii) we strive to source raw materials from multiple suppliers where possible to ensure a stable supply of raw materials. This multiple sourcing practice allows us to reduce our dependence on any single supplier, and to hedge our exposure to the possible defaults on performance by particular suppliers or adverse changes in the purchase prices or other major transaction terms. As part of our Group's internal control measures, we maintain a list of approved suppliers consisting of more than 40 suppliers as at the Latest Practicable Date. Given that there is a wide array of suppliers we can choose from as we see fit, our Directors do not consider that it will cause any material disruption to our business if any of our approved suppliers is not able or disposed to take our orders;
- (iii) we explore the possibility of entering into collaboration with new suppliers from time to time, with a view to enriching our sourcing options. New suppliers would be added to our list of approved suppliers if they meet our selection criteria, thereby further increasing our flexibility in sourcing;
- (iv) we are able to promptly switch to other suppliers from time to time according to the prevailing circumstances, as we generally do not enter into long-term supply contracts with our suppliers. We may enter into short term contracts with our suppliers or place purchase orders for individual purchases as and when needed. We therefore enjoy a high degree of flexibility in supplier selection; and

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- (v) our Directors consider that we have established sound business relationships with our major suppliers. During the Track Record Period and up to the Latest Practicable Date, we had not received any indication from our major suppliers of any intention to discontinue their business relationships or transactions with our Group. Our Directors believe the chances that the risks arising from supplier concentration will materialise in our business operation are remote.

### PRODUCT RESEARCH AND DEVELOPMENT

We believe that continuous product research and development plays a pivotal role in ensuring that we are able to meet the changing consumer preferences and demand and securing our position in the flour manufacturing industry. In order to keep pace with changes in customer needs and requirements, the latest market trends and the technological developments, we have devoted and will continue to devote resources to conducting product research and development. Our research and development process starts with testing of different types of wheat and analyses of their characteristics. After we have gained understanding of the properties of the types of wheat, we will draw up specific product formulations with a view to enhancing our existing flour products or developing new flour products. Our production base houses machinery which we can use to conduct pilot production of flour on a small scale in a simulation of a production run carried out by our production lines. Samples of the relevant types of flour will be produced using such machinery and blended based on the product formulations designed by us. Specifically, through mixing and matching different types of wheat in various proportions, combinations and volumes in the gristing and flour mix formulation processes, flour products of varying features (in terms of properties and performance characteristics) can be developed to suit particular production uses. Different types of flour may be combined with a view to creating flour products that can be used to produce end food products of specific qualities. The resultant flour mix will be tested for the purposes of assessing the effects and efficacy of the product formulations in question. The flour mix may be made into a dough and subjected to various tests to ensure that their characteristics meet the required specifications as to, for example, gluten strength, elasticity and extensibility. We may also experiment with producing end food products using the flour mix under test to observe its performance consistency when applied alongside other ingredients, in order to ensure that it will be fit for use by our customers in large-scale automated commercial production processes. We may also utilise our in-house testing equipment to conduct further analyses for quality control purposes.

Our Group has policies in place to review our existing flour product portfolio and to promote the development of new flour products. In general, our sales staff would from time to time, based on their understanding of prevailing market preferences and trends or discussions with our customers or end users, initiate reviews of our existing products or suggest development of new products. Upon receipt of the recommendations of our sales staff, we will formulate research and development proposals defining the relevant research parameters, under which our research and development staff may be required to analyse the characteristics of our existing flour products and corresponding end food products in the market to identify the strengths and weaknesses of our existing flour products. After ascertaining the ideal characteristics of the end food products and locating where the gap lies, we would attempt to

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adjust our existing flour products or develop new flour products to match these desired characteristics. During the Track Record Period, we developed and introduced over 40 new flour products.

Leveraging our know-how and expertise in relation to design of flour product formulations, we have been able to produce flour products tailored to the wide-ranging and evolving tastes and preferences of consumers and needs of food product manufacturers. A prime example of our advanced research and development capabilities is the development of our heat-treated specialty flour products, which we successfully launched in April 2021. Heat-treating is a leading production technique in the PRC market that can eliminate microbiological contaminants and increase water absorption capacity of flour. When applied in flour production, heat-treating can promote the functional attributes of our flour products, including extended freshness and improved quality permitting further production of dough and end food products with an enhanced texture. As reported by F&S, heat-treating of flour, while increasingly prevalent globally, is not widely performed in the PRC. As an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products, we stand to reap the benefits of being able to penetrate the market before the entrance of other market participants and secure a larger market share. We have been actively seeking to advance our heat-treating capabilities and are working in collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院) to this end. The scope of our research work includes applied researches into the effects of addition of heat-treated specialty flour on extension of freshness and shelf life of flour products and the reduction in use of emulsifier and thickener. The research scope also covers researches on heat-treated specialty flour production methodology and the relevant parameters, promotion of heat-treated specialty flour product quality and properties and key performance indicators affecting application characteristics of heat-treated specialty flour under different circumstances. Our overall goals are to further enhance our production techniques and reduce our production costs. The specific desired outcome of our collaborative research work includes formulating the scope of application, assessment criteria and key performance indicators, revising the raw material requirements and production parameters and establishing an accredited industry standard in the PRC in relation to heat-treated specialty flour.

Our product research and development work is conducted under the lead of Mr. Zhao Xin, the head of research and development of our Group with over six years of experience in respect of research and development work. As at 31 December 2023, our quality control, research and development department comprised 18 staff members. Our research and development expenses for FY2021, FY2022 and FY2023 were approximately RMB1.8 million, RMB1.6 million and RMB1.5 million respectively.

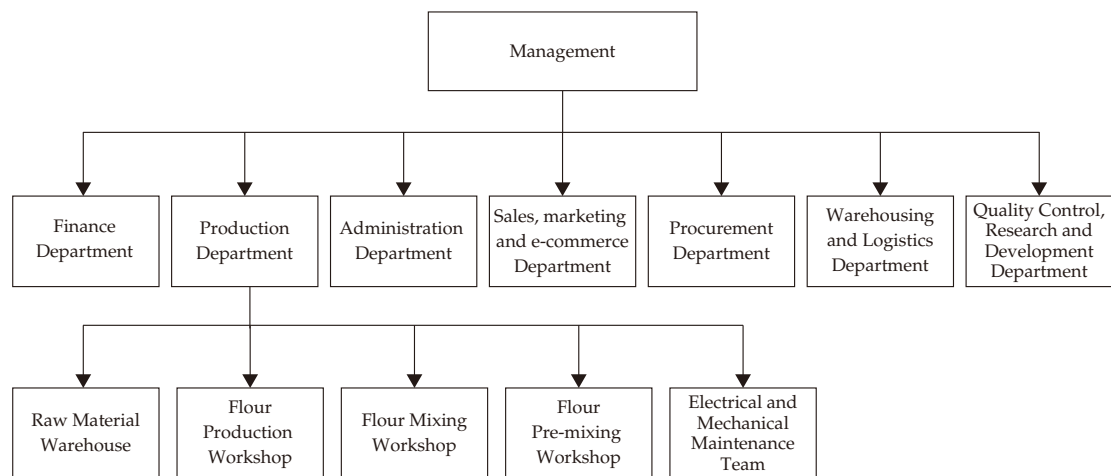
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**EMPLOYEES**

As at 31 December 2023, we had a total of 108 employees in the PRC. The following table sets forth a breakdown of our employees by function as at 31 December 2023:

<b>Function</b>	<b>Number of employees</b>
Administration	10
Finance	7
Production	53
Procurement	2
Quality control, research and development	18
Sales, marketing and e-commerce	9
Warehousing and logistics	9
<b>Total</b>	<b>108</b>

Set out below is a chart detailing the various internal departments of our Group and their respective reporting lines:



Our Directors believe that our staff is the key to our success. We endeavour to maintain good relationships with our employees. As at the Latest Practicable Date, no labor union had been established. Our Directors confirm that we had not encountered any material difficulty in the recruitment and retention of our employees or experienced any material disruption in our operations as a result of labor disputes during the Track Record Period and up to the Latest Practicable Date.

**Employee Recruitment and Remuneration**

We recruit our employees mainly from the open market through both online and offline advertisements. During the Track Record Period, we did not engage any recruitment agents for the purposes of recruiting employees.



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To facilitate the recruitment of employees, we strive to offer competitive salaries and benefits and will review the salaries and bonuses of our employees periodically to ensure that their remuneration is competitive and in-line with their performances. In compliance with applicable statutory requirements in the PRC, our Group participates in social insurance and the housing provident schemes in the PRC.

Please refer to the paragraphs headed "Environmental, Social and Governance Matters — Employment Compliance" in this section for further information about our employment recruitment policies and compliance with the applicable labour laws in the PRC.

### **Employee Training**

We provide our new and existing employees with relevant job training from time to time covering health and safety and operational procedures. To supplement the training to our employees, our Group has also set in place various policies and operating guidelines. Where there are new industry regulations, our Group may also provide supplemental training to our employees. Please refer to the paragraphs headed "Environmental, Social and Governance Matters — Cultivation and Development of Talents" in this section for further details.

### **Employee Safety**

We promote occupational health and safety measures to ensure that we are in compliance with the applicable laws and regulations through establishing and implementing workplace safety guidelines for our employees. Pursuant to our occupational health and safety measures, we have formulated a "Safety Production Handbook" with detailed safety production work instructions and operating procedures, and established a safety production team to coordinate and manage all safety matters related to production, thereby strengthening safety production supervision and management. Further, we have also formulated a "Contingency plans for emergency events" which provides for a contingency command team to handle various emergency situations in accordance to the protocol. All production management documents are to be securely stored by the production and administration department for record. When accidents do occur, it is our policy that it will be reported to the relevant department and handled accordingly. Our Directors confirm that there were no material work-related accidents or any material insurance claims relating to employee work-related injuries during the Track Record Period and up to the Latest Practicable Date.

Please refer to the paragraphs headed "Environmental, Social and Governance Matters — Occupational Health and Safety" in this section for further details of our policies for occupational health and safety and our compliance with the applicable occupational safety laws in the PRC.

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**AWARDS, RECOGNITIONS AND CERTIFICATIONS**

Set out below are the major awards, recognitions and certifications we have received:

<b>Validity period</b>	<b>Award/recognition/certifications</b>	<b>Awarding/ authorisation body</b>
December 2019 – December 2024	State Key Leading Enterprise in Agricultural Industrialisation* (農業產業化國家重點龍頭企業)	Ministry of Agriculture and Rural Affairs, Ministry of Finance of National Development and Reform Commission, Ministry of Commerce of the People's Republic of China, People's Bank of China, State Taxation Administration, China Securities Regulatory Commission and All China Federation of Supply and Marketing Cooperatives
April 2019 – December 2024	Hebei Province's Key Leading Enterprise in Agricultural Industrialisation* (河北省農業產業化重點龍頭企業)	The People's Government of Hebei Province
April 2019 – April 2025	Food Safety System Certification FSSC 22000 (Production of wheat flour, high gluten wheat flour, and specific wheat flour (wheat flour for dumplings, bread, pastry, steamed bread, and noodles))	SGS United Kingdom Ltd
May 2019 – May 2021, October 2021 – October 2023 and December 2023 – December 2025	Langfang Municipal's Key Leading Enterprise in Agricultural Industrialisation* (廊坊市農業產業化重點龍頭企業)	The People's Government of Langfang Municipal
December 2017 – December 2020	Hebei Province's Agricultural Technology Little Giant* (河北省農業科技小巨人)	Hebei Provincial Department of Science and Technology
December 2020 – December 2026	Demonstration Enterprise of the National Safe Grain and Oil Demonstration Project* (全國放心糧油示範工程示範企業)	China Grain Industry Association* (中國糧食行業協會)
January 2023	2022 Yanzhao Good Grain and Oil Product (Wheat Flour) (2022年度“燕趙好糧油”產品(小麥粉))	Hebei Grain Economics Association* (河北省糧食經濟學會)

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Validity period	Award/recognition/certifications	Awarding/ authorisation body
February 2019 – February 2025	ISO 9001:2015 (Development and production of wheat flour)	SGS United Kingdom Ltd
April 2019 – April 2025	GB/T 27341-2009 Hazard analysis and critical control point (HACCP) system – General requirements for food processing plant GB 14881-2013 National food safety standard General hygienic regulation for food production Supplementary requirements 1.0 for hazard analysis and critical control point (HACCP) system certification (Production of wheat flour, high gluten wheat flour, and specific wheat flour (wheat flour for dumplings, bread, pastry, steamed bread, and noodles) in flour workshop)	SGS-CSTC Standard Technical Services Co., Ltd
February 2021	Signature Food Product Brand of Hebei* (河北省食品特色品牌)	Hebei Food Product Industry Association* (河北省食品工業協會)
December 2022	Gu'an County Government Quality Award* (固安縣政府質量獎)	The People's Government of Gu'an County

**MARKET COMPETITION**

According to the F&S Report, flour consumption in the PRC grew at a CAGR of approximately 0.3% for the period from 2019 to 2023 and is forecasted to grow at a CAGR of approximately 1.1% for the period from 2023 to 2028. Despite the relatively stable growth rate of flour consumption in the PRC, due to market fragmentation and government initiatives, it is expected that ample opportunity should arise in the coming years to expand and consolidate market share. The flour manufacturing industry in the PRC is highly fragmented with approximately 3,000 to 4,000 flour manufacturers in 2023 that were above a designated size (i.e. having annual main business revenue of RMB20.0 million or above), the majority of these being small and medium sized flour manufacturers. In 2017, the PRC government published the Opinions on Accelerating the Structural Reform of the Supply Side of Agriculture and Developing the Grain Industry Economy\* (加快推進農業供給側結構性改革大力發展糧食產業經濟的意見) with an aim to eliminate small-scale and unqualified producers and to promote the creation of leading domestic flour manufacturers so as to increase the quality and safety of flour products. Since 2017, the number of small and medium-sized flour manufacturers in the PRC has decreased from over 5,000 to approximately 4,700 to 4,800 in 2018 and further decreased to approximately 4,500 in 2019. In 2020, the number of small and medium sized flour manufacturers was approximately 4,300 and it is forecasted to further decrease to approximately 4,000 by 2024.

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Hebei Province is one of the main flour production and consumption areas in the PRC and the flour market in Hebei Province is relatively concentrated, with the top five flour manufacturers in Hebei accounting for approximately 85.1% of the market share in terms of flour sales volume in 2023. Due to higher requirements on raw materials and production technology compared to all purpose flour, there are only dozens of specialty flour producers in Hebei. The production of specialty flour in Hebei Province is therefore also relatively concentrated, with the top five flour manufacturers in Hebei accounting for approximately 73.8% of total sales volume in 2023 and our Group ranking the third among the top five flour manufacturers in Hebei in terms of specialty flour sales volume. The sales value of specialty flour in the PRC increased rapidly from RMB110.3 billion in 2019 to RMB148.5 billion in 2023, representing a CAGR of 7.7%, accounting for 47.1% of overall flour sales value in 2023. Thanks to the increasing demand for specialty flour, the sales value of specialty flour is expected to grow at a faster pace than the overall industry, accounting for approximately 52.9% of overall flour sales value in 2028, with a CAGR of 5.0% from 2023 to 2028.

As only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour at the moment, the production of heat-treated flour in the PRC is highly concentrated, with top three flour manufacturers in the PRC accounting for 89.8% of the total heat-treated flour market in the PRC in terms of heat-treated flour production volume in 2023. Our Group ranked second in the PRC in terms of heat-treated flour production volume in 2023, with a market share of 29.7%.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

We are convinced that sound environmental, social and governance ("ESG") practices are essential to our long-term sustainable development. We focus on the fields of economy, employees, environment and social responsibility, and are committed to steadily promoting the construction of an ESG governance system, improving ESG practice level and performance, and at the same time contributing to community and social well-being through various ESG measures.

### ESG Governance

We are fully aware of the risks associated with ESG affairs such as climate change that may affect our business, and deeply understand our environmental and social responsibilities. Therefore, we integrate the concept of sustainable development into our strategy and daily operations. With reference to the Environmental, Social and Governance Reporting Guide under the Appendix C2 of the Listing Rules, we have established a sound ESG governance system and defined the roles and responsibilities of the Board of Directors, management and employees in ESG affairs.

We attach great importance to the long-term impact and value of ESG matters on our business, viewing them not only as compliance requirements but also as opportunities for sustainable development. We will strengthen internal training and promote ESG awareness to ensure that all employees understand and stick to our ESG commitments. At the same time, we will strengthen our communication with stakeholders and jointly explore innovative solutions to meet ESG challenges and promote sustainable development. We seek to ensure that ESG principles are incorporated into day-to-day business decisions, and regularly assess and

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monitor the implementation of our ESG objectives and provide transparent reporting and communication channels to stakeholders. Through these efforts, we look forward to achieving greater value at the economic, environmental and social levels and making positive contributions to sustainable development.

We are dedicated to establishing a sound ESG policy and system to achieve the goal of global sustainable development. To this end, we have formulated an internal policy, the Environmental, Social and Governance System (《環境、社會及管治制度》), which clearly defines the contents and details of our practice in the ESG field. Recognizing the importance of implementing ESG practices, we will continue to work hard to ensure that our business operations are consistent with these goals.

### ESG Governance Framework

Our Board is responsible for the overall formulation of our sustainable development strategy, major policies and target framework. We have also set up an ESG leading group headed by the general manager. The responsibilities of the ESG leading group include:

- (i) formulating ESG strategy;
- (ii) determining the evaluation framework and indicator system of ESG;
- (iii) considering and approving ESG report; and
- (iv) determining ESG improvement measures and supervising their implementation.

In addition, in order to effectively coordinate ESG-related matters, we have set up an ESG working group, which is composed of the heads (or authorized relevant personnel) of relevant departments. Its responsibilities primarily include:

- (i) researching on ESG policies and standards;
- (ii) ESG benchmarking and evaluation;
- (iii) ESG management diagnosis;
- (iv) ESG performance evaluation; and
- (v) ESG information disclosure.

### Corporate Governance

We have always adhered to the principles of good corporate governance, maintained excellent risk management and internal control with the Board as the core, and maintained high transparency and accountability to shareholders. During the Track Record Period, we strictly implemented our existing corporate governance policies, ensured that all decisions were made by the Board under the principle of fairness, and strengthened and improved internal governance to standardize our operations.

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As our supreme governing body, our Board is composed of executive Directors and independent non-executive Directors. Our Board is responsible for our overall governance, supervision and regular review, bringing long-term benefits to us and our stakeholders. We consider that our Board has sufficient experience to fulfil its responsibilities and a balanced mix of skills and expertise to support our sustainable development.

Our Board and management will regularly conduct comprehensive evaluation, discussion and review of ESG strategies and development framework, which will help us identify, evaluate and prioritize ESG-related risks that are crucial to our stakeholders, and actively take measures to deal with future challenges and opportunities. In identifying significant ESG risks, we refer to information from a variety of sources, including internal policies of our Group, industry trends and peer benchmarks. Through rigorous assessment and identification procedures, our Board and management seek to identify ESG risks that may have a significant impact on our sustainable development.

During the Track Record Period, we had not been involved in any material non-compliance with ESG-related laws and regulations.

### **Risk Management and Internal Control**

We adhere to compliance-oriented operations and continuously strengthen the construction of risk management system and internal control compliance system, laying a solid foundation for the sustainable and healthy development of our enterprise.

In accordance with relevant laws and regulations, we have established an internal control mechanism with clear responsibilities and effective checks and balances. We adhere to the concept of "compliance creates value", actively carry out compliance management, effectively guard against compliance risks, continuously strengthen organizational leadership, improve the organization and functions of compliance management, and ensure compliance operation.

Our Board plays an important role in our risk management system and internal control compliance system in order to maintain a high standard of corporate governance, enhance investor confidence and safeguard the interests of shareholders, and safeguard the credibility and reputation of our Group. Our Board is responsible for maintaining and reviewing the effectiveness of our risk management and internal control systems and regularly assess those significant risks that may affect our performance. Our internal control system includes defining the management structure and its authority. We design and implement policies and monitoring procedures to safeguard our assets from improper use; establish a system to follow and abide by relevant rules and regulations; maintain reliable financial and accounting records in accordance with relevant accounting standards and regulatory reporting requirements; and properly identify and monitor those major risks that may affect our performance. The procedures are designed to manage the risks we may be faced with as we execute our business plans, providing reasonable protection against material misstatements, errors, omissions and fraud.

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Our Board will hold regular meetings to evaluate our operational and financial performance and formulate appropriate policies to manage risks in line with our strategic objectives. In addition, our Board will conduct an annual review of the effectiveness of our internal control system, which should cover all important control aspects, including financial control, operational control, compliance control and risk management functions. Regular departmental meetings help senior management closely monitor identified risks. The latest financial and operational data also keep our Board informed of changes in the business and economic environment.

On the basis of an effective risk management system, we will establish and implement relevant risk management policies and systematically review the following four core risks through the formation of a risk management committee:

- 1) **Compliance Risks** — the risks of legal penalties or financial loss we may face as a result of failure to adhere to industry laws and regulations, internal policies, or best practices.
- 2) **Financial Risks** — the risks involved in financial transactions, including credit risks, liquidity risks, exchange rate risks and interest rate risks.
- 3) **Operational Risks** — the risks arising as a result of inadequate or absence of internal procedures, personnel and systems, including fraud risks, suppliers' business interruption or handling errors, etc.
- 4) **Strategic Risks** — the existing and potential adverse impact on earnings or capital due to adverse business development decisions, inappropriate strategic decision-making procedures and/or slow response to industry changes, including reputational risks, legal risks and compliance risks.

We will proactively identify and classify the risks we face, assess the likelihood and impact of each risk, and further review and evaluate our major procedures, systems and controls to respond to the risk factors we face and changes in our business and external environment.

When we identify or assess the relevant significant risks, we engage an independent third party to review and evaluate our internal control system and risk management system. Our monitoring review plan covers the major activities and major controls (including operations, finance and compliance) of our business and service units.

### Environmental Protection

Our business is governed by various laws and regulations on environmental protection promulgated by the government in the PRC. For details, please refer to the section headed "Regulatory Overview — Regulations relating to environment protection" in this document. As advised by our PRC Legal Advisers, we had complied with the applicable environmental laws and regulations of the PRC in all material respects during the Track Record Period.

We are aware of the importance of environmental protection and sustainable development, and have adopted professional environmental protection measures to enhance our environmental performance.

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**Greenhouse Gas ("GHG") Emissions**

Our GHG emissions primarily stem from Scope 2 energy indirect GHG emissions generated by purchased electricity. As our production process mainly uses power supply, there is no related stationary combustion of fuels and mobile sources. Therefore, we do not have any significant Scope 1 direct GHG emissions. The following table sets out our GHG emissions during the Track Record Period:

	Unit	FY2021	FY2022	FY2023
Scope 2 — Energy indirect GHG				
• Purchased electricity	tCO <sub>2</sub> e	4,694.8	3,925.5	4,554.1
Scope 3 — Other indirect GHG emissions				
• Business travel	tCO <sub>2</sub> e	1.2	0.6	2.4
<b>Total GHG emissions</b>	tCO <sub>2</sub> e	4,696.0	3,926.1	4,556.5
<b>Total GHG emission intensity</b>	tCO <sub>2</sub> e/sales in millions of RMB	9.4	8.4	8.4

We advocate the concept of green office and incorporate ESG related issues into various training programs to improve employees' awareness of environmental protection. We are also committed to taking different measures to reduce energy consumption, including but not limited to:

- (i) gradually replacing equipment with high energy consumption;
- (ii) maintaining and replacing faulty equipment in time to avoid energy consumption caused by equipment damage or poor contact; and
- (iii) actively addressing requirements under national policies and reducing energy consumption.



**BUSINESS**

Looking ahead, we will actively explore innovative and green production technologies to reduce GHG emissions, with the goal of keeping our GHG emission levels in 2026 at or below our 2023 levels.

**Waste Management**

To reduce the impact of waste, we collect and classify waste in accordance with the relevant laws and regulations of the PRC. The classified waste is then collected and disposed of by the relevant municipal sanitation authorities, in accordance with the applicable environmental standards.

As the nature of our business mainly involves production of flour products, and the production process does not use chemical solvents for cleaning purposes, no significant hazardous waste emissions are involved. As far as non-hazardous wastes are concerned, all flour collected by dust removal devices in the production process will be recycled. In addition, we have developed clear waste disposal guidelines and training for employees in relation to identification, collection, storage and disposal of waste, with the aim of fostering corporate awareness of environmental protection and thereby reducing our impact on the environment.

**Energy Consumption**

Our energy consumption mainly takes the form of indirect energy consumption generated by purchases of electricity. We do not have significant direct energy consumption emissions since our production process is mainly electrically-driven and we do not operate with related non-renewable fuels such as oil and natural gas. The following table sets out details of our energy purchased during the Track Record Period:

	Unit	FY2021	FY2022	FY2023
Purchased electricity	MWh	8,232.1	6,883.2	7,985.4
<b>Total purchased electricity intensity</b>	MWh/sales in millions of RMB	16.5	14.7	14.7

We are committed to continuously improving energy efficiency and reducing emissions. We have set up energy management teams at major production sites to coordinate energy supply, equipment management, compilation of energy consumption statistics and other related work.

**BUSINESS**

**Water Resources**

Our water consumption mainly arises from our production processes (such as wheat conditioning) and our daily operations. Our main source of water is municipal tap water, and hence we encounter no issues in sourcing suitable water. We actively improve the water resources management system and inspect the implementation of water saving measures. We advocate the concept of water saving to our employees, post water saving signs and reminders in various water-using areas, and conduct regular checks to prevent the wastage of water resources. The following table sets out details of our water purchased during the Track Record Period:

	Unit	FY2021	FY2022	FY2023
<b>Total water purchased</b>	m <sup>3</sup>	12,375.0	10,680.0	10,186.0
<b>Total purchased water intensity</b>	m <sup>3</sup> /sales in millions of RMB	24.8	22.8	18.7

We are committed to reducing water usage and setting relevant consumption reduction measures to control water usage in production process and by our employees. In particular:

- (i) we implement water usage standards in relation to our production processes (including, among others, wheat conditioning) and set water usage targets, aiming at keeping our water usage levels in 2026 at or below our 2023 levels; and
- (ii) in order to effectively control the water consumption by our employees, we regularly carry out activities to advocate water conservation and promote water-saving awareness among our employees. We also check and replace aging or damaged pipe networks from time to time to prevent leakage.

**Use of Packaging Materials**

We carefully select different packaging materials according to product characteristics and specifications, and require packaging material suppliers to provide relevant qualification certificates, product inspection reports and packaging material quality assurance. We also conduct spot checks and on-site inspections from time to time to ensure the safety and quality of packaging materials, especially food contact materials.

## BUSINESS

To support sustainable development, we will refrain from providing excessive product packaging and actively introduce recyclable packaging materials. Looking forward, we will strive to promote the deplasticization of product packaging and explore further uses of environmentally friendly packaging materials used.

### Addressing Climate Change

We believe that the risks and opportunities posed by climate change-related issues have a significant impact on all of our business activities, strategies, assets and financial performance. Therefore, we evaluate on a continuous basis the operation of our business and actively consider addressing climate-related risks through, for example, investments at an appropriate time. In addition, under the guidance of the recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD"), we mainly identify two types of climate-related risks, including (i) physical risks and (ii) transformation risks.

Physical risks are primarily associated with singular, immediate climate disaster events, for example extreme climate events of increasing severity such as heat wave, drought, heavy rainfall and abnormal high temperature, which may affect our operating environment and the health of our employees and disturb our daily operation. Climate change is increasing the frequency and unpredictability of extreme meteorological disasters in China, which may lead to unstable agricultural production, resulting in losses or increased operating costs. However, medium and long-term climate change may also increase China's heat energy resources, which is beneficial to crop growth. These include the prolonged crop-growing season and the decreasing possibility of frost and cold wave. We proactively identify and assess climate risks and opportunities and integrate climate change risk identification, adaptation and mitigation into decision-making. We conduct extreme weather monitoring and early warning, and have developed contingency plans to improve our ability to manage emergency events and issues arising from climate disasters. We pay close attention to the trend of climate change and design our production base in a way suitable for agro-climatic conditions.

Transformation risks are mainly those associated with the shift towards a low-carbon economy, including changes in policies, laws, technologies and markets. With the changing environmental laws and regulations from time to time, our compliance costs and litigation risks from operations may increase. If we fail to comply with any environmental laws and regulations or face any allegations of environmental negligence, we could be subject to potential fines or penalties and forced to temporarily suspend our operations. In addition, these incidents may adversely affect our reputation and reduce our market competitiveness. We will assess the likelihood and estimate extent of the impact of the associated transformation risks and incorporate them into the risk assessment process. We pay close attention to changes in climate-related regulatory requirements to reduce the impact of risks on our operations.

During the Track Record Period, no significant adverse impact on our operation had been identified from climate-related events.

## BUSINESS

### **Social Responsibility**

Our mission is to take on corporate social responsibility, create sustainable value and deliver positive influence. We are committed to providing consumers with high-quality food, while striving to offer employees opportunities for professional development, and demonstrating positive values through our commitment to employees, customers, partners, and society.

### **Employment Compliance**

We are convinced that human resources are the most precious assets of our Group, and are also the foundation of our sustainable development. Therefore, we are committed to improving the employment system to attract, train and retain employees. At the same time, we adhere to the people-oriented governance policy. In order to ensure the effective protection of employees' rights and interests, we have formulated our employee handbook, performance management system and recruitment management system to standardize employment policies and codes, ensure that employees clearly understand their rights and responsibilities, and protect the legitimate rights and interests of every employee. These systems cover the protection of rights and interests in aspects such as compensation, resignation, recruitment, promotion, working hours and holidays, and other benefits and welfare. We aim to create a harmonious and friendly working environment, making every employee feel cared for and valued.

Our business is governed by various labour-related laws and regulations in the PRC. For details, please refer to the section headed "Regulatory Overview — Regulations Relating to Labour and Social Security — Regulations relating to labour" in this document. As advised by our PRC Legal Advisers, we had complied with the applicable labour-related laws and regulations in the PRC in all material respects during the Track Record Period.

We disseminate recruitment information through various channels to attract talents from all walks of life to join our team. Our recruitment process adheres to the principles of fairness, impartiality and openness, according people of different backgrounds, cultures and genders equal opportunities and eliminating discrimination.

We firmly prohibit any form of child labor and forced labor in the course of operation, and have formulated our recruitment management system and employee handbook to standardize relevant labor standards. If suspicious child labor and forced labor incidents are found, the employing department will communicate with relevant personnel on the existing problems. A written opinion report, confirmed by the employee's signature, will be submitted to the administrative department. After approval by the general manager, the labor contract will be terminated. We pledge to seriously investigate all reports and take appropriate corrective and punitive measures to protect the rights and interests of employees and the safety of the working environment. All our employees meet the requirements of national laws and regulations on the minimum working age. During the Track Record Period, no incident of child labor or forced labor was identified in our operation.

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We are committed to providing competitive salary and benefits to our employees. We regularly review employees' salaries and bonuses to ensure that they are both competitive in the market and consistent with employees' performance. In addition, we participate in social insurance and provident fund schemes in compliance with the PRC statutory requirements, providing necessary welfare protection for employees. Regarding employees' working hours and vacation arrangements, we strictly adhere to relevant laws and regulations and provide reasonable work arrangements based on actual needs in our operations. We respect the work-life balance of our employees and encourage reasonable scheduling of work, aiming to enhance work efficiency and productivity.

We will continue to strive for the continuous improvement and promotion of human resource management, ensure sufficient talent reserve, fully protect the rights and interests of employees, and provide employees with a good working environment and development opportunities.

Set forth below are the details of our workforce composition during the Track Record Period:

	FY2021	FY2022	FY2023
Total number of employees	127	116	108
<b>Total number of employees by gender</b>			
Male	73	66	60
Female	54	50	48

Our employee turnover rates during the Track Record Period are as follows:

	FY2021	FY2022	FY2023
Total turnover rate (%)	21.3	19.0	19.4

### Occupational Health and Safety

We strictly abide by the following relevant laws and regulations, such as the Labour Law of the People's Republic of China (《中華人民共和國勞動法》), the Law of the People's Republic of China on the Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》), and the Fire Prevention Law of the People's Republic of China (《中華人民共和國消防法》). We have developed and implemented workplace safety guidelines to promote the implementation of occupational health and safety measures to ensure that we comply with relevant laws and regulations. According to our occupational health and safety measures, we have compiled the compliance management cycle related to industrial safety and the employee handbook, which contains detailed safety production guidelines and operating procedures. We have also set up a safety production committee and a safety production leading group, which are responsible for coordinating and managing all safety matters related to production, thus strengthening supervision and management of safety production. In addition, we have also formulated the emergency response plan, which stipulates that the emergency command team should handle all kinds of emergencies according to the plan. All production management files must be properly kept by the production and administrative departments as records.

## BUSINESS

We will regularly advise and remind our staff of the importance of occupational health and safety in accordance with relevant work safety guidelines to avoid work-related injuries. Through training, various forms of publicity, emergency drills and regular safety inspections, we will provide our staff with the latest occupational safety and emergency response information. We regularly hold fire drill plans and implement fire control policy to achieve the purpose of minimizing injuries and impact of accidents.

During the Track Record Period, no material work-related accident had arisen in our operations. As advised by our PRC Legal Advisers, no administrative sanction or penalty that would have a material adverse impact on our financial condition or business operation had been imposed on us for any violation of the PRC occupational health and safety laws and regulations during the Track Record Period.

### **Cultivation and Development of Talents**

We believe that employees play an important role in sustainable development and the maintenance of core values and competitiveness. Adhering to the educational philosophy of "encouraging growth and tolerating mistakes", we are committed to promoting the personal growth and development of employees, and clearly stipulate the provisions of continuous training in our Training Management System (《培訓管理制度》), Environmental, Social and Governance System (《環境、社會及管治制度》) and Employee Handbook. Through a variety of training models to meet the different needs of all kinds of employees at all levels, the employees can continue to provide high-quality services. In addition, we encourage employees to participate in comprehensive and various types of on-the-job training courses and professional training to improve their quality, qualifications and skills and stimulate their potential. At the same time, we encourage employees to discuss their career promotion and career development goals with the management, and participate in business-related training.

To further complement staff training, we will gradually develop various policies and operational guidelines to encourage employees to participate in cross-departmental and cross-functional projects to expand their skills and knowledge. We encourage employees to attend industry conferences, seminars and external training courses, and provide corresponding support and resources. We believe that employee development and satisfaction are essential to the success of our organization, and hence we will continue to invest in training and development to continuously enhance the capability of our workforce.

### **Supplier Management**

During the Track Record Period, we mainly purchased wheat and other raw materials for production from our suppliers. We source our raw material from multiple suppliers to reduce our exposure to supplier default dependence on particular suppliers. As part of our internal control measures, we maintain a list of approved suppliers and carefully select suppliers according to a series of criteria, including quality of raw materials supplied, pricing, market reputation, capacity and availability, past order-fulfilment performance, terms of payment and delivery, and geographical location.

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We expect our suppliers to comply with our standards in relation to ESG and business ethics. Before establishing a long-term business relationship with potential suppliers, we will inspect and review their business operations and business to ensure that they comply with trade laws, relevant environmental and social regulations and other relevant standards. We emphasize the integrity of our suppliers and partners, and give priority to those with clean records and no serious violations of business ethics. In addition, our supplier selection process prioritizes suppliers which use environmentally friendly products and services to minimize potential environmental and social risks in our supply chain. Our procurement staff will record existing and new suppliers in the business practice form, and regularly review the performance of our suppliers and their compliance with environmental and social standards.

We will actively communicate with suppliers and other partners to discuss environmental protection requirements and expectations, with a view to jointly establishing a green supply chain backed by sustainable and long-term business collaborations. In the future, we will more clearly identify the environmental and social risks in the supply chain, including labor rights, forced labor, health and safety, environmental protection and business ethics. We will strengthen the establishment of supply chain environmental and social risk management system, and formulate standardized procedures to identify and assess environmental and social risk points in the supply chain.

### **Honesty and Business Ethics**

We pay attention to the construction of business ethics of Directors, employees and business partners, adhere to the principle of honesty and trust in our operations and management, and strive to jointly establish a clean culture with mutual trust in the industry.

In order to establish a corporate culture of integrity, ensure the sound development of our Group, establish a good business organization structure, strengthen investor confidence, protect the best interests of shareholders, and enhance the credibility and reputation of our Group, we have specifically formulated the corruption prevention policy. This policy is designed to ensure that our reputation is not damaged by fraud or corruption, and to help maintain a fair, honest and clean operating environment. The Board adopts a "zero tolerance" attitude towards corruption and fraud. Relevant preventive measures and guidelines have been clearly listed in the policy to regulate the behavior of management and employees. It is strictly prohibited for Directors and employees to take advantage of their positions, or express, imply or acquiesce in others to take advantage of their positions to seek or solicit any benefits, preferential policies, opportunities and resources for themselves or other interested parties.

In addition, employees and external parties can actively monitor and report major violations of dishonest transactions by e-mail or telephone. Any responsible officer or employee who contravenes any provision of the policy will be subject to disciplinary action or, if justified, termination of appointment or employment. If our Group suspects that the breach involves corruption or other criminal offences, we will report it to the relevant authorities.

## BUSINESS

We actively build a culture of integrity and compliance, and constantly strengthen the awareness of integrity and self-discipline of Directors and employees. We regularly educate our Directors and employees on the above policies to create a clean and positive atmosphere within the enterprise. Such education fosters their anti-corruption awareness and sound professional ethics through promoting compliance with the relevant guidelines and measures set out in the policy. During the Track Record Period, we were not involved in any material violations of laws and regulations on the prevention of bribery, extortion, fraud and money laundering.

We inculcate an important anti-corruption awareness in all staff and encourage them to report any corruption or fraud incidents. We will investigate immediately and take necessary and appropriate actions, also committing to protect the identity of whistleblowers to eliminate all conflicts of interest and behavior that could have a detrimental impact on us and our stakeholders. We will regularly review the effectiveness of the reporting mechanism, pay close attention to the development trends and cases of integrity management norms, and encourage our Directors and employees to put forward improvement suggestions and revise them in time to enhance the effectiveness of integrity management of our Group.

### Community Contribution

As a socially responsible enterprise, we are committed to providing appropriate resources to those in need in our community. We believe that by participating in social welfare activities, we and our employees can promote positive values in fulfilment of our social responsibilities.

We encourage and support employees to participate in voluntary work in their spare time, pay heed to the needs of and difficulties faced by the society and vulnerable groups, and actively give back to the society with the goal of promoting social harmony. We will actively develop relevant internal guidelines and arrange for our employees to participate in various environmental protection and social service activities. We hope that by participating in community activities, our staff can make personal contributions to the community, so as to enhance their social awareness and cultivate their sense of social responsibility. During the Track Record Period, our employees had participated in various public welfare activities, including donation of epidemic prevention materials and rural revitalization in Gu'an County.

In addition to encouraging employee participation, we also seek to fulfill our corporate social responsibility and build a positive public image by making donations to various organizations and participating in social activities. During the Track Record Period, we had made donations to support the local economy and provide social welfare to vulnerable communities.

### INSURANCE

As at the Latest Practicable Date, our Group had maintained insurance covering our property, plant and equipment and our Directors believe that our insurance coverage is adequate and in line with the industry practice.

For FY2021, FY2022 and FY2023, our insurance expenses were approximately RMB45,000, RMB193,000 and RMB362,000 respectively.

During the Track Record Period and up to the Latest Practicable Date, we had not made any material claims against any of the above mentioned insurance policies.



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**PROPERTIES**

As at the Latest Practicable Date, our Group held the land-use rights of five parcels of land located in Gu'an County, Langfang City, Hebei Province, the details of which are set forth below:

Location	Approximate site area (sq.m.)	Expiry date of land-use rights	Usage
A parcel of land located in the North area of the Industrial Park Area and to the West of Guotai Road (工業園區北區內、國泰路西側), Lot No. 2-(10)-0033, Gu'an County, Langfang City, Hebei Province, the PRC	15,998.10	12 March 2063	Industrial purpose
A parcel of land located to the South of Jinxiu Road and to the West of Guotai Road (錦繡大道南側、國泰路西側), Lot No. 2-(10)-0036, Gu'an County, Langfang City, Hebei Province, the PRC	8,666.40	5 September 2063	Industrial purpose
A parcel of land located to the West of Guotai Road and to the South of Jinxiu Road (國泰路西側、錦繡大道南側), Lot No. 2-(10)-0045, Gu'an County, Langfang City, Hebei Province, the PRC	45,396.80	3 July 2064	Industrial purpose
A parcel of land located to the South of Jinxiu Road and to the East of Dianzi Road (錦繡大道南側、電子道東側), Lot No. 2-(10)-0051, Gu'an County, Langfang City, Hebei Province, the PRC	3,671.08	13 January 2065	Industrial purpose
A parcel of land located to the East of Kaixuan Road (凱旋路東側), Gu'an County, Langfang City, Hebei Province, the PRC	614.54	28 April 2074	Industrial purpose

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The following table sets forth a summary of the Real Estate Title Certificates in respect of the buildings located at our production base held by us as at the Latest Practicable Date:

Location	Number of buildings	Approximate aggregate GFA (sq.m.)	Usage
Located to the South of Jinxiu Road and to the West of Guotai Road (錦繡大道南側、國泰路西側), Gu'an County, Langfang City, Hebei Province, the PRC	5	26,935.72	Industrial
Located to the South of Jinxiu Road and to the West of Guotai Road (錦繡大道南側、國泰路西側), Gu'an County, Langfang City, Hebei Province, the PRC	2	13,770.00	Industrial
Located to the West of Guotai Road and to the South of Jinxiu Road (國泰路西側、錦繡大道南側), Gu'an County, Langfang City, Hebei Province, the PRC	6	35,827.18	Industrial

The properties listed above together with other properties occupied by us form our production base, which comprises 2 phases of an industrial complex and has a total site area of 74,346.92 sq.m. and a total GFA of 88,812.00 sq.m. As at 31 December 2023, the above listed properties had a total carrying amount of approximately RMB160.0 million, constituting approximately 15.9% of our total assets. Accordingly, we have included a property valuation report pursuant to Rule 5.01A(2) of the Listing Rules. For details, please refer to the Property Valuation Report set out in Appendix III to this document.

**Title Defects Relating to Our Production Base**

As at the Latest Practicable Date, we had obtained the Real Estate Title Certificates in respect of the majority of the buildings comprising the industrial complex located at our current production base. Such Real Estate Title Certificates cover 13 buildings with an aggregate GFA of approximately 76,532.90 sq.m. Regarding the remaining small portion of our current production base with an aggregate GFA of 12,279.10 sq.m. representing approximately 13.8% of the entire production base in terms of GFA (the "**Relevant Buildings**"), we had only obtained the state-owned construction land use rights as at the Latest Practicable Date. The Relevant Buildings had not been used by us for production purposes up to the Latest Practicable Date. For historical reasons, including expropriation of our prior production base by the local government and our relocation to our current production base, we had yet to complete the construction completion acceptance and registration procedures in respect of such parts of our current production base, and as a result our application for the requisite Real Estate Title Certificates remained outstanding.

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According to our PRC Legal Advisers, failure to obtain the requisite certificates and complete the requisite procedures may result in imposition of the following penalties:

- Pursuant to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), if a construction work proceeds without obtaining the Construction Planning Permit, the relevant authorities may order rectification of the breaches, imposition of a fine between 5% and 10% of the construction cost, or demolition or confiscation of the relevant buildings where no measures can be taken to eliminate the impact on urban and rural planning.
- Pursuant to the Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), for a construction work carried out without the Construction Permits, the relevant competent authority may (i) order the construction work to discontinue; (ii) order a rectification within a prescribed time limit; and (iii) impose a fine of between 1% and 2% of the contract sum of the construction work.
- Pursuant to the Regulations on the Administration of Quality of Construction Works (建設工程質量管理條例), where a construction entity delivers the construction work for use without completing the construction completion acceptance procedures, it shall be ordered to rectify and pay a fine of between 2% and 4% of the contract sum of the construction work.

Pursuant to the above regulations, the authorities may therefore impose a maximum financial penalty of approximately RMB3.9 million on our Group and order rectification of the breaches. However, given the confirmations set out below, our Directors believe the risk of imposition of such financial penalties is minimal.

We have obtained written confirmations from the Comprehensive Administrative Enforcement Bureau of Gu'an Country (固安縣城市管理綜合行政執法局) and the Housing and Urban Rural Development Bureau of Gu'an Country (固安縣住房和城鄉建設局) confirming that (i) our failure to obtain the requisite Construction Planning Permits and Construction Permits was due to the faults of the contractor and did not lay with us; (ii) we will not be penalised for such defects; (iii) we are permitted to continue using the buildings located at our production base for the current use before the requisite Real Estate Title Certificates are obtained; and (iv) there exist no material barriers which may prevent granting of the requisite Construction Planning Permits and Construction Permits and completion of the requisite construction completion acceptance and registration procedures. We have obtained written confirmations from the Administrative Examination and Approval Bureau of Gu'an County (固安縣行政審批局) confirming that there exist no material barriers which may prevent granting of the requisite Construction Planning Permits.

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According to the relevant laws and regulations of the PRC and as advised by our PRC Legal Advisers, the prerequisites for obtaining the Real Estate Title Certificates include granting of the Constructions Permits and completion of the construction completion acceptance and registration procedures, which requires obtaining the Construction Planning Permits in the first place. As advised by our PRC Legal Advisers, given the written confirmations from the Comprehensive Administrative Enforcement Bureau of Gu'an County (固安縣城市管理綜合行政執法局), the Housing and Urban Rural Development Bureau of Gu'an County (固安縣住房和城鄉建設局) and the Administrative Examination and Approval Bureau of Gu'an County (固安縣行政審批局), there are unlikely to be any material legal barriers which may prevent granting of the Real Estate Title Certificates provided that the other prerequisites are also fulfilled. As at the Latest Practicable Date, we were in the course of applying for the Construction Planning Permits and Construction Permits and arranging for completion of the construction completion acceptance and registration procedures in respect of the Relevant Buildings, with a view to obtaining the outstanding requisite Real Estate Title Certificates as soon as practicable. Our Directors confirm that the Relevant Buildings are not intended to be used by us in connection with production of our flour products and flour by-products and not crucial to our operation.

As advised by our PRC Legal Advisers, the Comprehensive Administrative Enforcement Bureau of Gu'an County (固安縣城市管理綜合行政執法局), the Housing and Urban Rural Development Bureau of Gu'an County (固安縣住房和城鄉建設局) and the Administrative Examination and Approval Bureau of Gu'an County (固安縣行政審批局) are the competent authorities to issue such confirmations and according to the above written confirmations, the risk that Shenhua Flour will be penalised for the failure to obtain the requisite Construction Planning Permits and Construction Permits and complete the requisite construction completion acceptance and registration procedures in time is remote. Given the confirmations and the advice of our PRC Legal Advisers, our Directors are of the view that such defects would not materially and adversely affect our business operations. Further, as (i) we have not been fined by any relevant government authorities in respect of such defects or been required to demolish or vacate any of the properties comprising the industrial complex; (ii) pursuant to the relevant written confirmations from the Comprehensive Administrative Enforcement Bureau of Gu'an County (固安縣城市管理綜合行政執法局) and the Housing and Urban Rural Development Bureau of Gu'an County (固安縣住房和城鄉建設局), we are permitted to continue using the Relevant Buildings for the current use prior to obtaining the requisite Real Estate Title Certificates; and (iii) we have obtained the Real Estate Title Certificates in respect of 13 buildings at our production base with an aggregate GFA of approximately 76,532.90 sq.m. (representing approximately 86.2% of the entire production base in terms of GFA), our Directors believe that we are unlikely to be required to relocate our production facilities to an alternative site. Also, in the light of the above and in particular the Real Estate Title Certificates already obtained, we believe that the costs we would have had to pay for construction of those properties would not have been materially different if there had been no title defect in respect of the Relevant Buildings.

Further, our Controlling Shareholders have undertaken to indemnify us for all claims, fines and other forms of liability that may arise from breach of any law, regulation or rule by any member of our Group before the [REDACTED]. For details, please see the section headed in "Other Information — 15. Tax and other indemnities" in Appendix V to this document.

## BUSINESS

### Leasing of Certain Portions of Our Production Base

During the Track Record Period, we entered into various tenancy agreements pursuant to which certain portions of our production base have been leased to our business partners for a term ranging from 48 to 77 months.

The leased portions of our production base comprise production facilities with an aggregate planned GFA of 29,712.96 sq.m. leased to five of our customers for flour product processing. The tenants include Customer C, a connected person of our Company (further details of which are set forth in the section headed "Connected Transactions" in this document), and four other customers being Independent Third Parties. Pursuant to each of these tenancy agreements, the tenants are entitled to a rent-free period. The rent-free period arrangement was incorporated to ensure that the tenants would have sufficient time to refurbish and equip their production workshops before they were put into use. After the end of the rent-free period, rent is charged with reference to the prevailing market rates. Our Group is not responsible for the provision of production equipment or the manufacturing costs incurred by the tenants in their production processes. Through setting up their manufacturing sites at our production base, delivery of our products to such customers could be expedited and arranged at reduced costs, and the customers also stand to enjoy timely technical support from our Group. Such advantages could be crucial to the fast inventory turnover of our customers. Please refer to the section headed "Connected Transactions — Non-exempted connected transactions — 3. Factory Lease Agreement" in this document for details regarding the lease arrangement between Customer C and our Group.

On top of the above, we have also leased a property with a GFA of 1,100 sq.m. (the "**Leased Property**") to a group company of the Swiss manufacturer which supplied our production machinery and equipment, at the annual rental of RMB250,000 for use as its technical service centre.

From the perspective of our Group, the above tenancy arrangements could strengthen our business relationships with our customers and machinery and equipment supplier, paving the way for further and deeper business collaborations. At the same time, it also serves to enrich our revenue streams by generating rental income with properties that are not required for our own production use at the present stage and thereby achieve effective resource utilisation.

While we have yet to be granted the Construction Planning Permits for the Leased Property, given that (1) the tenancy agreement entered into between the relevant tenant and us in relation to the Leased Property (the "**Tenancy Agreement**") did not contain any provision for the change of use of the buildings; (2) the relevant governmental authorities have confirmed in writing that we are permitted to continue using the buildings located at our production base for the current use before the requisite Real Estate Title Certificates are obtained, and there exist no material barriers which may prevent granting of the requisite Construction Planning Permits; and (3) the Tenancy Agreement has been under normal performance by the parties thereto, and

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there is no dispute between the relevant tenant and us or any claim instituted by any third party, our PRC Legal Advisers are of the view that the risk of the Tenancy Agreement being ruled by the courts of the PRC to be invalid under any litigation or dispute is relatively low. Except for the Leased Property, we have obtained the Construction Planning Permits and the Real Estate Title Certificates for all of our leased properties. Our PRC Legal Advisers are of the view that the other tenancy agreements entered into between the relevant tenants and us do not give rise to any non-compliance with the mandatory requirements under the PRC laws and regulations, and those tenancy agreements are valid, effective and binding on the parties thereto.

**LICENSES AND PERMITS**

As a manufacturer of food products in the PRC, we are required to obtain various licenses, approvals and permits in connection with our business. For details, please refer to the section headed "Regulatory Overview" in this document. Our PRC Legal Advisers have advised us that we had obtained all requisite licenses, approvals and permits from the relevant government authorities in the PRC that are material for our business operations during the Track Record Period. Further, such licenses, approvals and permits remained valid as at the Latest Practicable Date and we had not experienced any material difficulty in obtaining and/or renewing such licenses, approvals and permits.

Set out below are details of the licenses, approvals and permits we held as at the Latest Practicable Date:

License/ approval/ permit	Issuing authority	Scope	Company name	Validity date
Food Production License* (食品生產許可證)	Langfang Municipal Administrative Approval Bureau (廊坊市行政審批局)	Food processing – grain products	Shenhua Flour	2 August 2022 to 3 November 2026
Hebei Province Grain Purchase Enterprise Registration Form (河北省糧食收購企業備案表)	Development and Reform Commission of Gu'an County (固安縣發展和改革局)	Purchase of grain	Shenhua Flour	20 June 2023 to 19 June 2024

## BUSINESS

### INTELLECTUAL PROPERTY

As at the Latest Practicable Date, our Group had registered five trademarks, one domain name and two copyrights in the PRC which relates to our brand “Shenhua (參花)”. For details of our intellectual property rights, please refer to the section headed “Further information about the business of our Group — 9. Intellectual Property Rights of our Group” in Appendix V to this document.

During the Track Record Period and up to the Latest Practicable Date, we had not received any claim against us for infringement of any intellectual property rights nor were we aware of any pending or threatened claims in relation to such infringements; and we had not made any claims against any third party with respect to the infringement of any intellectual property rights owned by us.

### LEGAL PROCEEDINGS AND COMPLIANCE

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not been involved in any non-compliance incident of material importance.

As at the Latest Practicable Date, there were no claims or litigations known to our Directors to be pending or threatened against any member of our Group which could have a material adverse effect on our business, financial condition or results of operations.

### INTERNAL CONTROL AND RISK MANAGEMENT

We have engaged BT Corporate Governance Limited (the “**Internal Control Consultant**”) to perform a review of our internal control systems including the areas of financial reporting, operation, and compliance and risk management. Based on our Internal Control Consultant’s review and recommendations, we have modified and adopted certain new measures to refine our internal control systems. Based on the internal control report issued by our Internal Control Consultant, our Directors are of the view that our internal control systems are adequate and effective for our current operations. As our business continues to expand, we will continue to modify and enhance our internal control systems to respond to our changing business needs, as appropriate, to ensure that our business operations are in compliance with the applicable laws, rules and regulations in Hong Kong and the PRC.

To enhance the quality of our corporate governance, we have adopted the following measures:

- our Directors have attended training sessions conducted by our Hong Kong legal advisers on 18 March 2024 regarding their ongoing obligations, duties and the responsibilities of directors of under Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFO and the Listing Rules;

## BUSINESS

- we have appointed Mr. Tang Yu Him as our company secretary. Mr. Tang Yu Him will act as one of the principal channels of communication between our Company and other members of our Group in relation to our legal, regulatory and financial reporting compliance matters. Upon receipt of queries or reports on legal, regulatory and financial reporting compliance matters, our company secretary will look into the matter and, if considered appropriate, seek advice, guidance and recommendations from professional advisers and report to relevant members of our Group and/or our Board;
- we have appointed Zhongtai International Capital Limited as our compliance adviser to advise our Group on compliance matters upon [REDACTED] in accordance with Rule 3A.19 of the Listing Rules; and
- we have established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code as set out in Appendix C3 to the Listing Rules to review the internal control system and procedures for compliance with the requirements of the Listing Rules, the Companies Ordinance and other applicable laws, rules and regulations.

We recognise the need for risk management in our strategic and operational planning, day-to-day management and decision making process to identify the material risks associated with our business operations. Please refer to the paragraphs headed "Environmental, Social and Governance Matters — Risk Management and Internal Control" in this section for the key procedures that we have established and implemented under our risk management system.



## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### OUR CONTROLLING SHAREHOLDERS

Immediately after completion of the [REDACTED] and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme), Mr. Yao (through Affluent Aspire, the principal business of which is investment holding) will be interested in [REDACTED] Shares, representing [REDACTED]% of the Shares in issue. As such, Mr. Yao and Affluent Aspire will be regarded as a group of Controlling Shareholders which hold a controlling interest in our Company upon completion of the [REDACTED] and the Capitalisation Issue.

### RULE 8.10 OF THE LISTING RULES

As confirmed by our each of our Directors, our Controlling Shareholders, our substantial shareholders and their respective close associates do not have any interests in any business, apart from the business operated by members of our Group, that competes or is likely to compete, directly or indirectly, with the business of our Group, and would require disclosure pursuant to Rule 8.10 of the Listing Rules.

Our Group principally engages in the business of manufacturing and sale of flour products and flour by-products in the PRC. As at the Latest Practicable Date, other than the business of manufacturing and sale of flour products in the PRC carried out by our Group, our Controlling Shareholders and their close associates also had material interests in another company (i.e. where Mr. Yao, our Controlling Shareholder, holds 30% or more of interests) with businesses scopes different from our Group's. Brief details of the business scope of the company as at the Latest Practicable Date is as follows:

Name of company	Approximate percentage equity holding of our Controlling Shareholders and their close associate(s)	Business scope of company
Langfang Huitianfu Equity Investment Fund Management Limited* 廊坊市惠天富股權投資基金 管理有限公司	30%	non-securities equity investment management and related consulting services

As shown in the table above, the principal business scope of the above company differs from that of our Group, which principally engages in the manufacturing and sale of flour products and flour by-products in the PRC. Due to differences in business scope, it is not in competition directly or indirectly with our Group.

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

### INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on our business independent of and without undue reliance on our Controlling Shareholders and their respective close associates after the [REDACTED] based on the following reasons:

#### **Management independence**

Our Board has five Directors comprising two Executive Directors and three Independent Non-executive Directors. Mr. Yao, our Controlling Shareholder, is our Executive Director, the Chairman and chief executive officer of our Company.

Although our Controlling Shareholders will remain as Controlling Shareholders in our Company upon completion of the [REDACTED] and the Capitalisation Issue, the day-to-day management and operation of the business of our Group will be the responsibility of an independent management team which is led by a team of senior management with substantial experience and expertise in our business to implement our Group's policies with strategies. Our Board and senior management operate as a matter of fact independently of our Controlling Shareholders and they are in a position to fully discharge their duties to the Shareholders as a whole after the [REDACTED] of our Company on the Stock Exchange without reference to our Controlling Shareholders.

Each of our Directors is aware of his or her fiduciary duties as a Director which require, among other things, that he/she acts for the benefit of and in the best interests of our Company and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant Board meetings in respect of such transactions and will not be counted in the quorum.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Company is capable of managing our Group's business independently from our Controlling Shareholders.

#### **Operational independence**

Our Directors consider that our operations do not depend on our Controlling Shareholders and their respective close associates based on the following reasons:

- (a) there is no competing business between our Group and any of our Controlling Shareholders and their respective close associates;
- (b) none of our Directors has an interest in any business which competes or is likely to compete, either directly or indirectly, with our business;
- (c) our Group has established an organisational structure made up of individual departments, each with specific areas of responsibilities;

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) our Group has not shared any operational resources, such as office premises, sales and marketing and general administration resources with our Controlling Shareholders and their respective close associates;
- (e) our Group has established a set of internal controls to facilitate the effective operation of our business; and
- (f) our Controlling Shareholders have no interest in any of our top five customers and suppliers and we do not rely on our Controlling Shareholders or their close associates and have independent access to customers and suppliers.

### Financial independence

We have our own accounting and finance department and independent financial system and make financial decisions according to our own business needs. We also have our own treasury function and independent access to third party financing. In respect of the provision of guarantee and/or other security provided by our Controlling Shareholders and their close associate(s) for bank and other loans, details of which are referred to in Note 25 to the Accountants' Report set out in Appendix I to this document, either these loans they will be fully repaid, and/or the related guarantees or security will be released and/or replaced by corporate guarantee to be provided by our Group upon [REDACTED].

In view of our Group's internal resources and the estimated net [REDACTED] from the [REDACTED], our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders. Our Directors further believe that, upon the [REDACTED], our Group is capable of obtaining financing from external sources independently without the support of our Controlling Shareholders.

### CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (a) the Articles provide that a Director shall not be counted in the quorum nor vote on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested except in certain circumstances provided by the Articles;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by the Independent Non-executive Directors;
- (c) our Company has appointed Zhongtai International Capital Limited as the compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the Listing Rules including various requirements relating to directors' duties and internal controls;

## RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (d) the Independent Non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to involve or participate in any business of manufacturing of flour and flour by-products in the PRC and such other parts of the world where any member of our Group may operate from time to time or other related business which our Group may undertake from time to time after the [REDACTED] and if so, any condition to be imposed; and
- (e) the Independent Non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the connected transaction(s) at the cost of our Company.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

## CONNECTED TRANSACTIONS

### OVERVIEW

As at the Latest Practicable Date, we have entered into the following non-exempt continuing connected transactions with our connected persons (as defined under Chapter 14A of the Listing Rules), namely, the Framework Sales Agreement (I) (as defined below), the Framework Sales Agreement (II) (as defined below) and the Factory Lease Agreement (as defined below). Upon the [REDACTED], the transactions contemplated under each of the Framework Sales Agreement (I), Framework Sales Agreement (II) and the Factory Lease Agreement will constitute as continuing connected transactions of our Group within the meaning of the Listing Rules:

Name of agreement under which the transactions are contemplated	Waiver(s) Sought	Proposed annual cap (in RMB million) for the year ending 31 December				
		2024	2025	2026		
<b>Non-exempt continuing connected transactions</b>						
1.	Framework Sales Agreement (I)	Requirements as to annual review, reporting,	25.0	28.0	30.0	
2.	Framework Sales Agreement (II)	announcement, circular and independent Shareholders' approval	0.2	0.2	0.2	
		Aggregated annual caps	25.2	28.2	30.2	
			Proposed annual cap (in RMB million)			
			for the year ending 31 December			for the seven months ending 31 July
			2024	2025	2026	2027
3.	Factory Lease Agreement	Requirement as to continuing connected transactions not more than 3 years	2.0	2.2	2.3	1.4

## CONNECTED TRANSACTIONS

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### 1. Framework Sales Agreement (I)

Langfang Yijiao Food Co., Ltd. (廊坊一餃食品有限公司) ("Langfang Yijiao")

*Relationship between parties:*

Mr. Yao Hongjian (姚宏健) is a brother-in-law of Mr. Yao Wei, one of our Executive Director. As at the Latest Practicable Date, Mr. Yao Hongjian owned 80% of the registered capital in Langfang Yijiao. As such, each of Mr. Yao Hongjian and Langfang Yijiao is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The sale of flour products by our Group to Langfang Yijiao will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

*Reasons for the transactions:*

Our Group is a leading manufacturer of flour products in the PRC, and we have been selling flour products and flour by-products under our brand "Shenhua (參花)" for over 20 years. Langfang Yijiao has been our customer during the Track Record Period, and it is one of our top five customers for the year ended 31 December 2021. As at the Latest Practicable Date, Langfang Yijiao engages in the food production and processing business including products made with flours and is therefore, in demand of flour for its business operation.

*Principal terms of the transaction:*

Langfang Yijiao and Shenhua Flour entered into a framework sales agreement for the sale of flour ("**Framework Sales Agreement (I)**"). The following is a summary of the principal terms of the Framework Sales Agreement (I):

Date:	[●] 2024
Parties:	(1) Langfang Yijiao (as purchaser); and (2) Shenhua Flour (for itself and on behalf of other members of our Group) (as supplier)
Term (period):	From [●] 2024 to 31 December 2026
Subject matter:	Langfang Yijiao agrees to purchase, on a non-exclusive basis, from Shenhua Flour flour products pursuant to the terms of the Framework Sales Agreement (I).

## CONNECTED TRANSACTIONS

**Operational Agreement(s):** Pursuant to the Framework Sales Agreement (I), Langfang Yijiao may, during the term of the Framework Sales Agreement (I), upon Langfang Yijiao indicating its intention to purchase and Shenhua Flour providing fee quote, enter into separate sales order(s) in respect of the purchases covered by the Framework Sales Agreement (I), which will specify, among others, the types, price and quantity of flour products to be purchased and the method of payment, provided that such sales order(s) shall always be subject to the terms of the Framework Sales Agreement (I).

**Basis of pricing:** The price under the sales order(s) will be determined in the ordinary course of business on normal commercial terms and based on the following principles:

The purchase price of flour is to be determined based on the prevailing market price of relevant flour products charged by Shenhua Flour to all other customers as indicated in its product price list as in force from time to time. As an internal control measure, we will compare the prices of flour products charged to Langfang Yijiao with those charged to at least three other customers to ensure that price offered by us to Langfang Yijiao is the same as that offered to Independent Third Parties.

**Termination:** By mutual agreement or in the event of a breach committed by either party as specified in the Framework Sales Agreement (I).

***Historical amount:***

During the Track Record Period, the revenue generated from the sale of flour products to Langfang Yijiao by our Group are set out below:

	<b>Year ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>(RMB million)</i>	<i>(RMB million)</i>	<i>(RMB million)</i>
Total revenue from the sale of flour to Langfang Yijiao	24.4	30.3	12.5 <sup>(Note)</sup>

*Note:* As confirmed by Langfang Yijiao, the decrease in amount of purchase by Langfang Yijiao from Shenhua Flour for FY2023 was primarily due to Langfang Yijiao's then intention to diversify its procurement source. Langfang Yijiao confirmed that, considering the stable supply, quality of our flour products and relatively low transportation costs given the proximity between Langfang Yijiao and Shenhua Flour, Langfang Yijiao will consider increasing the amount of procurement of flour products from Shenhua Flour going forward.

## CONNECTED TRANSACTIONS

### *Annual caps and basis of determination:*

Our Directors estimate that the annual transaction amount for the sale of flour products to Langfang Yijiao for the three years ending 31 December 2026 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2024	2025	2026
	(RMB million)	(RMB million)	(RMB million)
Total revenue from the sale of flour to Langfang Yijiao	25.0	28.0	30.0

In determining the above annual caps, our Directors have considered generally:

- (a) the historical amount as set out above;
- (b) the anticipated demand for our flour products by Langfang Yijiao for the three years ending 31 December 2026; and
- (c) the anticipated market price of flour products in the PRC market for the three years ending 31 December 2026.

### *Listing Rules implications:*

Please see “— 2. Framework Sales Agreement (II) — Langfang Ceyuan Food Co., Ltd. (廊坊策元食品有限公司) — Listing Rules implications” in this section below.

### *Directors’ view:*

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Framework Sales Agreement (I), are of the view that the Framework Sales Agreement (I) and the transactions contemplated thereunder have been entered into on normal commercial terms (or on terms which are no less favourable to our Group), in the ordinary and usual course of business of our Group and the terms of the Framework Sales Agreement (I) as well as the proposed annual caps (and the aggregated annual caps together with those of the Framework Sales Agreement (II)) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.



## CONNECTED TRANSACTIONS

### 2. Framework Sales Agreement (II)

Langfang Ceyuan Food Co., Ltd. (廊坊策元食品有限公司) ("Langfang Ceyuan")

*Relationship between parties:*

Mr. Yao Hongjian (姚宏健) is a brother-in-law of Mr. Yao Wei, one of our Executive Director. As at the Latest Practicable Date, Mr. Yao Hongjian owned 99.9% of the registered capital in Langfang Ceyuan. As such, each of Mr. Yao Hongjian and Langfang Ceyuan is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The sale of flour products by our Group to Langfang Ceyuan will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

*Reasons for the transactions:*

As at the Latest Practicable Date, Langfang Ceyuan engages in the food production and processing business including products made with flours and is therefore, in demand of flour for its business operation. Langfang Ceyuan has been our customer since FY2022.

*Principal terms of the transaction:*

Langfang Ceyuan and Shenhua Flour entered into a framework sales agreement for the sale of flour ("Framework Sales Agreement (II)"). The following is a summary of the principal terms of the Framework Sales Agreement (II):

Date:	[●] 2024
Parties:	(1) Langfang Ceyuan (as purchaser); and (2) Shenhua Flour (for itself and on behalf of other members of our Group) (as supplier)
Term (period):	From [●] 2024 to 31 December 2026
Subject matter:	Langfang Ceyuan agrees to purchase, on a non-exclusive basis, from Shenhua Flour flour products pursuant to the terms of the Framework Sales Agreement (II).

## CONNECTED TRANSACTIONS

Operational Agreement(s): Pursuant to the Framework Sales Agreement (II), Langfang Ceyuan may, during the term of the Framework Sales Agreement (II), upon Langfang Ceyuan indicating its intention to purchase and Shenhua Flour providing fee quote, enter into separate sales order(s) in respect of the purchases covered by the Framework Sales Agreement (II), which will specify, among others, the types, price and quantity of flour products to be purchased and the method of payment, provided that such sales order(s) shall always be subject to the terms of the Framework Sales Agreement (II).

Basis of pricing: The price under the sales order(s) will be determined in the ordinary course of business on normal commercial terms and based on the following principles:

The purchase price of flour is to be determined based on the prevailing market price of relevant flour products charged by Shenhua Flour to all other customers as indicated in its product price list as in force from time to time. As an internal control measure, we will compare the prices of flour products charged to Langfang Ceyuan with those charged to at least three other customers to ensure that price offered by us to Langfang Ceyuan in the same as that offered to Independent Third Parties.

Termination: By mutual agreement or in the event of a breach committed by either party as specified in the Framework Sales Agreement (II).

### ***Historical amount:***

During the Track Record Period, the revenue generated from the sale of flour to Langfang Ceyuan by our Group are set out below:

	Year ended 31 December		
	2021	2022	2023
	(RMB million)	(RMB million)	(RMB million)
Total revenue from the sale of flour to Langfang Ceyuan	Nil	0.2	0.1

## CONNECTED TRANSACTIONS

### *Annual caps and basis of determination:*

Our Directors estimate that the annual transaction amount for the sale of flour products to Langfang Ceyuan for the three years ending 31 December 2026 will not exceed the following annual caps set forth in the table below:

	Year ending 31 December		
	2024	2025	2026
	(RMB million)	(RMB million)	(RMB million)
Total revenue from the sale of flour to Langfang Ceyuan	0.2	0.2	0.2

In determining the above annual caps, our Directors have considered generally:

- (a) the historical amount as set out above;
- (b) the anticipated demand for our flour products by Langfang Ceyuan for the three years ending 31 December 2026; and
- (c) the anticipated market price of flour products in the PRC market for the three years ending 31 December 2026.

### *Listing Rules implications:*

For the reasons that:

- (1) the Framework Sales Agreement (I) and Framework Sales Agreement (II) involve parties who are connected to each other by virtue of Langfang Yijiao and Langfang Ceyuan each being held as to 80% and 99.9% by Mr. Yao Hongjian, respectively; and
- (2) the subject matter of the agreements involves the sale of flour products,

the Stock Exchange [has aggregated] the continuing connected transactions contemplated under the Framework Sales Agreement (I) and Framework Sales Agreement (II). Accordingly, the aggregated annual caps for the three years ending 31 December 2026 are RMB25.2 million, RMB28.2 million and RMB30.2 million, respectively. Since the aggregated annual caps exceeds HK\$10 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) also exceeds 5% but are less than 25%, the transactions contemplated under the Framework Sales Agreement (I) and the Framework Sales Agreement (II) are subject to the annual reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## CONNECTED TRANSACTIONS

### *Directors' view:*

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Framework Sales Agreement (II), are of the view that the Framework Sales Agreement (II) and the transactions contemplated thereunder have been entered into on normal commercial terms (or on terms which are no less favourable to our Group), in the ordinary and usual course of business of our Group and the terms of the Framework Sales Agreement (II) as well as the proposed annual cap (and the aggregated annual caps together with Framework Sales Agreement (I)) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

### **3. Factory Lease Agreement**

On 1 March 2021, Langfang Yijiao entered into a lease agreement with Shenhua Flour (the "Factory Lease Agreement"), pursuant to which Langfang Yijiao agreed to lease from Shenhua Flour certain factory space with a gross floor area of approximately 7,404 sq.m. located in our Group's current production base in Gu'an County, Langfang City, Hebei Province, the PRC (the "Property") for its food production and processing business. The term of the lease is six years and five months commencing from 1 March 2021 and up to 31 July 2027. The parties can further negotiate for a further terms of lease, upon Langfang Yijiao indicating to Shenhua Flour its intention for a further term 30 days prior to the expiry of the Factory Lease Agreement. On the same terms and conditions, Langfang Yijiao shall have the priority on renewing the lease agreement with us.

### *Relationship between parties:*

As mentioned in the paragraph headed "1. Framework Sales Agreement (I)" in the section above, each of Mr. Yao Hongjian and Langfang Yijiao is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The rental of the Property by Langfang Yijiao pursuant to the Factory Lease Agreement will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

### *Reasons for the transactions:*

Langfang Yijiao has been leasing our factory space as its food production and processing business and has been our customer during the Track Record Period. Given the proximity location with our Group's production base, Langfang Yijiao, through entering into the Factory Lease Agreement with us, can obtain the required flour products as raw materials for its food production and processing business within a short period of time with minimal transportation costs.

**CONNECTED TRANSACTIONS**

***Historical amount:***

During the Track Record Period, the rental amount paid by Langfang Yijiao to our Group for the years ended 31 December 2021, 2022 and 2023 are set out below:

	<b>Year ended 31 December</b>		
	<b>2021</b> <i>(RMB million)</i>	<b>2022</b> <i>(RMB million)</i>	<b>2023</b> <i>(RMB million)</i>
Rental <sup>(Note)</sup>	Nil	Nil	0.8

*Note:* Free rent period from 1 March 2021 to 31 July 2023 was in place to ensure that Langfang Yijiao would have sufficient time to refurbish and equip its production workshop before it was put into use.

***Annual caps and basis of determination:***

The maximum annual amount payable by Langfang Yijiao pursuant to the Factory Lease Agreement for the years ending 31 December 2024, 2025, 2026 and for the seven months ending 31 July 2027 (being the annual caps during the terms of the Factory Lease Agreement) is set out below:

	<b>Year ending 31 December</b>			<b>Seven months ending</b>
	<b>2024</b> <i>(RMB million)</i>	<b>2025</b> <i>(RMB million)</i>	<b>2026</b> <i>(RMB million)</i>	<b>31 July 2027</b> <i>(RMB million)</i>
Rental	2.0	2.2	2.3	1.4

The annual rental amount was arrived at after arm's length negotiations with reference to:

- (i) the prevailing market rents of similar properties in the nearby areas or similar locations in the PRC;
- (ii) the conditions of the Property, including but not limited to the location of the Property as well as the facilities associated with the Property; and
- (iii) the historical trend and the expected increase in the rents in the PRC property market for the three years ending 31 December 2026 and for the seven months ending 31 July 2027.

Cushman & Wakefield Limited, an independent property valuer, has confirmed that the terms and the rental payable by Langfang Yijiao under the Factory Lease Agreement are fair and reasonable and in line with prevailing market rate.

## CONNECTED TRANSACTIONS

### *Listing Rules implication:*

Since the proposed annual caps are less than 0.1% of all the percentage ratios (other than the profits ratio) as defined in Rule 14A.76 of the Listing Rules, the transactions contemplated under the Factory Lease Agreement are exempt from annual reporting, annual review, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years, except where the nature of the transaction requires the agreement to be of a duration longer than three years. Our Directors are of the view that such a longer lease term is necessary for providing a stable production base for Langfang Yijiao to conduct its food production and processing business and to further strengthening business collaboration, and in line with normal business practice. As such, entering into the Factory Lease Agreement for a period of more than three years will foster our business relationship with Langfang Yijiao and is beneficial to our Company and Shareholders as a whole.

### *Directors' view:*

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Factory Lease Agreement, making reference to the market rental rate, and considering the benefit to the business relationship with Langfang Yijiao, are of the view that the Factory Lease Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better and the rent in particular is comparable to market rate in the same area and the terms of the Factory Lease Agreement as well as the proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

## CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor, having reviewed the relevant information and historical figures relating to the non-exempt continuing connected transactions, concurs with our Directors and is of the view that:

- (i) the non-exempt continuing connected transactions are and will be entered into in our Group's ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole;
- (ii) in respect of the Framework Sales Agreement (I) and the Framework Sales Agreement (II), the proposed annual caps are fair and reasonable and in the interest of our Company and our Shareholders as a whole; and
- (iii) in respect of the Factory Lease Agreement, the more than three years' term under the Factory Lease Agreement is in line with normal business practice.

## CONNECTED TRANSACTIONS

### APPLICATION FOR WAIVER

We expect the non-exempt continuing connected transactions disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance from the Listing Rules would be unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted] to us, a waiver from strict compliance from the Listing Rules requirements once the Shares are [REDACTED] on the Stock Exchange in respect of such non-exempt continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of such continuing connected transactions. Our Directors confirm that, for all non-exempt continuing connected transactions to be entered into by our Group (if any), our Company will comply with the applicable Listing Rules, unless a separate application for waiver is made for the dispensation with the applicable announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## DIRECTORS AND SENIOR MANAGEMENT

### DIRECTORS

Our Board consists of two Executive Directors and three Independent Non-executive Directors. It is responsible for and has general powers for the management and conduct of our business.

The day-to-day operations of our Group are supervised and carried out by our Executive Directors with the assistance of our senior management.

The following table sets out some information in respect of our Directors:

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
<b>Executive Directors</b>						
Mr. Yao Zhiwan (姚志萬先生) (formerly used name 姚之萬)	60	Chairman, chief executive officer and Executive Director	January 2002	9 May 2019	Overall day-to-day management and operation and strategic planning of the growth and operation of our Group	Father of Mr. Yao Wei
Mr. Yao Wei (姚巍先生)	36	Executive Director and chief financial officer	September 2014	1 June 2020	Overall day-to-day management of our Group, and financial and administration management	Son of Mr. Yao Zhiwan and brother-in-law of Mr. Zhang Tao
<b>Independent Non-executive Directors</b>						
Mr. Chan Yuk Hiu Taylor (陳玉曉先生)	46	Independent Non-executive Director	[●]	[●]	Participating in meetings of the Board to bring an independent judgment on issues which are material to our Group as and when required providing independent judgement to our Board and serving on the Audit Committee, Remuneration Committee and Nomination Committee (as the case may be)	None



**DIRECTORS AND SENIOR MANAGEMENT**

Name	Age	Position	Date of joining our Group	Date of appointment as a Director	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Ms. Shi Jingmin (史靜敏女士)	57	Independent Non-executive Director	[●]	[●]	Same as above	None
Mr. Huang Weining (黃衛寧先生)	61	Independent Non-executive Director	[●]	[●]	Same as above	None

**Executive Directors**

**Mr. Yao Zhiwan** (姚志萬先生) (“Mr. Yao”), aged 60, is the Chairman, chief executive officer of our Company an Executive Director and the Controlling Shareholder of our Company. He was appointed as a director, and legal representative of Shenhua Flour in January 2002, a director of Haze Success and Shenhua HK in July 2019, and a director of WFOE in October 2019. He was appointed as a Director on 9 May 2019 and was redesignated as an Executive Director on 18 June 2020. Mr. Yao is the founder of our Group and has been serving our Group since January 2002. Mr. Yao is responsible for the overall day-to-day management and operation and strategic planning of the growth and operation of our Group. Mr. Yao is the father of Mr. Yao Wei, an Executive Director and the chief financial officer of our Company.

Mr. Yao completed secondary education in PRC in 1982.

Mr. Yao has more than 20 years of experience in the flour manufacturing industry. In January 2002, Mr. Yao established our principal operating subsidiary, Shenhua Flour.

Mr. Yao is a member of the People’s Congress of Gu’an County\* (固安縣人民代表大會) since 2017 and a member of the People’s Congress of Langfang City\* (廊坊市人民代表大會) since 2013.

Mr. Yao has been serving as a director of Aerospace Food Technology Development (Beijing) Co., Limited\* (宇航食品科技發展(北京)有限公司), a company principally engaged in, among others, technical promotion services and sales of agricultural products and fresh fruits, and is mainly responsible for managing the market development affairs, since September 2016 and up to February 2023. Since April 2012, Mr. Yao has served as a supervisor of Langfang Huitianfu Equity Investment Fund Management Limited\* (廊坊市惠天富股權投資基金管理有限公司), a company principally engaged in providing financial management and consultancy services, and is mainly responsible for overseeing group financial, its operations and management. Mr. Yao has also served as a director of Hebei Gu’an Rural Commercial Bank Company Limited\* (河北固安農村商業銀行股份有限公司), a company principally engaged in banking services, since August 2018.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Yao was previously an operator or director of the following companies shown in the table below prior to their dissolutions:

Name of Company	Place of Incorporation	Nature of Business	Date of Dissolution	Reason of Dissolution
Gu'an County Mazhuang Town Dadi Flour Factory* (固安縣馬莊鎮大地麵粉廠)	PRC	Flour processing	2 July 2012	Cessation of business
Aerospace Food Technology Development (Beijing) Co., Limited* (宇航食品科技發展(北京)有限公司)	PRC	Technical promotion services and sales of agricultural products and fresh fruits	4 February 2023	Cessation of business
Gu'an County Donghong Temple Zhiwan Flower Seedling Planting Farm* (固安縣東紅寺志萬花卉苗木養植場)	PRC	Planting flower seedlings	13 March 2024	Cessation of business

Mr. Yao confirmed that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of the dissolutions, that the above companies have been dissolved with no outstanding liability or claim in relation thereto, had no material non-compliances or litigations before their dissolutions and were solvent at the time of dissolutions, that the dissolutions of the companies had not resulted in any liability or obligation being imposed against him, that his involvements in the above companies were in relation to his appointments as director or operator of the companies and that no misconduct or misfeasance on his part had been involved in the dissolutions.

Mr. Yao has not held any directorship in any publicly listed company in the past three years preceding the Latest Practicable Date.

**Mr. Yao Wei (姚巍先生)**, aged 36, is an Executive Director and the chief financial officer of our Company. Mr. Yao Wei joined our Group as an executive vice president and chief executive officer in September 2014. He was appointed as a Director on 1 June 2020 and re-designated as an Executive Director on 18 June 2020. Mr. Yao Wei is primarily responsible for overall day-to-day management of our Group and financial and administration management of our Group. Mr. Yao Wei is the son of Mr. Yao, the Chairman and an Executive Director.

Mr. Yao Wei obtained a Bachelor's Degree in Finance from Hebei Agricultural University (河北農業大學) in the PRC in June 2011. He subsequently graduated from University of Glasgow in Scotland with a Master of Science in Economics, Banking and Finance in December 2013.

Mr. Yao Wei has over 9 years of experience in the flour manufacturing industry, specialising in financial and administration management.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Yao Wei was previously a supervisor or legal representative of the following companies shown in the table below prior to their dissolutions:

Name of Company	Place of Incorporation	Nature of Business	Date of Dissolution	Reason of Dissolution
Baoding Haili Air Conditioning Installation Co., Ltd.* (保定市海力空調安裝工程有限公司)	PRC	Air conditioning installation	5 March 2013	Cessation of business
Gu'an County Gu'an Town Laojiefang Supermarket* (固安縣固安鎮老街坊超市)	PRC	Sales of daily necessities and food	28 April 2021	Cessation of business
Gu'an County Gu'an Town Jiehuo Supermarket* (固安縣固安鎮捷活超市)	PRC	Sales of daily necessities and food	6 June 2019	Cessation of business
Gu'an County Qixing Chuanghe Culture Media Co., Ltd.* (固安縣啟行創合文化傳媒有限公司)	PRC	Culture media	15 November 2023	Cessation of business

Mr. Yao Wei confirmed that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of the dissolutions, that the above companies have been dissolved with no outstanding liability or claim in relation thereto, had no material non-compliances or litigations before their dissolutions and were solvent at the time of dissolutions, that the dissolutions of the companies had not resulted in any liability or obligation being imposed against him, that his involvements in the above companies were in relation to his appointments as a supervisor or legal representative of the companies and that no misconduct or misfeasance on his part had been involved in the dissolutions.

Mr. Yao Wei has not held any directorship in any publicly listed company in the past three years preceding the Latest Practicable Date.

### Independent Non-executive Directors

**Mr. Chan Yuk Hiu Taylor (陳玉曉先生)** ("Mr. Chan"), aged 46, was appointed as an Independent Non-executive Director on [●] 2024. He is the chairman of the Audit Committee and a member of the Remuneration and Nomination Committee. He is primarily responsible for supervising and providing independent judgment to the Board.

Mr. Chan graduated with an Honours Diploma in Accounting from Hong Kong Shue Yan College (now known as Hong Kong Shue Yan University) in July 1999. He subsequently obtained a Master's Degree in Professional Accounting from The Hong Kong Polytechnic University in October 2009. Mr. Chan is an associate member of The Hong Kong Institute of Certified Public Accountants, and a fellow member of The Association of Chartered Certified Accountants.

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan has approximately 20 years of experience in professional accounting and auditing practice. Since graduation, he has acquired accounting and company secretarial work experience both from certified public accountants firm and listed companies. From March 2004 to December 2004, he was appointed as the qualified accountant of Tianjin Capital Environmental Protection Company Limited (now known as Tianjin Capital Environmental Protection Group Company Limited) (stock code: 1065.HK), a company listed on the Main Board of the Stock Exchange.

Mr. Chan worked in Grand Peace Group Holdings Limited (formerly known as Co-winner Enterprise Limited and FAVA International Holdings Limited) (stock code: 8108.HK), a company listed on GEM of the Stock Exchange, as the chief financial officer and company secretary of the company from May 2006 to February 2015. He was the chief financial officer and company secretary of Huaqiang Chemical Engineering Holdings Company Limited (華強化工控股有限公司), a company incorporated in Cayman Islands, from April 2015 to July 2016. Since September 2016, he has served as the chief financial officer and company secretary of Steed Oriental (Holdings) Company Limited (stock code: 8277.HK), a company listed on GEM of the Stock Exchange.

Since April 2008, Mr. Chan has also served as an independent non-executive director of China High Precision Automation Group Limited (stock code: 591.HK), a company listed on the Main Board of the Stock Exchange.

**Ms. Shi Jingmin (史靜敏女士) ("Ms. Shi")**, aged 57, was appointed as an Independent Non-executive Director on [●] 2024. She is the chairman of the Remuneration Committee and a member of the Audit and Nomination Committee of our Company. She is primarily responsible for supervising and providing independent judgement to the Board.

Ms. Shi completed an accounting specialist examination held by Hebei Province Self-study Examination Steering Committee\* (河北省自學考試指導委員會) in October 1991. Ms. Shi is an accountant granted by Department of Finance of the PRC (中華人民共和國財政部) in November 1993. She is also a certified accountant granted by the Chinese Institute of Certified Public Accountants\* (中國註冊會計師協會) in 1999. She was granted the Qualification of Enterprise Senior Management Consultant by the China Enterprise Confederation Management Consulting Committee\* (中國企業聯合會管理諮詢委員會) in August 2006. Ms. Shi has been a certified tax agent of the China Certified Tax Agents Association \* (中國註冊稅務師協會) since September 2008.

## DIRECTORS AND SENIOR MANAGEMENT

Ms. Shi has approximately 10 years of experience in acting as independent director in listed companies in the PRC. Ms. Shi held/holds (as the case maybe) positions in the following listed companies:

Period	Company name and stock code	Position
From May 2013 to June 2014	SPIC Industry-Finance Holdings Co., Ltd* (國家電投集團產融控股股份有限公司) (formerly known as (SPIC Dongfang New Energy Corporation* 國家電投集團東方新能源股份有限公司), a company listed on the Shenzhen Stock Exchange (000958.SZ)	Independent director
From December 2014 to October 2018	Shijiazhuang ChangShan BeMng Tech Co Ltd* (石家莊常山北明科技股份有限公司), a company listed on the Shenzhen Stock Exchange (000158.SZ)	Independent director
From August 2015 to November 2017	Longxing Chemical Stock Company Limited* (龍星化工股份有限公司), a company listed on the Shenzhen Stock Exchange (002442.SZ)	Independent director
From August 2019 to June 2020	Dongxu Optoelectronic Technology Co Ltd* (東旭光電科技股份有限公司), a company listed on the Shenzhen Stock Exchange (000413.SZ)	Independent director
From June 2020 to November 2021	Gu'an Xintong Signal Technology Co., Ltd (固安信通信號技術股份有限公司), a company listed on NEEQ on 24 January 2014 and was subsequently delisted on 25 August 2021 (NEEQ:430621)	Independent director
From December 2021 up to the Latest Practicable Date	LandOcean Energy Services Co.,Ltd.* (恆泰艾普集團股份有限公司) (currently known as New JCM Group Co., Ltd.* (新錦動力集團股份有限公司), a company listed on the Shenzhen Stock Exchange (300157.SZ)	Independent director
From May 2023 up to the Latest Practicable Date	Hebei Jiaotong Intelligent Technology Co., Ltd.* (河北交投智能科技股份有限公司) a company listed on NEEQ (NEEQ: 874342)	Independent director

## DIRECTORS AND SENIOR MANAGEMENT

**Mr. Huang Weining (黃衛寧先生)** ("Mr. Huang"), aged 61, was appointed as an Independent Non-executive Director on [●] 2024. He is the chairman of the Nomination Committee and a member of the Audit and Remuneration Committee of our Company. He is primarily responsible for supervising and providing independent judgement to the Board.

Mr. Huang was awarded a Bachelor's Degree and a Master's Degree in Grain and Oil Engineering from Wuxi Institute of Light Industry (無錫輕工業學院) (now known as Jiangnan University) in the PRC in July 1984 and July 1990, respectively. He further obtained a degree of Doctor of Philosophy from Kansas State University in the United States in December 1997.

Mr. Huang has been a professor in Jiangnan University since September 2004, and he is currently a professor of the School of Food Science and Technology at Jiangnan University (江南大學) (formerly known as Wuxi Institute of Light Industry, later merged with Wuxi University of Light Industry, Jiangnan College (江南學院) and Wuxi Education College (無錫教育學院)) in the PRC.

From 2009 to 2015, Mr. Huang was a cereal chemistry associate editor of Cereals & Grains Association (formerly known as AACC International, American Association of Cereal Chemists) in the United States. From March 2014 to March 2018, Mr. Huang was a member of expert advisory committee of China Association of Bakery & Confectionery Industry (中國焙烤食品糖製品工業協會) in the PRC. Since August 2019, Mr. Huang has served as a vice president of the Fourth Council of Fermented Flour Based Food Association of Chinese Cereals and Oils Association\* (中國糧油學會發酵麵食分會) in the PRC.

Since October 2017, he has served as an independent director of Maiquer Group Company Limited (麥趣爾集團股份有限公司) (stock code: 002719.SZ), a company listed on The Shenzhen Stock Exchange and principally engaged in manufacturing baked and dairy products. Since November 2011, he has been the controlling shareholder and has served as an executive director and general manager of Wuxi Maijibeike Biological Food Co., Ltd.\* (無錫麥吉貝可生物食品有限公司), a company principally engaged in the wholesaling and retailing of pre-packaged food and dairy products.

Mr. Huang was previously an executive director, general manager or legal representative of the following companies shown in the table below prior to their dissolutions:

Name of Company	Place of Incorporation	Nature of Business	Date of Dissolution	Reason of Dissolution
Nanjing Baihebeike Biotechnology Co., Ltd.* (南京百合貝可生物科技股份有限公司)	PRC	Technical services	4 August 2021	Cessation of business
Fujian Jinjiang Guoshi Culture Media Co., Ltd.* (福建晉江國食文化傳媒有限公司)	PRC	Culture and performance	17 March 2023	Cessation of business
Fujian Quanzhou Zunjin Health Technology Co., Ltd.* (福建泉州尊晉健康科技有限公司)	PRC	Technical services	21 March 2023	Cessation of business

## DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang confirmed that he has not been involved in any dispute with the above companies' creditors, shareholders and directors in respect of the dissolutions, that the above companies have been dissolved with no outstanding liability or claim in relation thereto, had no material non-compliances or litigations before their dissolutions and were solvent at the time of dissolutions, that the dissolutions of the companies had not resulted in any liability or obligation being imposed against him, that his involvements in the above companies were in relation to his appointments as an executive director, general manager or legal representative of the companies and that no misconduct or misfeasance on his part had been involved in the dissolutions.

Mr. Huang has not held any directorship in any publicly listed company in the past three years preceding the Latest Practicable Date.

### **Disclosure requirements under the Listing Rules**

#### *Under Rule 13.51(2) of the Listing Rules*

Save as disclosed above, none of our Directors:

- (i) held any other positions in our Company or other members of our Group as at the Latest Practicable Date;
- (ii) had any other relationship with any Directors, senior management or Substantial Shareholders or Controlling Shareholders of our Company as at the Latest Practicable Date;
- (iii) held any other directorships in listed public companies in Hong Kong or overseas in the three years prior to the Latest Practicable Date; and
- (iv) save as disclosed in the section "Further information about Directors, management and staff — 10. Directors — (c) Interests and short positions of Directors and chief executives of our Company in the shares, underlying shares or debentures of our Company and its associated corporations" in Appendix V to this document, he/she does not have any interests in the Shares within the meaning of Part XV of the SFO.

Save as disclosed above, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of the Shareholders and there was no information relating to our Directors that is required to be disclosed under Rule 13.51(2) of the Listing Rules as at the Latest Practicable Date.

#### *Under Rule 3.09D of the Listing Rules*

Each of our Directors confirms that he or she (i) has obtained the legal advice referred to in Rule 3.09D of the Listing Rules on 18 March 2024, and (ii) understands his or her obligations as a director of a listed issuer under the Listing Rules.

## DIRECTORS AND SENIOR MANAGEMENT

### *Under Rule 3.13 of the Listing Rules*

Each of the Independent Non-executive Directors confirms (i) his or her independence as regards each of the factors referred to in Rule 3.13(1) to (8) of the Listing Rules; (ii) that he or she has no past or present financial or other interest in the business of our Company or its subsidiaries or any connection with any core connected person of our Company; and (iii) that there are no other factors that may affect his or her independence at the time of his or her appointments.

### SENIOR MANAGEMENT

The following table sets out some information in respect of our senior management:

Name	Age	Position	Date of joining our Group	Main roles and responsibilities	Relationship with other Directors and senior management (other than that through or relating to our Group)
Mr. Wang Xiaoran (王小然先生)	45	Sales director (總監)	January 2023	Responsible for the sales department of our Group	None
Mr. Zhao Xin (趙新先生)	40	Research and development director (總監)	July 2021	Responsible for the research and development department of our Group	None
Mr. Zhang Tao (張濤先生)	36	Chief engineer officer	March 2020	Responsible for technical operation of our Group	Brother-in-law of Mr. Yao Wei

**Mr. Wang Xiaoran (王小然先生) ("Mr. Wang")**, aged 45, is the sales director (總監) of our Group since January 2023. He is primarily responsible for managing the sales department of our Group.

Mr. Wang graduated from Beijing Supply and Marketing Leader Management School\* (北京市供銷幹部管理學校) (now known as Management Academy of China Cooperatives (中華全國供銷合作總社管理幹部學院)) in the PRC with a Bachelor's degree in Finance in September 1996 and further obtained a Bachelor's degree in Food Machinery and Processing from Beijing Agriculture School\* (北京市農業學校) (now known as Beijing Vocational College of Agriculture\* 北京農業職業學院)) in September 1998.



## DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, Mr. Wang served as a sales manager of Yihai (Shijiazhuang) Grain and Oil Industry Co., Ltd.\* (益海(石家莊)糧油工業有限公司) and Yihai (Beijing) Oils and Food Co., Ltd.\* (益海嘉里(北京)糧油食品工業有限公司) from July 2008 to October 2014 and from October 2014 to September 2018, respectively, where he was principally responsible for flour sales in a designated region. Mr. Wang served in various positions of Gufengyuan Food Co., Ltd.\* (穀豐源(滄州)食品有限公司) from September 2018 to August 2020 including director of sales and deputy general manager, where he was principally responsible for flour sales of various industries and related administrative works.

**Mr. Zhao Xin (趙新先生) ("Mr. Zhao")**, aged 40, joined our Group in July 2021 and is the research and development director (總監) of our Group since January 2023. He is primarily responsible for research and development department of our Group.

Mr. Zhao obtained a Master's degree in Agricultural Product Quality and Food Safety from Chinese Academy of Agricultural Sciences\* (中國農業科學院) in July 2009. Mr. Zhao was admitted as a member of the 7th Council Committee of the Food Sub-Association of Chinese Cereals and Oils Association\* (中國糧油學會食品分會) in July 2014.

Prior to joining our Group, Mr. Zhao worked as a research and development manager or director in various companies, including Qinhuangdao Jinhai Food Industry Co., Ltd.\* (秦皇島金海糧油工業有限公司) from July 2009 to June 2012, Beijing Bama Food Processing Co., Ltd.\* (北京百麥食品加工有限公司) from July 2016 to August 2017 and Daozhijian Technology (Beijing) Co., Ltd.\* (大道致簡科技(北京)有限公司) from August 2017 to October 2019.

**Mr. Zhang Tao (張濤先生) ("Mr. Zhang")**, aged 36, joined our Group in March 2020 and is the chief engineer officer of our Group since January 2023. He is primarily responsible for the overall technical management work of our Group. Mr. Zhang is the brother-in-law of Mr. Yao Wei, our Executive Director and chief financial officer.

Mr. Zhang graduated from Beijing University of Chemical Technology\* (北京化工大學) in the PRC with a Bachelor's degree in Automation in July 2011. He was certified as Registered Safety Engineer by State Administration of Work Safety\* (國家安全生產監督管理總局) in September 2014. He was accredited as an engineer by China Lucky Film\* (中國樂凱集團有限公司) in August 2017. He was also certified as Registered Consulting Engineer by China National Association of Engineering Consultants\* (中國工程諮詢協會) in April 2019.

Prior to joining our Group, Mr. Zhang served as a technician of Baoding Lucky Innovative Materials Co., Ltd.\* (保定樂凱新材料股份有限公司) (a company listed on The Shenzhen Stock Exchange (stock code: 300446)) from January 2014 to March 2020.

Save as disclosed in the paragraphs headed "Senior Management" in this section, none of our senior management members held any other directorships in listed public companies in the three years prior to the Latest Practicable Date.

## DIRECTORS AND SENIOR MANAGEMENT

### COMPANY SECRETARY

**Mr. Tang Yu Him (鄧裕謙先生)**, aged 40, was appointed as our company secretary on 28 March 2022. Mr. Tang has over ten years of professional experience in legal field. He is a solicitor of the High Court of the Hong Kong Special Administrative Region. Since June 2019, he has been a partner of Wan & Tang, the legal advisers to the Company as to Hong Kong law. He obtained a bachelor's degree in social sciences and a bachelor's degree of laws from The University of Hong Kong in 2005 and 2006, respectively.

### BOARD COMMITTEES

Our Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee and delegated various responsibilities to these committees, which assist our Board in discharging its duties and overseeing particular aspects of our Group's activities.

#### **Audit Committee**

Our Company established an audit committee pursuant to a resolution of our Directors passed on [●] 2024 with written terms of reference in compliance with Rule 3.21 to 3.23 of the Listing Rules and the Corporate Governance Code (the "**CG Code**") as set out in Appendix C1 to the Listing Rules. The Audit Committee comprises three Independent Non-executive Directors: Mr. Chan Yuk Hiu Taylor, Ms. Shi Jingmin and Mr. Huang Weining, respectively. Mr. Chan Yuk Hiu Taylor was appointed to serve as the chairman of the Audit Committee, and he holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. The primary duties of the Audit Committee are mainly to make recommendations to the Board on the appointment and dismissal of the external auditor, review the financial statements and information and provide advice in respect of financial reporting and oversee the internal control procedures of our Company.

#### **Remuneration Committee**

Our Company established a remuneration committee pursuant to a resolution of our Directors passed on [●] 2024 with written terms of reference in compliance with Rule 3.25 to 3.27 of the Listing Rules and the CG Code. The Remuneration Committee comprises three Independent Non-executive Directors: Mr. Chan Yuk Hiu Taylor, Ms. Shi Jingmin and Mr. Huang Weining, respectively. Ms. Shi Jingmin was appointed as the chairman of the Remuneration Committee. The primary functions of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and the structure relating to all Directors and senior management of our Group, review performance-based remuneration and ensure none of our Directors is in a position to determine their own remuneration.

## DIRECTORS AND SENIOR MANAGEMENT

### Nomination Committee

Our Company established a nomination committee pursuant to a resolution of our Directors passed on [●] 2024 with written terms of reference in compliance with Rule 3.27A of the Listing Rules and the CG Code. The Nomination Committee comprises three Independent Non-executive Directors: Mr. Chan Yuk Hiu Taylor, Ms. Shi Jingmin and Mr. Huang Weining, respectively. Mr. Huang Weining was appointed as the chairman of the Nomination Committee. The primary functions of our Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement our Company's corporate strategy; identify individuals suitably qualified as potential Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; assess the independence of our Independent Non-executive Directors; and make recommendations to the Board on the appointment or reappointment of Directors and succession planning of Directors, in particular that of the Chairman and the chief executive.

### BOARD DIVERSITY POLICY

To enhance the effectiveness of our Board and to maintain the high standard of corporate governance, we have adopted the board diversity policy (the "**Board Diversity Policy**") which sets out the objective and approach to achieve and maintain diversity of our Board. Pursuant to our board diversity policy, we seek to achieve board diversity by taking into consideration of various factors, including but not limited to professional experience, skills, knowledge, gender, age, cultural and education background, ethnicity and length of service with our Company.

We aim to maintain at least 20% female representation in the Board and the current composition of the Board, consisting of one female Director and four male Directors with a balanced mix of knowledge and skills, including auditing, finance and accounting, science, technology, and engineering of foods and food products experiences, satisfies this target gender ratio, and the ages of our Directors range from 36 years old to 60 years old. We will implement policies to ensure gender diversity when recruiting staff to develop a pipeline of female senior management and potential successors to the Board. We will strive to enhance our female representation and achieve appropriate balance of gender diversity with reference to the stakeholders' expectation and international and local recommended best practices. Furthermore, we will implement comprehensive programs aimed at identifying and training our female staff who display leadership and potential, with the goal of promoting them to the senior management or the Board. The Board is of the view that our current Board composition satisfies the Board Diversity Policy.

Our Company will (i) disclose the biographical details of each Director and (ii) report on the implementation of the Board Diversity Policy (including whether we have achieved board diversity) in its annual corporate governance report. In particular, our Group will take opportunities to increase the proportion of female members of the Board when selecting and recommending suitable candidates for Board appointments to help enhance gender diversity in accordance with stakeholder expectations and recommended best practices. Our Group also intends to promote gender diversity when recruiting staff at the mid to senior level so that our Company will have a pipeline of female senior management and potential successors to the Board. We believe that such merit-based selection process with reference to our Board Diversity Policy and the nature of our business will be in the best interests of our Group and our Shareholders as a whole.

## DIRECTORS AND SENIOR MANAGEMENT

Our Nomination Committee is responsible for ensuring the diversity of our Board and compliance with relevant codes governing board diversity under the CG Code. Our Nomination Committee will review the Board Diversity Policy and our diversity profile (including gender balance) from time to time to ensure its continued effectiveness. We will also disclose in our corporate governance report about the implementation of the Board Diversity Policy on an annual basis.

We are also committed to adopting similar approach to promote diversity at all other levels of our Company from the Board downwards to enhance the effectiveness of our corporate governance as a whole. Our Company will continue to apply the principle of appointments based on merits with reference to our Board Diversity Policy as a whole.

### COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Under code provision C.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yao currently holds both positions. Since establishment of our Group in 2002, Mr. Yao has been key leadership figure of our Group who has been deeply involved in the formulation of business strategies and determination of the overall direction of our Group. He has also been principally responsible for our Group's operations as he directly supervises our Directors (other than himself) and members of our senior management. Taking into account the continuation of the implementation of our business plans, our Directors (including our Independent Non-executive Directors) consider Mr. Yao the best candidate for both positions and the present arrangements are beneficial to and in the interests of our Company and our Shareholders as a whole.

Our Company will comply with the CG Code sets out in Appendix C1 to the Listing Rules. Our Directors will review our corporate governance policies and compliance with the CG Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon the [REDACTED].

### AUTHORISED REPRESENTATIVES

Mr. Yao Wei and Mr. Tang Yu Him are the authorised representatives of our Company. Please refer to the paragraphs headed "Executive Directors" and "Company Secretary" of this section for Mr. Yao Wei and Mr. Tang Yu Him's qualification and experience for the purpose of the Listing Rules.

### DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

The aggregate amounts of compensation paid by our Company (including salaries, allowances, benefits in kind, contributions to retirement schemes) to our Directors three years ended 31 December 2023 were approximately RMB220,000, RMB222,000, and RMB221,000, respectively. Under the arrangement and pursuant to our Directors' service contracts and letters of appointment referred to the paragraph headed "Further information about Directors, management and staff — 10. Directors — (a) Particulars of service contracts and letters of appointment" in Appendix V to this document, the aggregate amount of Directors' fee and other emoluments payable to our Directors (excluding any discretionary bonuses) and benefits in kind receivable by our Directors for the year ending 31 December 2024 is estimated to be approximately RMB[0.4] million.

## DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation paid (including salaries, allowances, benefits in kind, contributions to retirement schemes) by our Company to our five highest paid individuals (including one Director), three years ended 31 December 2023 were approximately RMB458,000, RMB423,000, and RMB431,000, respectively.

### REMUNERATION POLICY

Our Group's principal policies concerning remuneration of Directors or staff of high calibre are determined based on the relevant Director's or staff's duties, responsibilities, experience and skills. Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. Our Company also reimburses them for expenses which are necessarily and reasonably incurred for providing services to our Company or executing their functions in relation to our operations. Our Company regularly reviews and determines the remuneration and compensation packages of our Directors and senior management after taking into account the recommendation of our Remuneration Committee.

After [REDACTED], our Remuneration Committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group to ensure that it is attractive enough to attract and retain a competent team of executive members.

During the Track Record Period, no remuneration was paid by our Company to, or received by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by our Group to, or received by, our Directors, past Directors or the five highest paid individuals during the Track Record Period for the loss of any office in connection with the management of the affairs of any members of our Group. None of our Directors waived or agreed to waive any emoluments during the Track Record Period.

Save as disclosed above, no other payments of remuneration had been made, or were payable, in respect of the Track Record Period, by our Group to or on behalf of any of our Directors.

For additional information on our Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to Note 8 to the Accountants' Report set out in Appendix I to this document.

### STAFF

Our Group recognises the importance of having a good relationship with our employees. The remuneration payable to the employees include salaries and allowances.

Our Group has not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

## DIRECTORS AND SENIOR MANAGEMENT

Further details relating to the employee recruitment and remuneration, training and safety policy of our Group as referred to in the paragraph headed "Business — Employees" in this document.

### COMPLIANCE ADVISER

In accordance with Rule 3A.19 of the Listing Rules, we have appointed Zhongtai International Capital Limited as the compliance adviser (the "**Compliance Adviser**"). The Compliance Adviser will provide us with guidance and advice as to compliance with the requirements under the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, we will consult with and, if necessary, seek advice from the Compliance Adviser in the following circumstance:

- (i) before the publication of any regulatory announcement, circular, or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) where we propose to use the [REDACTED] of the [REDACTED] in a manner different from that detailed in this document or where the business activities, development or results of our Group deviate from any forecast, estimate or other information in this document; and
- (iv) where the Stock Exchange makes an inquiry to us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment of the Compliance Adviser shall commence on the [REDACTED] and is expected to end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the [REDACTED].

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme, the purpose of which is to motivate the relevant participants to optimise their future contributions and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group. Additionally, in the case of the Executive Directors and senior management of our Group, to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Statutory and General Information — 14. Share Option Scheme" in Appendix V to this document.

**SUBSTANTIAL SHAREHOLDERS**

**SUBSTANTIAL SHAREHOLDERS**

Immediately following completion of the [REDACTED] and the Capitalisation Issue (without taking into account of the Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of options that may be granted under the Share Option Scheme), based on the information available on the Latest Practicable Date, the following persons/entities will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name of Shareholder	Capacity/ Nature of Interest	As at the Latest Practicable Date		Number of Shares held/ interested	Approximate percentage of shareholding immediately following completion of the [REDACTED]
		Number of shares	Approximately percentage of shareholding in our Company		
Mr. Yao	Interest in a Controlled Corporation <sup>(2)</sup>	980	98% [REDACTED](L)	[REDACTED](L)	[REDACTED]%
Affluent Aspire	Beneficial Owner	980	98% [REDACTED](L)	[REDACTED](L)	[REDACTED]%
Ms. Wang Shuying	Interest of Spouse <sup>(3)</sup>	980	98% [REDACTED](L)	[REDACTED](L)	[REDACTED]%

*Notes:*

1. The Letter "L" denotes the person's long position in the relevant Shares.
2. The entire issued share capital of Affluent Aspire is legally and beneficially owned by Mr. Yao. Accordingly, Mr. Yao is deemed to be interested in [REDACTED] Shares held by Affluent Aspire respectively by virtue of the SFO.
3. Ms. Wang Shuying is the spouse of Mr. Yao. Therefore, Ms. Wang Shuying is deemed to be interested in the Shares held by or interested in by Mr. Yao pursuant to the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the [REDACTED] and the Capitalisation Issue (without taking into account of the Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

## SUBSTANTIAL SHAREHOLDERS

### UNDERTAKINGS

Each of our Controlling Shareholders has given certain undertakings in respect of the Shares held by them to our Company, the Sole Sponsor, the [REDACTED], the [REDACTED], the [REDACTED], the [REDACTED] and the Stock Exchange, details of which are set out under the section headed "[REDACTED] — Undertakings by our Controlling Shareholders" in this document. Our Controlling Shareholders have also given undertakings in respect of the Shares to our Company and the Stock Exchange as required by Rule 10.07(3) of the Listing Rules.



## SHARE CAPITAL

### SHARE CAPITAL

The tables as shown below assume the [REDACTED] and the Capitalisation Issue have become unconditional and the issue of Shares pursuant thereto is made as described herein. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of the options which may be granted under the Share Option Scheme.

The authorised and issued share capital of our Company before and following the completion of the [REDACTED] and the Capitalisation Issue is as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
<u>[10,000,000,000]</u> Shares	<u>[10,000,000]</u>
<i>Shares in issue or to be issued, fully paid or credited as fully paid:</i>	
1,000 Shares in issue as at the Latest Practicable Date at HK\$0.001 each	1
[REDACTED] Shares to be issued pursuant to Capitalisation Issue ( <i>Note</i> )	[REDACTED]
<u>[REDACTED]</u> Shares to be issued pursuant to the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u> Total	<u>[REDACTED]</u>

*Note:* Pursuant to the written resolutions of our Shareholders passed on [●] 2024, conditional upon the share premium account of our Company being credited as a result of the [REDACTED], our Directors were authorised to capitalise the amount of HK\$[REDACTED] from the amount standing to the credit of the share premium account of our Company and to appropriate such amount as to pay up in full at par [REDACTED] Shares for allotment and issue to the persons whose names appeared on the register of members of our Company at the close of business on the Business Day immediately before the [REDACTED], where applicable, in proportion (or as nearly as possible without involving fractions) to their respective shareholdings in our Company.

### ASSUMPTIONS

The tables as shown above assume the [REDACTED] becomes unconditional and the allotment and issue of Shares pursuant thereto and under the Capitalisation Issue is made as described herein. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate given to our Directors to allot and issue or repurchase Shares referred to in the paragraph headed "General mandate to issue Shares" or the paragraph headed "General mandate to buy back Shares" in this section below, as the case may be.

## SHARE CAPITAL

### RANKING

The [REDACTED] will be ordinary shares in the share capital of our Company and will rank pari passu in all respects with all Shares in issue or to be issued as mentioned herein, and will qualify for all dividends or other distributions declared, made or paid after the date of this document, save for entitlements under the Capitalisation Issue.

### MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08(1)(a) of the Listing Rules, at the time of [REDACTED] and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of the issued share capital of our Company in the hands of the public (as defined in the Listing Rules).

### SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the paragraph headed "14. Share Option Scheme" in Appendix V to this document.

### GENERAL MANDATE TO ISSUE SHARES

Conditional on the conditions as stated in the section headed "Structure and Conditions of the [REDACTED]" in this document being fulfilled, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with subject to the requirement that the aggregate number of Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued (otherwise than pursuant to a rights issue, or scrip dividend scheme or similar arrangements, or a specific authority granted by the Shareholders) shall not exceed:

- (a) 20% of the aggregate number of Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue; and
- (b) the aggregate number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in the paragraph headed "General mandate to buy back Shares" below.

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or upon the exercise of any options which may be granted under the Share Option Scheme nor pursuant to the exercise of [REDACTED]. This general mandate to issue Shares will remain in effect until:

- (a) the conclusion of our Company's next annual general meeting;
- (b) the expiration of the period within which our Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (c) it is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

## SHARE CAPITAL

For further details of this general mandate, please refer to the paragraph headed "Further information about our Company and its subsidiaries — 3. Resolutions in writing of our Shareholders passed on [●] 2024" in Appendix V to this document.

### GENERAL MANDATE TO BUY BACK SHARES

Conditional on conditions as stated in the section headed "Structure and Conditions of the [REDACTED]" in this document being fulfilled, our Directors have been granted a general unconditional mandate to exercise all the powers to buy back Shares (Shares which may be listed on the Stock Exchange or on any other stock exchange which is recognised by the SFC and the Stock Exchange for this purpose) which represent up to 10% of the aggregate number of Shares in issue immediately following the completion of the [REDACTED] and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of [REDACTED] and the exercise of the options which may be granted under the Share Option Scheme).

This mandate only relates to buy-back made on the Stock Exchange, or on any other stock exchange on which the Shares may be [REDACTED] (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in connection with all applicable laws and regulations and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed "Further information about our Company and its subsidiaries — 7. Buy-back by our Company of its own securities" in Appendix V to this document.

The general mandate to buy back Shares will remain in effect until:

- (i) the conclusion of the Company's next annual general meeting;
- (ii) the expiration of the period within which the Company's next annual general meeting is required to be held by any applicable laws of the Cayman Islands or the Articles; or
- (iii) it is varied or revoked by an ordinary resolution of the Shareholders in general meeting, whichever is the earliest.

For further details of this general mandate, please also refer to the paragraph headed "Further information about our Company and its subsidiaries — 3. Resolutions in writing of our Shareholders passed on [●] 2024" in Appendix V to this document.

### CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association. For details, please see paragraph headed "2. Articles of Association — (e) Meeting of members — (iv) Notices of meetings and business to be conducted" in Appendix IV to this document.

## FINANCIAL INFORMATION

*You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in the Accountants' Report in Appendix I to this document (the "Consolidated Financial Information"). Our Consolidated Financial Information has been prepared in accordance with the IFRS Accounting Standards. You should read the entire Accountants' Report and not merely rely on the information contained in this section.*

*The following discussion and analysis contains certain forward-looking statements that reflect the current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and projections depend on a number of risks and uncertainties over which we do not have control. Please see "Risk Factors" for details.*

*Discrepancies between totals and sums of amounts listed herein in any table or elsewhere in this document may be due to rounding.*

## OVERVIEW

We are a leading manufacturer of specialty flour products in Hebei, the PRC. Established in 2002, we have been selling flour products and flour by-products under our brand "Shenhua (參花)" for over 20 years. We have been awarded the designations of State Key Leading Enterprise in Agricultural Industrialisation\* (農業產業化國家重點龍頭企業) and Hebei Province's Key Leading Enterprise in Agricultural Industrialisation\* (河北省農業產業化重點龍頭企業) by national and provincial governmental authorities. According to the F&S Report, we ranked third in Hebei in terms of specialty flour sales volume in 2023, with a market share of approximately 3.7%. Specialty flour is a segment of the overall PRC flour market that has grown rapidly in recent years, as reflected in the increase in specialty flour production volume in the PRC from approximately 20.5 million tonnes (representing 29.6% of the overall flour production) in 2019 to 26.3 million tonnes (representing 37.5% of the overall flour production) in 2023 at a CAGR of 6.4%.

Notably, we have attained a leading position in the PRC heat-treated flour market. As further elaborated below, we have applied the heat-treating technique to our production of specialty flour products to improve their functional attributes. In terms of heat-treated flour production volume in 2023, we ranked second in the PRC with a market share of approximately 29.7%. To strengthen our technical expertise and further improve our industry standing, we are endeavouring to establish an accredited industry standard in the PRC in relation to heat-treated flour through collaboration with the Chinese Academy of Agricultural Sciences (中國農業科學院). As at the Latest Practicable Date, the proposed industry standard has already been drawn up and the accreditation is subject to completion of the review and assessment process by the relevant governmental authorities. We also enjoy a favourable geographical location as compared with fellow flour manufacturers operating in some other parts of the PRC: Hebei is a major wheat production area in the PRC which is also adjacent to certain major grain consumption areas in the PRC; strategically located in Hebei, we enjoy easy access to both

## FINANCIAL INFORMATION

supply of wheat (being the major raw material required in our production process) and the flour product markets (including manufacturers of downstream products).

During the Track Record Period, we had manufactured and sold a diverse portfolio of flour products, which comprised over 110 general specialty flour products (tailored for making specific food products, such as bread, pastries, noodles, dumplings and cakes), over 10 heat-treated specialty flour products (being advanced versions of specialty flour products that carry superior functional attributes) and four all-purpose flour products (suitable for making a wide variety of food products). We had also sold flour by-products derived from the flour production process, such as wheat middlings and bran.

In April 2021, our heat-treated specialty flour products were launched in the market and witnessed a rapid growth in terms of revenue during the Track Record Period. Our sales of heat-treated specialty flour products amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million during FY2021, FY2022 and FY2023 respectively, representing a CAGR of 21.0%. Having undergone the further production stage of heat-treating, our heat-treated specialty flour products carry extended freshness and a stronger water absorption capacity, and hence higher sales values and gross profit margins, as compared with our general specialty flour products. Our heat-treated specialty flour products come in two forms, namely (1) pure heat-treated specialty flour products, i.e. flour products consisting purely of heat-treated specialty flour; and (2) blended specialty flour products, i.e. flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour.

Towards the end of FY2020, we also rolled out pre-mixed flour products, i.e. mixtures that consist of specialty flour and other ingredients (such as sugar, milk powder, yeast, baking powder, egg powder and fat) and can readily be converted into specific end food products just by adding some basic substances (such as water). Examples of the end food products that can be produced using our tailored pre-mixed flour products include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou. By introducing pre-mixed flour products to the market, we aim to simplify the production process of specific end food products to the largest possible extent. Since all major ingredients required are included in optimised portions as a package and provided together with production directions, users of our pre-mixed flour products are relieved of the need to attend to raw material selection and design of product formulations and the entire production process of the end food products becomes much more straightforward. In addition, the users can largely dispense with research and development work in relation to the end food products, procurement of raw materials and acquisition and maintenance of production equipment on their part; the associated operating costs and human resource expenses can therefore be brought down. As a result, food production is made more accessible, easily manageable and cost-effective to individual consumers and small-sized food processors such as bakeries and restaurants operating on a limited scale.

For FY2021, FY2022 and FY2023, our Group's revenue amounted to approximately RMB500.0 million, RMB468.6 million and RMB544.0 million, and we recorded a net profit of approximately RMB32.1 million, RMB45.3 million and RMB40.5 million, respectively.

## FINANCIAL INFORMATION

### BASIS OF PRESENTATION

Our Company was incorporated in Cayman Islands on 9 May 2019 as an exempted company with limited liability under the Companies Act, pursuant to the Reorganisation, further details of which are set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation" in this document, became the holding company of the companies now comprising our Group in April 2020.

Our historical financial information has been prepared in accordance with all applicable IFRS Accounting Standards as issued by the International Accounting Standards Board (the "IASB"). For further details of the material accounting policies adopted by our Group, please refer to note 2 to the Accountants' Report in Appendix I to this document. For the purpose of preparing our historical financial information, our Group has consistently applied all applicable new and revised IFRS Accounting Standards throughout the Track Record Period. In addition, the Group has also elected to early adopt the "Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*" and the "Amendments to IAS 1, *Non-current Liabilities with Covenants*" throughout the Track Record Period.

### KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS

Our results of operations and financial conditions are affected by a number of factors, many of which may be beyond our control, including those factors set forth in the section headed "Risk Factors" in this document and those set forth below.

#### Cost and/or shortage of wheat

The major raw materials used in the production of our products is principally wheat, our ability to sustain our profitability is therefore dependent upon a sufficient supply of wheat at commercially reasonable prices. Our other raw materials consists of base flour, additives and package materials. For FY2021, FY2022 and FY2023, our costs of raw materials accounted for approximately 93.9%, 93.6% and 95.2% of our total costs of sales, respectively. As part of our costs of raw materials, our cost of wheat amounted to approximately RMB370.5 million, RMB331.6 million and RMB437.4 million, representing approximately 82.4%, 81.6% and 92.1% of our total costs of sales. Our operation and financial conditions are therefore subject to fluctuations in the prices of wheat. According to the F&S report, fluctuation was noted in the average market price of wheat from 2019 to 2023, whereas the lowest average market price of wheat was recorded in 2019 as RMB2,369 per tonne, and the highest average market price of wheat was recorded in 2022 as RMB3,121 per tonne. If all or a significant number of our suppliers for reason(s) are unable or unwilling to supply to us wheat in sufficient quantities and at commercially reasonable prices, we may experience a shortage of wheat and/or an increase in the costs of our raw materials. Further, there is no guarantee that were we to seek alternative suppliers, we can do so in a timely manner or at all.

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During the Track Record Period, as part of our fulfilment of corporate social responsibility pursuant to the policy launched by the Gu'an Development and Reform Bureau\* (固安縣發展和改革局) in the PRC, we had to maintain a wheat storage of not less than 40,000 tonnes for each of FY2021, FY2022 and FY2023, and such volume of wheat shall at all times be maintained as wheat inventories as long as such policy remain in place. Such governmental regulations and policies, together with other external conditions such as fluctuations in climate and environmental conditions, commodity prices, supply and demand and logistics costs, all of which are beyond our control, may also lead to fluctuation in the prices of wheat and our raw materials. We do not hedge against changes in commodity prices and we do not intend to enter into such hedges in the future. As an alternative, we entered into prepayment arrangements with certain of our suppliers during the Track Record Period in order to secure a stable supply of wheat. Despite such arrangement, unexpected volatility of wheat market price might still have adverse impact on our operation. As such, our ability to pass on any increase in the costs of raw materials, particular the costs of wheat, to our customers and ability to identify and source from alternative suppliers will have a significant impact on our profit margins and our profitability.

### **Changes in the PRC tax laws and preferential tax treatment**

Our profitability is affected by the preferential tax treatments and government grants we enjoy. Under the EIT Law and the related implementation rules, our Chinese subsidiaries are subject to Chinese enterprise income tax at the rate of 25%. However, according to the EIT Law and the related implementation rules and the Circular of the Ministry of Finance and the State Tax Administration on Scope of Agricultural Products' Primary processing Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), PRC companies that carry out the primary processing of agriculture products such as the manufacturing of flour and flour by-products are exempted from the enterprise income tax on income derived from such business. Accordingly, as our Group is engaged in the manufacturing and sale of flour and flour by-products, assessable profit of our Group arising from primary processing of agriculture products, being the principal business of our Group during the Track Record Period, was exempted from the enterprise income tax. During the Track Record Period, income tax of our Group, which were mainly charged for our Group's other income, including income from the operating leases and wheat trading, were approximately RMB175,000, RMB203,000 and RMB300,000 for each of FY2021, FY2022 and FY2023, respectively.

There is no assurance that we will continue to enjoy the preferential tax treatment at the level that we historically have, or at all. Any material reduction in the tax benefit that we enjoy may have a material adverse effect on our financial results.

### **Consumer demand and consumption patterns**

Our results of operations are strongly affected by consumer demand and consumption pattern for our flour products. Consumer demand and consumption pattern can be driven and affected by numerous factors, which may be beyond our control, such as tastes and spending habits of consumer, consumer perception of safety and quality, consumer purchasing power, the pricing of our products and competing/substitute products, general and local economic conditions, and uncertainties about future economic prospects. During the period from 2019 to 2023, flour consumption in the PRC grew from approximately 69.2 million tonnes to 70.0 million

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tonnes, representing a CAGR of approximately 0.3% and is projected to further increase slightly to approximately 73.9 million tonnes in 2028, representing a CAGR of approximately 1.1% for the period from 2023 to 2028. According to the F&S Report, with the rising popularity and penetration of heat-treated specialty flour, it is expected that the overall quality of flour, including both all-purpose flour and specialty flour, will improve, helping to drive overall flour consumption and sales in the PRC, and therefore a stable growth of flour consumption is projected for the period from 2023 to 2028. While it is expected that flour products will remain a significant part of the diet of PRC citizens, there can be no guarantee that their dietary habit will not shift towards a greater focus on meats, fruits, and vegetables. Further, with rising incomes in the PRC, there may also be a shift towards other grains or a mix of grains such as barley, quinoa, millet and buckwheat which are generally perceived to offer a variety of essential nutrients. Where these trends significantly increase, it may have a negative impact upon the demand for our flour products and materially affect our business and financial conditions.

**Seasonality**

Our sales are affected by seasonality as certain flour products are subject to the increase in demand from downstream industries during the several months/weeks preceding the Spring Festival. Accordingly, our results of operations may exhibit fluctuation over the course of each financial year, and results for any interim period may not be indicative of our results for the full financial year.

**SENSITIVITY ANALYSIS**

During the Track Record Period, the cost of our principal raw materials, being wheat, represented approximately 82.4%, 81.6% and 92.1% of our cost of sales for FY2021, FY2022 and FY2023, respectively. Accordingly, our results of operations will be significantly affected if our cost of wheat increases and we are unable to pass such increase to our customers.

For illustrative purpose, set out below is a sensitivity analysis on the impact of hypothetical fluctuations on cost of wheat on our profit before taxation for the Track Record Period, assuming all other factors remain unchanged:

	<b>Change in profit before taxation</b>		
	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Hypothetical change in cost of wheat</b>			
+/- 2%	7,410.6	6,632.2	8,748.9
+/- 4%	14,821.2	13,264.4	17,497.8
+/- 6%	22,231.8	19,896.5	26,246.7



## FINANCIAL INFORMATION

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our Consolidated Financial Information in conformity with the IFRS Accounting Standards requires us to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Our estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Our significant accounting policies and accounting judgements and estimates are summarised in notes 2 and 3 to the Accountants' Report in Appendix I to this document.

The principal accounting policies that we believe are of critical importance to us or involve the most significant estimates assumptions and judgments used in the preparation of our financial statements are set forth below.

#### Revenue recognition

We recognise revenue when control over a product or service is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

We are principally engaged in the manufacturing and sale of flour and flour by-products. We recognise revenue from the sale of flour and flour by-products when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers. We take advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

#### Property, plant and equipment

Property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and impairment losses.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components). Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognised in profit or loss.

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The estimated useful lives for the current and comparative periods are as follows:

-	Right-of-use assets	Over the unexpired term of lease
-	Plant and buildings	40 years
-	Machinery and other equipment	3-20 years

Depreciation methods, useful life and residual values are reviewed at each reporting date and adjusted if appropriate.

### **Inventories**

Inventories are measured at the lower of cost and net realisable value. Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### **Trade and other receivables**

A receivable is recognised when we have an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost.

### **Leases**

#### *As a lessor*

When we act as a lessor, we determine at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, we allocate the consideration in the contract to each component on a relative stand-alone selling price basis.

The rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

**FINANCIAL INFORMATION**

**SUMMARY OF RESULTS OF OPERATIONS**

Set forth below is a summary of our Group's consolidated statements of profit or loss for the Track Record Period, as extracted from the Accountants' Report included in Appendix I to this document. The financial information contained in the Accountants' Report included in Appendix I to this document was prepared in accordance with IFRSs.

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	499,996	468,574	543,963
Cost of sales	<u>(449,566)</u>	<u>(406,284)</u>	<u>(475,194)</u>
<b>Gross profit</b>	50,430	62,290	68,769
Other net income	6,480	8,373	11,771
Selling expenses	(2,125)	(970)	(836)
Administrative and other expenses	<u>(12,702)</u>	<u>(7,167)</u>	<u>(12,861)</u>
<b>Profit from operations</b>	42,083	62,526	66,843
Finance costs	<u>(9,854)</u>	<u>(17,067)</u>	<u>(26,046)</u>
<b>Profit before taxation</b>	32,229	45,459	40,797
Income tax	<u>(175)</u>	<u>(203)</u>	<u>(300)</u>
<b>Profit for the year</b>	<u><u>32,054</u></u>	<u><u>45,256</u></u>	<u><u>40,497</u></u>

**FINANCIAL INFORMATION**

**DESCRIPTION OF SELECTED ITEMS IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

**Revenue**

We principally derive our revenue from the manufacture and sale of (i) flour products which can generally be categorised into general specialty flour products, heat-treated specialty flour products and all-purpose flour products; and (ii) flour by-products in the PRC.

*Revenue by product types*

The table below sets forth a breakdown of our revenue by product types during the Track Record Period:

	<b>FY2021</b>		<b>FY2022</b>		<b>FY2023</b>	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Flour products</b>						
– General specialty flour	320,399	64.1	262,059	55.9	317,781	58.4
– Heat-treated specialty flour	96,970	19.4	140,088	29.9	141,879	26.1
– All-purpose flour	16,718	3.3	4,808	1.0	5,395	1.0
Sub-total	434,087	86.8	406,955	86.8	465,055	85.5
<b>Flour by-products and others</b>	65,909	13.2	61,619	13.2	78,908	14.5
<b>Total</b>	<u>499,996</u>	<u>100.0</u>	<u>468,574</u>	<u>100.0</u>	<u>543,963</u>	<u>100.0</u>

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The table below sets forth the sales volume and the average selling price of our products during the Track Record Period:

	FY2021		FY2022		FY2023	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(tonnes)	(RMB per kg)	(tonnes)	(RMB per kg)	(tonnes)	(RMB per kg)
<b>Flour products</b>						
– General specialty flour	100,039	3.20	72,205	3.63	86,280	3.68
– Heat-treated specialty flour	26,399	3.67	33,973	4.12	32,960	4.30
– All-purpose flour	6,736	2.48	1,620	2.97	1,854	2.91
Sub-total	133,174		107,798		121,094	
<b>Flour by-products and others</b>	35,748	1.84	29,287	2.10	39,510	2.00
<b>Total</b>	<u>168,922</u>		<u>137,085</u>		<u>160,604</u>	

During the Track Record Period, we primarily generated revenue from the sales of our flour products, which amounted to approximately RMB434.1 million, RMB407.0 million and RMB465.1 million, representing approximately 86.8%, 86.8% and 85.5% of our total revenue for FY2021, FY2022 and FY2023, respectively.

Our revenue derived from the sales of our general specialty flour products amounted to approximately RMB320.4 million, RMB262.1 million and RMB317.8 million respectively, representing approximately 64.1%, 55.9% and 58.4% of our total revenue during the Track Record Period with a sales volume of approximately 100,039 tonnes, 72,205 tonnes, and 86,280 tonnes. The decrease in revenue and sales volume of our general specialty flour products respectively by approximately RMB58.3 million or 18.2% and 27,834 tonnes or 27.8% in FY2022 was primarily due to the impact of the COVID-19 pandemic in FY2022, which also limited our Group's sales and/or delivery of its products to customers of relatively remote areas. Also, we have witnessed a loss of customers upon cessation of the Third Party Payment Arrangement since FY2022. We therefore recorded a lesser sales of our general specialty flour products in the FY2022 in terms of both revenue and sales volume as compared with FY2021. The impact of the decrease in sales volume of our general specialty flour products in FY2022 was partially offset by the increase of the average selling price of our general specialty flour products from approximately RMB3.20 per kg in FY2021 to approximately RMB3.63 per kg in FY2022. Such increase in average selling price was in line with the increase in the average market price of wheat in the PRC from approximately RMB2,596 per tonne in 2021 to RMB3,121 per tonnes in 2022, according to the F&S Report.

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In FY2023, we recorded an increase in revenue from our general specialty flour products by approximately RMB55.7 million or 21.3%, which was generally in line with the increase in our sales volume by approximately 14,075 tonnes or 19.5%. Such increase in revenue and sales volume of our general specialty flour products was mainly attributable to our effort in extending our reach to new wholesaler customers in FY2023 with an aim to increase our market penetration and further secure our market position in specialty flour market.

As for the sales of our heat-treated specialty flour products, it amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million during each of FY2021, FY2022 and FY2023, representing approximately 19.4%, 29.9% and 26.1% of our total revenue, with a sales volume of approximately 26,399 tonnes, 33,973 tonnes and 32,960 tonnes respectively. The revenue from our heat-treated specialty flour products increased by approximately RMB43.1 million or 44.5% to RMB140.1 million in FY2022 and further increased by approximately RMB1.8 million or 1.3% to approximately RMB141.9 million in FY2023. Such increasing trend was primarily attributable to our effort in promoting our heat-treated specialty flour products since their first launch in April 2021. In line with the increase in the average market price of wheat in the PRC from approximately RMB2,596 per tonne in 2021 to RMB3,121 per tonnes in 2022, the average selling price of our heat-treated specialty flour products also demonstrated an increasing trend, from approximately RMB3.67 per kg in FY2021 to RMB4.30 per kg in FY2023. The increase in the sales volume of our heat-treated specialty flour products in FY2022 was also attributable to our continuous efforts in the promotion of such products as aforesaid, whereas the slight decline in sales volume of approximately 3.0% from 33,973 tones in FY2022 to 32,960 tonnes in FY2023 was primarily due to the increase in sales of our pure heat-treated specialty flour products. As our blended specialty flour products are generally produced by blending about 15% to 20% pure heat-treated specialty flour with non-treated specialty flour, the increase in the proportion of our heat-treated specialty flour sold in the form of pure heat-treated specialty flour products in FY2023 as compared with that in FY2022 resulted in a slight decrease in the volume of our overall heat-treated specialty flour products sold in FY2023. As a result, the average selling price of our heat-treated specialty flour products in FY2023 increased, primarily attributable to the increase in sales volume of our pure heat-treated specialty flour products which generally carry a higher selling price as compared to our blended heat-treated specialty flour products in FY2023.

The sales of our all-purpose flour products amounted to approximately RMB16.7 million, RMB4.8 million and RMB5.4 million, representing approximately 3.3%, 1.0% and 1.0% of our total revenue during each of FY2021, FY2022 and FY2023, with a corresponding sales volume of approximately 6,736 tonnes, 1,620 tonnes and 1,854 tonnes. The decrease in revenue and sales volume of our all-purpose flour products by approximately RMB11.9 million or 71.2%, and approximately 5,116 tonnes or 76.0% in FY2022, respectively, was mainly due to the impact of COVID-19 pandemic, the cessation of Third Party Payment Arrangement and the adjustment of our sales strategies in focusing on the sales of our specialty flour products, in particular, our heat-treated specialty flour products which generally carry a higher average selling price, gross profit, and gross profit margin. The slight increase in revenue and sales volume of our all-purpose flour products by approximately RMB0.6 million or 12.2% and approximately 234 tonnes or 14.4% in FY2023 was generally due to recovery of our downstream demand as the impact of the COVID-19 pandemic subsided. The average selling price of our all-purpose flour

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products increased from approximately RMB2.48 per kg in FY2021 to RMB2.97 per kg in FY2022, primarily due to the increase in average market price of wheat in the PRC as mentioned above, and remained relatively stable at approximately RMB2.91 per kg in FY2023.

Apart from the sales of our flour products, we also generated revenue through our sale of flour by-products and others, which mainly comprised of wheat middlings and bran. In each of FY2021, FY2022 and FY2023, the sales of our flour by-products and others amounted to approximately RMB65.9 million, RMB61.6 million and RMB78.9 million respectively, representing approximately 13.2%, 13.2% and 14.5% of our total revenue, with a corresponding sales volume of approximately 35,748 tonnes, 29,287 tonnes and 39,510 tonnes. The revenue and sales volume of our flour by-products and others respectively decreased by approximately RMB4.3 million or 6.5% and 6,461 tonnes or 18.1% in FY2022. Such decrease was generally in line with the decrease in the sales volume of our flour products. In FY2023, the revenue and sales volume of our flour by-products and others respectively increased by approximately RMB17.3 million or 28.1% and 10,223 tonnes or 34.9%. Such increase was primarily due to (i) the increase in the actual volume of wheat processed and hence our flour production volume and (ii) a one-off transaction of approximately RMB12.0 million in FY2023 for the sale of a batch of wheat in our inventories, the volume of which represented approximately 3.0% of our actual volume of wheat processed in FY2023, which were no longer suitable for processing into our flour products due to degradation of their quality which was identified during a quality check performed by our staff. The increase in average selling price of our flour by-products and others from approximately RMB1.84 per kg in FY2021 to approximately RMB2.10 per kg in FY2022 was primarily in line with the increase in average selling price of bran and wheat middling in the PRC from FY2021 to FY2022. The average selling price of our flour by products and others remained stable in FY2023.

### *Revenue by customer types*

The table below sets forth a breakdown of our revenue by customer types during the Track Record Period:

	FY2021			FY2022			FY2023		
	No. of customers (Note 2)	RMB'000	% of revenue	No. of customers (Note 2)	RMB'000	% of revenue	No. of customers (Note 2)	RMB'000	% of revenue
Food processors	40	253,792	50.8	28	200,278	42.7	21	165,078	30.3
Wholesalers	183	167,094	33.4	39	226,573	48.4	42	359,968	66.2
Others <sup>(Note 1)</sup>	77	79,110	15.8	50	41,723	8.9	32	18,917	3.5
<b>Total</b>	<b>298</b>	<b>499,996</b>	<b>100.0</b>	<b>114</b>	<b>468,574</b>	<b>100.0</b>	<b>92</b>	<b>543,963</b>	<b>100.0</b>

#### *Notes:*

- (1) "Others" included, among others, animal breeding facilities and timber processors.
- (2) For presentation purpose, customers with the same ultimate beneficial owner(s) are classified into an individual customer group, and each such customer group is regarded as one single customer of our Group. Members within the same customer group may have different principal business activities and as a result the customer group may fall within more than one of the customer types presented in the table above. Therefore, our numbers of customers under the different customer types for each financial year set out in the table above did not add up to our total number of customers for that financial year.

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The table below sets forth the sales volume and average selling price of our products sold to our customers during the Track Record Period:

	FY2021		FY2022		FY2023	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	(tonnes)	(RMB per kg)	(tonnes)	(RMB per kg)	(tonnes)	(RMB per kg)
Food processors	72,289	3.51	54,277	3.69	43,950	3.76
Wholesalers	59,947	2.79	67,041	3.38	108,693	3.31
Others <sup>(Note 1)</sup>	36,686	2.16	15,767	2.65	7,961	2.38
<b>Total</b>	<b>168,922</b>		<b>137,085</b>		<b>160,604</b>	

Note:

- (1) "Others" included, among others, animal breeding facilities and timber processors.

Our principal customers during the Track Record Period comprised food processors customers and wholesaler customers which in aggregate accounted for approximately 84.2%, 91.1% and 96.5% of our total revenue during FY2021, FY2022 and FY2023, respectively. Our revenue from our food processor customers accounted for approximately RMB253.8 million, RMB200.3 million and RMB165.1 million during FY2021, FY2022 and FY2023, representing approximately 50.8%, 42.7% and 30.3% of our total revenue, respectively for the corresponding year.

Our revenue from our wholesaler customers accounted for approximately RMB167.1 million, RMB226.6 million and RMB360.0 million during FY2021, FY2022 and FY2023, representing approximately 33.4%, 48.4% and 66.2% of our total revenue, respectively for the corresponding year.

Our other customers during the Track Record Period included, among others, animal breeding facilities and timber processors. Our revenue from our other customers amounted to approximately RMB79.1 million, RMB41.7 million and RMB18.9 million during FY2021, FY2022 and FY2023, representing approximately 15.8%, 8.9% and 3.5% of our total revenue, respectively.

During the Track Record Period, we recorded a significant decrease in our number of customers, from 298 customers for FY2021, to 114 customers for FY2022 and 92 customers for FY2023. The general decreasing trend in our number of customers throughout the Track Record Period was primarily attributable to (i) the loss of customers upon cessation of our Third Party Payment Arrangement, further details of which are set out in the section headed "Business — Customers — Third Party Payment Arrangement" in this document; (ii) our adjustments in sales strategies, whereby, in view of the disruption of logistics arrangement due to the COVID-19 pandemic, we had, since FY2022, focused more of our sales in the northern region of the PRC, in particular, Beijing, Tianjin and Hebei (京津冀地區), being regions of closer proximity



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to our production base, thus lowering our logistics costs in engaging in such transactions and in turn led to decrease in customers in other regions; and (iii) the adjustment in our product portfolio, since FY2021, upon the launching of our heat-treated specialty flour products as our response to the market trend of rising demand for quality flour products and as a part of our product enhancement strategy. We noted the increasing market potential in our products under the product class of specialty flour products (including both heat-treated specialty flour products and general specialty flour products), and therefore decided to focus our efforts in such product class, resulting in the significant decrease in sales in our all-purpose flour products in FY2022 which carried a lower average selling price and gross profit margin, as well as fewer customers. While the number of our food processors customers and others customers decrease alongside the decrease in our total customers during the Track Record Period, we recorded a slight increase in the number of our wholesalers customers in FY2023, mainly due to our effort in extending our reach to new wholesaler customers with an aim to increase our market penetration and further secure our market position in the specialty flour market.

The change in structure of our customer base resulted in the significant increase in revenue and sales volume from our wholesaler customers throughout the Track Record Period, mainly as a result of our adoption of strategy in promoting our specialty flour products, in particular, heat-treated specialty flour products, by engaging wholesaler customers to increase our market reach and market penetration of our specialty flour products, in particular, by taking advantage of our position as an early mover and one of the leading flour manufacturers in the PRC market in relation to the production and supply of heat-treated specialty flour products, to increase our market penetration in respect of our heat-treated specialty flour products before the entrance of other market participants. Moreover, it is common for flour manufacturers to avail themselves of the sale network of wholesalers to build up their brand recognition and achieve business expansion. As the wholesalers promote the flour products to wide-ranging customers across wide geographical areas through their expansive channels, our flour products will gain increased market reach and penetration to the benefit of us. By expanding the base of our downstream customers through the further engagement of wholesaler customers, associated costs such as the costs to maintain a large number of sales staffs, can be reduced.

The increase in average selling prices in respect of our products sold to our food processor customers, wholesalers customers as well as other customers in FY2022 generally corresponded with the overall increase in the average selling price of our products in FY2022, in particular, our heat-treated specialty flour products, and was also attributable to our strategy in promoting our specialty flour products, in particular, heat-treated specialty flour products through our wholesaler customers. The average selling price attributable to our sales to our food processor customers and wholesaler customers remained relatively stable in FY2023. Whereas the average selling price attributable to our sales to other customers decreased slightly in FY2023, as our other customers purchased a larger proportion of flour by-products and others in FY2023, the average selling price of which was the lowest among all of our products.

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### Revenue by geographical region

The table below sets forth a breakdown of our revenue by geographical region during the Track Record Period:

	FY2021		FY2022		FY2023	
	RMB'000	%	RMB'000	%	RMB'000	%
North China	388,334	77.7	394,542	84.2	489,229	89.9
East China	70,128	14.0	49,324	10.5	36,178	6.7
South China	34,311	6.9	15,532	3.3	3,937	0.7
Central China	7,223	1.4	9,176	2.0	14,619	2.7
	<u>499,996</u>	<u>100.0</u>	<u>468,574</u>	<u>100.0</u>	<u>543,963</u>	<u>100.0</u>

In line with our strategy in engaging wholesaler customers to increase our sales and market penetration of our specialty general flour products, in particular, our heat-treated specialty flour products which we enjoyed a competitive edge, and our focus in sales in the northern region of the PRC, especially Beijing, Tianjin and Hebei (京津冀地區), our sales to our customers in the northern region of the PRC increased by approximately RMB6.2 million or 1.6% from approximately RMB388.3 million for FY2021 to approximately RMB394.5 million for FY2022, and further increased by approximately RMB94.7 million or 24.0% to approximately RMB489.2 million for FY2023, respectively, representing approximately 77.7%, 84.2% and 89.9% of the total revenue for each of FY2021, FY2022 and FY2023. During the Track Record Period, our sales to Beijing, Tianjin and Hebei, in particular, amounted to approximately RMB334.4 million, RMB360.9 million and RMB463.9 million respectively, representing approximately 66.9%, 77.0% and 85.3% of the total revenue for each of FY2021, FY2022 and FY2023.

### Cost of sales

The following table sets out a breakdown of our cost of sales during the Track Record Period:

	FY2021		FY2022		FY2023	
	% of total		% of total		% of total	
	RMB'000	cost of sales	RMB'000	cost of sales	RMB'000	cost of sales
Raw materials	421,931	93.9	380,417	93.6	452,525	95.2
Direct labour	5,778	1.3	5,593	1.4	5,185	1.1
Research and development costs	1,836	0.4	1,592	0.4	1,520	0.3
Manufacturing overheads	20,021	4.5	18,682	4.6	15,964	3.4
<b>Total</b>	<u>449,566</u>	<u>100.0</u>	<u>406,284</u>	<u>100.0</u>	<u>475,194</u>	<u>100.0</u>

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Our cost of sales during the Track Record Period comprised (i) raw materials costs; (ii) direct labor costs; (iii) research and development costs; and (iv) manufacturing overheads. Cost of raw materials was the largest component of our cost of sales and accounted for approximately 93.9%, 93.6% and 95.2% of our total cost of sales for FY2021, FY2022 and FY2023, respectively.

### *Raw materials*

Our raw materials comprised wheat, base flour, additives and package materials. The following table sets forth the breakdown of our cost of raw materials during the Track Record Period:

	FY2021		FY2022		FY2023	
	<i>% of total</i>		<i>% of total</i>		<i>% of total</i>	
	<i>RMB'000</i>	<i>cost of sales</i>	<i>RMB'000</i>	<i>cost of sales</i>	<i>RMB'000</i>	<i>cost of sales</i>
Wheat	370,531	82.4	331,609	81.6	437,445	92.0
Base flour	44,124	9.8	42,685	10.5	8,933	1.9
Additives	3,952	0.9	4,163	1.0	4,238	0.9
Package materials	3,324	0.8	1,960	0.5	1,909	0.4
	<b>421,931</b>	<b>93.9</b>	<b>380,417</b>	<b>93.6</b>	<b>452,525</b>	<b>95.2</b>

Our cost of raw materials decreased by approximately RMB41.5 million from approximately RMB421.9 million for FY2021 to approximately RMB380.4 million for FY2022, and increased by approximately RMB72.1 million to approximately RMB452.5 million for FY2023.

During the Track Record Period, wheat was the largest component of our raw materials. For each of FY2021, FY2022 and FY2023, our cost of wheat was approximately RMB370.5 million, RMB331.6 million and RMB437.4 million, accounting for approximately 82.4%, 81.6% and 92.1% of our total cost of sales respectively. The decrease in our cost of wheat during the FY2022 as compared to that of FY2021 was generally in line with the decrease in the sales volume of our flour products in FY2022 as well as the prepayment arrangement which we had entered into with certain of our suppliers to secure a stable supply of wheat in view of the volatile wheat market price during the FY2022 brought by the COVID-19 pandemic and Russo-Ukrainian war. The increase in our cost of wheat from approximately RMB331.6 million for FY2022 to approximately RMB437.4 million for FY2023 was mainly due to (i) the increase in the sales volume of our flour products; and (ii) our decreased in procurement of base flour sourced from third party suppliers as described below.

During the Track Record Period, base flour was also a significant component of our raw materials and was purchased by us from suppliers to be used for further processing or blending to produce the relevant flour products. For each of FY2021, FY2022 and FY2023, our cost of base flour was approximately RMB44.1 million, RMB42.7 million and RMB8.9 million, accounting for approximately 9.8%, 10.5% and 1.9% of our total cost of sales. The decrease in our cost of base

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flour during FY2022 was largely in line with the decrease in our sales volume, whereas the further significant decrease in our cost of base flour in FY2023 was mainly due to our efforts in producing the base flour on our own, rather than relying on the supply of base flour from third party suppliers.

### *Research and development costs*

Our research and development expense primarily comprised the salaries and wages and employee benefits such as social insurance contributions for our research and development staffs, the depreciation of our research and development related machinery and equipment as well as the testing fee primarily in relation to testing and analyses of wheat and our flour. Our research and development costs decreased by approximately RMB0.2 million or 13.3% from approximately RMB1.8 million for FY2021 to approximately RMB1.6 million for FY2022, as a results of the decrease in (i) the staff cost related to our research and development staff; and (ii) the testing fee as we conducted fewer testing activities due to the impact of the COVID-19 pandemic. Our research and development costs remained stable at approximately RMB1.5 million for FY2023.

### *Direct labour costs and manufacturing overheads*

Direct labor costs primarily comprised salaries and wages and employee benefits such as social insurance contributions for our production staff. Our direct labor costs decreased by approximately RMB0.2 million or 3.2% from approximately RMB5.8 million for FY2021 to approximately RMB5.6 million for FY2022. Such decrease in FY2022 was largely in line with the decrease in our sales volume and revenue in FY2022. Our direct labour costs further decreased by approximately RMB0.4 million or 7.3% to approximately RMB5.2 million in FY2023, primarily as a results of the decrease in number of our production staff.

Manufacturing overheads primarily comprised (i) logistics costs; (ii) depreciation expenses; and (iii) utility expenses. Our manufacturing overheads decreased by approximately RMB1.3 million or 6.7% from approximately RMB20.0 million for FY2021 to approximately RMB18.7 million for FY2022, primarily as a result of the decrease in our logistics costs by approximately RMB2.8 million, generally in line with our decrease in sales. Our manufacturing overheads further decreased by approximately RMB2.7 million or 14.5% to approximately RMB16.0 million for FY2023, primarily due to the further decrease in our logistics costs by approximately of RMB3.4 million in line with our strategy in focusing our sales in the northern region of the PRC, the closer proximity of which allowed us to reduce our logistic costs.

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**Gross profit and gross profit margin**

*Gross profit and gross profit margin by product types*

The following table sets forth the breakdown of our gross profit and gross profit margin during the Track Record Period:

	FY2021		FY2022		FY2023	
	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %	Gross profit RMB'000	Gross profit margin %
<b>Flour products</b>						
– General specialty flour	30,509	9.5	30,417	11.6	37,081	11.7
– Heat-treated specialty flour	15,650	16.1	28,331	20.2	29,348	20.7
– All-purpose flour	989	5.9	372	7.7	389	7.2
Sub-total	47,148	10.9	59,120	14.5	66,818	14.4
<b>Flour by-products</b>	3,282	5.0	3,170	5.1	1,951	2.5
<b>Total</b>	<u>50,430</u>	10.1	<u>62,290</u>	13.3	<u>68,769</u>	12.6

During the Track Record Period, our Group's gross profit recorded an increasing trend from approximately RMB50.4 million for FY2021, to approximately RMB62.3 million for FY2022, and further to approximately RMB68.8 million for FY2023, whereas the gross profit margin was approximately 10.1%, 13.3% and 12.6% for each of FY2021, FY2022 and FY2023, respectively.

For our heat-treated specialty flour products which we first launched in April 2021, the gross profit increased by approximately RMB12.7 million or 81.0% from approximately RMB15.7 million for FY2021 to approximately RMB28.3 million for FY2022 and further increased by approximately RMB1.0 million or 3.6% to approximately RMB29.3 million for FY2023, recording an increasing gross profit margin of approximately 16.1%, 20.2% and 20.7% for each of FY2021, FY2022 and FY2023. According to the F&S Report, as heat-treated specialty flour products carry advanced functional attributes, specific technical know-how is required in the production process and the users of such products can save on the customers' production and other costs without the need to apply additives, the average selling price of such products were highest among all our products throughout the Track Record Period. Therefore, the gross profit and gross profit margin of our heat-treat flour specialty flour products during the Track Record Period were generally higher than non-heat-treated flour products. The increase in gross profit as well as the gross profit margin of our heat-treated specialty flour products during FY2022 was largely attributable to (i) the significant increase in sales of our heat-treated flour products by approximately RMB43.1 million or 44.5%; and (ii) the supply chain management measure which we have adopted by entering into procurement agreement with certain of our suppliers with prepayment arrangement during the Track Record Period, especially during FY2022, in view of

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the high and volatile wheat price. Pursuant to such procurement agreements, prepayments were made to our suppliers for the procurement of a specified volume of wheat to be delivered to us in batches within a specified period of time, generally six months, at a price predetermined upon signing of the respective procurement agreements. Such arrangement, coupled with the rising average market price of wheat and the rising market price of flour products in the PRC, which respectively increased from approximately RMB2,596 per tonne to RMB3,121 per tonne and RMB5,199 per tonne to RMB5,436 per tonne from FY2021 to FY2022, allowed us to price our products riding on the increasing price trend, with a relatively lower costs of raw materials, and therefore enjoying higher gross profit and gross profit margin. The gross profit and gross profit margin of our heat-treated specialty flour product remained relatively stable in FY2023.

For our general specialty flour products, our gross profit remained stable at approximately RMB30.5 million and RMB30.4 million for each of FY2021 and FY2022, respectively, and increased by approximately RMB6.7 million or 21.9% to approximately RMB37.1 million for FY2023. While the gross profit of our general specialty flour products remained relatively stable in FY2022, our gross profit margin increased from approximately 9.5% for FY2021 to 11.6% for FY2022, mainly due to our ability to ride on the rising price trend of market price of flour products in the PRC given the surge of average wheat market price and our entering into of prepayment arrangement during FY2022, and our increased sales to customers of a closer proximity geographically, thus reducing our logistics costs incurred. While a significant increase in gross profit of our general specialty flour products was recorded in FY2023, primarily resulting from the significant increase in sales of our general specialty flour products in terms of revenue by approximately RMB55.7 million or 21.3% in FY2023 due to the reasons previously discussed under the sub-section headed "Revenue — Revenue by product types" in this section, the gross profit margin remained stable at approximately 11.7%.

As for our all-purpose flour products, our gross profit decreased by approximately RMB617,000 or 62.4% from approximately RMB989,000 for FY2021 to approximately RMB372,000 for FY2022 and remained stable at approximately RMB389,000 for FY2023. Despite the decrease in gross profit in our all-purpose flour products in FY2022 primarily due to the significant drop in revenue and sales volume of our all-purpose flour products, we recorded an increase in gross profit margin for our all-purpose flour products from approximately 5.9% for FY2021 to approximately 7.7% for FY2022, mainly as a result of the combined effect of our prepayment arrangement and the rising market price trend, and the decrease in our logistics costs as mentioned above. The gross profit margin of our all-purpose flour products remained relatively stable in FY2023 at approximately 7.2%.

The gross profit and gross profit margin of our flour by-products and others remained stable at approximately RMB3.3 million and 5.0% for FY2021, and approximately RMB3.2 million and 5.1% for FY2022. In FY2023, the gross profit of our flour by-products and others decreased to approximately RMB2.0 million and the gross profit margin also decreased to 2.5%. Such decrease was mainly attributable to the one-off transaction in respect of the sale of a batch of wheat amounting to approximately RMB12.0 million which was no longer suitable for production as previously mentioned above in this section, which had a relatively lower gross profit margin as compared to that of the sales of bran and wheat middlings.

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Other than the factors mentioned above, the continuous increase in our gross profit during the Track Record Period was mainly driven by (i) our introduction of heat-treated specialty flour products in April 2021, which we enjoyed a competitive edge over our competitors and therefore a high average selling price and gross profit margins during the Track Record Period, coupled with our strategies to promote our heat-treated specialty flour products; and (ii) the adjustment in our product portfolio in focusing our efforts in our specialty flour products (including our general specialty flour products and our heat-treated specialty flour products), which generally carry a higher gross profit margin. The increase in the overall gross profit margin from approximately 10.1% in FY2021 to 13.3% in FY2022 was generally in line with the overall increase in gross profit by approximately RMB11.9 million or 23.5%. The slight decrease in the overall gross profit margin to approximately 12.6% in FY2023 despite the increase in overall gross profit by approximately RMB6.5 million or 10.4% was mainly due to the decrease in gross profit margin of our flour by-products and others segment in FY2023, which was driven down by the one-off transaction of the sale of a batch of wheat unsuitable for production which carried a lower gross profit margin as discussed above.

### Other net income

The following table sets out the breakdown of our other net income during the Track Record Period:

	FY2021 <i>RMB'000</i>	FY2022 <i>RMB'000</i>	FY2023 <i>RMB'000</i>
Income from grain procurement and/or storage arrangements	3,022	5,281	4,288
Interest income	711	1,506	4,193
Government grants	1,592	516	21
Operating lease income	229	–	2,189
Dividend income	238	238	212
Others	688	832	868
	6,480	8,373	11,771

Our Group's other net income during Track Record Period mainly comprised, among others, (i) income from grain procurement and/or storage arrangements; (ii) interest income arising from (a) prepayments and (b) cash in bank; (iii) government grants; and (iv) operating lease income.

Our income from grain procurement and/or storage arrangements, being arrangements in connection with the local government bodies, mainly represented storage service income, replacement service income and deemed interest income for funds provided by our Group for procurement of grain. Under the relevant arrangements, we shall procure (including arranging for funding for the procurement (as required)) and/or store grain in our premises, which the relevant government bodies have full entitlement thereto, and should replace the grain regularly to maintain its quality. Service fees were paid to us by the local governments bodies for the storage and replacement services we provide and deemed interest income were also paid

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to us for the funds we provide for procurement of grain. The increase in our income from the grain procurement and/or storage arrangements by approximately RMB2.3 million was primarily attributable to the increase in storage fee received as we provided additional storage services for a batch of grain in FY2022, and the recognition of a replacement service fee in FY2022 in respect of certain portion of our grain which reached the time for replacement. The decrease in our income from the grain procurement and/or storage arrangements by approximately RMB1.0 million in FY2023 was primarily due to the absence of the replacement service fee in FY2023. For further details relating to our income from the grain procurement and/or storage arrangements, please refer to note 5 to the Accountants' Report in Appendix I.

Interest income during the Track Record Period primarily comprised our interest income arising from prepayments, cash in bank and amounts due from one third party and one related party. Interest income arising from prepayments were interest income we collected from various suppliers whom we entered into procurement agreements with in order to secure a stable supply of wheat at a predetermined prices. When such suppliers were unable to deliver the volume of wheat which we had contracted for within the time specified, interest would be charged at a market interest rate for the outstanding sum, which arose when the suppliers were unable to deliver the agreed volume of wheat, until the outstanding sum was refunded to our Group. The increasing trend in the interest income from approximately RMB0.7 million for FY2021 to approximately RMB1.5 million for FY2022 and further to approximately RMB4.2 million for FY2023 was mainly due to the increase in prepayments we made in FY2022 and during the first half of FY2023 to secure a stable supply of wheat in response to the expected increase in the average market price of wheat in the PRC, which surged from approximately RMB2,596 per tonne in FY2021 to approximately RMB3,121 per tonne in FY2022, and further to approximately RMB3,140 per tonne during the first quarter of FY2023, according to the F&S Report. Amounts due from related party and third party are non-trade in nature and were fully settled in June 2022 and February 2023, respectively. For details, please refer to the paragraphs headed "Current assets and current liabilities — Amount due from a third party" and "Related party transactions — Interest income from a related party" in this section.

Government grants during the Track Record Period mainly comprised (i) the one-off support from the local governments for our application for the [REDACTED] in Hong Kong of approximately RMB1.5 million received in May 2021; (ii) reward funds of approximately RMB500,000 from the local government recognising the quality of our products in FY2022; and (iii) various subsidies from the local authorities of the Gu'an County for enterprises in the grain industry throughout the Track Record Period.

Operating lease income of our Group mainly represented the leasing of (i) a cold storage facility located at our production base with the lease term of which ended in February 2021; and (ii) certain portion of our production base in FY2023, further details of which are set out in the section headed "Business — Properties — Leasing of Certain Portions of Our Production base". The others under our other net income mainly represents our insignificant income recognised from wheat trading.



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Our Group's other net income increased from approximately RMB6.5 million for FY2021 to approximately RMB8.4 million for FY2022. Such increase was largely attributable to the increase in income from grain procurement and/or storage arrangements by approximately RMB2.3 million, partially offset by the decrease in government grant by approximately RMB1.1 million due to the absence of the one-off support from the local governments for our application for [REDACTED] as set out above. Our Group's other income further increased to approximately RMB11.8 million for FY2023, mainly due to the increase in interest income by approximately RMB2.7 million and the recognition of operating lease income of approximately RMB2.2 million, such increase was partially offset by the decrease in government grant by approximately RMB0.5 million.

**Selling expenses**

The following table sets out the breakdown of our selling expenses during the Track Record Period:

	FY2021 <i>RMB'000</i>	FY2022 <i>RMB'000</i>	FY2023 <i>RMB'000</i>
Staff costs	1,247	768	597
Travel expenses	21	3	78
Promotional expenses	801	124	92
Sundry expenses	56	75	69
	<u>2,125</u>	<u>970</u>	<u>836</u>

Our Group's selling expenses during the Track Record Period primarily comprised staff costs, travel expenses, promotional and sundry expenses. For FY2021, FY2022 and FY2023, our selling expenses amounted to approximately RMB2.1 million, RMB970,000 and RMB836,000, representing approximately 0.4%, 0.2% and 0.2% of our total revenue respectively for the corresponding year. The decrease in our Group's selling expenses by approximately RMB1.2 million or 54.4% in FY2022 was primarily attributable to (i) the decrease in the staff costs by approximately RMB0.5 million in FY2022, due to the decrease in commission entitlement of the salesperson of our Group as a result of the decrease in overall sales in FY2022 and the decrease in the number of salesperson of our sales department; and (ii) the decrease in promotional expenses by approximately RMB0.7 million as we conducted fewer marketing activities due to the impact of the COVID-19 pandemic.

Our Group's selling expenses further decreased by approximately RMB0.1 million or 13.8% to approximately RMB836,000 for FY2023, attributable to the decrease in staff costs by approximately RMB0.2 million due to the decrease in the commission entitlement of our salesperson in FY2023 due to the change in our commission policy since August 2022.

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**Administrative and other expenses**

The following table sets out the breakdown of our administrative and other expenses during the Track Record Period:

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs	993	1,274	1,309
Insurance	45	193	362
Office and utility expenses	837	587	825
Depreciation and amortization	1,368	1,666	1,825
Service fee in connection with the [REDACTED]	6,433	703	5,113
Other professional fees	2,262	–	1,174
Other taxes and government charges	2,116	1,886	1,775
Credit impairment loss/(reversal)	(2,128)	182	(30)
Others	776	676	508
	<u>12,702</u>	<u>7,167</u>	<u>12,861</u>

Our Group's administrative and other expenses during the Track Record Period principally comprised service fee in connection with the [REDACTED], other professional fees, other taxes and government charges, credit impairment loss/(reversal) and staff costs. For FY2021, FY2022 and FY2023, our administrative and other expenses amounted to approximately RMB12.7 million, RMB7.2 million and RMB12.9 million and accounted for approximately 2.5%, 1.5% and 2.4% of our total revenue for the corresponding year, respectively.

Our Group's administrative and other expenses decreased by approximately RMB5.5 million or 43.6% from approximately RMB12.7 million for FY2021 to approximately RMB7.2 million for FY2022. Such decrease was mainly attributable to the significant decrease in service fee in connection with the [REDACTED] by approximately RMB5.7 million and the absence of other professional fees, representing fees in connection with our previous [REDACTED], in FY2022, partially offset by the (i) the absence of the credit impairment loss of approximately RMB2.1 million which had been recognised in FY2021 for our trade receivables; and (ii) the recognition of a reversal in credit impairment loss of approximately RMB0.2 million as the relevant trade receivables had been settled in FY2022. Our Group's administrative and other expenses increased by approximately RMB5.7 million or 79.4% to approximately RMB12.9 million in FY2023, primarily due to the increase in service fee in connection with [REDACTED] by approximately RMB4.4 million and the increase in other professional fees of RMB1.2 million in FY2023.

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### Finance costs

Our finance costs increased by approximately RMB7.2 million or 73.2% from approximately RMB9.9 million for FY2021 to approximately RMB17.1 million for FY2022. Such increase was mainly attributable to the increase in the interest expenses on bank and other loans by approximately RMB4.4 million due to the increase in our Group's bank and other loans from approximately RMB289.1 million as at 31 December 2021 to approximately RMB472.9 million as at 31 December 2022, and the decrease in the borrowing costs capitalised into property, plant and equipment by approximately RMB2.8 million upon the completion of the construction of our Group's production base. Our Group's finance costs further increased by approximately RMB9.0 million or 52.6% to approximately RMB26.0 million for FY2023. Such increase was primarily attributable to the further increase in interest expenses on bank and other loans by approximately RMB8.8 million due to the further increase in our Group's bank and other loans from approximately RMB472.9 million as at 31 December 2022 to approximately RMB599.6 million as at 31 December 2023. For further details in respect of our bank and other loans, please refer to the paragraph headed "Indebtedness" in this section.

### Income tax

Our Company is incorporated in the Cayman Islands, and Haze Success, our subsidiary is incorporated in the BVI, our Company and our BVI subsidiary are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.

Shenhua HK, our subsidiary incorporated in Hong Kong is subject to Hong Kong profit tax rate of 16.5% for the Track Record Period. Our Hong Kong subsidiary did not have assessable profits which are subject to Hong Kong profits tax during the Track Record Period.

For the Track Record Period, the subsidiaries of our Company established in the PRC are subject to PRC Enterprise Income Tax of 25%. According to the EIT Law, income derived from the primary processing of agricultural products is exempted from the PRC Enterprise Income Tax. As the manufacturing of flour products by Shenhua Flour has been recognised as engaging in the "primary processing of agricultural products", it was exempted from the PRC Enterprise Income Tax during the Track Record Period and our Group incurred no taxable income from our principal business of flour manufacturing during the Track Record Period. During the Track Record Period, our income tax expenses were approximately RMB175,000, RMB203,000 and RMB300,000 for FY2021, FY2022 and FY2023 respectively. The income tax and its increasing trend during the Track Record Period was primarily attributable to the increasing trend of our Group's other income which comprised of the income from our Group's engagement in wheat trading and the income from leasing arrangement.

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### PERIOD TO PERIOD COMPARISON OF OUR RESULTS OF OPERATIONS

#### FY2023 compared to FY2022

##### *Revenue*

Our Group's revenue increased by approximately RMB75.4 million or 16.1% from approximately RMB468.6 million for FY2022 to approximately RMB544.0 million for FY2023. The increase was primarily attributable to the increase in our sales of (i) general specialty flour products by approximately RMB55.7 million or 21.3% from approximately RMB262.1 million in FY2022 to approximately RMB317.8 million in FY2023; (ii) heat-treated specialty flour products by approximately RMB1.8 million or 1.3% from approximately RMB140.1 million in FY2022 to approximately RMB141.9 million in FY2023; (iii) all-purpose flour products by approximately RMB0.6 million or 12.2% from approximately RMB4.8 million in FY2022 to approximately RMB5.4 million for FY2023; and (iv) flour by-products by approximately RMB17.3 million or 28.1% from approximately RMB61.6 million in FY2022 to approximately RMB78.9 million in FY2023 for the reasons as discussed under the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Revenue" in this section.

##### *Cost of sales*

Our Group's cost of sales increased by approximately RMB68.9 million or 17.0% from approximately RMB406.3 million for FY2022 to approximately RMB475.2 million for FY2023. The increase in our cost of sales was mainly driven by our increase in sales by approximately RMB75.4 million or 16.1% in terms of revenue and increase in total sales volume of our products by approximately 23,520 tonnes or 17.2% from approximately 137,085 tonnes in FY2022 to 160,604 tonnes in FY2023.

For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Cost of sales" in this section.

##### *Gross profit and gross profit margin*

Our Group's gross profit increased by approximately RMB6.5 million or 10.4% from approximately RMB62.3 million for FY2022 to approximately RMB68.8 million for FY2023, while our gross profit margin decreased from approximately 13.3% for FY2022 to approximately 12.6% for FY2023, which was primarily attributable to the sale of a batch of wheat in our inventories, representing approximately 3.0% of our actual volume of wheat processed in FY2023, which were no longer suitable for processing into our flour products due to degradation of their quality which was identified during a routine quality check performed by our staff. Please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Gross profit and gross profit margin" in this section for further details.

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### *Other net income*

Our Group's other net income increased by approximately RMB3.4 million or 40.6% from approximately RMB8.4 million for FY2022 to approximately RMB11.8 million for FY2023. The increase was largely attributable to (i) the increase in interest income by approximately RMB2.7 million; and (ii) the recognition of operating lease income of approximately RMB2.2 million, which was absent in FY2022, partially offset by the decrease in income from grain procurement and/or storage arrangements by approximately RMB1.0 million or 18.8% due to the absence of the replacement service fee recorded in FY2023. For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Other net income" in this section.

### *Selling expenses*

Our Group's selling expenses decreased by approximately RMB134,000 or 13.8% from approximately RMB970,000 for FY2022 to approximately RMB836,000 for FY2023. Such decrease was primarily attributable to the decrease in staff costs as the commission entitlement of our salesperson decreased in FY2023. For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Selling expenses" in this section.

### *Administrative and other expenses*

Our Group's administrative and other expenses increased by approximately RMB5.7 million or 79.4% from approximately RMB7.2 million for FY2022 to approximately RMB12.9 million for FY2023. Such increase was primarily due to the increase in service fee in connection with the [REDACTED] in FY2023. For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Administrative and other expenses" in this section.

### *Finance costs*

Our Group's finance costs increased by approximately RMB9.0 million or 52.6% from approximately RMB17.1 million for FY2022 to approximately RMB26.0 million for FY2023. The increase in our finance costs was mainly attributable to the increase in interest expenses on bank and other loans by approximately RMB8.8 million due to the increase in our Group's bank and other loans from approximately RMB472.9 million as at 31 December 2022 to approximately RMB599.6 million as at 31 December 2023. For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Finance costs" in this section.

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### *Income tax*

Our Group's income tax increased by approximately RMB97,000 or 47.8% from approximately RMB203,000 for FY2022 to approximately RMB300,000 for FY2023. According to the EIT Law, income derived from the primary processing of agricultural products is exempted from the PRC Enterprise Income Tax. As the manufacturing of flour by Shenhua Flour has been recognised as engaging in the "primary processing of agricultural products", it was exempted from the PRC Enterprise Income Tax during the Track Record Period and our Group incurred no taxable income from our principal business of flour manufacturing during FY2022 and FY2023. The increase in our income tax in FY2023 was primarily in line with the increase of our Group's other income, which are taxable, comprising of the income from wheat trading and the lease arrangements.

### *Profit for the year*

As a result of the foregoing, our Group's net profit decreased by approximately RMB4.8 million or 10.5% from approximately RMB45.3 million for FY2022 to RMB40.5 million for FY2023.

### **FY2022 compared to FY2021**

#### *Revenue*

Our revenue decreased by approximately RMB31.4 million from approximately RMB500.0 million for FY2021 to approximately RMB468.6 million for FY2022, representing a decrease of approximately 6.3%. The decrease in our revenue was primarily due to the decrease in revenue from the sales of (i) general specialty flour products by approximately RMB58.3 million or 18.2% from approximately RMB320.4 million for FY2021 to approximately RMB262.1 million for FY2022; (ii) all-purpose flour products by approximately RMB11.9 million or 71.2% from approximately RMB16.7 million for FY2021 to approximately RMB4.8 million for FY2022; and (iii) flour by-products by approximately RMB4.3 million or 6.5%, from approximately RMB65.9 million for FY2021 to approximately RMB61.6 million for FY2022. The decrease in sales was partially offset by the increase in revenue from the sales in our heat-treated specialty flour products since its first launch in April 2021 by approximately RMB43.1 million or 44.5%, from approximately RMB97.0 million for FY2021 to approximately RMB140.1 million for FY2022. For further description of change, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Revenue" in this section.

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### *Cost of sales*

Our Group’s cost of sales decreased by approximately RMB43.3 million or 9.6% from approximately RMB449.6 million for FY2021 to approximately RMB406.3 million for FY2022. The decrease in our cost of sales was mainly driven by the decrease in our cost of raw materials, which decreased by approximately RMB41.5 million primarily due to the decrease in our cost of wheat, which was in line with the decrease in our revenue and sales volume for the same period. For further details, please refer to the paragraphs headed “Description of selected items in the consolidated statements of profit or loss — Cost of sales” in this section.

### *Gross profit and gross profit margin*

Our Group’s gross profit increased by approximately RMB11.9 million or 23.5% from approximately RMB50.4 million for FY2021 to approximately RMB62.3 million for FY2022 and our gross profit margin increased from approximately 10.1% for FY2021 to approximately 13.3% for FY2022 which was mainly due to our ability to ride on the rising price trend of market price of flour products in the PRC given the surge of average wheat market price and our entering into of prepayment arrangement during FY2022. For further description of changes, please refer to the paragraphs headed “Description of selected items in the consolidated statements of profit or loss — Gross profit and gross profit margin” in this section.

### *Other net income*

Our Group’s other net income increased by approximately RMB1.9 million or 29.2% from approximately RMB6.5 million for FY2021 to approximately RMB8.4 million for FY2022. The increase was largely attributable to (i) the increase in income from grain procurement and/or storage arrangements by approximately RMB2.3 million or 74.8% due to our recognition of a replacement service fee in FY2022, which was absent in FY2021; and (ii) the increase in interest income by approximately RMB0.8 million due to the increase in interest arising from prepayment arrangement with suppliers where such suppliers were unable to deliver the predetermined volume of wheat to us during the period, partially offset by the decrease in government grant by approximately RMB1.1 million due to the absence of the one-off support from the local governments in the PRC for our application for [REDACTED] in Hong Kong. For further details, please refer to the paragraphs headed “Description of selected items in the consolidated statements of profit or loss — Other net income” in this section.

### *Selling expenses*

Our Group’s selling expenses decreased by approximately RMB1.2 million or 54.5% from approximately RMB2.1 million for FY2021 to approximately RMB970,000 for FY2022. Such decrease was primarily attributable to (i) the decrease in commission entitlement of the salesperson of our Group and the decrease in the number of salesperson of our sales department; and (ii) the decrease in promotional expenses as we conducted fewer marketing activities due to the impact of the COVID-19 pandemic. For details, please refer to the paragraphs headed “Description of selected items in the consolidated statements of profit or loss — Selling expenses” in this section.

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### *Administrative and other expenses*

Our Group's administrative and other expenses decreased by approximately RMB5.5 million or 43.6% from approximately RMB12.7 million for FY2021 to approximately RMB7.2 million for FY2022 primarily due to the significant decrease in service fee in connection with the [REDACTED] and the absence of other professional fees, representing fees in connection with our previous [REDACTED]. For details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Administrative and other expenses" in this section.

### *Finance costs*

Our Group's finance costs increased by approximately RMB7.2 million or 73.2% from approximately RMB9.9 million for FY2021 to approximately RMB17.1 million for FY2022. Such increase was primarily due to the increase of interest expenses on bank and other loans by approximately RMB4.4 million from FY2021 to FY2022 as we had recorded more interest expenses in respect of bank loans in connection with the grain procurement and/or storage arrangements as well as for the financing of our working capital. For further details, please refer to the paragraphs headed "Description of selected items in the consolidated statements of profit or loss — Finance costs" in this section.

### *Income tax*

Our Group's income taxes increased by approximately RMB28,000 or 16.0% from approximately RMB175,000 for FY2021 to approximately RMB203,000 for FY2022. According to the EIT Law, income derived from the primary processing of agricultural products is exempted from the PRC Enterprise Income Tax. As the manufacturing of flour by Shenhua Flour has been recognised as engaging in the "primary processing of agricultural products", it was exempted from the PRC Enterprise Income Tax during the Track Record Period and our Group incurred no taxable income from our principal business of flour manufacturing during the FY2021 and FY2022. The increase in our income tax in FY2022 was primarily in line with the increase of our Group's other income, which are taxable, comprising the income from our Group's engagement in wheat trading.

### *Profit for the year*

As a result of the foregoing, our Group's net profit increased by approximately RMB13.2 million or 41.2% from approximately RMB32.1 million for FY2021 to RMB45.3 million for FY2022.



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**LIQUIDITY AND CAPITAL RESOURCES**

During the Track Record Period, our primary use of cash had been, and is expected to continue to be, the funding of our working capital, operating expenses and capital expenditure needs. Historically, we have financed our operations and working capital requirements through a combination of cash flows generated by our operating activities and bank and other loans.

**Cash flows**

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating cash flows before changes in working capital	48,132	68,915	70,552
Changes in working capital	(44,189)	(229,317)	(195,786)
Income tax paid	(119)	(232)	(211)
Net cash generated from/(used in) operating activities	3,824	(160,634)	(125,455)
Net cash (used in)/ generated from investing activities	(3,641)	(17,608)	24,102
Net cash generated from financing activities	7,647	166,582	101,783
<b>Net increase/(decrease) in cash and cash equivalents</b>	7,830	(11,660)	440
Cash and cash equivalents at the beginning of the year	6,926	14,755	3,098
Effect of foreign exchange rate changes	(1)	3	-*
<b>Cash and cash equivalents at the end of the year</b>	<b>14,755</b>	<b>3,098</b>	<b>3,538</b>

\* Amount less than RMB500

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### Operating activities

For FY2021, we had a net cash generated from operating activities of approximately RMB3.8 million. This represents our profit before taxation of approximately RMB32.2 million, adjusted mainly by (i) depreciation charges of property, plant and equipment, investment property and right-of-use assets of approximately RMB7.0 million; (ii) interest income of approximately RMB0.7 million; (iii) finance costs of approximately RMB9.9 million; (iv) dividend income from our investment in Hebei Gu'an Rural Commercial Bank Company Limited\* (河北固安農村商業銀行股份有限公司) ("**Hebei Gu'an Rural Commercial Bank**") of approximately RMB0.2 million; (v) changes in working capital items, mainly including the decrease in inventories by approximately RMB70.3 million, increase in trade receivables by approximately RMB39.0 million, increase in other non-current assets by approximately RMB26.1 million which mostly comprised receivables in connection with grain procurement and/or storage arrangements, increase in prepayments, deposits and other receivables by approximately RMB35.0 million, decrease in trade payables by approximately RMB15.9 million and increase in accrued expenses and other payables by approximately RMB1.4 million; and (vi) the income tax paid of approximately RMB0.1 million.

For FY2022, we had a net cash used in operating activities of approximately RMB160.6 million. This represents our profit before taxation of approximately RMB45.5 million, adjusted mainly by (i) depreciation charges of property, plant and equipment, investment property and right-of-use assets of approximately RMB8.1 million; (ii) interest income of approximately RMB1.5 million; (iii) finance costs of approximately RMB17.1 million; (iv) dividend income from our investment in Hebei Gu'an Rural Commercial Bank of approximately RMB0.2 million; (v) change in working capital items, mainly including the increase in inventories by approximately RMB59.6 million, increase in trade receivables by approximately RMB7.2 million, increase in other non-current assets by approximately RMB5.8 million, increase in prepayments, deposits and other receivables by approximately RMB151.2 million, decrease in trade payables by approximately RMB22.8 million and increase in accrued expenses and other payables by approximately RMB17.2 million; and (vi) income tax paid of approximately RMB0.2 million.

For FY2023, we had a net cash used in operating activities of approximately RMB125.4 million. This represents our profit before taxation of approximately RMB40.8 million, adjusted mainly by (i) depreciation charges of property, plant and equipment, investment property and right-of-use assets of approximately RMB8.1 million; (ii) interest income arising from prepayments and cash in banks of approximately RMB4.2 million; (iii) finance costs of approximately RMB26.0 million; (iv) dividend income from our investment in Hebei Gu'an Rural Commercial Bank of approximately RMB0.2 million; (v) change in working capital items, mainly including the increase in inventories by approximately RMB0.2 million, increase in trade receivables by approximately RMB35.1 million, increase in other non-current assets by approximately RMB248.0 million which mostly comprised receivables in connection with grain procurement and/or storage arrangements, decrease in prepayments, deposits and other receivables by approximately RMB100.2 million, decrease in trade payables by approximately RMB4.1 million and decrease in accrued expenses and other payables by approximately RMB8.5 million; and (vi) income tax paid of approximately RMB0.2 million.

### Investing activities

For FY2021, net cash used in investing activities was approximately RMB3.6 million. The cash (i) had primarily been spent on the purchase of property, plant and equipment of

## FINANCIAL INFORMATION

approximately RMB3.9 million, partially offset by the cash received of approximately RMB36,000 in respect of interest income received and RMB0.2 million in respect of dividends received from our investment in Hebei Gu'an Rural Commercial Bank. During FY2021, we recorded cash outflow of approximately RMB113.9 million as advances to a related party, the sum of which had been subsequently repaid during the same year. For further details, please refer to the paragraphs headed "Related Party Transactions — Interest income from a related party" in this section.

For FY2022, net cash used in investing activity was approximately RMB17.6 million. The cash had primarily been spent (i) on the purchase of property, plant and equipment of approximately RMB1.0 million; and (ii) as advances to a third party of approximately RMB29.2 million, partially offset by approximately RMB9.5 million of repayment received from a third party, and approximately RMB0.2 million in respect of dividends received from our investment in Hebei Gu'an Rural Commercial Bank. During FY2022, we recorded cash outflow of approximately RMB33.5 million as advances to a related party, the sum of which had been subsequently repaid during the same year. For further details, please refer to the paragraphs headed "Related Party Transactions — Interest income from a related party" in this section.

For FY2023, net cash generated from investing activities was approximately RMB24.1 million. The cash received was primarily (i) the interest income received of approximately RMB4.7 million; (ii) repayment by a third party of approximately RMB19.8 million; and (iii) RMB0.2 million in respect of dividends received from our investment in Hebei Gu'an Rural Commercial Bank, partially offset by the procurement of property, plant and equipment of approximately RMB0.6 million.

### Financing activities

For FY2021, our Group's net cash generated from financing activities of approximately RMB7.6 million was primarily attributable to the cash inflow resulting from (i) proceeds from bank and others loans of approximately RMB274.2 million; (ii) net decrease in restricted bank deposits of approximately RMB5.3 million; partially offset by the cash outflow resulting from (i) the repayment of bank and other loans by approximately RMB259.0 million; and (ii) the finance costs paid of approximately RMB12.9 million.

For FY2022, our Group's net cash generated from financing activities of approximately RMB166.6 million was primarily attributable to the cash inflow resulting from proceeds from bank and others loans of approximately RMB431.5 million, negatively affected by the cash outflow resulting from (i) the repayment of bank and other loans by approximately RMB247.7 million; and (ii) the finance costs paid of approximately RMB17.2 million.

For FY2023, our Group's net cash generated from financing activities of approximately RMB101.8 million was primarily attributable to the cash inflow resulting from proceeds from bank and others loans of approximately RMB402.7 million, negatively affected by the cash outflow resulting from (i) the repayment of bank and other loans by approximately RMB276.0 million; and (ii) the finance costs paid of approximately RMB24.9 million.

**FINANCIAL INFORMATION**

**DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

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

	<b>At 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	216,000	207,929	201,631
Investment property	62,432	60,157	58,672
Other non-current assets	52,674	58,195	306,139
	<u>331,106</u>	<u>326,281</u>	<u>566,442</u>
<b>Current assets</b>			
Inventories	126,694	186,265	186,477
Trade receivables	78,754	85,992	121,069
Prepayments, deposits and other receivables	73,684	226,522	125,867
Amounts due from a third party	–	19,788	–
Cash and cash equivalents	14,755	3,098	3,538
	<u>293,887</u>	<u>521,665</u>	<u>436,951</u>
<b>Current liabilities</b>			
Bank and other loans	236,373	219,925	386,261
Trade payables	51,431	28,638	24,502
Accrued expenses and other payables	8,643	25,574	17,958
Income tax payable	56	27	116
	<u>296,503</u>	<u>274,164</u>	<u>428,837</u>
<b>Net current (liabilities)/assets</b>	<u>(2,616)</u>	<u>247,501</u>	<u>8,114</u>
<b>Total assets less current liabilities</b>	<u>328,490</u>	<u>573,782</u>	<u>574,556</u>
<b>Non-current liabilities</b>			
Bank and other loans	52,740	253,013	213,356
Deferred tax liability	119	59	43
	<u>52,859</u>	<u>253,072</u>	<u>213,399</u>
<b>Net assets</b>	<u>275,631</u>	<u>320,710</u>	<u>361,157</u>
<b>Capital and reserves</b>			
Share capital	*	*	*
Reserves	275,631	320,710	361,157
<b>Total equity attributable to equity shareholders of the Company</b>	<u>275,631</u>	<u>320,710</u>	<u>361,157</u>

\* Amount less than RMB500

**FINANCIAL INFORMATION**

**Property, plant and equipment**

Our property, plant and equipment during the Track Record Period comprised right-of-use assets, plant and buildings, machinery and other equipment and construction in progress. As at 31 December 2021, 2022 and 2023, our Group's property, plant and equipment had a net book value of approximately RMB216.0 million, RMB207.9 million and RMB201.6 million, respectively. The net book value of our property, plant and equipment decreased by approximately RMB8.1 million or 3.7% from approximately RMB216.0 million as at 31 December 2021 to approximately RMB207.9 million as at 31 December 2022. Such decrease was mainly due to the adjustment under plant and buildings resulting from the receipt of a compensation from the local government relating to the relocation of our production base as directed by the local government in FY2022, which amounted to approximately RMB2.2 million and depreciation charges of approximately RMB6.6 million, partially offset by the acquisition of certain machinery and other equipment of approximately RMB0.2 million and the capital expenditures in relation to the construction of our current production base of approximately RMB0.5 million. The net book value of our property, plant and equipment further decreased by approximately RMB6.3 million or 3.0% from approximately RMB207.9 million as at 31 December 2022 to approximately RMB201.6 million as at 31 December 2023. Such decrease was primarily due to the depreciation charges of approximately RMB6.6 million, which was partially offset by the acquisition of certain plant and building and machinery and other equipment of approximately RMB0.3 million. For further details, please refer to note 11 of the Accountant's Report in Appendix I to this document.

**Other non-current assets**

Our other non-current asset during the Track Record Period comprised (i) receivables in connection with grain procurement and/or storage arrangements; and (ii) an unlisted equity investment in Hebei Gu'an Rural Commercial Bank\* (河北固安農村商業銀行股份有限公司).

The following table sets out a summary of our non-current assets as at the dates as indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Receivables in connection with grain procurement and/or storage arrangements	50,339	56,099	304,109
Unlisted equity investment, measured at FVOCI – equity interests of Hebei Gu'an Rural Commercial Bank* (河北固安農村商業銀行股份有限公司)	<u>2,335</u>	<u>2,096</u>	<u>2,030</u>
	<u><u>52,674</u></u>	<u><u>58,195</u></u>	<u><u>306,139</u></u>

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As at 31 December 2021, 2022 and 2023, our receivables in connection with the grain procurement and/or storage arrangements amounted to approximately RMB50.3 million, RMB56.1 million and RMB304.1 million, respectively. Such receivable arose as we had cooperated with the local government bodies to procure and/or store certain level of grain. The receivables in connection with the grain procurement and/or storage arrangements would be settled when the grain is deployed at the discretion of the relevant government bodies. Our receivables in connection with the grain procurement and/or storage arrangements increased by approximately RMB5.8 million or 11.4% from approximately RMB50.3 million as at 31 December 2021 to approximately RMB56.1 million as at 31 December 2022 as our Group provided more grain procurement services to the local government bodies in FY2022, and such increase was also in line with the increase in the income from grain procurement and/or storage arrangements as recorded by our Group in FY2022. The significant increase in the receivables in connection with the grain procurement and/or storage arrangements by approximately RMB248.0 million to approximately RMB304.1 million as at 31 December 2023 was primarily due to the additional grain procurement arrangement entered into by our Group with a local government body and a state-owned enterprise, under which our Group provided funds for the procurement of grain and will receive deemed interest income for such funds provided. For details, please refer to note 13 to the Accountants' Report in Appendix I to this document.

As at 31 December 2021, 2022 and 2023, the fair value of the unlisted equity investment was approximately RMB2.3 million, RMB2.1 million and RMB2.0 million, respectively. For details relating to the unlisted equity investment, please refer to note 13 of the Accountants' Report in Appendix I to this document.

As at 31 December 2021, 2022 and 2023, we determined the fair value of the above-described unlisted investment using the price/earnings ratios of comparable listed companies and adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. It is estimated that with all other variables held constant, a decrease/increase in the rate for lack of marketability by 5% would have increased/decreased our Group's other comprehensive income by RMB272,000, RMB245,000 and RMB237,000, for the years ended 31 December 2021, 2022 and 2023 respectively.

The Reporting Accountants have conducted their work on the Historical Financial Information in accordance with HKSIR 200 issued by the HKICPA. Pursuant to HKSIR 200, the Reporting Accountants have planned and performed their work, e.g. observing the inputs to the valuation models used, such as discount for lack of marketability and price/earnings ratios, to obtain reasonable assurance as to whether the Historical Financial Information is free from material misstatement as a whole. Details of the fair value measurement of unlisted equity investment are disclosed in note 24(d) to the Accountants' Report as set out in Appendix I to this document.

## FINANCIAL INFORMATION

### CURRENT ASSETS AND CURRENT LIABILITIES

The following table sets out our current assets, current liabilities and net current assets as at the dates indicated:

	As at 31 December			As at
	2021	2022	2023	31 March
	RMB'000	RMB'000	RMB'000	RMB'000
				(unaudited)
<b>Current assets</b>				
Inventories	126,694	186,265	186,477	168,755
Trade receivables	78,754	85,992	121,069	173,899
Prepayments, deposits and other receivables	73,684	226,522	125,867	115,015
Amounts due from a third party	–	19,788	–	–
Cash and cash equivalents	14,755	3,098	3,538	4,245
	<u>293,887</u>	<u>521,665</u>	<u>436,951</u>	<u>461,914</u>
<b>Current liabilities</b>				
Bank and other loans	236,373	219,925	386,261	312,982
Trade payables	51,431	28,638	24,502	24,992
Accrued expense and other payables	8,643	25,574	17,958	21,456
Income tax payable	56	27	116	326
	<u>296,503</u>	<u>274,164</u>	<u>428,837</u>	<u>359,756</u>
<b>Net current (liabilities)/assets</b>	<u>(2,616)</u>	<u>247,501</u>	<u>8,114</u>	<u>102,158</u>

We recorded net current liabilities of RMB2.6 million as at 31 December 2021, net current assets of approximately RMB247.5 million and RMB8.1 million as at 31 December 2022 and 2023, respectively. Our current assets increased by approximately RMB227.8 million from approximately RMB293.9 million as at 31 December 2021 to approximately RMB521.7 million as at 31 December 2022, mainly due to the increase in inventories and prepayments, deposits and other receivables as we procured a larger volume of wheat, and the recognition of an amount due from third party of approximately RMB19.8 million in FY2022 which was non-trade in nature and such amount was fully settled in February 2023. Our current assets decreased by approximately RMB84.7 million to approximately RMB437.0 million as at 31 December 2023, mainly due to the decrease in prepayments, deposits and other receivables due to the delivery to us of the previously prepaid wheat, partially offset by the increase in trade receivables and cash and cash equivalents which is in line with our revenue growth in FY2023.

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Our current liabilities decreased by approximately RMB22.3 million from approximately RMB296.5 million as at 31 December 2021 to approximately RMB274.2 million as at 31 December 2022, as a result of the decrease in our short-term bank and other loans and the decrease in our trade payables. Our current liabilities increased by approximately RMB154.7 million to approximately RMB428.8 million as at 31 December 2023, mainly due to the increase in our short-term bank and other loans as a result of the reclassification of our long term loans to short-term loans, and the increase in our secured and guaranteed loans in order to satisfy the funding needs in respect of the grain procurement and/or storage arrangement between our Group and local government bodies, and the replenishment of our working capital.

As at 31 March 2024, our net current assets was approximately RMB102.2 million, representing an increase of approximately RMB94.0 million, such increase was primarily attributable to the combined effect of the increase in trade receivables as a result of the increasing monthly sales during the first quarter of 2024 due to the seasonality effect brought about by the Spring Festival and the decrease in short-term bank and other loans as a result of the repayment made.

### Inventories

The following table sets out a summary of the balance of our inventory as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	115,757	176,598	180,181
Finished goods	9,947	8,807	5,445
Packaging materials	990	860	851
	<u>126,694</u>	<u>186,265</u>	<u>186,477</u>

Our inventories during the Track Record Period consisted of (i) our raw materials, which is principally wheat; (ii) our finished goods, being our flour products and flour by-products that have yet to be sold or delivered to our customers; and (iii) our package materials. We perform regular stocktake on our inventories to ensure that the quantities of raw materials, finished goods and package materials correspond with the recorded entries and to determine whether provisions should be made in respect of any obsolete and/or defective inventories. For the grain stored by us under the grain procurement and/or storage arrangements, given the local government bodies have full entitlement to such grain, such grain were not considered as part of our inventories.

Our inventories increased by approximately RMB59.6 million or 47.0% from approximately RMB126.7 million as at 31 December 2021 to approximately RMB186.3 million as at 31 December 2022. The increase was primarily due to the increase in raw materials by approximately RMB60.8 million or 52.6%, partially offset by the slight decrease in finished goods and packaging materials of approximately RMB1.1 million or 11.5% and RMB0.1 million or 13.1%, respectively. Such significant increase in raw material was primarily due to the increase in our procurement of wheat during FY2022. Amidst the increase in average market



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price of wheat in the PRC from respectively approximately RMB2,596 per tonne in 2021 to RMB3,121 per tonne in 2022, we had procured a larger volume of wheat during FY2022 to secure wheat supplies in view of shortage of wheat and surge of wheat market price brought by the COVID-19 pandemic and the Russo-Ukrainian war, which may further boost up the market price of wheat in FY2023. As the shelf life of wheat is typically three to five years, we would stock up on raw materials to ensure we have a stable supply for production of our flour products. As at 31 December 2023, our inventories remained relatively stable at approximately RMB186.5 million.

The following table sets out the ageing analysis of our inventories as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Less than 90 days	76,980	109,286	57,464
90 – 180 days	22,629	27,151	5,707
181 – 365 days	26,799	22,202	85,678
Over 1 year	286	27,626	37,628
<b>Total</b>	<b><u>126,694</u></b>	<b><u>186,265</u></b>	<b><u>186,477</u></b>

As confirmed by our Directors, during the Track Record Period, we did not materially write-off any inventory due to obsolescence or spoilage. As at 31 March 2024, approximately RMB116.4 million or 62.4% of our inventories as at 31 December 2023 were sold or used.

The following table sets out a summary of our inventory turnover days for the year indicated:

	<b>For the year ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
Inventory turnover days <sup>(Note)</sup>	131	141	143

*Note:* Inventory turnover days are derived by dividing the average inventory as at the beginning and the end of each year by cost of sales for such year and multiplying by 365 days.

Our inventory turnover days increased from 131 days for the year ended 31 December 2021 to 141 days for the year ended 31 December 2022, such increase was mainly due to the increase in our procurement of wheat during FY2022 to secure a stable supply against the backdrop of the COVID-19 pandemic and the Russo-Ukrainian war. Our inventory turnover days remained relatively stable at approximately 143 days for the year ended 31 December 2023.

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### Trade receivables

Our Group's trade receivables during the Track Record Period mainly represented receivables from (i) our customers arising from the sale of flour and flour by-products to them; and (ii) our business counter-parties arising from our wheat trading transactions. During the Track Record Period, we generally offered credit terms of up to three months to our customers and had strategically granted longer credit period to some of our customers taking into account a basket of factors, including among others, the corporate background, operating scale, industry standing, financial strength and credit history of the customer, and the length and state of our business relationship and potential for further business development, in an attempt to develop with them a stable business relationship, as a means to increase our sales and market penetration of our specialty flour products, in particular, heat-treated specialty flour products.

The following table sets out a summary of our trade receivables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
– related parties	7,203	2,784	5,227
– third parties	71,563	83,402	115,900
	78,766	86,186	121,127
Less: loss allowance	(12)	(194)	(58)
	78,754	85,992	121,069

Our trade receivables increased by approximately RMB7.4 million or 9.4% from approximately RMB78.8 million as at 31 December 2021 to approximately RMB86.2 million as at 31 December 2022. Such increase was primarily due to the increase in trade receivables from third parties by approximately RMB11.8 million or 16.5%, partially offset by the decrease in trade receivables from related parties by approximately RMB4.4 million or 61.3% due to enhanced collection of trade receivables with related parties. The relatively significant increase in trade receivables from third parties was primarily a result of our effort in engaging new wholesaler customers to increase our sales and market penetration of our specialty flour products, in particular our heat-treated specialty flour products, as we granted longer credit period to some of our wholesaler customers intending to build a stable business relationship with them.

As at 31 December 2023, our trade receivables further increased by approximately RMB34.9 million or 40.5% to approximately RMB121.1 million. Such increase was primarily due to the increase in trade receivables from third parties by approximately RMB32.5 million or 39.0%, mainly due to our Group's continued efforts in extending its reach to new wholesaler customers during the fourth quarter of 2023 with an aim to further increase the market penetration of our Group's specialty flour products.

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The following table sets out the ageing analysis of our trade receivables (net of loss allowance) as at the dates indicated based on the invoice date:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	76,446	71,612	101,599
3-6 months	2,308	14,380	17,143
6-9 months	—	—	2,327
	<u>78,754</u>	<u>85,992</u>	<u>121,069</u>

As at the Latest Practicable Date, approximately RMB95.4 million or 78.7% of our trade receivables (including loss allowance) as at 31 December 2023 were subsequently settled.

The following table sets out our trade receivables turnover days for the year indicated:

	<b>For the year ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
Trade receivables turnover days <sup>(note)</sup>	44	64	70

*Note:* Trade receivables turnover days are derived by dividing the average balance of trade receivables as at the beginning and the end of each year by revenue for such year and multiplying by 365 days as applicable.

Our trade receivables turnover days increased from 44 days for the year ended 31 December 2021 to 64 days for the year ended 31 December 2022 and further increased to 70 days for the year ended 31 December 2023, which was within the usual credit period of around three months we generally offered to the our customers during the Track Record Period. The increasing turnover days was generally in line with the increasing trade receivables as at the respective dates. Furthermore, the increase in trade receivable turnover days during the Track Record Period was also due to our effort in engaging new wholesaler customers to increase our sales and market penetration of our specialty flour products, in particular heat-treated specialty flour products. In FY2023, certain of our new wholesaler customers who placed orders with us during the fourth quarter of FY2023 also led to the increase in trade receivables turnover days.

For details in respect of risk associated with our trade receivables, please refer to the section headed "Risk Factors — Our customers may delay and/or default in their payments to us" in this document.

**FINANCIAL INFORMATION**

**Prepayments, deposits and other receivables**

*Other receivables*

The following table sets out a summary of our other receivables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other receivables	7,438	8,327	6,096
Less: loss allowance	<u>–</u>	<u>–</u>	<u>(106)</u>
	<u><b>7,438</b></u>	<u><b>8,327</b></u>	<u><b>5,990</b></u>

Our Group's other receivables for 31 December 2021 and 2022 remained relatively stable and primarily comprised of refundable value added tax in respect of a construction project in relation to our current production base, receivable from local government bodies regarding the storage income in respect of grain procurement and/or storage arrangement, rental income receivables from operation lease of our production base, and receivables in connection with wheat trading. The decrease in our other receivables for 31 December 2023 by approximately RMB2.3 million or 28.1% to approximately RMB6.0 million was primarily a result of the settlement of the aforementioned refundable value added tax in respect of the construction project in relation to our current production base during FY2023.

**FINANCIAL INFORMATION**

*Prepayments and deposits*

Our Group's prepayments and deposits during the Track Record Period primarily comprised (i) prepayments for purchase of raw material; (ii) value added tax refundable; and (iii) prepayments for costs incurred in connection with the proposed issuance of our Company's shares. The following table sets out a summary of our prepayments and deposits as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments for purchase of raw materials			
– a related party	34,737	16,422	51,140
– third parties	20,769	200,960	66,772
Value added tax refundable	10,433	349	–
Prepayments for costs incurred in connection with the proposed issuance of the Company's shares	–	215	1,613
Others	307	249	352
	<u>66,246</u>	<u>218,195</u>	<u>119,877</u>

Our Group's prepayments and deposits increased by approximately RMB151.9 million or 229.4% from approximately RMB66.2 million as at 31 December 2021 to approximately RMB218.2 million as at 31 December 2022. Such significant increase was primarily attributable to the increase in prepayments for purchase of raw materials from third parties by approximately RMB180.2 million or 867.6% from approximately RMB20.8 million as at 31 December 2021 to approximately RMB201.0 million as at 31 December 2022, mainly as a results of the prepayment arrangements which we had entered into with certain of our suppliers in FY2022 as further disclosed below, partially offset by (i) the decrease in prepayments for purchase of raw materials from a related party by approximately RMB18.3 million or 52.7% as the substantial portion of wheat procured from a related party had been delivered to us during FY2022; and (ii) the decrease in value added tax refundable by approximately RMB10.1 million or 96.7%. As a way to manage our supply chain amidst the upsurge of the average market price of wheat in the PRC due to the volatile wheat market price during FY2022 brought by the COVID-19 pandemic and Russo-Ukrainian war, we entered into prepayment arrangements with certain of our suppliers in FY2022 to secure a stable supply of wheat at a predetermined purchase price. Such arrangements in FY2022 led to the significant increase in our prepayments for purchase of raw materials from third parties.

**FINANCIAL INFORMATION**

Our Group's prepayments and deposits decreased by approximately RMB98.3 million or 45.1% to approximately RMB119.9 million as at 31 December 2023. Such decrease was primarily attributable to the decrease in prepayments for purchase of raw materials from third parties by approximately RMB134.2 million or 66.8% as the previously prepaid wheat had been delivered to us. The impact of the decrease in prepayments for purchase of raw materials from third parties was partially offset by (i) the increase in prepayments for purchase of raw materials from a related party by approximately RMB34.7 million or 211.4% as we increased our procurement by way of prepayment from Supplier A, a related party, during the last quarter of FY2023 in anticipation of the upcoming peak before the Spring Festival; and (ii) the increase in prepayments for costs incurred in connection with the proposed issuance of our Company's shares by approximately RMB1.4 million or 650.2%.

**Amount due from a third party**

As at 31 December 2021, 2022 and 2023, our Group had amount due from a third party of RMBnil, approximately RMB19.8 million, and RMBnil. During the Track Record Period, we entered into a financing arrangement with one of our wheat trading business counter-party, on an interest bearing, and unsecured basis. Interest rate charged to the third party were determined based on the interest rates of our external bank loans, which were nil, 4.66% and 4.78% per annual for each of 31 December 2021, 2022 and 2023. All such amount due from the third party had been settled in February 2023. As at the Latest Practicable Date, such arrangement no longer persisted and our Group had not entered into any similar arrangement.

**Trade payables**

Our Group's trade payables during the Track Record Period mainly represented payables due to our suppliers for the supply of raw materials. During the Track Record Period, our suppliers would generally offer credit periods of up to 3 months to us. The following table sets out our trade payables as at the dates indicated indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	51,431	28,638	24,502

Our Group's trade payables decreased by approximately RMB22.8 million or 44.3% from approximately RMB51.4 million as at 31 December 2021 to approximately RMB28.6 million as at 31 December 2022. Such significant decrease in trade payables was mainly attributable to the decrease in payables in respect of our procurement of wheat, as a result of the increased proportion of our procurement made through prepayment in FY2022. Our Group's trade payables as at 31 December 2023 further decreased by approximately RMB4.1 million or 14.4% to approximately RMB24.5 million, primarily due to the decrease in payables in respect of base flour, as we made continued efforts in producing our own base flour rather than relying on the supply from third party suppliers in FY2023.

**FINANCIAL INFORMATION**

The following table sets out the ageing analysis of our trade and other payables as at the dates indicated based on the invoice date:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	40,374	28,106	23,327
3 to 6 months	2,887	532	150
6 to 12 months	7,879	–	191
Over 1 year	291	–	834
	<u>51,431</u>	<u>28,638</u>	<u>24,502</u>

As at 31 March 2024, approximately RMB19.6 million or 80.1% of our trade payables as at 31 December 2023 were subsequently settled.

The table below sets out our trade payables turnover days as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
Trade payables turnover days <sup>(note)</sup>	<u>48</u>	<u>36</u>	<u>20</u>

*Note:* Trade payables turnover days are derived by dividing the average balance of trade payables as at the beginning and the end of each year by the cost of sales for such year and multiplying by 365 days.

Our trade payables turnover days amounted to 48 days, 36 days and 20 days for each of the year ended 31 December 2021, 2022 and 2023 and was generally in line with the decrease in our trade payables. The decreasing trend was generally in line with the decrease in our trade payables as we entered into prepayment arrangements during FY2022 with certain suppliers and increase in our prepayments to Supplier A, our related party in the last quarter of FY2023 in anticipation of the upcoming peak before the Spring Festival, as a means to maintain a stable supply of wheat and we therefore recorded less trade payables, leading to the decrease in trade payable turnovers day.

**FINANCIAL INFORMATION**

*Accrued expenses and other payables*

Our accrued expenses and other payables during the Track Record Period primarily comprised of (i) payables for construction and purchase of property, plant and equipment which mainly related to the construction of our current production base and other production related machinery and equipment; (ii) payables for staff related costs; (iii) interest payable; (iv) others, which mainly related to logistics costs and the accrued [REDACTED] expenses in connection with the [REDACTED] and; (v) contract liabilities; and (vi) payables for miscellaneous taxes. The following table sets out a summary of our other payables as at the dates indicated:

	<b>As at 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables for construction and purchase of property, plant and equipment	2,421	1,941	1,687
Payables for staff related costs	595	570	570
Interest payable	–	–	1,150
Others	<u>4,204</u>	<u>2,335</u>	<u>3,833</u>
Financial liabilities measured at amortised cost	7,220	4,846	7,240
Contract liabilities	1,398	20,668	8,061
Payables for miscellaneous taxes	<u>25</u>	<u>60</u>	<u>2,657</u>
	<u><u>8,643</u></u>	<u><u>25,574</u></u>	<u><u>17,958</u></u>

Our Group's accrued expenses and other payables increased by approximately RMB16.9 million or 195.9% from approximately RMB8.6 million as at 31 December 2021 to approximately RMB25.6 million as at 31 December 2022. Such increase was primarily due to the increase in contract liabilities by approximately RMB19.3 million or 1,378.4%, mainly resulting from prepayments received from two of our counterparties in respect of our wheat trading transactions in FY2022, partially offset by the decrease in our payables under others, which comprised of among others our logistics costs and service fee in connection with the [REDACTED] by approximately RMB1.9 million or 44.5%, due to the decrease in our logistics costs in FY2022. As at 31 December 2023, our accrued expenses and other payables decreased by approximately RMB7.6 million or 29.8% to approximately RMB18.0 million. Such decrease was mainly attributable to the decrease in contract liabilities by approximately RMB12.6 million or 61.0%, primarily due to the subsequent settlement through the delivery of wheat for the aforementioned prepayment in respect of wheat trading during FY2023, partially offset by the increase in service fee in connection with the [REDACTED] in FY2023.



**FINANCIAL INFORMATION**

**INDEBTEDNESS**

The following table sets forth a summary of our borrowings as at the dates indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>31 March</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2024</b>
				<i>RMB'000</i>
				<i>(unaudited)</i>
<b>Bank loans:</b>				
– secured and guaranteed	150,000	294,490	403,600	433,390
– in connection with grain procurement and/or storage arrangements	50,570	38,429	56,099	56,099
– unsecured	10,000	–	–	20,000
	<u>210,570</u>	<u>332,919</u>	<u>459,699</u>	<u>509,489</u>
<b>Other loans:</b>				
– secured	7,943	29,419	29,918	62,614
– unsecured	70,600	110,600	110,000	110,000
	<u>78,543</u>	<u>140,019</u>	<u>139,918</u>	<u>172,614</u>
	<u><u>289,113</u></u>	<u><u>472,938</u></u>	<u><u>599,617</u></u>	<u><u>682,103</u></u>

The following table sets forth a breakdown of our current and non-current borrowings as at the dates indicated:

	<b>As at 31 December</b>			<b>As at</b>
	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>31 March</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<b>2024</b>
				<i>RMB'000</i>
				<i>(unaudited)</i>
Within 1 year or on demand	236,373	219,925	386,261	312,983
After 1 year but within 2 years	2,170	109,278	107,257	117,893
After 2 years but within 5 years	50,570	143,735	106,099	251,227
	<u>289,113</u>	<u>472,938</u>	<u>599,617</u>	<u>682,103</u>
	<u><u>289,113</u></u>	<u><u>472,938</u></u>	<u><u>599,617</u></u>	<u><u>682,103</u></u>

## FINANCIAL INFORMATION

Our bank and other loans during the Track Record Period was approximately RMB289.1 million, RMB472.9 million and RMB599.6 million, as at 31 December 2021, 2022 and 2023, respectively.

The significant increase in our bank and other loans by approximately RMB183.8 million to approximately RMB472.9 million as at 31 December 2022 was primarily due to the increase in (i) our secured and guaranteed bank loans by approximately RMB144.5 million; (ii) our secured other loans by approximately RMB21.5 million; and (iii) our unsecured other loans by approximately RMB40.0 million, partially offset by the decrease in our bank loans in connection with grain procurement and/or storage arrangements by approximately RMB12.1 million. Our increased bank and other loans was primarily used to as our working capital and to finance the prepayments to certain of our suppliers under the prepayment arrangements in FY2022, as a means to maintain a stable supply of wheat amidst the upsurge of the average market price of wheat in the PRC during FY2022.

Our bank and other loans further increased by approximately RMB126.7 million to approximately RMB599.6 million as at 31 December 2023, mainly attributable to the increase in (i) our secured and guaranteed bank loans by approximately RMB109.1 million, as we have obtained towards the end of December 2023 a new bank loan in order to satisfy the funding need in respect of additional grain procurement and/or storage arrangement between a state-owned enterprise, and a local government body; and (ii) our renewal of bank loans in connection with grain procurement and/or storage arrangements by approximately RMB17.7 million.

Our bank and other loans increased from approximately RMB599.6 million as at 31 December 2023 to approximately RMB682.1 million as at 31 March 2024, which was mainly due to the increase in long term bank borrowings in the first quarter of 2024 to further replenish our working capital for daily operation and additional grain procurement and/or storage arrangement entered into by our Group with the state-owned enterprise and a local government body, and was partially offset by repayment of certain short-term loans.

During the Track Record Period, our secured and guaranteed bank loans were secured by (i) our property, plant and equipment, investment property, rights-of-use assets, inventories, trade receivables, or equity interests of Shenhua Flour; (ii) bank deposits of approximately RMB12.0 million of a related company controlled by a close family member of our Controlling Shareholders at the relevant times; (iii) a property owned by the immediate family member of our Controlling Shareholder; and/or guaranteed by (i) our Controlling Shareholder, his immediate family member, and Mr. Yao Wei, our Executive Director, jointly or solely; and (ii) a third party entity. Such secured and guaranteed bank loans were primarily used to finance the procurement of raw materials and as our working capital.

The bank loans in connection with grain procurement and/or storage arrangements were all granted to us by a bank in the PRC, which is an Independent Third Party, pursuant to our grain procurement and/or storage arrangements with the local government bodies. Such loans in connection with grain procurement and/or storage arrangements would be used to finance the cost of the purchase of the grain which would then be stored with us. For details in respect of the grain procurement and/or storage arrangements, please refer to note 13 to the Accountants' Report in Appendix I.

## FINANCIAL INFORMATION

All our secured other loans during the Track Record Period were secured by equipment and machinery of our Group, and they were granted to us by certain financial leasing companies, each of them being an Independent Third Party, for the purpose of financing our working capital.

During the Track Record Period, our unsecured other loans were all granted to us by related parties, being fellow subsidiaries of Guofu HK. For further details of our unsecured other loans, please refer to the paragraph headed "Related Parties Transactions – Loans from related companies" in this section.

For further information regarding the effective interest rate of our bank and other loans, please refer to note 24(c) to the Accountants Report.

As at 31 March 2024, the total outstanding amount of our other loans was approximately RMB172.6 million, among which RMB62.6 million was secured and RMB110.0 million was unsecured and from related companies.

As at 31 March 2024, we had aggregate committed bank and other loans of approximately RMB410.0 million, of which RMB289.8 million was utilised and the remaining RMB120.2 million was unutilised.

As confirmed by our Directors, during the Track Record Period and up to and including the Latest Practicable Date, we did not experience any difficulty in obtaining or refinancing our bank and other loans and nor have we received any request for early repayment or any indications that our existing banking facilities will not continue to be extended to us.

The agreements we entered into in respect of our bank and other loans during the Track Record Period were subject to general and customary covenants commonly found in such loan agreements. Certain key restrictive covenants that were found in certain of our loans agreements that we entered into with our lenders during the Track Record Period include relevant provisions on the debt to equity ratio and/or debt to asset ratio of our Group, our Group's operating cash flow, restriction from change of control, and declaration of dividends.

If our Group were to breach any of the covenants set out in the loan agreements we entered into with our lenders during the Track Record Period, the loans would become repayable on demand. Our Group regularly monitors its compliance with these covenants and our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, none of the covenants relating to our bank and other loans had been breached in any material respects.

### **Contingent liabilities**

As at 31 December 2021, 2022 and 2023, we did not have any contingent liabilities that would have a material adverse impact on our financial position, liquidity or result of operation.

## FINANCIAL INFORMATION

### Statement of indebtedness

Save as disclosed above, as at 31 March 2024, being the latest practicable date for the purpose of determining our indebtedness, our Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees, material covenants, or other material contingent liabilities.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any material off-balance sheet commitments and arrangements.

### CAPITAL EXPENDITURES

Our historical capital expenditure primarily included purchase of property, plant and equipment. During FY2021, FY2022 and FY2023, our capital expenditures were approximately RMB3.9 million, RMB1.0 million and RMB0.6 million, respectively.

### Planned capital expenditure

For details as to additional capital expenditures to be incurred by us, please refer to the section headed "Future Plans and Use of [REDACTED]" in this document. We expect to fund our capital expenditure principally through the [REDACTED] raised from the [REDACTED], available bank and other loan facilities and cash generated from our operating activities.

### WORKING CAPITAL SUFFICIENCY

Our Directors are of the opinion that taking into account the financial resources available to us, including cash flow from operating activities, available bank and other loan facilities, cash resources and the estimated net [REDACTED] from the [REDACTED], we have sufficient working capital for our working capital requirements for at least the next 12 months from the date of this document, and there are no material uncertainties related to events or conditions which, individually or collectively, may cast significant doubt on our ability to continue operation. After making reasonable inquiries of our management about our working capital, the Sole Sponsor concurs with our Directors' view.

Our Directors have confirmed that, up to the date of this document, there have been no material defaults in payment of trade and non-trade payables and borrowings, and/or no breaches of covenants in respect of our bank and other loans during the Track Record Period.

## FINANCIAL INFORMATION

### Measures to manage our liquidity and improve our working capital position

Our Directors closely monitor our Group's capital and liquidity requirements. To ensure the sufficiency of our working capital, we have also adopted the following measures:

- (i) prepare yearly working capital forecasts in a timely manner setting out the expected cash inflows and outflows, which our Directors will review together with the cash flow statements to enable us to better manage our financial resources in the near term;
- (ii) prepare monthly management accounts in a timely manner, which will be reviewed by our Directors and our senior management and be compared with our budget plans. Any material variances will be investigated upon and followed up immediately; and
- (iii) actively monitor the payment status of our customers, including conducting regular reviews of our accounts. Our finance department will also prepare an ageing analysis on a monthly basis for review by our Directors to ascertain if there are any long outstanding receivables and we will assign designated credit control officers who will regularly contact the debtors and to send payment reminders. For debtors with long outstanding receivables, we may request them to settle such receivables before we accept new orders.

### PROPERTY INTERESTS

Cushman & Wakefield Limited, an independent property valuer, has valued our property interests as of 31 March 2024 at a market value of RMB272.3 million. The full text of the letter, summary of valuation and valuation report with regard to such property interests are set out in Appendix III to this document.

### SUMMARY OF KEY FINANCIAL RATIOS

The following table sets out our key financial ratios during the Track Record Period:

		As at/for the year ended 31 December		
	Note	2021	2022	2023
Gross profit margins	1	10.1%	13.3%	12.6%
Net profit margins	2	6.4%	9.7%	7.4%
Return on equity	3	11.6%	14.1%	11.2%
Return on total assets	4	5.1%	5.3%	4.0%
Interest coverage (times)	5	4.3	3.7	2.6
Current ratio (times)	6	1.0	1.9	1.0
Quick ratio (times)	7	0.6	1.2	0.6
Gearing ratio	8	104.9%	147.5%	166.0%
Net debt to equity ratio (times)	9	1.0	1.5	1.7

## FINANCIAL INFORMATION

*Notes:*

- (1) Gross profit margin is calculated by the gross profit for the year divided by the revenue for the respective year multiplied by 100%.
- (2) Net profit margin is calculated by the net profit for the year divided by the revenue for the respective year multiplied by 100%.
- (3) Return on equity is calculated based on the net profit for the year divided by total equity as at the end of the respective year multiplied by 100%.
- (4) Return on total assets is calculated by dividing net profit for the year with the total assets as at the end of the respective year multiplied by 100%.
- (5) Interest coverage is calculated by profit before interest and tax divided by the finance costs for the respective year.
- (6) Current ratio is calculated based on the total current assets divided by the total current liabilities as at the respective dates.
- (7) Quick ratio is calculated based on the difference between the total current assets and inventories divided by the total current liabilities as at the respective dates.
- (8) Gearing ratio is calculated based on the total bank and other loans divided by total equity as at the respective dates multiplied by 100%.
- (9) Net debt to equity ratio is calculated by dividing total bank and other loans minus cash and cash equivalents by total equity as at the respective dates.

### **Gross profit margin**

Our gross profit margin increased from approximately 10.1% for FY2021 to approximately 13.3% for FY2022 and slightly decreased to approximately 12.6% for FY2023. Please refer to the paragraphs headed "Gross profit and gross profit margin" in this section for the explanations in respect of the fluctuations of our gross profit margin.

### **Net profit margin**

Our net profit margin increased from approximately 6.4% for FY2021 to approximately 9.7% for FY2022, and decreased to approximately 7.4% for FY2023. Such fluctuation was in generally line with that of our gross profit margin during the Track Record Period. For further details, please refer to the paragraphs headed "Gross profit and gross profit margin" in this section.

### **Return on equity**

Our return on equity increased from approximately 11.6% for FY2021 to approximately 14.1% for FY2022, in line with the increase in both net profit of our Group in FY2022. For FY2023, our return on equity decreased to approximately 11.2%, as a result of the combined effect of the decrease in our net profit as a result of (i) increase in finance cost due to the increase in bank and other loans during FY2023; and (ii) administrative and other expenses mainly arise from the increase in service fee in connection with the [REDACTED] in FY2023, and the increase in our total equity in FY2023.

## FINANCIAL INFORMATION

### Return on total assets

Our return on total assets remained relatively stable at approximately 5.1% for FY2021 and 5.3% for FY2022, and decreased to approximately 4.0% to FY2023, such decrease was primarily attributable to the combined effect of the decrease in our net profit as a result of (i) increase in finance cost due to the increase in bank and other loans during FY2023; and (ii) administrative and other expenses mainly arise from the increase in service fee in connection with the [REDACTED] in FY2023 and the increase in our total assets due to the (i) increase in trade receivables which was in line with our revenue growth during FY2023 and (ii) increase in other receivables in connection with the grain procurement and/or storage arrangement with the local government bodies in FY2023.

### Interest coverage

Our interest coverage decreased from approximately 4.3 times for FY2021 to approximately 3.7 times for FY2022, and further decreased to approximately 2.6 times for FY2023. The decreasing trend observed was in line with the increase in our finance costs by approximately RMB7.2 million or 73.2% from approximately RMB9.9 million for FY2021 to approximately RMB17.1 million for FY2022, and the further increase in our finance costs by approximately RMB8.9 million or 52.6% to approximately RMB26.0 million for FY2023.

### Current ratio

Our current ratio increased from approximately 1.0 times as at 31 December 2021 to approximately 1.9 times as at 31 December 2022, which was mainly due to the increase in our inventories by approximately RMB59.6 million or 47.0%, and prepayments, deposits and other receivables by approximately RMB152.8 million or 207.4% as at 31 December 2022. The current ratio decreased to approximately 1.0 times as at 31 December 2023, mainly due to the combined effect of increase in our bank and other loans by approximately RMB166.3 million or 75.6% and the decrease in prepayments, deposits and other receivables by approximately RMB100.7 million or 44.4%, as at 31 December 2023.

### Quick ratio

Our quick ratio was approximately 0.6 times as at 31 December 2021, and increased to approximately 1.2 times as at 31 December 2022. The increase of quick ratio was primarily due to the increase in current assets by approximately RMB227.8 million or 77.5%, as a result of the increase in our prepayments, deposits and other receivables by approximately RMB152.8 million or 207.4% and the recognition of an amount due from a third party of approximately RMB19.8 million as at 31 December 2022, and the decrease in our current liabilities by approximately RMB22.3 million or 7.5%, as at 31 December 2022. Our quick ratio decreased to approximately 0.6 times as at 31 December 2023 primarily due to the increase of our total current liabilities primarily as a result of the increase in our bank and other loans by approximately RMB166.3 million or 75.6% as at 31 December 2023.

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### Gearing ratio and net debt to equity ratio

Our gearing ratio increased from approximately 104.9% as at 31 December 2021 to approximately 147.5% as at 31 December 2022, and further increased to approximately 166.0% as at 31 December 2023. Our net debt to equity ratio also increased from approximately 1.0 times as at 31 December 2021 to approximately 1.5 times as at 31 December 2022 and further to approximately 1.7 times as at 31 December 2023. Such increasing trend was a result of the increase in our total bank and other loans from approximately RMB289.1 million as at 31 December 2021 to approximately RMB472.9 million as at 31 December 2022 and approximately RMB599.6 million as at 31 December 2023.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ON FINANCIAL RISKS

Our Group is exposed to a variety of financial risks, including credit risk, liquidity risk, and interest rate risk. Our overall risk management programs focus on the unpredictability of financial markets and seek to minimize potential adverse effects on our Group's financial performance.

#### Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to our Group. Our Group's credit risk is primarily attributable to trade receivables and other receivables. Our Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which our Group considers to represent low credit risk. Our Group does not provide any guarantees which would expose our Group to credit risk.

In respect of trade receivables and other receivables, our Group has established a credit risk management policy under which individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due, current ability to pay, and takes into account information specific to the customer as well as pertaining to the economic environment in which the customer and debtor operates.

For further details, please refer to note 24(a) to the Accountants' Report as set out in Appendix I to this document.

#### Liquidity risk

The treasury function is centrally managed by our Group, which includes the short-term investment of cash surpluses and the raising of funds to cover expected cash demands. Our Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

For further details, please refer to note 24(b) to the Accountants' Report as set out in Appendix I to this document.



## FINANCIAL INFORMATION

### Interest rate risk

Our Group's interest rate risk arises primarily from interest-bearing borrowings issued at fixed rates, which exposes our Group to fair value interest rate risk.

For further details, please refer to note 24(c) to the Accountants' Report as set out in Appendix I to this document.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we had various transactions with our related party.

#### Sales of flour and lease arrangement with related parties

For FY2021, FY2022 and FY2023, our sales of flour products to Langfang Yijiao and Langfang Ceyuan contributed approximately RMB24.4 million, RMB30.5 million and RMB12.7 million, representing approximately 4.9%, 6.5% and 2.3% of our total revenue for the corresponding year. The decrease in amount of our sales to related parties in FY2023 was primarily due to our decrease in sales to Langfang Yijiao due to its then intention to diversify its procurement source. On 1 March 2021, Langfang Yijiao also entered into a lease agreement with us, pursuant to which Langfang Yijiao agreed to lease from Shenhua Flour certain factory space with a gross floor area of approximately 7,404 sq.m. for a term of six years and five months commencing from 1 March 2021 to 31 July 2027, and therefore in FY2023, we recognised an operating lease income of approximately RMB0.8 million and as at 31 December 2023, we also recorded other receivables of non-trade nature of approximately RMB913,000 from Langfang Yijiao in relation to such operating lease. For further details, please refer to the section headed "Connected Transactions — Non-exempt continuing connected transaction — 3. Factory Lease Agreement".

#### Procurement from and prepayment to a related party

Our purchase of wheat from Supplier A, a related party, amounted to approximately RMB87.8 million, RMB188.5 million and RMB96.0 million for each of FY2021, FY2022 and FY2023, representing approximately 21.0%, 39.9% and 19.4% of our total procurement, respectively. As at 31 December 2021, 2022 and 2023, the prepayments in connection with the procurement of wheat from Supplier A amounted to approximately RMB34.7 million, RMB16.4 million and RMB51.1 million, respectively. The sudden upsurge in our procurement from the related party in FY2022 was primarily due to our need of a stable supply of wheat during FY2022 under the volatile wheat market price in view of the impact of COVID-19 pandemic and Russo-Ukrainian war. Supplier A, being a state-owned enterprise, was also one of our suppliers located in a relatively close proximity to our production base geographically, which we believe could provide a stable supply of raw materials to us in order to ensure our smooth production.

## FINANCIAL INFORMATION

### *Trade receivables from related companies*

As at 31 December 2021, 2022 and 2023, we recorded trade receivables of approximately RMB7.2 million, RMB2.8 million and RMB5.2 million for our sales of flour to our related companies.

### *Loans from related companies*

Loans from related companies represent loan of non-trade nature granted by Hebei Gu’an Rural Commercial Bank and fellow subsidiaries of Guofu HK to our Group to finance our Group’s working capital and procurement of raw materials.

As at 31 December 2021, 2022 and 2023, approximately RMB70.6 million, RMB110.6 million and RMB110.0 million were granted to us by related parties, being fellow subsidiaries of Guofu HK, namely (i) Hebei Guofu Equity Investment Fund Management Company Limited\* (河北省國富股權投資基金管理有限公司); (ii) Hebei Listed Equity Investment Fund Company Limited\* (河北上市股權投資基金有限公司); (iii) Hebei Guofu Business Consulting Company Limited\* (河北國富商務諮詢有限公司); (iv) Langfang Fuxing Investment Company Limited (廊坊市富興投資有限公司); and (v) Gu’an Fangxing Equity Investment Company Limited (固安方興股權投資基金有限公司), to our Company as working capital. All loans from fellow subsidiaries of Guofu HK were unsecured and carried an annual interest rate of 4%–5%. The interest is payable quarterly, and the principal, along with any unpaid interest, is to be repaid at the end of the respective terms of the loans. As at the Latest Practicable Date, Guofu HK is interested in 2.0% of our issued Shares and Guofu HK is owned as to 65.0% by Guofu Investment and as to 35.0% by Shunde Investment, therefore these loans constitute loans from related companies of our Group under the applicable accounting standards. For details relating to our relationship with the above entities, please refer to the section headed “History, Reorganization and Corporate Structure – [REDACTED]” in this document. As at 31 March 2024, approximately RMB110.0 million of such loans remained outstanding.

Hebei Gu’an Rural Commercial Bank, an entity whereby our Controlling Shareholder is acting as a director, and therefore a related company of our Company, also granted us revolving loan of pursuant to which approximately RMB30.0 million and RMB20.0 million remained outstanding as at 31 December 2022 and 2023, respectively. Such loan was primarily granted to us for the purchase of raw materials, and carried an effective interest rate of 4.85% per annum. Pursuant to the relevant loan agreement, interest was payable each month and the principal, along with any unpaid interest, was to be repaid at the end of the term of the loan. As at 31 March 2024, approximately RMB30.0 million remain due to Hebei Gu’an Rural Commercial Bank.

As confirmed by our Directors, the related companies granting the aforementioned loans to us are principally engaged in business and investment consultation or money lending business as part of their ordinary course of business, and all such loans had been or will be repaid according to the terms specified in the respective loan agreements.

## FINANCIAL INFORMATION

### *Guarantees from related parties*

As at 31 December 2021, 2022 and 2023, approximately RMB50.0 million, RMB129.7 million and RMB191.2 million of our bank and others loans of non-trade nature were guaranteed by and/or secured by certain assets of, certain related parties of our Company.

Our Directors confirm that in respect of the guarantees and/or security provided by the related parties of our Group for our bank and other loans, either these loans will be fully repaid and/or the related guarantees or security will be fully released and/or replaced by corporate guarantees to be provided by our Group upon [REDACTED].

### *Interest income from a related party*

As at each 31 December 2021, 2022 and 2023, we recorded interest income of non-trade nature from Gu'an Chunyuan Grain and Oil Sales Company Limited (固安純源糧油銷售有限公司) ("Gu'an Chunyuan"), a related party controlled by a close family member of our Controlling Shareholder, of approximately RMB490,000, RMB305,000 and RMBnil. Such income arose from the financing arrangement we entered into with Gu'an Chunyuan involving our advance to Gu'an Chunyuan of approximately RMB113.9 million and RMB33.5 million respectively in FY2021 and FY2022, which was subsequently settled during the same year, on an interest bearing and unsecured basis bearing an effective interest rate of 4.56% and 4.68% per annum for FY2021 and FY2022. All amount due from Gu'an Chunyuan had been settled in June 2022. As at the Latest Practicable Date, such arrangement no longer persisted and our Group had not entered into any similar arrangement.

Our Directors confirm that all transactions with related parties during the Track Record Period were conducted on arm's length basis and they did not distort our results of operations or make our historical results not reflective of our future performance. For details on the amount of related party transactions carried out during the Track Record Period, please refer to note 25 to the Accountants' Report as set out in Appendix I to this document.

## DIVIDENDS AND DIVIDEND POLICY

We did not declare or pay any dividend or distribution during the Track Record Period.

As a Cayman Islands company, any declaration and payment of dividends by our Company, as well as the amount of dividends, will be subject to our Articles of Association and the Cayman Companies Act. No dividend however, shall be declared in excess of the amount recommended by our Board. The declaration, payment and amount of dividends will depend on our financial condition, earnings, capital requirements and surplus, our general financial condition, contractual and legal restrictions, our ability to receive dividend payments from our subsidiaries, and other factors that our Directors deem relevant. As at the Latest Practicable Date, we did not have any specific dividend policy nor any pre-determined dividend payout ratio.

## FINANCIAL INFORMATION

Chinese laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which may differ from generally accepted accounting principles in other jurisdictions, including IFRS Accounting Standards. Our subsidiaries in the PRC that are foreign-invested enterprises are required to set aside part of their net profit as statutory reserves in accordance with the requirements of relevant Chinese laws and the provisions of their respective articles of association. These portions of these subsidiaries’ net profits are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future. Since we rely on our subsidiaries’ dividends as the source of funds to pay dividends, these restrictions may limit or completely prevent us from paying dividends.

### [REDACTED] EXPENSES

Our [REDACTED] expenses mainly include (i) [REDACTED]-related expenses, such as [REDACTED] fees and commissions, and (ii) non-[REDACTED]-related expenses, comprising professional fees paid to our Reporting Accountants and legal advisers for their services rendered in relation to the [REDACTED] and the [REDACTED], and other fees and expenses. Assuming full payment of the discretionary incentive fee, the estimated total [REDACTED] expenses (based on the mid-point of the indicative [REDACTED] range of HK\$[REDACTED] per [REDACTED] and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), accounting for approximately of [REDACTED]% of our gross [REDACTED]. Among such estimated total [REDACTED] expenses, we expect to pay [REDACTED]-related expenses of approximately RMB[REDACTED] (equivalent to HK\$[REDACTED]), professional fees for our Reporting Accountants and legal advisers of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and other fees and expenses of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]). An estimated amount of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) of our [REDACTED] expenses, accounting for approximately [REDACTED]% of our gross [REDACTED], was or is expected to be expensed through the statement of profit or loss and the remaining amount of RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), accounting for approximately [REDACTED]% of our gross [REDACTED], is expected to be recognised directly as a deduction from equity upon the [REDACTED]. During the Track Record Period, we recognised [REDACTED] expenses of approximately RMB6.4 million, RMB0.7 million and RMB5.1 million for each of FY2021, FY2022 and FY2023 in our consolidated statements of profit or loss and other comprehensive income, respectively.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on 9 May 2019 as an investment holding company and as at 31 December 2023, we did not have any distributable reserves. For further details in respect of our dividend policy, please refer to the paragraphs headed “Dividends and Dividend Policy” in this section.

## FINANCIAL INFORMATION

### UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For our unaudited [REDACTED] adjusted net tangible assets, please refer to "Unaudited [REDACTED] Financial Information" in Appendix II to this document.

### DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

Except as otherwise disclosed in this document, we confirm that, as of the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period, we recorded an increase in revenue for the first quarter of 2024 as compared with the revenue recorded for the first quarter of 2023. Such increase was mainly due to (i) the seasonality effect brought about by the Spring Festival and (ii) our continued efforts in promoting our specialty flour products as well as our heat-treated specialty flour products by enlarging our wholesale network in the PRC. Our sales typically experience an upswing in demand during the several months/weeks leading up to the Spring Festival. In 2024, the Spring Festival fell in mid-February as opposed to late-January in FY2023, boosting our sales in early 2024 as compared to the sales in corresponding period in 2023.

Subsequent to the Track Record Period and up to the Latest Practicable Date, there had not been any material changes to our principal business. Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading position since 31 December 2023 and there has been no event since 31 December 2023 which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this document.

## FUTURE PLANS AND USE OF [REDACTED]

### FUTURE PLANS

For a detailed description of our future plans, please refer to the section headed “Business — Business Strategies” in this document.

### USE OF [REDACTED]

Assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] range between HK\$[REDACTED] and HK\$[REDACTED] and assuming that the [REDACTED] is not exercised at all, we will receive estimated net [REDACTED] of approximately HK\$[REDACTED] from the [REDACTED], after deducting [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]. We intend to use the net [REDACTED] from the [REDACTED] as follows in connection with implementation of our future plans and execution of our business strategies (further details of which are set forth in the section headed “Business — Business Strategies” in this document):

#### **Enhance our production capabilities through enriching our production facilities**

To enable our Group to take full advantage of the opportunities in the heat-treated flour market, we intend to enhance our production capabilities through acquisition of additional heat-treating facilities. With such new facilities, our plan is to equip our production base with one additional line for heat-treating of specialty flour. We expect that such facilities will have been fully installed by March 2026 and be officially put into operation in May 2026 (the intervening time being time needed to carry out machinery testing). The installation of such facilities is not expected to cause any material impact on or disruption to our day-to-day operations as they will be set up in a separate production workshop. The acquisition will permit us to scale up our heat-treating capacity such that we will become capable of making available for sale a larger volume and variety of heat-treated specialty flour products, which have grown into one of our core revenue drivers since they were launched in April 2021. As these flour products carry features valued by our customers and therefore higher sales values and gross profit margins than our other products, we believe the enhancement of our relevant production capabilities will give a boost to our revenue and profit.

#### *The need to enhance our heat-treating capabilities from an industry perspective*

The heat-treated specialty flour products offered by us during the Track Record Period included both pure heat-treated specialty flour products and blended specialty flour products. In line with consumer preference, we have primarily been supplying our heat-treated flour products in blended form, as downstream users stand to achieve higher efficiency and cost reductions in food production using our blended specialty flour products as compared with using pure heat-treated specialty flour products. Our sales of heat-treated specialty flour products amounted to approximately RMB97.0 million, RMB140.1 million and RMB141.9 million during FY2021, FY2022 and FY2023 respectively, representing a CAGR of 21.0%. We have attained a leading position in the PRC heat-treated flour market and ranked second in the PRC in terms of heat-treated flour production volume in 2023 with a market share of approximately 29.7%.

## FUTURE PLANS AND USE OF [REDACTED]

As reported by F&S, heat-treating of flour has become increasingly prevalent globally and been undertaken commonly by international corporations. At present, however, this production stage is not widely performed in the PRC. This is attributable to the relatively high costs of importing the requisite specialised production equipment from overseas suppliers, and the technical barrier in terms of the expertise required in relation to production methodology and operational technicalities. Only a few large-scale and well-resourced flour manufacturers in the PRC are producing heat-treated flour products at the moment, including our Group and several other sizeable domestic flour manufacturers, among others. Given the PRC government's initiatives to reform the flour manufacturing industry to promote food quality, the global trend of adoption of heat-treating technology and the growing consumer awareness in the local market as a result of the launch of heat-treated flour products by the leading manufacturers in the PRC, an increasing number of flour manufacturers in the PRC are expected to gradually undertake heat-treating of flour in an attempt to capture the opportunities under the anticipated growth in the PRC heat-treated flour market. Having commenced sale of heat-treated specialty flour products in April 2021, we are an early mover and one of the leading flour manufacturers in the PRC market in relation to production and supply of heat-treated specialty flour products. We ranked second in the PRC in terms of heat-treated flour production volume in 2023 with a market share of approximately 29.7%. This has put us in a position to penetrate the market before the entrance of other market participants and secure a larger market share.

Our Directors recognise that a growing number of domestic flour manufacturers are likely to enter the heat-treated flour market as their scale of operation grows so as to increase their competitiveness and to cater to market demand for quality flour products. While the plans of these flour manufacturers may be underway, a number of factors may contribute to and help secure our advantageous position: (1) these flour manufacturers are mostly still in the initial stage of developing their requisite production capacity, and may be faced with such entry barriers as high investment costs in connection with purchases of heat-treating facilities and acquisition of associated technical skills; (2) the established heat-treating equipment providers are mostly foreign enterprises, and the timeframe for completion of purchases from such providers and equipment installation may be extended, ranging from approximately 12 to 15 months; and (3) in order to produce heat-treated flour with optimal functional attributes and performance characteristics, the flour manufacturers have to first develop certain technical know-how in relation to, for example, selection of wheat (as the primary raw material), the amount of water to be included in the flour product formulations, and the parameters for the heat-treating process (such as timing, duration and temperature). Hence, our Directors consider it unlikely that the expansion plans of these flour manufacturers will come to fruition anytime soon allowing them to gain an immediate foothold in the PRC heat-treated flour market. Compared with them, as an early mover in the industry, we have in place a heat-treating line that has already been put into operation and have amassed experience and expertise in production of heat-treated specialty flour products through commercial production for over two years. We are therefore ahead of these manufacturers in terms of readiness for production of heat-treated specialty flour and will enjoy a significant competitive edge over these manufacturers as they seek to enter the market. Such advantages lay the foundation for us to aggressively pursue increases in sales of our heat-treated specialty flour products. By expanding our heat-treating capacity during this relatively preliminary phase of development of flour heat-treating operations in the PRC, our goal is to maintain or, where possible, extend our edge as a leading supplier of heat-treated specialty flour products in the PRC with a further increase in market share.

## FUTURE PLANS AND USE OF [REDACTED]

According to the F&S Report, due to the benefits of heat-treating of flour, the market size in terms of sales value of heat treated flour is expected to grow from approximately RMB238.0 million in 2023 to RMB340.8 million in 2028 at a CAGR of 7.4%. As heat-treating is a value-added service, specialty flour products that have undergone the further production stage of heat-treating generally carry higher selling prices. The wholesale price of heat-treated flour in the PRC in 2023 ranged from approximately RMB12,000 per tonne to RMB18,000 per tonne, which was three to four times higher than the average wholesale price of flour. We are confident that our efforts to increase our volume and variety of heat-treated specialty flour products on offer will be in line with the consumer preferences and market trends and welcomed by our customers, and accordingly we will reap rewards and be able to strengthen our position in the specialty flour segment of the overall PRC flour manufacturing industry.

### *The need to enhance our heat-treating capabilities from an operational perspective*

Our existing heat-treating facilities are incorporated into a single heat-treating line that came into operation in April 2021 with a maximum daily flour processing capacity of approximately 20.4 tonnes. As disclosed in the section headed "Business — Production — Production Facilities and Equipment — Production facilities" in this document, the utilisation rate of our heat-treating capacity was approximately 78.6%, 78.5% and 81.8% for FY2021, FY2022 and FY2023 respectively, exhibiting an upward trend during the Track Record Period. Our Directors consider that additional heat-treating capacity is required to support the proposed scaling up of our heat-treating specialty flour production.

Additionally, having only one heat-treating line comes with the need to make frequent changes of input flour. As we switch between processing of different heat-treated specialty flour products, we have to change the input flour, which had caused downtime in the daily operation of our existing heat-treating line from time to time during the Track Record Period. Extended downtime can significantly and adversely affect our output and order fulfilment capacity as we may from time to time receive orders for different heat-treated specialty flour products which we are required to fulfil within tight or clashing timeframes. Additional labour costs and other operating costs may also be incurred as the changing process is carried out. With an additional heat-treating line that could operate in parallel with our existing one, the frequency of changes of input flour and the associated heat-treating downtime and operating costs can be reduced, which will increase our efficiency in production and resource utilisation. We will also have more options and greater flexibility in scheduling our production, such that we will become better placed to meet our order fulfilment schedules.

The second heat-treating line can also allow our Group to have spare production capacity available to deal with ad-hoc orders from customers coming at short notice, and reduce the possible adverse impact arising from any machine failure or wear and tear that may necessitate repair and maintenance work of a larger scale with consequential prolonged suspension of our existing heat-treating line from time to time.

Thus, our Directors consider it beneficial to our Group to develop and have in place a second heat-treating line, which will effectively increase our capacity to handle the above issues. As our reliance on our existing heat-treating line is reduced, the impact on our Group where the operation of any of our heat-treating lines is disturbed as a result of machinery malfunctions or any other unforeseen circumstance will be lessened.



## FUTURE PLANS AND USE OF [REDACTED]

### *Ancillary production facilities to be developed*

To complement our plan to enhance our heat-treating capabilities, we also intend to further expand and improve our ancillary production facilities to cater for the expected increase in our production volume of heat-treated specialty flour products.

During the Track Record Period, we generally stored our flour products in silos before they are packaged for delivery for preservation of product quality and efficient use of space. In the light of the expected future growth in demand for our heat-treated specialty flour products and given the proposed enhancement of our relevant production capabilities, we will erect 10-12 new silos so as to increase our total flour storage capacity. Such new silos will be used to store the input flour (in the form of specialty flour mix) to be applied in the heat-treating process and the finished products to be generated (i.e. heat-treated specialty flour products) pending transfer to the packaging line. As we build our new heat-treating line, these new silos will be set up in corresponding positions to maximise production and operational efficiency. As the heat-treated specialty flour products offered by us become more diversified, we will work on the designs of these new silos with a view to providing optimal storage conditions according to the specific properties and characteristics of different flour types. In addition, we will build a new warehouse equipped with temperature-control facilities for enhanced storage of our packaged heat-treated specialty flour products.

Construction of the new silos and warehouse is not expected to cause any material impact on or disruption to our operation and are planned to be completed by March 2026. They will be put into use when our new heat-treating facilities become fully operational.

### *Net [REDACTED] from the [REDACTED] allocated*

We will apply approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) to enhance our production capabilities through enriching our production facilities during FY2025 and FY2026, among which

- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to acquire additional heat-treating facilities;
- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to construct additional silos; and
- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to build a new warehouse for storage of heat-treated specialty flour products.

### **Expand our sales network and further expand our brand "Shenhua"**

Leveraging our position as one of the leading specialty flour manufacturers in Hebei, we intend to expand our sales network and further develop our brand "Shenhua (參花)" through various means.

## FUTURE PLANS AND USE OF [REDACTED]

### *Enlargement of customer base*

To ensure continuous and sustainable growth in our revenue, we will strive to enlarge our customer base through active participation in domestic trade fairs. This will increase the visibility and stature of our Group in the industry, such that we could gain recognition from a wider group of downstream market players, including without limitation end users and wholesalers of flour products, and become better placed to attract new customers. At the same time, we will seize this invaluable opportunity to directly approach potential new customers for business development purposes.

### *Development of online retail channels*

We will expend resources developing our retail channels, which will primarily comprise direct sales of our flour products to individual consumers via popular e-commerce platforms in the PRC.

The development of our online retail channels is still at a preliminary stage at present, and it is our goal to step up our effort and increase our presence on e-commerce platforms in the PRC by promoting and selling our flour products on major social platforms such as Douyin and Xiaohongshu. To support the execution of our online retail channel development strategy, we will enlarge our e-commerce team through recruiting additional staff to provide support in relation to administration, graphic design, customer services and warehousing and logistics. We will also continue to enlist the professional advice and assistance of external e-commerce operation service provider in relation to marketing and promotion and running of our online stores, with a view to increasing store traffic, optimising user experience and promoting effectiveness in customer engagement and acquisition. Specific areas of support may include implementation of marketing and promotion plans and recommendations for engagement of key opinion leaders (KOLs) for product promotion, among others.

### *Promotion of brand and products*

On top of the above, we intend to take initiatives to promote our brand "Shenhua (參花)" and the products offered by us under the brand from time to time. We will actively utilise different advertising channels to further increase public awareness of our brand and products in accordance with the current trend. For instance, we will arrange for advertisements to be placed both online (i.e. in the user interface of mobile applications, public accounts of instant messaging applications, or advertising space on websites) and offline (i.e. at third-party physical retail stores or in other prominent positions in local communities). As we participate in trade fairs, we will also take the opportunity to promote our products through direct interaction with visitors of the trade fairs.

### *Net [REDACTED] from the [REDACTED] allocated*

We will designate approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) to expand our sales network and further expand our brand "Shenhua (參花)" during FY2025 and FY2026, among which

- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to enlarge our customer base through participation in domestic trade fairs;

## FUTURE PLANS AND USE OF [REDACTED]

- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to develop our online retail channels; and
- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to adopt initiatives to promote our brand and our products.

### **Develop new products and further diversify our product range**

Given the expected growth in demand for high-end flour products and easy-to-use flour products, we will conduct further market research to identify and gain insights into the exact consumer preferences and flour product development trends. Leveraging our expertise in design of product formulations, we will develop new flour mixes and/or adapt our existing flour products that are suited to the prevailing preferences and trends in the flour market. Specifically, we will undertake new flour product development initiatives in the following three areas:

#### **(1) *Heat-treated specialty flour products***

We will develop new heat-treated specialty flour products that may be used to produce or prepare muffins, puffs, waffles, fried chickens, dumplings and cold noodles during FY2025 and FY2026. We believe that such efforts, combined with the proposed scaling up of our heat-treating capacity as detailed in the section headed "Business — Business Strategies — Enhance our production capabilities through enriching our production facilities" in this document, will serve to bring our production and supply of heat-treated specialty flour products to the next level.

One of the focus areas in our research and development work will be empirical analyses of the application of heat-treated flour in making frozen dough for production of Chinese food items; given the higher water absorption capacity of heat-treated flour, we envisage that the freeze-thaw stability of the frozen dough can be promoted, which will in turn improve the texture of frozen dumplings and buns ultimately produced from the flour.

#### **(2) *Pre-mixed flour products***

According to the F&S Report, easy-to-use flour products generally take the form of pre-mixed flour products, which are mixtures that generally consist of flour and other various ingredients such as sugar, milk powder, yeast, baking powder, egg powder and fat. The major advantage of pre-mixed flour products lies in the ease, convenience and cost-savings they bring in food production, as they include all major ingredients required in optimised portions as a package and may be provided together with production directions. Users can readily convert pre-mixed flour products into specific end food products just by just adding some basic substances (such as water). Examples of the end food products that can be produced include waffles, chiffon cakes, sponge cakes, dumpling wrappers and mantou.

## FUTURE PLANS AND USE OF [REDACTED]

Further, according to the F&S Report, the sales volume of pre-mixed flour in the PRC has increased rapidly from approximately 91.2 thousand tonnes in 2019 to 111.7 thousand tonnes in 2023 at a CAGR of 5.2%; due to the improvement in efficiency the use of pre-mixed flour products can bring to food production, the demand for and application of pre-mixed flour products is expected to reach approximately 123.3 thousand tonnes in 2028, representing a CAGR of 2.0% for the period from 2023 to 2028. In addition, the wholesale price of pre-mixed flour products has also risen steadily from approximately RMB20,000 per tonne in 2019 to RMB22,450 per tonne in 2023 at a CAGR of 2.9%; benefiting from increasing demand for pre-mixed flour products, the wholesale price of pre-mixed flour products is expected to continue increasing gradually at a CAGR of 1.4% for the period from 2023 to 2028.

At present, producers of pre-mixed flour products are primarily western brands, and demand for domestically produced pre-mixed flour products has been on the rise due to the PRC government's policy of promoting domestic brands. Building on our experience of launching over 40 pre-mixed flour products accumulated during the Track Record Period, we intend to enhance our ability to produce pre-mixed flour products and develop new pre-mixed flour products which may be used to produce cakes (such as velvet cakes, high-fibre cakes and rainbow cakes) and bread (such as whole-grain bread, cereal bread and mochi) during FY2025 and FY2026. This will also complement our strategy in relation to development of our retail channels via popular e-commerce platforms in the PRC, where our pre-mixed flour products are expected to play a pivotal role as they are particularly likely to appeal to the target customers via this sales channel. For details, please refer to the section headed "Business — Business Strategies — Expand our sales network and further develop our brand 'Shenhua (参花)'" in this document.

### (3) *Pure general specialty flour products*

We intend to further enrich our product offerings by designing and developing pure general specialty flour products for producing additional types of food products. Based on our product development plans, we will focus our research and development work on pure general specialty flour products tailored for steamed or boiled recipes. The new products to be developed include pure general specialty flour products with a lower gluten content that can be used to produce mantou in Southern Chinese style, which is characterised by its finer and fluffier texture as compared with mantou in Northern Chinese style that is already covered by our existing pure general specialty flour product portfolio. Another major new product to which we will devote our research and development resources is pure general specialty flour product having a slightly higher gluten content suited to production of Chinese stuffed bun with a fluffy and elastic texture. Our Directors are confident that the introduction of such new pure general specialty flour products can answer the needs of those consumers looking to prepare high quality steamed or boiled food items.

We have been collaborating with a tertiary institution on the development of new pure general specialty flour products. Our plan is to introduce new pure general specialty flour products tailored for preparation of steamed or boiled food items during FY2025 and FY2026.

## FUTURE PLANS AND USE OF [REDACTED]

In connection with implementation of this business strategy, we will expand our quality control, research and development department to increase our research and development capacity. Additional flour product development managers and researchers will be recruited to assist in the new product development projects. To facilitate our research and development work, we will acquire the requisite new equipment, including apparatus for testing and analysis of the contents and properties of raw materials and finished flour products and for trial production of flour products, which is expected to provide a higher degree of accuracy with regard to test results and increased precision in the product development process as compared with our existing apparatus.

### *Net [REDACTED] from the [REDACTED] allocated*

We will set aside approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) to develop new products and further diversify our product range during FY2025 and FY2026, among which

- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to acquire additional machinery; and
- approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) will be used to recruit additional members of research and development staff.

### **Repay certain existing borrowings from bank and other financial institutions**

We will assign approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) for making repayment during the first half of FY2025 of our existing borrowings that have been drawn down under certain loan facilities granted by bank and other financial institutions. Such borrowings carry effective interest rates ranging from approximately 5.8% to 7.4% and will mature in FY2025 or FY2026. They have been used to finance our business operations.

Our Directors regard repayments of the above loans bank and other financial institutions as a judicious use of the net [REDACTED] from the [REDACTED] that can reduce our bank and other loans balance and gearing ratio. Particularly, we have singled out these borrowings for early repayments as they carry higher interest rates than our other existing borrowings, such that substantial reductions in interest expenses can be made. Such repayments will allow us to effectively improve our financial position with increased resources that can be devoted to supporting our business development and future expansion.

We shall meet the remaining amount required for full repayment of the above borrowings with our internal resources.

**FUTURE PLANS AND USE OF [REDACTED]**

**General working capital**

We will allocate approximately HK\$[REDACTED] (or approximately [REDACTED]% of the net [REDACTED]) to our general working capital during the first half of FY2025.

Set forth below is the expected time frame for our use of the net [REDACTED] from the [REDACTED] in accordance with the above allocation:

	Six months ended				Total HK\$ million
	30 June 2025 HK\$ million	31 December 2025 HK\$ million	30 June 2026 HK\$ million	31 December 2026 HK\$ million	
<b>Enhance our production capabilities through enriching our production facilities</b>					
• Acquire additional heat-treating facilities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
• Construct additional silos	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
• Conduct improvement works in respect of our warehouses for storage of heat-treated specialty flour products	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Expand our sales network and further expand our brand "Shenhua (参花)"</b>					
• Enlarge our customer base through participation in domestic trade fairs	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
• Develop our online retail channels	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
• Adopt initiatives to promote our brand and our products	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Develop new products and further diversify our product range</b>					
• Acquire additional machinery	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
• Recruit additional members of research and development staff	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Repay certain existing borrowings from bank and other financial institutions</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>General working capital</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
<b>Total net [REDACTED] from [REDACTED]</b>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

## FUTURE PLANS AND USE OF [REDACTED]

### BASES AND ASSUMPTIONS

Our business strategies and proposed use of the net [REDACTED] from the [REDACTED] are formulated by our Directors based on the following general assumptions:

- there will be no significant economic change in respect of inflation, interest rate, tax rate and currency exchange rate in the geographic locations we operate in which will adversely affect our business;
- we will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which our business objectives relate;
- there will be no material adverse changes in the existing laws and regulations, policies or industry or regulatory treatment relating to our Group, or in the political, social, economic, fiscal or market conditions in which our Group operates;
- the [REDACTED] will be completed in accordance with the terms as described in the section headed "Structure of the [REDACTED]" in this document;
- there will be no disasters, natural, political, social or otherwise, that will materially disrupt our business operations;
- we will not be adversely affected by the risk factors as set out in the section headed "Risk Factors" in this document; and
- we will continue our existing operations in substantially the same manner as they were carried out during the Track Record Period and we will also be able to carry out our development plans without any material disruption.

Assuming that the [REDACTED] is not exercised at all, the net [REDACTED] from the [REDACTED] (after deducting the [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]) will amount to approximately (1) HK\$[REDACTED] if the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range); or (2) HK\$[REDACTED] if the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range).

Assuming that the [REDACTED] is exercised in full, the net [REDACTED] from the [REDACTED] (after deducting the [REDACTED] fees and commissions and estimated expenses payable by us in connection with the [REDACTED]) will amount to approximately (1) HK\$[REDACTED] if the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the high end of the [REDACTED] range); (2) HK\$[REDACTED] if the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] range); or (3) HK\$[REDACTED] if the [REDACTED] is fixed at HK\$[REDACTED] per [REDACTED] (being the low end of the [REDACTED] range).

**FUTURE PLANS AND USE OF [REDACTED]**

In each of the above circumstances, we will apply the net [REDACTED] for the various intended uses set forth above in the stated proportions and the amount of net [REDACTED] to be applied for each intended use will be adjusted accordingly.

In the event that the designated amount(s) of net [REDACTED] from the [REDACTED] (or any part thereof) is(are) not immediately used for any of the above purposes and to the extent permitted by the applicable laws and regulations, we will deposit such net [REDACTED] into interest-bearing bank accounts with licensed banks and/or other financial institutions. We will make an appropriate announcement if there is any change to the intended uses of net [REDACTED] set forth above.



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]



**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**STRUCTURE AND CONDITIONS OF THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]



**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]



**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]

**HOW TO APPLY FOR THE [REDACTED]**

[REDACTED]



*The following is the text of a report set out on pages I-1 to I-[●], received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*



## ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SHENHUA HOLDINGS LIMITED AND ZHONGTAI INTERNATIONAL CAPITAL LIMITED

### Introduction

We report on the historical financial information of Shenhua Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-[●] to I-[●], which comprises the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2021, 2022 and 2023, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for each of the years ended 31 December 2021, 2022 and 2023 (the "Track Record Period"), and material accounting policy information and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-[●] to I-[●] forms an integral part of this report, which has been prepared for inclusion in the document of the Company dated [●] (the "Document") in connection with the [REDACTED] of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### Directors' responsibility for Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

### Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion**

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the Company's and the Group's financial position as at 31 December 2021, 2022 and 2023, and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

**Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I - 3 have been made.

*Dividends*

We refer to Note 23(c) to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

*No statutory financial statements for the Company*

No statutory financial statements have been prepared for the Company since its incorporation.

*Certified Public Accountants*

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
[●]

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**HISTORICAL FINANCIAL INFORMATION**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by 畢馬威華振會計師事務所(特殊普通合夥) KPMG Huazhen LLP in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS**

(Expressed in Renminbi ("RMB"))

	Note	Years ended 31 December		
		2021 RMB'000	2022 RMB'000	2023 RMB'000
<b>Revenue</b>	4	499,996	468,574	543,963
Cost of sales		<u>(449,566)</u>	<u>(406,284)</u>	<u>(475,194)</u>
<b>Gross profit</b>		50,430	62,290	68,769
Other net income	5	6,480	8,373	11,771
Selling expenses		(2,125)	(970)	(836)
Administrative and other expenses		<u>(12,702)</u>	<u>(7,167)</u>	<u>(12,861)</u>
<b>Profit from operations</b>		42,083	62,526	66,843
Finance costs	6(a)	<u>(9,854)</u>	<u>(17,067)</u>	<u>(26,046)</u>
<b>Profit before taxation</b>	6	32,229	45,459	40,797
Income tax	7(a)	<u>(175)</u>	<u>(203)</u>	<u>(300)</u>
<b>Profit for the year attributable to equity shareholders of the Company</b>		<u><u>32,054</u></u>	<u><u>45,256</u></u>	<u><u>40,497</u></u>
<b>Earnings per share</b>				
Basic and diluted	10	<u><u>32.05</u></u>	<u><u>45.26</u></u>	<u><u>40.50</u></u>

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*(Expressed in RMB)*

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the year attributable to equity shareholders of the Company</b>	32,054	45,256	40,497
	-----	-----	-----
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>			
Item that will not be reclassified to profit or loss:			
– equity investment at fair value through other comprehensive income ("FVOCI") – net movement in fair value reserve (non-recycling)	356	(179)	(50)
Item that are or may be reclassified subsequently to profit or loss:			
– exchange differences on translation into presentation currency	(9)	2	*
	-----	-----	-----
Other comprehensive income for the year	347	(177)	(50)
	-----	-----	-----
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b>	<b>32,401</b>	<b>45,079</b>	<b>40,447</b>
	=====	=====	=====

\* *Amount less than RMB500.*

The accompanying notes form part of the Historical Financial Information

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*(Expressed in RMB)*

		<b>At 31 December</b>		
	<i>Note</i>	<b>2021</b> <i>RMB'000</i>	<b>2022</b> <i>RMB'000</i>	<b>2023</b> <i>RMB'000</i>
<b>Non-current assets</b>				
Property, plant and equipment	11	216,000	207,929	201,631
Investment property	12	62,432	60,157	58,672
Other non-current assets	13	52,674	58,195	306,139
		<u>331,106</u>	<u>326,281</u>	<u>566,442</u>
<b>Current assets</b>				
Inventories	14	126,694	186,265	186,477
Trade receivables	15	78,754	85,992	121,069
Prepayments, deposits and other receivables	16	73,684	226,522	125,867
Amounts due from a third party	17	–	19,788	–
Cash and cash equivalents	18	14,755	3,098	3,538
		<u>293,887</u>	<u>521,665</u>	<u>436,951</u>
<b>Current liabilities</b>				
Bank and other loans	19	236,373	219,925	386,261
Trade payables	20	51,431	28,638	24,502
Accrued expenses and other payables	21	8,643	25,574	17,958
Income tax payable	22(a)	56	27	116
		<u>296,503</u>	<u>274,164</u>	<u>428,837</u>
<b>Net current (liabilities)/assets</b>		<u>(2,616)</u>	<u>247,501</u>	<u>8,114</u>
<b>Total assets less current liabilities</b>		<u>328,490</u>	<u>573,782</u>	<u>574,556</u>
<b>Non-current liabilities</b>				
Bank and other loans	19	52,740	253,013	213,356
Deferred tax liability	22(b)	119	59	43
		<u>52,859</u>	<u>253,072</u>	<u>213,399</u>
<b>Net assets</b>		<u>275,631</u>	<u>320,710</u>	<u>361,157</u>
<b>Capital and reserves</b>				
Share capital	23	*	*	*
Reserves		275,631	320,710	361,157
<b>Total equity attributable to equity shareholders of the Company</b>		<u>275,631</u>	<u>320,710</u>	<u>361,157</u>

\* Amount less than RMB500.

The accompanying notes form part of the Historical Financial Information

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**STATEMENTS OF FINANCIAL POSITION OF THE COMPANY**

*(Expressed in RMB)*

		<b>At 31 December</b>		
	<i>Note</i>	<b>2021</b>	<b>2022</b>	<b>2023</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Non-current asset</b>				
Investment in a subsidiary		1	1	1
		-----	-----	-----
<b>Current asset</b>				
Cash and cash equivalents	18	8	7	2
		-----	-----	-----
<b>Current liability</b>				
Amounts due to subsidiaries		29	27	26
		-----	-----	-----
<b>Net current liabilities</b>		(21)	(20)	(24)
		-----	-----	-----
<b>Net liabilities</b>		(20)	(19)	(23)
		=====	=====	=====
<b>Capital and reserves</b>				
Share capital	23	*	*	*
Reserves		(20)	(19)	(23)
		-----	-----	-----
<b>TOTAL DEFICIT</b>		(20)	(19)	(23)
		=====	=====	=====

\* *Amount less than RMB500.*

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

*(Expressed in RMB)*

	Share capital RMB'000 <i>(Note 23(b))</i>	Share premium RMB'000 <i>(Note 23(d))</i>	Other reserves RMB'000 <i>(Note 23(e))</i>	Statutory reserves RMB'000 <i>(Note 23(f))</i>	Exchange reserve RMB'000 <i>(Note 23(g))</i>	Fair value reserve (non- recycling) RMB'000 <i>(Note 23(h))</i>	Retained profits RMB'000	Total RMB'000
<b>At 1 January 2021</b>	*	4,590	7,689	13,655	(272)	-	217,568	243,230
Changes in equity for 2021:								
Profit for the year	-	-	-	-	-	-	32,054	32,054
Other comprehensive income for the year	-	-	-	-	(9)	356	-	347
<b>At 31 December 2021 and 1 January 2022</b>	*	4,590	7,689	13,655	(281)	356	249,622	275,631
Changes in equity for 2022:								
Profit for the year	-	-	-	-	-	-	45,256	45,256
Other comprehensive income for the year	-	-	-	-	2	(179)	-	(177)
<b>At 31 December 2022 and 1 January 2023</b>	*	4,590	7,689	13,655	(279)	177	294,878	320,710
Changes in equity for 2023:								
Profit for the year	-	-	-	-	-	-	40,497	40,497
Other comprehensive income for the year	-	-	-	-	*	(50)	-	(50)
<b>At 31 December 2023</b>	*	4,590	7,689	13,655	(279)	127	335,375	361,157

\* Amount less than RMB500.

The accompanying notes form part of the Historical Financial Information.



**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED CASH FLOW STATEMENTS**

*(Expressed in RMB)*

	<i>Note</i>	<b>Years ended 31 December</b>		
		<b>2021</b>	<b>2022</b>	<b>2023</b>
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Operating activities</b>				
Profit before taxation		32,229	45,459	40,797
Adjustments for:				
Depreciation	6(c)	6,998	8,133	8,114
Interest income	5	(711)	(1,506)	(4,193)
Finance costs	6(a)	9,854	17,067	26,046
Dividend income	5	(238)	(238)	(212)
Changes in working capital:				
Decrease/(increase) in inventories		70,334	(59,571)	(212)
Increase in trade receivables		(38,982)	(7,238)	(35,077)
Increase in other non-current assets		(26,069)	(5,760)	(248,010)
(Increase)/decrease in prepayments, deposits and other receivables		(34,997)	(151,167)	100,161
Decrease in trade payables		(15,868)	(22,793)	(4,136)
Increase/(decrease) in accrued expenses and other payables		1,393	17,212	(8,512)
<b>Cash generated from/(used in) operation</b>		3,943	(160,402)	(125,234)
Income tax paid	22(a)	(119)	(232)	(211)
<b>Net cash generated from/(used in) operating activities</b>		3,824	(160,634)	(125,445)

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**CONSOLIDATED CASH FLOW STATEMENTS (CONTINUED)**

(Expressed in RMB)

	Note	Years ended 31 December		
		2021 RMB'000	2022 RMB'000	2023 RMB'000
<b>Investing activities</b>				
Payments for purchase of property, plant and equipment		(3,915)	(1,048)	(586)
Receipts of compensation for relocation of production base		–	2,958	–
Interest income received		36	32	4,688
Advances to a third party		–	(29,246)	–
Repayment by a third party		–	9,458	19,788
Advances to a related party		(113,864)	(33,480)	–
Repayment by a related party		113,864	33,480	–
Dividends received from an unlisted equity investment		238	238	212
<b>Net cash (used in)/generated from investing activities</b>		<u>(3,641)</u>	<u>(17,608)</u>	<u>24,102</u>
<b>Financing activities</b>				
Proceeds from bank and other loans	18(b)	274,243	431,545	402,714
Repayment of bank and other loans	18(b)	(259,043)	(247,720)	(276,035)
Finance costs paid	18(b)	(12,853)	(17,243)	(24,896)
Net decrease in restricted bank deposits		5,300	–	–
<b>Net cash generated from financing activities</b>		<u>7,647</u>	<u>166,582</u>	<u>101,783</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		7,830	(11,660)	440
<b>Cash and cash equivalents at the beginning of the year</b>		6,926	14,755	3,098
<b>Effect of foreign exchange rate changes</b>		<u>(1)</u>	<u>3</u>	<u>*</u>
<b>Cash and cash equivalents at the end of the year</b>	18(a)	<u>14,755</u>	<u>3,098</u>	<u>3,538</u>

\* Amount less than RMB500.

The accompanying notes form part of the Historical Financial Information.

**APPENDIX I**

**ACCOUNTANTS' REPORT**

**NOTES TO THE HISTORICAL FINANCIAL INFORMATION**

*(Expressed in RMB unless otherwise indicated)*

**1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

Shenhua Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 May 2019 as an exempted company with limited liability under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands.

The Company is an investment holding company and has not carried on any business since the date of its incorporation. The Company and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sales of flour products.

As at the date of this report, the Company has direct or indirect interest in the following subsidiaries, all of which are private companies:

Company name	Place and date of incorporation/ establishment	Particulars of registered and paid-up capital	Proportion of ownership interest		Principal activities
			Held by the Company	Held by subsidiaries	
Haze Success Limited ("Haze Success") (Notes (iv) and (vii))	The British Virgin Islands ("BVI") 16 May 2019	50,000 and 100 shares of United States Dollar ("US\$") 1.00 each	100%	-	Investment holding
Shenhua Industrial HK Limited ("Shenhua HK") (Notes (iv) and (v))	Hong Kong 24 July 2019	Hong Kong Dollar ("HK\$") 1	-	100%	Investment holding
Langfang Gu'an County Shenhua Enterprise Management Company Limited ("Shenhua EM") (廊坊固安縣參花企業管理有限公司) (Notes (i), (ii) and (vii))	The People's Republic of China (the "PRC") 15 Oct 2019	HK\$20,000,000 and HK\$Nil	-	100%	Investment holding
Gu'an County Shenhua Flour Co., Ltd. ("Shenhua Flour") (固安縣參花麵粉有限公司) (Notes (i), (iii) and (vi))	The PRC 9 Jan 2002	RMB27,310,000	-	100%	Processing and sales of wheat flour (all-purpose and special); sales of agricultural by-products; purchase, storage, and sales of grain; processing and sales of convenience foods, baked goods and locally produced fresh agricultural products; testing services; import and export of goods; lease of self-owned houses; information technology consulting services

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*Notes:*

- (i) The official names of these entities are in Chinese. The English translations are for identification purpose only.
- (ii) This company is a wholly foreign-owned enterprise established in the PRC.
- (iii) This company is a limited liability company established in the PRC.
- (iv) These companies are limited liability companies incorporated outside of the PRC (excluding Hong Kong).
- (v) The statutory financial statements of this entity for the years ended 31 December 2021 and 2022 were prepared in accordance with the Small and Medium-sized Entity Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants and were audited by Edward W.L. Choi & Co. Certified Public Accountants (Partnership) Limited. The statutory financial statements of this entity for the year ended 31 December 2023 has not yet been prepared as of the date of this report.
- (vi) The statutory financial statements of this entity for the years ended 31 December 2021, 2022 and 2023 were prepared in accordance with the Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC and were audited by Lianhua Certified Public Accountants (General Partnership) (河北聯華會計師事務所(普通合夥)).
- (vii) As at the date of this report, no audited financial statements have been prepared for these entities.

All companies comprising the Group have adopted 31 December as their financial year end date.

The Historical Financial Information has been prepared in accordance with all applicable IFRS Accounting Standards as issued by the International Accounting Standards Board ("**IASB**"). Further details of the material accounting policies adopted by the Group are set out in Note 2.

The IASB has issued a number of new and revised IFRS Accounting Standards. For the purpose of preparing this Historical Financial Information, the Group has consistently applied all applicable new and revised IFRS Accounting Standards throughout the Track Record Period. In addition, the Group has also elected to early adopt the "Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*" and the "Amendments to IAS 1, *Non-current Liabilities with Covenants*" throughout the Track Record Period. The new and revised accounting standards and interpretations issued but not yet effective or not early adopted for the accounting period beginning on 1 January 2023 are set out in Note 27.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

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### 2 MATERIAL ACCOUNTING POLICY INFORMATION

#### (a) Basis of measurement

The Historical Financial Information is presented in RMB, rounded to the nearest thousand. The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that unlisted equity investment is stated at its fair value (see Note 2(d)).

#### (b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with IFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS Accounting Standards that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in Note 3.

#### (c) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests ("NCI") within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(h)(ii)).

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**(d) Investments in equity securities**

The Group's policies for investments in securities, other than investments in subsidiaries are set out below:

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss ("FVPL") for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see Note 24(d).

An investment in equity securities is classified as FVPL, unless the investment is not held for trading purposes and on initial recognition the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income ("OCI"). Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. If such election is made for a particular investment, at the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings and not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income (see Note 2(r)(ii)(e)).

**(e) Investment property**

Investment properties are stated at cost less accumulated depreciation and impairment losses (see Note 2(h)(ii)). The depreciation policy is the same as that of plant and building (see Note 2(f)). Rental income from investment properties is accounted for as described in Note 2(r)(ii)(b).

**(f) Property, plant and equipment**

Property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses (see Note 2(h)(ii)).

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components).

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values, if any, using the straight line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

– Right-of-use assets	Over the unexpired term of lease
– Plant and buildings	40 years
– Machinery and other equipment	3 - 20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(g) Leased assets**

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

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(i) *As a lessee*

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a short lease term of 12 months or less, and leases of low-value items. When the Group enters into a lease in respect of a low-value item, the Group decides whether to capitalise the lease on a lease-by-lease basis. If not capitalised, the associated lease payments are recognised in profit or loss on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is recognised using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability, and are charged to profit or loss as incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see Notes 2(f) and 2(h)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a lease modification, which means a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract, if such modification is not accounted for as a separate lease. In this case, the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

The Group presents right-of-use assets in "property, plant and equipment".

(ii) *As a lessor*

The Group determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. Otherwise, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with Note 2(r)(ii)(b).

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### (h) Credit losses and impairment of assets

#### (i) *Credit losses from financial instruments, contract assets and lease receivables*

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, trade receivables and other receivables), contract assets and lease receivables.

##### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Generally, credit losses are measured as the present value of all expected cash shortfalls between the contractual and expected amounts.

The expected cash shortfalls are discounted the following rates if the effect is material:

- trade receivables, other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof; and
- lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months); and
- lifetime ECLs: these are the ECLs that result from all possible default events over the expected lives of the items to which the ECL model applies.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-months ECLs:

- financial instruments that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

##### *Significant increases in credit risk*

When determining whether the credit risk of a financial instrument has increased significantly since initial recognition, and when measuring ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment, that includes forward-looking information.

The Group considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Group in full, without resource by the Group to actions such as realising security (if any is held).

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.



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### *Credit-impaired financial assets*

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due; or
- it is probable that the debtor will enter bankruptcy or other financial reorganisation.

### *Write-off policy*

The gross carrying amount of a financial asset, lease receivable or contract asset is written off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

### **(ii) *Impairment of other non-current assets***

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGU"s).

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An impairment loss is reversed only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **(i) *Inventories and other contract costs***

#### **(i) *Inventories***

Inventories are measured at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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### (ii) *Other contract costs*

Other contract costs are either the incremental costs of obtaining a contract with a customer or the costs to fulfil a contract with a customer which are not capitalised as inventories (see Note 2(i)(i)).

Incremental costs of obtaining a contract, e.g. sales commissions, are capitalised if the costs relate to revenue which will be recognised in a future reporting period and the costs are expected to be recovered. Other costs of obtaining a contract are expensed when incurred.

Costs to fulfil a contract are capitalised if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Otherwise, costs of fulfilling a contract, which are not capitalised as inventory, property, plant and equipment or intangible assets, are expensed as incurred.

Capitalised contract costs are stated at cost less accumulated amortisation and impairment losses. Amortisation of capitalised contract costs is recognised in profit or loss when the revenue to which the asset relates is recognised (see Note 2(r)(i)).

### (j) **Contract assets and contract liabilities**

A contract asset is recognised when the Group recognises revenue (see Note 2(r)(i)) before being unconditionally entitled to the consideration under the terms in the contract. Contract assets are assessed for ECLs (see Note 2(h)(i)) and are reclassified to receivables when the right to the consideration becomes unconditional (see Note 2(k)).

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see Note 2(r)(i)). A contract liability is also recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such latter cases, a corresponding receivable is also recognised (see Note 2(k)).

### (k) **Trade and other receivables**

A receivable is recognised when the Group has an unconditional right to receive consideration and only the passage of time is required before payment of that consideration is due.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price. Trade receivables that contain a significant financing component and other receivables are initially measured at fair value plus transaction costs. All receivables are subsequently stated at amortised cost (see Note 2(h)(i)).

### (l) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months maturity at acquisition. Cash and cash equivalents are assessed for ECL (see Note 2(h)(i)).

### (m) **Trade and other payables**

Trade and other payables are initially recognised at fair value. Subsequent to initial recognition, trade and other payables are stated at amortised costs unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

### (n) **Interest-bearing borrowings**

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequently, these borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with Note 2(t).

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### (o) Employee benefits

#### (i) *Short-term employee benefits and contributions to defined contribution retirement plans*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Obligations for contributions to defined contribution retirement plans are expensed as the related service is provided.

#### (ii) *Termination benefits*

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring.

### (p) Income tax

Income tax expense comprises current tax and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Current tax comprises the estimated tax payable or receivable on the taxable income or loss for the year and any adjustments to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects any uncertainty related to income taxes. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences;
- temporary differences related to investment in subsidiaries, associates and joint venture to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- those related to the income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development.

The Group recognised deferred tax assets and deferred tax liabilities separately in relation to its lease liabilities and right-of-use assets.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

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The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

### (q) Provisions and contingent liabilities

Generally provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

### (r) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods or the provision of services in the ordinary course of the Group's business.

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) *Revenue from contracts with customers*

The Group is the principal for its revenue transactions and recognises revenue on a gross basis. In determining whether the Group acts as a principal or as an agent, it considers whether it obtains control of the products before they are transferred to the customers. Control refers to the Group's ability to direct the use of and obtain substantially all of the remaining benefits from the products.

Revenue is recognised when control over a product or service is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

##### *Sale of flour and flour by-products*

Revenue is recognised when the customer takes possession of and accepts the products. Payment terms and conditions vary by customers and are based on the billing schedule established in the contracts or purchase orders with customers. The Group takes advantage of the practical expedient in paragraph 63 of IFRS 15 and does not adjust the consideration for any effects of a significant financing component as the period of financing is 12 months or less.

If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

#### (ii) *Other income*

##### (a) *Grain procurement and/or storage service income*

The Group's grain procurement and/or storage service income in relation to the relevant arrangements in connection with the local government bodies comprises the following:

- storage service income recognised over the storage period;

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- replacement service income recognised when the replacement service of grain is rendered; and
- deemed interest income for funds provided by the Group for procurement of grain.

(b) *Rental income from operating leases*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(c) *Interest income*

Interest income is recognised using the effective interest method. The "effective interest rate" is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired). However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(d) *Government grants*

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them.

Grants that compensate the Group for expenses incurred are recognised as other income in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(e) *Dividends*

Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

(s) **Translation of foreign currencies**

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

The assets and liabilities of foreign operations are translated into RMB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into RMB at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the exchange reserve.

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When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the exchange reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the NCI shall be derecognised, but shall not be reclassified to profit or loss. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

**(t) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

**(u) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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### (v) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## 3 ACCOUNTING JUDGEMENT AND ESTIMATES

### (a) Sources of estimation uncertainty

Note 24 contains information about the assumptions and their risk factors relating to fair value of financial instruments. Other key sources of estimation uncertainty are as follows:

#### (i) *Expected credit loss for receivables*

The credit losses for trade receivables and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs for the impairment calculation, which are based on the Group's past collection history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 24(a). Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowances in future periods.

#### (ii) *Depreciation and useful lives*

Property, plant and equipment (including right-of-use assets) and investment property are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and residual values, if any, of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The determination of the useful lives and residual values, if any, are based on historical experience with similar assets after taking into account the anticipated changes on how such assets are to be deployed in the future. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

## 4 REVENUE AND SEGMENT REPORTING

### (a) Revenue

The principal activities of the Group are manufacturing and sales of flour and flour by-products. All of the revenue of the Group is recognised at a point in time during the Track Record Period. Further details regarding the Group's principal activities are disclosed in Note 4(b).

Disaggregation of revenue by primary products is disclosed in Note 4(b).

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During the Track Record Period, the Group's customers with whom transactions have exceeded 10% of the Group's revenue in the respective years are as follows. Details of credit risk of the Group are set out in Note 24(a).

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Customer A	135,174	103,204	64,419
Customer B	–	63,721	103,279
Customer C	*	52,265	91,390

\* The transactions with Customer C did not exceed 10% of the Group's revenue in 2021.

**(b) Segment reporting**

The Group manages its businesses by flour products. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

- All-purpose flour: this segment produces flours with medium gluten content which can be used in general application to produce a wide variety of food products.
- General specialty flour: this segment produces non-heat-treated speciality flour with varying levels of gluten content, tailored for producing specific types of products. Higher gluten content flours have higher elasticity and are suitable for producing bread, whereas lower gluten content flours have a fine, crumbly texture suitable for producing cakes and pastries.
- Heat treated specialty flour: this segment produces specialty flour that have undergone heat treatment to extend the flour's freshness and water absorption capacity. During the Track Record Period, this segment included two types of heat-treated specialty flour products, namely (a) pure heat-treated specialty flour products (i.e. flour products consisting solely of heat-treated specialty flour with no other flour blended in); and (b) blended specialty flour products (i.e. flour products produced by blending heat-treated specialty flour with non-heat-treated specialty flour).
- Flour by-product and others: this segment mainly produces wheat middlings and bran, both of which are by-product derived from the flour production process and is normally sold to feed manufacturers.

**(i) Segment results**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the cost incurred by those segments. The measure used for reporting segment result is gross profit. No inter-segment sales have occurred during the Track Record Period. Assistance provided by one segment to another is not measured.

The Group's other operating income and expenses, such as other net income, selling expenses, administrative expenses, impairment losses and financial costs, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, interest income and interest expenses is presented.



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Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance during the Track Record Period is set out below:

	Year ended 31 December 2021				Total RMB'000
	All-purpose flour RMB'000	General specialty flour RMB'000	Heat treated specialty flour RMB'000	Flour by-product and others RMB'000	
	Revenue from external customers and reportable segment revenue	16,718	320,399	96,970	
Reportable segment gross profit	989	30,509	15,650	3,282	50,430
	Year ended 31 December 2022				Total RMB'000
	All-purpose flour RMB'000	General specialty flour RMB'000	Heat treated specialty flour RMB'000	Flour by-product and others RMB'000	
	Revenue from external customers and reportable segment revenue	4,808	262,059	140,088	
Reportable segment gross profit	372	30,417	28,331	3,170	62,290
	Year ended 31 December 2023				Total RMB'000
	All-purpose flour RMB'000	General specialty flour RMB'000	Heat treated specialty flour RMB'000	Flour by-product and others RMB'000	
	Revenue from external customers and reportable segment revenue	5,395	317,781	141,879	
Reportable segment gross profit	389	37,081	29,348	1,951	68,769

(ii) *Geographic information*

The Group generated all of its revenue in the PRC and its non-current assets are substantially located in the PRC, accordingly, no analysis of geographic information is presented.

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**5 OTHER NET INCOME**

	Note	Years ended 31 December		
		2021 RMB'000	2022 RMB'000	2023 RMB'000
Income from grain procurement and/or storage arrangements with governments	(i)	3,022	5,281	4,288
Interest income		711	1,506	4,193
Government grants		1,592	516	21
Operating lease income		229	–	2,189
Dividend income		238	238	212
Others		688	832	868
		<u>6,480</u>	<u>8,373</u>	<u>11,771</u>

Note:

- (i) This mainly represented storage service income, replacement service income and deemed interest income for funds provided by the Group in relation to the relevant arrangements in connection with the local governments bodies, under which, the Group should procure grain or provide funds for the procurement, and/or store these grain in the Group's premises, which the relevant government bodies have full entitlement thereto, and should replace the grain regularly to maintain its quality (see Note 13(i) for details of the arrangements).

**6 PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging/(crediting):

**(a) Finance costs**

	Years ended 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Interest expenses on bank and other loans	12,853	17,243	26,046
Less: Amounts capitalised into property, plant and equipment (Note 18(b))	(2,999)	(176)	–
	<u>9,854</u>	<u>17,067</u>	<u>26,046</u>

The borrowing costs have been capitalised at 5.14% and 5.00% per annum for each of the years ended 31 December 2021 and 2022, respectively. No borrowings costs were capitalised for the year ended 31 December 2023.

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**(b) Staff costs**

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, wages and other benefits	8,269	7,669	7,061
Contributions to defined contribution retirement schemes	714	721	732
	<u>8,983</u>	<u>8,390</u>	<u>7,793</u>

The employees of the subsidiaries of the Group established in the PRC (excluding Hong Kong) participate in defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at 16% of the employees' basic salaries during the Track Record Period. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC (excluding Hong Kong), from the above mentioned retirement scheme at their normal retirement age. Contributions to the scheme vest immediately, there is no forfeited contributions that may be used by the Group to reduce the existing level of contribution.

The Group has no further obligation for payment of other retirement benefits beyond the above contributions.

**(c) Other items**

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories <sup>#</sup> (Note 14(a))	449,566	406,284	475,194
Depreciation charge (Notes 11 and 12)			
– owned property, plant and equipment	5,993	6,472	6,472
– investment property	752	1,504	1,485
– right-of-use assets	253	157	157
Professional service fee in connection with the proposed [REDACTED] of the Company's shares	6,433	703	5,113
Impairment losses (reversed)/recognised on trade receivables and other receivables	(2,128)	182	(30)

<sup>#</sup> Cost of inventories include RMB12,278,000, RMB12,804,000 and RMB12,165,000 relating to staff costs and depreciation expenses for each of the years ended 31 December 2021, 2022 and 2023 respectively, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

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**7 INCOME TAX**

**(a) Income tax in the consolidated statements of profit or loss represents:**

	Years ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current and deferred taxation	175	203	300

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates:**

	Years ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before taxation	32,229	45,459	40,797
Expected tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned ( <i>Notes (i), (ii) and (iii)</i> )	8,162	11,367	10,200
Tax effect of unused tax losses and deductible temporary differences not recognised	(494)	(122)	(272)
Under-provision in respect of prior years	38	–	–
Effect of PRC concession ( <i>Note (iv)</i> )	(7,531)	(11,042)	(9,628)
Actual tax expense	175	203	300

*Notes:*

- (i) The Company and a subsidiary of the Group incorporated in the BVI are not subject to any income tax pursuant to the rules and regulations of their respective countries of incorporation.
- (ii) The subsidiary of the Group incorporated in Hong Kong is subject to Hong Kong Profits Tax rate of 16.5% for the Track Record Period. No provision for Hong Kong Profits Tax has been made, as the subsidiary of the Group incorporated in Hong Kong did not have assessable profits which are subject to Hong Kong Profits Tax during the Track Record Period.
- (iii) The subsidiaries of the Group established in the PRC (excluding Hong Kong) are subject to PRC Corporate Income Tax rate of 25% for the Track Record Period.
- (iv) In accordance with relevant tax regulations in the PRC, assessable profit of Shenhua Flour arising from primary processing of agricultural products is eligible for income tax exemption.

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**8 DIRECTORS' EMOLUMENTS**

Details of emoluments of directors are as follows:

	Year ended 31 December 2021				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yao Zhiwan	–	128	–	6	134
Mr. Yao Wei	–	80	–	6	86
	–	208	–	12	220

	Year ended 31 December 2022				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yao Zhiwan	–	128	–	7	135
Mr. Yao Wei	–	80	–	7	87
	–	208	–	14	222

	Year ended 31 December 2023				
	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Executive directors</b>					
Mr. Yao Zhiwan	–	127	–	7	134
Mr. Yao Wei	–	80	–	7	87
	–	207	–	14	221

On [●], Mr. Chan Yuk Hiu Taylor, Mr. Huang Weining and Ms. Shi Jingmin were appointed as independent non-executive directors of the Company.

During the Track Record Period, no emoluments were paid by the Group to the directors as an inducement to join or as compensation for loss of office upon joining the Group.

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**9 INDIVIDUALS WITH HIGHEST EMOLUMENTS**

During the Track Record Period, of the five individuals with the highest emoluments, one, one and one is a director whose emoluments is disclosed in Note 8 for the years ended 31 December 2021, 2022 and 2023. The aggregate of the emoluments in respect of the remaining highest individuals during the Track Record Period are as follows:

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits in kind	439	390	396
Retirement scheme contributions	19	33	35
	<u>458</u>	<u>423</u>	<u>431</u>

The emoluments of the individuals who are not directors and who are amongst the five highest paid individuals of the Group are within the following band:

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>Number of individuals</i>	<i>Number of individuals</i>	<i>Number of individuals</i>
Nil to HK\$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

**10 EARNINGS PER SHARE**

The calculation of basic earnings per share for each year of the Track Record Period is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average of 1,000 ordinary shares in issue during the respective year.

There were no potential dilutive ordinary shares during the Track Record Period, therefore, diluted earnings per share as the same as the basic earnings per share.

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**11 PROPERTY, PLANT AND EQUIPMENT**

	Right-of-use assets RMB'000 <i>Note (a)</i>	Plant and buildings RMB'000 <i>Note (b)</i>	Machinery and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2021	17,488	109,423	44,097	142,131	313,139
Additions	–	148	3,390	2,347	5,885
Transfer in/(out)	–	91,608	–	(91,608)	–
Adjustments <i>(Note (c))</i>	–	(12,441)	–	(7,322)	(19,763)
Reclassification to investment property <i>(Note 12)</i>	(9,625)	(55,215)	–	–	(64,840)
At 31 December 2021	7,863	133,523	47,487	45,548	234,421
Additions	–	–	202	543	745
Transfer in/(out)	–	45,472	–	(45,472)	–
Adjustments <i>(Note (d))</i>	–	(2,187)	–	–	(2,187)
At 31 December 2022	7,863	176,808	47,689	619	232,979
Additions	–	254	77	–	331
At 31 December 2023	7,863	177,062	47,766	619	233,310
<b>Accumulated depreciation:</b>					
At 1 January 2021	(2,041)	(5,372)	(6,418)	–	(13,831)
Charge for the year	(253)	(3,695)	(2,298)	–	(6,246)
Reclassification to investment property <i>(Note 12)</i>	1,219	437	–	–	1,656
At 31 December 2021	(1,075)	(8,630)	(8,716)	–	(18,421)
Charge for the year	(157)	(4,279)	(2,193)	–	(6,629)
At 31 December 2022	(1,232)	(12,909)	(10,909)	–	(25,050)
Charge for the year	(157)	(4,205)	(2,267)	–	(6,629)
At 31 December 2023	(1,389)	(17,114)	(13,176)	–	(31,679)
<b>Net book value</b>					
At 31 December 2021	6,788	124,893	38,771	45,548	216,000
At 31 December 2022	6,631	163,899	36,780	619	207,929
At 31 December 2023	6,474	159,948	34,590	619	201,631

(a) Right-of-use-assets represent land use right premiums paid by the Group for land situated in the PRC. The Group is the registered owner of the land use rights, with lease terms of 50 years. Lump sum payments were made upfront to acquire these land use rights, and there are no ongoing payments to be made under the terms of the land lease.

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- (b) At 31 December 2021, 2022 and 2023, ownership certificates of certain plants and building with carrying amount of RMB24.7 million, RMB24.1 million, and RMB23.5 million, respectively, were yet to be obtained. The directors of the Company are of the opinion that the Group is entitled to lawfully occupy or use the properties.
- (c) This represents the adjustment for over-accruals to the property, plant and equipment of phase 2 of the Group's current production base based on the finalised agreed amount with the constructor.
- (d) This represents compensation received from local government during the year ended 31 December 2022 for the relocation of the Group's production base which occurred in 2018.

**12 INVESTMENT PROPERTY**

	<i>RMB'000</i>
<b>Cost:</b>	
At 1 January 2021	–
Reclassification from property, plant and equipment ( <i>Note 11</i> )	64,840
At 31 December 2021	64,840
Adjustments ( <i>Note 11(d)</i> )	(771)
At 31 December 2022 and 31 December 2023	64,069
<b>Accumulated depreciation:</b>	
At 1 January 2021	–
Reclassification from property, plant and equipment ( <i>Note 11</i> )	1,656
Charge for the year	752
At 31 December 2021	2,408
Charge for the year	1,504
At 31 December 2022	3,912
Charge for the year	1,485
At 31 December 2023	5,397
<b>Net book value</b>	
At 31 December 2021	62,432
At 31 December 2022	60,157
At 31 December 2023	58,672

The Group leases out investment properties under operating lease. The existing leases typically run for an initial period of 4 to 7 years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the existing leases includes variable lease payments or substantively non-cancellable terms.

According to the property valuation reports issued by independent qualified valuers, the fair value of investment properties located in the PRC are determined using market value approach and the fair value of the Group's investment properties at 31 December 2021, 2022 and 2023 were RMB133.4 million, RMB144.9 million and RMB107.9 million, respectively.



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**13 OTHER NON-CURRENT ASSETS**

	At 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Receivables in connection with grain procurement and/or storage arrangements ( <i>Note (i)</i> )	50,339	56,099	304,109
Unlisted equity investment, measured at FVOCI – equity interests of Hebei Gu'an Rural Commercial Bank Company Limited (" <b>GRCB</b> ") ( <i>Note (ii)</i> ) 河北固安農村商業銀行股份有限公司	2,335	2,096	2,030
	52,674	58,195	306,139

*Notes:*

- (i) The Group has participated in several grain procurement and/or storage arrangements with the local governments bodies. Under such arrangements, the Group procures grain or provides funds for the procurement, and/or store these grain in the Group's premises, which the relevant government bodies have full entitlement thereto, and replace the grain regularly to maintain its quality (see Note 5(i)).

Under certain of these arrangements, the local government bodies directed a bank to grant the Group bank loans to finance the Group to procure grain (see Note 19(a)). The initial term of bank loans is one year which can be renewed annually as long as the Group is still participating in the grain procurement and/or storage arrangements.

The receivables in connection with grain procurement and/or storage arrangements will be settled when the grain is deployed at the discretion of relevant governments bodies or the arrangements are terminated, and until then the Group is liable to repay the above-mentioned bank loans. All of the receivables in connection with grain procurement and/or storage arrangements and corresponding bank loans mentioned above are expected to be recovered or settled after more than one year.

- (ii) The English translation of the name is for identification only. The official name of the entity is in Chinese.

Details on the fair value measurement of the unlisted equity investments are set out in Note 24(d).

**14 INVENTORIES**

	At 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Raw materials	115,757	176,598	180,181
Finished goods	9,947	8,807	5,445
Packaging materials	990	860	851
	126,694	186,265	186,477

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- (a) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Years ended 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Carrying amount of inventories sold	449,566	406,284	475,194

**15 TRADE RECEIVABLES**

	At 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
– related parties ( <i>Note 25(h)</i> )	7,203	2,784	5,227
– third parties	71,563	83,402	115,900
	<u>78,766</u>	<u>86,186</u>	<u>121,127</u>
Less: loss allowance ( <i>Note 24(a)</i> )	(12)	(194)	(58)
	<u>78,754</u>	<u>85,992</u>	<u>121,069</u>

All of the trade receivables, net of loss allowance, are expected to be recovered within one year.

**Aging analysis**

At 31 December 2021, 2022 and 2023, the aging analysis of trade receivables (net of loss allowance) based on the invoice date is as follows:

	At 31 December		
	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	76,446	71,612	101,599
3 to 6 months	2,308	14,380	17,143
6 to 9 months	–	–	2,327
	<u>78,754</u>	<u>85,992</u>	<u>121,069</u>

Details on the Group's credit policy and credit risk arising from trade receivables are set out in Note 24(a).

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**16 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

**The Group**

	<b>At 31 December</b>		
	<b>2021</b> <i>RMB'000</i>	<b>2022</b> <i>RMB'000</i>	<b>2023</b> <i>RMB'000</i>
Other receivables	7,438	8,327	6,096
Less: loss allowance ( <i>Note 24(a)</i> )	–	–	(106)
	<u>7,438</u>	<u>8,327</u>	<u>5,990</u>
Prepayments for purchase of raw materials:			
– a related party ( <i>Note 25(h)</i> )	34,737	16,422	51,140
– third parties ( <i>Note (i)</i> )	20,769	200,960	66,772
Value added tax refundable	10,433	349	–
Prepayments for costs incurred in connection with the proposed issuance of the Company's shares ( <i>Note (ii)</i> )	–	215	1,613
Others	307	249	352
	<u>66,246</u>	<u>218,195</u>	<u>119,877</u>
	<u><u>73,684</u></u>	<u><u>226,522</u></u>	<u><u>125,867</u></u>

*Notes:*

- (i) In a view to minimise the effect of rising wheat prices on the Group's operations, the Group entered into purchase contracts with and made refundable advance payments to various suppliers intending to secure supply of wheat at predetermined prices. When such suppliers were unable to deliver the volume of wheat which the Group had contracted for within the time specified, interest would be charged at a market interest rate for such advance payments made to the suppliers until the outstanding sum of which was refunded to the Group.
- (ii) The balance at 31 December 2023 will be transferred to the share premium account within equity upon the issuance of the Company's shares for [REDACTED] on the Stock Exchange.

**17 AMOUNTS DUE FROM A THIRD PARTY**

Amounts due from a third party are non-trade in nature, interest-bearing, unsecured and have no fixed terms of repayment. Interests charged to the third party are determined based on the interest rates of the Group's external bank loans, which were nil, 4.66% and 4.78% per annum for the years ended 31 December 2021, 2022 and 2023, respectively.

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**18 CASH AND CASH EQUIVALENTS**

**(a) Cash and cash equivalents comprise:**

**The Group**

	At 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	14,755	3,098	3,538
	<u>14,755</u>	<u>3,098</u>	<u>3,538</u>

**The Company**

	At 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Cash at bank and on hand	8	7	2
	<u>8</u>	<u>7</u>	<u>2</u>

**(b) Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statements as cash flows from financing activities.

	Bank and other loans RMB'000 (Note 19)	Interest payable RMB'000 (Note 21)	Total RMB'000
<b>At 1 January 2021</b>	273,913	-	273,913
<b>Changes from financing cash flows:</b>			
Proceeds from bank and other loans	274,243	-	274,243
Repayments of bank and other loans	(259,043)	-	(259,043)
Finance costs paid	-	(12,853)	(12,853)
<b>Total changes from financing cash flows</b>	15,200	(12,853)	2,347
<b>Other changes</b>			
Interest expenses (Note 6(a))	-	9,854	9,854
Capitalised borrowing costs (Note 6(a))	-	2,999	2,999
<b>Total other changes</b>	-	12,853	12,853
<b>At 31 December 2021</b>	289,113	-	289,113

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	<b>Bank and other loans</b> <i>RMB'000</i> <i>(Note 19)</i>	<b>Interest payable</b> <i>RMB'000</i> <i>(Note 21)</i>	<b>Total</b> <i>RMB'000</i>
<b>At 1 January 2022</b>	289,113	–	289,113
<b>Changes from financing cash flows:</b>			
Proceeds from bank and other loans	431,545	–	431,545
Repayments of bank and other loans	(247,720)	–	(247,720)
Finance costs paid	–	(17,243)	(17,243)
<b>Total changes from financing cash flows</b>	183,825	(17,243)	166,582
<b>Other changes</b>			
Interest expenses <i>(Note 6(a))</i>	–	17,067	17,067
Capitalised borrowing costs <i>(Note 6(a))</i>	–	176	176
<b>Total other changes</b>	–	17,243	17,243
<b>At 31 December 2022</b>	472,938	–	472,938
	<b>Bank and other loans</b> <i>RMB'000</i> <i>(Note 19)</i>	<b>Interest payable</b> <i>RMB'000</i> <i>(Note 21)</i>	<b>Total</b> <i>RMB'000</i>
<b>At 1 January 2023</b>	472,938	–	472,938
<b>Changes from financing cash flows:</b>			
Proceeds from bank and other loans	402,714	–	402,714
Repayments of bank and other loans	(276,035)	–	(276,035)
Finance costs paid	–	(24,896)	(24,896)
<b>Total changes from financing cash flows</b>	126,679	(24,896)	101,783
<b>Other change</b>			
Interest expenses <i>(Note 6(a))</i>	–	26,046	26,046
<b>At 31 December 2023</b>	599,617	1,150	600,767

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**19 BANK AND OTHER LOANS**

(a) The Group's bank and other loans comprised:

	<b>At 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank loans:			
– secured and/or guaranteed ( <i>Note (i)</i> )	150,000	294,490	403,600
– in connection with grain procurement and/or storage arrangements ( <i>Note 13(i)</i> )	50,570	38,429	56,099
– unsecured	10,000	–	–
	<u>210,570</u>	<u>332,919</u>	<u>459,699</u>
Other loans:			
– secured ( <i>Note (i)</i> )	7,943	29,419	29,918
– unsecured ( <i>Note (ii)</i> )	70,600	110,600	110,000
	<u>78,543</u>	<u>140,019</u>	<u>139,918</u>
	<u><u>289,113</u></u>	<u><u>472,938</u></u>	<u><u>599,617</u></u>

*Notes:*

- (i) These loans were secured by the Group's property, plant and equipment, investment property, right-of-use assets, inventories, trade receivables, equity interests of Shenhua Flour, real estate property owned by a close family member of the controlling shareholder of the Group, Mr. Yao Zhiwan (the "**Controlling Shareholder**") and bank deposits of a company controlled by a close family member of the Controlling Shareholder, and/or guaranteed by directors of the Company or a third party entity.
- (ii) As at 31 December 2021, 2022 and 2023, other unsecured loans were from fellow subsidiaries of Guofu (Hong Kong) Holdings Limited ("**Guofu HK**"), an equity shareholder of the Company (see Note 23(b)).

(b) **The Group's bank and other loans are repayable as follows:**

At 31 December 2021, 2022 and 2023, the bank and other loans were repayable as follows:

	<b>At 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 1 year or on demand	236,373	219,925	386,261
After 1 year but within 2 years	2,170	109,278	107,257
After 2 years but within 5 years	50,570	143,735	106,099
	<u>289,113</u>	<u>472,938</u>	<u>599,617</u>

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- (c) At 31 December 2021, 2022 and 2023, the Group's banking facilities amounting to RMB50.0 million, RMB40.0 million and RMB440.0 million, were utilised to the extent of RMB50.0 million, RMB40.0 million and RMB180.0 million, respectively.
- (d) Certain of the Group's bank and other loans are secured by the following assets of the Group:

	At 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Property, plant and equipment	152,594	164,741	159,821
Investment property	62,432	60,157	58,672
Inventories	–	–	134,757
Trade receivables	–	–	121,069
	<u>215,026</u>	<u>224,898</u>	<u>474,319</u>

**20 TRADE PAYABLES**

	At 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Trade payables			
– third parties	51,431	28,638	24,502
	<u>51,431</u>	<u>28,638</u>	<u>24,502</u>

At 31 December 2021, 2022 and 2023, all of the trade payables are expected to be settled within one year or are repayable on demand.

At 31 December 2021, 2022 and 2023, the ageing analysis of trade payables based on the invoice date, is as follows:

	At 31 December		
	2021 RMB'000	2022 RMB'000	2023 RMB'000
Within 3 months	40,374	28,106	23,327
3 to 6 months	2,887	532	150
6 to 12 months	7,879	–	191
Over 1 year	291	–	834
	<u>51,431</u>	<u>28,638</u>	<u>24,502</u>

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**21 ACCRUED EXPENSES AND OTHER PAYABLES**

	<b>At 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payables for construction and purchase of property, plant and equipment	2,421	1,941	1,687
Payables for staff related costs	595	570	570
Interest payable	–	–	1,150
Others	4,204	2,335	3,833
	<u>          </u>	<u>          </u>	<u>          </u>
Financial liabilities measured at amortised cost	7,220	4,846	7,240
Contract liabilities	1,398	20,668	8,061
Payables for miscellaneous taxes	25	60	2,657
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>8,643</u>	<u>25,574</u>	<u>17,958</u>

At 31 December 2021, 2022 and 2023, all of the accrued expenses and other payables are expected to be settled within one year or are repayable on demand.

**22 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

(a) Current taxation in the consolidated statements of financial position represents:

	<b>At 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net balance of income tax payable at 1 January	–	56	27
Provision for the year ( <i>Note 7(a)</i> )	175	203	300
Income tax paid	(119)	(232)	(211)
	<u>          </u>	<u>          </u>	<u>          </u>
Income tax payable at 31 December	<u>56</u>	<u>27</u>	<u>116</u>

(b) **Deferred tax liability**

The component of deferred tax liability recognised in the consolidated statement of financial position and the movements during the Track Record Period are as follows:

<b>Deferred tax arising from:</b>	<b>Fair value adjustments on unlisted equity investment</b>
	<i>RMB'000</i>
At 1 January 2021	–
Charged to reserve	119
	<u>          </u>
At 31 December 2021	119
Credited to reserve	(60)
	<u>          </u>
At 31 December 2022	59
Credited to reserve	(16)
	<u>          </u>
At 31 December 2023	<u>43</u>



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In accordance with the accounting policy set out in Note 2(p), the Group has no material unused tax losses or deductible temporary differences to be recognised as deferred tax assets.

**23 CAPITAL, RESERVES AND DIVIDENDS**

**(a) Movements in components of equity**

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity during the Track Record Period are set out in the consolidated statements of changes in equity. Details of the changes in the Company's individual components of equity are set out below:

	Share capital RMB'000 (Note 23(b))	Share premium RMB'000 (Note 23(d))	Exchange reserve RMB'000 (Note 23(g))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	*	4,590	(272)	(3,112)	1,206
Loss for the year	-	-	-	(1,218)	(1,218)
Other comprehensive income for the year	-	-	(8)	-	(8)
At 31 December 2021	*	4,590	(280)	(4,330)	(20)
Loss for the year	-	-	-	(3)	(3)
Other comprehensive income for the year	-	-	4	-	4
At 31 December 2022	*	4,590	(276)	(4,333)	(19)
Loss for the year	-	-	-	(4)	(4)
Other comprehensive income for the year	-	-	*	-	*
At 31 December 2023	*	4,590	(276)	(4,337)	(23)

\* Amount less than RMB500.

**(b) Share capital**

The Company was incorporated as an exempted company with limited liability under the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands on 9 May 2019 with authorised share capital of HK\$380,000 divided into 380,000,000 shares with a par value of HK\$0.001 each. Immediately after its incorporation, 100 shares were allotted and issued.

On 21 May 2020, 880 shares of the Company were issued to Affluent Aspire Limited. On the same day, the Company entered into share subscription agreement with Guofu HK, a company incorporated in Hong Kong, pursuant to which the Company issued 20 shares to Guofu HK for a consideration of HK\$5,000,000 (equivalent to approximately RMB4,590,000) on 25 May 2020.

	At 31 December 2021		At 31 December 2022		At 31 December 2023	
	No. of shares	HK\$'000	No. of shares	HK\$'000	No. of shares	HK\$'000
<b>Authorised:</b>						
Ordinary shares of HK\$0.001 each	380,000,000	380	380,000,000	380	380,000,000	380

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	Year ended 31 December 2021		Year ended 31 December 2022		Year ended 31 December 2023	
	No. of shares	HK\$'000	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, issued and fully paid	1,000	*	1,000	*	1,000	*

\* Amount less than RMB500.

**(c) Distributions/dividends**

The Company did not declare or pay any distribution/dividend to the equity shareholders of the Company during the Track Record Period.

**(d) Share premium**

The application of the share premium account is governed by Section 34 of the Companies Act, Chapter 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands.

**(e) Other reserve**

The other reserve represents the capital reserve of Shenhua Flour.

**(f) Statutory reserve**

In accordance with relevant PRC laws and regulations and the articles of association of subsidiaries of the Group established in the PRC (excluding Hong Kong), these subsidiaries were required to set up certain statutory reserves, which were non-distributable, to transfer 10% of their net profit to their respective statutory reserves until the respective reserves reach 50% of the respective registered capital. The statutory reserves can only be utilised for predetermined means upon approval by the relevant authority.

**(g) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations which have a functional currency other than RMB into RMB. The reserve is dealt with in accordance with the accounting policy set out in Note 2(s).

**(h) Fair value reserve (non-recycling)**

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under IFRS 9 that are held at the end of the year.

**(i) Capital management**

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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**24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

Exposure to credit, liquidity and interest rate risk arises in the normal course of the Group's business. The Group is not exposed to significant currency risk.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

**(a) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks and financial institutions with high credit standing, for which the Group considers to represent low credit risk.

The Group does not provide any guarantees which would expose the Group to credit risk.

In respect of trade receivables and other receivables, the Group has established a credit risk management policy under which individual credit evaluations are performed on all customers and debtors requiring credit over a certain amount. These evaluations focus on the customer's and debtor's past history of making payments when due, current ability to pay, and takes into account information specific to the customer as well as pertaining to the economic environment in which the customer and debtor operates. Trade receivables are due within 0 to 270 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group has no significant concentration of credit risk in industries in which the customers operate. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At 31 December 2021, 2022 and 2023, 14%, 12% and 7% of the total trade receivables were due from the Group's largest customer respectively, and 34%, 46% and 24% of the total trade receivables were due from the Group's five largest customers respectively.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2021, 2022 and 2023:

	<b>At 31 December 2021</b>		
	<b>Expected loss rate</b>	<b>Gross carrying amount</b>	<b>Loss allowance</b>
	%	RMB'000	RMB'000
Within 3 months	0.00%	76,448	(2)
3 to 6 months	0.43%	2,318	(10)
		<u>78,766</u>	<u>(12)</u>

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<b>At 31 December 2022</b>			
	<b>Expected loss rate %</b>	<b>Gross carrying amount RMB'000</b>	<b>Loss allowance RMB'000</b>
Within 3 months	0.03%	71,636	(24)
3 to 6 months	1.17%	14,550	(170)
		<u>86,186</u>	<u>(194)</u>
<b>At 31 December 2023</b>			
	<b>Expected loss rate %</b>	<b>Gross carrying amount RMB'000</b>	<b>Loss allowance RMB'000</b>
Within 3 months	0.02%	101,622	(23)
3 to 6 months	0.13%	17,165	(22)
6 to 9 months	0.56%	2,340	(13)
		<u>121,127</u>	<u>(58)</u>

Expected loss rates are based on actual loss experience over the past recent years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Movements in the loss allowance account in respect of trade receivables and other receivables during the Track Record Period are as follows:

<b>At 31 December</b>			
	<b>2021 RMB'000</b>	<b>2022 RMB'000</b>	<b>2023 RMB'000</b>
Balance at 1 January	2,140	12	194
Impairment losses (reversed)/recognised during the year	<u>(2,128)</u>	<u>182</u>	<u>(30)</u>
Balance at 31 December	<u>12</u>	<u>194</u>	<u>164</u>

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables and other receivables are set out in Notes 15 and 16.

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**(b) Liquidity risk**

The treasury function is centrally managed by the Group, which includes the short-term investment of cash surpluses and the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the Track Record Period of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the Track Record Period) and the earliest date the Group can be required to pay:

	<b>At 31 December 2021</b>				
	<b>Contractual undiscounted cash flow</b>				
	<b>Within 1 year or on demand</b>	<b>1 year to 2 years</b>	<b>2 years to 3 years</b>	<b>Total</b>	<b>Carrying amount</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank and other loans	299,381	2,203	–	301,584	289,113
Trade payables	51,431	–	–	51,431	51,431
Accrued expenses and other payables measured at amortised cost	7,220	–	–	7,220	7,220
	<b>358,032</b>	<b>2,203</b>	<b>–</b>	<b>360,235</b>	<b>347,764</b>

	<b>At 31 December 2022</b>				
	<b>Contractual undiscounted cash flow</b>				
	<b>Within 1 year or on demand</b>	<b>1 year to 2 years</b>	<b>2 years to 3 years</b>	<b>Total</b>	<b>Carrying amount</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Bank and other loans	275,572	119,824	110,623	506,019	472,938
Trade payables	28,638	–	–	28,638	28,638
Accrued expenses and other payables measured at amortised cost	4,846	–	–	4,846	4,846
	<b>309,056</b>	<b>119,824</b>	<b>110,623</b>	<b>539,503</b>	<b>506,422</b>

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**At 31 December 2023**  
**Contractual undiscounted cash flow**

	Within			Total	Carrying amount
	1 year or on demand	1 year to 2 years	2 years to 3 years		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Bank and other loans	460,128	114,956	52,153	627,237	599,617
Trade payables	24,502	–	–	24,502	24,502
Accrued expenses and other payables measured at amortised cost	7,240	–	–	7,240	7,240
	<u>491,870</u>	<u>114,956</u>	<u>52,153</u>	<u>658,979</u>	<u>631,359</u>

**(c) Interest rate risk**

The Group's interest rate risk arises primarily from interest-bearing borrowings issued at fixed rates, which exposes the Group to fair value interest rate risk.

The following table details the interest rate profile of the Group's borrowings at the end of each reporting period.

	At 31 December 2021		At 31 December 2022		At 31 December 2023	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000	Effective interest rate	RMB'000
	%		%		%	
<b>Fixed rate borrowings:</b>						
– Bank and other loans	3.05%-20.48%	138,543	4.30%-7.77%	284,509	3.25%-7.77%	443,518
<b>Variable rate borrowings:</b>						
– Bank and other loans	3.40%-4.35%	150,570	3.70%-4.35%	188,429	3.65%-4.30%	156,099
<b>Total borrowings</b>		<u>289,113</u>		<u>472,938</u>		<u>599,617</u>
<b>Fixed rate borrowings as a percentage of total borrowings</b>		<u>48%</u>		<u>60%</u>		<u>74%</u>

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**(d) Fair value measurement**

**(i) Assets and liabilities measured at fair value**

*Fair value hierarchy*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

	Fair value at 31 December 2021 RMB'000	Fair value measurements as at 31 December 2021 categorised into Level 3 RMB'000
<b>Recurring fair value measurements</b>		
<i>Asset:</i>		
Other equity investment	2,335	2,335

	Fair value at 31 December 2022 RMB'000	Fair value measurements as at 31 December 2022 categorised into Level 3 RMB'000
<b>Recurring fair value measurements</b>		
<i>Asset:</i>		
Other equity investment	2,096	2,096

	Fair value at 31 December 2023 RMB'000	Fair value measurements as at 31 December 2023 categorised into Level 3 RMB'000
<b>Recurring fair value measurements</b>		
<i>Asset:</i>		
Other equity investment	2,030	2,030

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During the Track Record Period, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

*Information about Level 3 fair value measurements*

As at 31 December 2021, 2022 and 2023, the fair value of unlisted equity investment was determined using the price/earnings ratios of comparable listed companies adjusted for lack of marketability discount. The fair value measurement is negatively correlated to the discount for lack of marketability. It is estimated that with all other variables held constant, a decrease/increase in the rate for lack of marketability by 5% would have increased/decreased the Group's other comprehensive income by RMB272,000, RMB245,000 and RMB237,000, for the years ended 31 December 2021, 2022 and 2023 respectively.

	<b>Valuation techniques</b>	<b>Significant unobservable inputs</b>	<b>Rate</b>
Other equity investment	Market comparable companies	Discount for lack of marketability	70%

(ii) *Fair value of financial assets and liabilities carried at other than fair value*

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2021, 2022 and 2023.

**25 MATERIAL RELATED PARTY TRANSACTIONS**

**(a) Key management personnel remuneration**

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	<b>Years ended 31 December</b>		
	<b>2021</b>	<b>2022</b>	<b>2023</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Short-term employee benefits	354	432	454
Contributions to defined contribution retirement plans	25	37	35
	<u>379</u>	<u>469</u>	<u>489</u>

Total remuneration is included in "staff costs" (see Note 6(b)).



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- (b) Names and relationships of the related parties that had material transactions with the Group during the Track Record Period:

<b>Names of related parties</b>	<b>Nature of relationship</b>
Yao Zhiwan	The Controlling Shareholder
Yao Wei	The executive director of the Company
Wang Shuying	A close family member of the Controlling Shareholder
Hebei Heseng Grain and Oil Trading Co., Ltd.	Entity controlled by a close family member of the Controlling Shareholder
GRCB	Entity of which the Controlling Shareholder acts as a director
Guofu HK	An equity shareholder of the Company
Hebei Listed Equity Investment Fund Company Limited	A fellow subsidiary of Guofu HK
Hebei Guofu Equity Investment Fund Management Company Limited	A fellow subsidiary of Guofu HK
Hebei Guofu Business Consulting Company Limited	A fellow subsidiary of Guofu HK
Hebei Guofu Henglian Agriculture and Animal Husbandry Company Limited ("Guofu Henglian")	A fellow subsidiary of Guofu HK
Langfang Fuxing Investment Company Limited	A fellow subsidiary of Guofu HK
Gu'an Fangxing Equity Investment Company Limited	A fellow subsidiary of Guofu HK
Langfang Yijiao Food Company Limited	Entity controlled by a close family member of a key management personnel
Langfang Ceyuan Food Company Limited	Entity controlled by a close family member of a key management personnel
Langfang Zhongce Food Company Limited	Entity over which a close family member of a key management personnel has significant influence
Gu'an Chunyuan Grain and Oil Sales Company Limited	Entity controlled by a close family member of the Controlling Shareholder

**APPENDIX I**

**ACCOUNTANTS' REPORT**

(c) **Transactions with a company of which the Controlling Shareholder acts as a director**

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Net (decrease)/increase in bank loans	(50,000)	29,990	(9,990)
Interest expenses	3,222	1,192	482
	<u>          </u>	<u>          </u>	<u>          </u>

(d) **Transactions with an equity shareholder and its fellow subsidiaries**

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Net (decrease)/increase in other loans	(31,000)	40,000	(600)
Interest expenses	4,075	3,684	5,149
Purchase of wheat	87,822	188,474	95,967
Other expenses	237	316	316
	<u>          </u>	<u>          </u>	<u>          </u>

(e) **Transactions with entities controlled by a close family member of a key management personnel**

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Sales of flour	24,389	30,482	12,663
Purchase of foods	5	161	-
Operating lease income	-	-	837
	<u>          </u>	<u>          </u>	<u>          </u>

(f) **Transactions with an entity over which a close family member of a key management personnel has significant influence**

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Sales of flour	-	-	7,298
	<u>          </u>	<u>          </u>	<u>          </u>

(g) **Transactions with an entity controlled by a close family member of the Controlling Shareholder**

	Years ended 31 December		
	2021	2022	2023
	RMB'000	RMB'000	RMB'000
Advances to a related party	(113,864)	(33,480)	-
Repayment by a related party	113,864	33,480	-
Interest income	490	305	-
	<u>          </u>	<u>          </u>	<u>          </u>

## APPENDIX I

## ACCOUNTANTS' REPORT

### (h) Balances with related parties

As at 31 December 2021, 2022 and 2023, the Group had receivables for sales of flour to entities controlled by a close family member of a key management personnel and sales of flour to an entity over which a close family member of a key management personnel has significant influence, as set out in Note 15.

As at 31 December 2023, the Group had other receivables amounting to RMB913,000 related with an operating lease with an entity controlled by a close family member of a key management personnel.

As at 31 December 2021, 2022 and 2023, the Group had prepayments for purchase of wheat from Guofu Henglian, a fellow subsidiary of Guofu HK, as set out in Note 16.

As at 31 December 2021, 2022 and 2023, bank and other loans with aggregated amounts of RMBNil, RMB129,749,000 and RMB191,226,000 respectively, were guaranteed by the Controlling Shareholder.

As at 31 December 2021, 2022 and 2023, bank and other loans with aggregated amounts of RMBNil, RMB15,249,000 and RMB57,626,000 respectively, were guaranteed by Yao Wei, one of the executive directors of the Company.

As at 31 December 2021, 2022 and 2023, bank loans with aggregated amounts of RMB50,000,000, RMBNil and RMBNil respectively, were secured by bank deposits of a company controlled by a close family member of the Controlling Shareholder.

As at 31 December 2021, 2022 and 2023, bank loans with aggregated amounts of RMBNil, RMB110,000,000 and RMB178,000,000 respectively, were guaranteed by a close family member of the Controlling Shareholder.

As at 31 December 2021, 2022 and 2023, bank loans with aggregated amounts of RMBNil, RMBNil and RMB10,000,000 respectively, were secured by real estate property owned by a close family member of the Controlling Shareholder.

As at 31 December 2021, 2022 and 2023, bank loans with aggregated amounts of RMBNil, RMB29,990,000 and RMB20,000,000 respectively, were received from GRCB, a company of which the Controlling Shareholder acts as a director.

As at 31 December 2021, 2022 and 2023, other loans with aggregated amounts of RMB70,600,000, RMB110,600,000 and RMB110,000,000 respectively, were received from fellow subsidiaries of Guofu HK.

### 26 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2023, the directors consider the immediate parent and ultimate controlling party of the Group to be Affluent Aspire Limited and Mr. Yao Zhiwan, respectively.

## APPENDIX I

## ACCOUNTANTS' REPORT

### 27 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ACCOUNTING PERIOD BEGINNING ON 1 JANUARY 2023

Up to date of issue of the Historical Financial Information, the IASB has issued a number of new or amended standards which are not yet effective for the accounting period beginning on 1 January 2023 and which have not been early adopted in the Historical Financial Information. These include the following which may be relevant to the Group.

	<b>Effective for accounting period beginning on or after</b>
Amendments to IAS 7 and IFRS 7, <i>Supplier Finance Arrangements</i>	1 January 2024
Amendments to IFRS 16, <i>Lease Liability in a Sale and Leaseback</i>	1 January 2024
Amendments to IAS 21, <i>Lack of Exchangeability</i>	1 January 2025
IFRS 18, <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
Amendments to IFRS 10 and IAS 28, <i>Sale or contribution of assets between an investor and its associate or joint venture</i>	To be determined

The Group has elected to early adopt the "Amendments to IAS 1, *Classification of Liabilities as Current or Non-current*" and the "Amendments to IAS 1, *Non-current Liabilities with Covenants*".

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the financial statements.

### 28 SUBSEQUENT EVENTS

[No significant non-adjusting events have occurred subsequent to 31 December 2023.]

### SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2023.

**APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION**

[REDACTED]

**APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION**

[REDACTED]

**APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION**

[REDACTED]

**APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION**

[REDACTED]



**APPENDIX II UNAUDITED [REDACTED] FINANCIAL INFORMATION**

[REDACTED]

APPENDIX III

PROPERTY VALUATION REPORT

*The following is the text of a letter and valuation report prepared for the purpose of incorporation in this document received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of market value in existing state of the Properties held by the Group in the PRC as at 31 March 2024.*



27/F, One Island East  
Taikoo Place  
18 Westlands Road  
Quarry Bay  
Hong Kong

31 May 2024

The Board of Directors  
Shenhua Holdings Limited  
Emerging Industry Demonstration Zone  
Gu'an County  
Hebei Province  
The PRC

Dear Sirs,

**Instructions, Purpose & Valuation Date**

In accordance with the instructions of Shenhua Holdings Limited (the "**Company**") for us to value the properties (as more particularly described in the attached valuation reports, the "**Properties**"), held by the Company or its subsidiaries (the "**Group**"), in the People's Republic of China (the "**PRC**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we considered necessary for the purpose of providing you with our opinion of the market values in existing state of the Properties as at 31 March 2024 (the "**Valuation Date**").

**Basis of Valuation**

Our valuation of each of the Properties represents its market value which in accordance with the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors ("**HKIS**") is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

We confirm that the valuations are undertaken in accordance with the HKIS Valuation Standards 2020 Edition published by the Hong Kong Institute of Surveyors.

Our valuation of each of the Properties is on an entirely interest basis.

In valuing the Properties, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), and Practice Note 12 of the Listing Rules.

## APPENDIX III

## PROPERTY VALUATION REPORT

### Valuation Assumptions

Our valuations exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

With reference to the PRC legal opinion of the Company's legal adviser, JINGTIAN & GONGCHENG Law Firm (北京市競天公誠律師事務所), we have prepared our valuation on the basis that transferable land use rights in respect of the Properties for respective specific term at nominal annual land use fee has been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Company and the PRC legal opinion, dated 31 May 2024, regarding the titles to the Properties and the interests of the Group in the Properties. We have prepared our valuations on the basis that the owner has enforceable titles to the Properties and has free and uninterrupted rights to use, occupy or assign the Properties for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid.

In respect of the property situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Company are set out in the notes of the valuation report. We have assumed that all consents approvals, and licences from relevant government authorities for the developments have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant authorities.

No allowance has been made in our valuations for any charges, pledges or amounts owing on the Properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is valued on the basis that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

### Method of Valuation

In forming our opinions of the market value of the Property No. 1 in Group I, which is held for investment, we have valued the Property on the basis of investment method by capitalizing the rental income derived from the existing tenancies, if any, with due provision for reversionary potential each constituent portion of the Property at appropriate capitalization rates. We have also cross-checked against comparables with asking price available in the relevant market. Comparables involving similar scale properties of the same nature and tenancy structure in the same districts are not frequent. On the other hand, as the Property generate rental income from letting arrangements and such rental comparables are most readily available, we consider the Investment Method, which is also commonly used in valuing properties for investment purpose, to be the best method to value the Property.

When using Investment Method, we have mainly made reference to lettings within the subject property as well as other relevant comparable rental evidence of properties of similar use type subject to appropriate adjustments including but not limited to location accessibility, age, quality, size, time and other relevant factors. The capitalisation rates adopted in our

**APPENDIX III**

**PROPERTY VALUATION REPORT**

valuations are based on our analyses of the yields of properties of similar use type after due adjustments. Such capitalisation rates are estimated with reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the properties, the expectation of the potential future rental growth, capital appreciation and relevant risk factors. The capitalisation rates adopted are reasonable and in line with the market norm having regard to the analysed yields of transactions of the relevant use type.

The key inputs we adopted in carrying out the valuations are:

<b>Portion</b>	<b>Capitalization Rate</b>	<b>Market Unit Rent</b> <i>(RMB/sq.m./Month)</i>
Office	6.25%	18 to 24
Warehouse	7.5%	23 to 24

In valuing Property No. 2 in Group II, we have used Market Comparison Method by making reference to comparable land sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, accessibility, neighborhood environment, and land features, such as area, shape and soil condition. The general basis of adjustment is that if the land is better than the comparable, an upward adjustment is made. Alternatively, if the land is inferior to or less desirable than the comparable, a downward adjustment is made.

In forming our opinion of the market value of the Property No. 3 in Group II, which is held for owner-occupation, we mainly use Investment Method, for the portion in the absence of relevant market data to arrive at the market value by means of market-based evidence, we use Depreciated Replacement Cost ("DRC") Method which requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are made to allow for the age, condition and functional obsolescence. For the land portion, we have made reference to comparable land sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, time, size etc. The DRC Method is subject to service potential of the entity from the use of assets as a whole paying due regard to the total assets employed. The reported market value by DRC Method only applies to the whole of the development as a unique interest, and no piecemeal transactions of the development is assumed.

**Source of Information**

In the course of our valuations, we have relied to a considerable extent on the information given by the Company and have accepted advice on such matters as planning approvals or statutory notices, easements, tenure, identification of the Properties, particulars of occupancy, development scheme, construction cost, completion date, site and floor areas and all other relevant matters.

## APPENDIX III

## PROPERTY VALUATION REPORT

Dimensions, measurements and areas included in the valuation report are based on the information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

### **Title Investigation**

We have been provided by the Company with copies of documents in relation to the current titles to the Properties. However, we have not been able to conduct searches to verify the ownership of the Properties and we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the Properties in the PRC and we have therefore relied on the advice given by the Company and the advice in the Legal Opinion given by the Company's legal advisor, JINGTIAN & GONGCHENG Law Firm (北京市競天公誠律師事務所), regarding the interests of the Company to be held in the Properties in the PRC.

### **Site Inspection**

Our valuer of Shanghai Office, Bowen Huang (黃博文) (Master in Property and Master in Construction Project Management) and our valuer of Tianjin Office, Nina Niu (牛會新) (CIREA), have inspected the exterior, and where possible, the interior of the Properties on 27 February 2024. Bowen Huang (黃博文) has approximately 1 year experience in property valuation in the PRC, and Nina Niu (牛會新) has approximately 22 years' experience of property valuation in the PRC. However, we have not carried out any investigations on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the Properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

Unless otherwise stated, we have not carried out on-site measurements to verify the site and floor areas of the Properties and we have assumed that the areas shown on the copies of the documents handed to us are correct.

### **Currency**

Unless otherwise stated, all sums stated in our valuation is in Renminbi ("RMB") which is the official currency of the PRC.

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**Other Disclosure**

We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuation have no pecuniary or other interests that could conflict with the proper valuation of the Properties or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion. We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

We attach herewith summary of valuations and valuation report.

Yours faithfully,  
For and on behalf of  
**Cushman & Wakefield Limited**  
**Grace Lam**

*MHKIS, MRICS, RPS (GP)*

*Senior Director*

*Valuation & Advisory Services, Greater China*

*Notes:*

- (1) Ms. Grace Lam is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice). Ms. Lam has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. Ms. Lam has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuation competently.
- (2) \* Company name in English translation for identification only.

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**Summary of Valuations**

<b>Property</b>	<b>Market value in existing state as at 31 March 2024 (RMB)</b>	<b>Interest attributable to the Group (%)</b>	<b>Market value in existing state as at 31 March 2024 attributable to the Group (RMB)</b>
<b>Group I – Property held for investment by the Group in the PRC</b>			
1. Two industrial plants located at the west of Guotai Road and South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南，國泰路以西固安縣參花麵粉有限公司內兩幢廠房)	107,900,000	100	107,900,000
<b>Group I Sub-total:</b>	<b><u>107,900,000</u></b>		<b><u>107,900,000</u></b>

**APPENDIX III**

**PROPERTY VALUATION REPORT**

<b>Property</b>	<b>Market value in existing state as at 31 March 2024 (RMB)</b>	<b>Interest attributable to the Group (%)</b>	<b>Market value in existing state as at 31 March 2024 attributable to the Group (RMB)</b>
<b>Group II – Properties held for owner-occupation by the Group in the PRC</b>			
2. An industrial plant located at the west of Guotai Road and South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南，國泰路以西固安縣參花麵粉有限公司內廠房)	3,900,000	100	3,900,000
3. An industrial complex located at the west of Guotai Road and South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南，國泰路以西固安縣參花麵粉有限公司內生產廠房)	160,500,000	100	160,500,000
<b>Group II Sub-total:</b>	<b><u>164,400,000</u></b>		<b><u>164,400,000</u></b>
<b>Grand Total:</b>	<b><u>272,300,000</u></b>		<b><u>272,300,000</u></b>



**APPENDIX III**

**PROPERTY VALUATION REPORT**

**VALUATION REPORT**

**Group I – Property held for investment by the Group in the PRC**

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2024												
<p>1. Two industrial plants located at the west of Guotai Road and South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南、國泰路以西固安縣參花麵粉有限公司內兩幢廠房)</p>	<p>The Property, completed on 31 December 2019, has been built for approximately 4 years. It comprises two workshops for investment on a parcel of industrial land with a total site area of 45,396.80 square meter ("sq.m.").</p> <p>According to the Certificate of Real Estate Ownership provided by the Company, the breakdown of the Property with a total gross floor area of approximately 29,712.96 sq.m. is listed as below:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: left;">Proposed use as advised by the Company</th> <th style="text-align: center;">No. of Storey</th> <th style="text-align: center;">Planned Gross Floor Area sq.m.</th> </tr> </thead> <tbody> <tr> <td>Food Processing Workshop-North (食品加工車間-北)</td> <td style="text-align: center;">3</td> <td style="text-align: center;">14,856.48</td> </tr> <tr> <td>Food Processing Workshop-South (食品加工車間-南)</td> <td style="text-align: center;">3</td> <td style="text-align: center;"><u>14,856.48</u></td> </tr> <tr> <td><b>Grand Total:</b></td> <td></td> <td style="text-align: center;"><b><u>29,712.96</u></b></td> </tr> </tbody> </table>	Proposed use as advised by the Company	No. of Storey	Planned Gross Floor Area sq.m.	Food Processing Workshop-North (食品加工車間-北)	3	14,856.48	Food Processing Workshop-South (食品加工車間-南)	3	<u>14,856.48</u>	<b>Grand Total:</b>		<b><u>29,712.96</u></b>	<p>As at the valuation date, the property was fully leased to various tenants for various terms with the latest expiry on 31 December 2028, at a total monthly rent of approximately RMB558,100, exclusive of value-added tax ("VAT").</p>	<p>RMB107,900,000 (RENMINBI ONE HUNDRED SEVEN MILLION AND NINE HUNDRED THOUSAND)  (100% interest attributable to the Group: RMB107,900,000)</p>
Proposed use as advised by the Company	No. of Storey	Planned Gross Floor Area sq.m.													
Food Processing Workshop-North (食品加工車間-北)	3	14,856.48													
Food Processing Workshop-South (食品加工車間-南)	3	<u>14,856.48</u>													
<b>Grand Total:</b>		<b><u>29,712.96</u></b>													
	<p>The Property is located at the west of Guotai Road (國泰路) and South of Jinxiu Road (錦繡大道), Gu'an County, Langfang City, Hebei Province, the PRC Developments nearby are mainly distribution warehouses and industrial workshops in nature.</p> <p>According to the Company, the Property is used for food production; there are neither environmental issues and litigation dispute; nor any plan to change the use of the Property.</p> <p>The land use rights of the Property have been granted for land use term due to expire on 3 July 2064 for industrial uses.</p>														

**APPENDIX III**

**PROPERTY VALUATION REPORT**

*Notes:*

- (1) According to Certificate of Real Estate Ownership No. (2021)0003277, the building ownership of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with the total gross floor area of approximately 35,827.18 sq.m..

As advised by the Company, the property is part of the aforesaid gross floor area.

- (2) According to the contracts for Grant of State-owned Land Use Rights dated on 27 June 2014 by Gu'an County Land and Resources Bureau, the land use rights of the Property have been granted as below:

Site Area:	45,396.80 sq.m.
Land Use:	Industrial (工業用地)
Land Use Term:	50 years
Land Premium:	RMB19,140,000
Main Building Nature:	Warehouse (廠房)
Plot Ratio:	≥2.6
Building Covenant:	To commence construction before 6 July 2015 To complete construction before 5 July 2017

- (3) According to Business Licence No. 911310227387114907 dated 23 March 2021, Gu'an County Shenhua Flour Co., Ltd has been established as a limited company with a registered capital of RMB27,310,000 for a valid operation period from 9 January 2002 to 8 January 2032.

- (4) We have been provided with a legal opinion on the title of the property issued by the Company's PRC legal adviser which contains, inter-alia, the following information:

- a) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with land area of about 45,396.80 sq.m..
- b) All land premium of the property stated in the Grant Contract of State-owned Land Use Rights have been paid and settled.
- c) Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) has legally obtained the building portion of the property with gross floor area of about 35,827.18 sq.m..
- d) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Bank of Langfang — Gu An Branch (廊坊銀行股份有限公司固安支行) Limited on 8 November 2022 (No.: GY2022GAGDZ9), Gu'an County Shenhua Flour Co., Ltd uses the land, under the Certificate for the Use of State-owned Land (Document Nos.: (2015)020002 & (2014)020038), and building under the Certificate of Real Estate Ownership (Document Nos.: (2021)0003277 & (2021)0003279 as collateral to guarantee the main creditor's right of the Working Capital Mortgage Contract (No.: GYGAGJZ2022ND13) signed by Gu'an County Shenhua Flour Co., Ltd as the debtor.
- e) Notwithstanding that the property is subject to a legal charge as disclosed in Note (d). above, Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) still has the rights to occupy and use the land-use rights of the property; and the property is not subject to any other sealed order and any other restrictions on other interest(s) or third party's rights.

- (5) The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Contract for Grant of State-owned Land Use Rights	Yes
Certificate of Real Estate Ownership	Yes
Business Licence	Yes

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**VALUATION REPORT**

**Group II – Properties held for owner-occupation by the Group in the PRC**

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2024
<p>2. An industrial plant located at the west of Guotai Road and to South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南、國泰路以西固安縣參花麵粉有限公司內廠房)</p>	<p>The Property, completed on 31 December 2019, has been built for approximately 4 years. It is a 7-storey workshop being erected on a parcel of industrial land with a total site area of 4,285.62 sq.m..</p> <p>According to the development scheme provided by the Company, the total gross floor area of The Property is approximately 12,279.10 sq.m.</p> <p>The Property is located at the west of Guotai Road (國泰路) and to South of Jinxiu Road (錦繡大道), Gu'an County, Langfang City, Hebei Province, the PRC. Developments nearby are mainly distribution warehouses and industrial workshops in nature.</p> <p>According to the Company, the Property has not been used for production purpose, and is leased to one tenant for use as its technical service center. There are neither environmental issues and litigation dispute; nor any plan to change the use of the Property.</p> <p>The land use rights of the Property have been granted for land use term due to expire on 13 January 2065 and 28 April 2074 for industrial uses.</p>	<p>As at the Valuation Date, 1,100 sq.m. of the Property was leased to one tenant for use as technical service center with the expiry date on 31 December 2027 at a total monthly rent of approximately RMB19,000, exclusive of VAT. The remaining portion of the Property was vacant.</p>	<p>RMB3,900,000 (RENMINBI THREE MILLION NINE HUNDRED THOUSAND) (Please See Note (1))</p> <p>(100% interest attributable to the Group: RMB3,300,000)</p>

## APPENDIX III

## PROPERTY VALUATION REPORT

*Notes:*

- (1) The market value stated above includes the land parcel only. Since the Certificate of Real Estate Title for the building portion has not been obtained yet, there is no commercial value to the building portion.
- (2) According to a Contracts for Grant of State-owned Land Use Rights dated 18 December 2014 by Gu'an County of land and resources bureau, the land use rights of the Property have been granted as below:

Site Area:	3,671.08 sq.m.
Land Use:	Industrial (工業)
Land Use Term:	50 years
Land Premium:	RMB1,730,000
Main Building Nature:	Workshop
Plot Ratio:	≥1.2
Building Covenant:	To commence construction before 29 March 2016 To complete construction before 28 March 2018

According to a Contracts for Grant of State-owned Land Use Rights dated 23 April 2024 by Gu'an County of Land and Resources Bureau, the land use rights of the Property have been granted as below:

Site Area:	614.54 sq.m.
Land Use:	Industrial (工業)
Land Use Term:	50 years
Land Premium:	RMB560,000
Main Building Nature:	Workshop
Plot Ratio:	≥1.20
Building Covenant:	To commence construction before November 2024 To complete construction before November 2026

- (3) According to Certificate for the Use of State-owned Land No. (2015)020002, the land use rights of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with the total site area of approximately 3,671.08 sq.m. for the land use term due to expire on 13 January 2065 for industrial use.
- (4) According to the Certificate of Real Estate Title No. (2024)0014931, the land use rights of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with a total site area of approximately 614.54 sq.m. for the land use term due to expire on 28 April 2074 for industrial use.
- (5) According to Planning Permit for Construction Land No. 131022201500008 dated 22 January 2015, the construction land with a total site area of 3,671.08 sq.m. located at Gu'an County for industrial (工業) use complies with the requirements of the urban rural planning.
- (6) According to Business Licence No. 911310227387114907 dated 23 March 2021, Gu'an County Shenhua Flour Co., Ltd has been established as a limited company with a registered capital of RMB27,310,000 for a valid operation period from 9 January 2002 to 8 January 2032.
- (7) We have been provided with a legal opinion on the title of the property issued by the Company's PRC legal adviser which contains, inter-alia, the following information:
  - a) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with land area of about 3,671.08 sq.m..
  - b) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with land area of about 614.54 sq.m..

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**PROPERTY VALUATION REPORT**

- c) All land premium of the property stated in the Grant Contract of State-owned Land Use Rights have been paid and settled.
  - d) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Bank of Langfang — Gu An Branch (廊坊銀行股份有限公司固安支行) on 8 November 2022 (No.: GY2022GAGDZ9), Gu'an County Shenhua Flour Co., Ltd uses the land, under the Certificate for the Use of State-owned Land (Document Nos.: (2015)020002 & (2014)020038, and building under the Certificate of Real Estate Ownership (Document Nos.: (2021)0003277 & (2021)0003279 as collateral to guarantee the main creditor's right of the Working Capital Mortgage Contract (No.: GYGAGJZ2022ND13) signed by Gu'an County Shenhua Flour Co., Ltd as the debtor.
  - e) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Bank of Hebei — Langfang Branch (河北銀行股份有限公司廊坊分行) on 6 January 2024 (DY240109000168 & DY240109000178), Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) uses the land, under the Certificate for the Use of State-owned Land (Nos: (2015)020002 & (2014)020038), and building under the Certificate of Real Estate Ownership (Nos: (2021)0003277 & (2021)0003279) as collateral to guarantee the main creditor's right of the Working Capital Mortgage Contract (No: DK240105000009) signed by Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) as the debtor.
  - f) Notwithstanding that the property is subject to a legal charge as disclosed in Note (d) above, Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) still has the rights to occupy and use the land-use rights of the property; and the property is not subject to any other sealed order and any other restrictions on other interest(s) or third party's rights.
  - g) Despite the fact that the certificate of real estate ownership has not been obtained in time, there is less legal risk of facing penalties. There will be no substantial legal obstacles to obtain Certificate of Real Estate Ownership after construction permit are obtained and final acceptance procedures are completed. After which, Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) are entitled to use the buildings according to their existing uses.
- (8) The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Contract for Grant of State-owned Land Use Rights	Yes
Certificate for the Use of State-owned Land	Yes
Planning Permit for Construction Use of Land	Yes (Portion)
Planning Permit for Construction Works	No
Permit for Commencement of Construction Works	No
Certificate of Building Ownership	No
Business Licence	Yes

**APPENDIX III**

**PROPERTY VALUATION REPORT**

**VALUATION REPORT**

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2024																																				
3. An industrial complex located to the west of Guotai Road and to South of Jinxiu Road, Gu'an County, Langfang City, Hebei Province, the PRC (中國河北省廊坊市固安縣錦繡大道以南，國泰路以西固安縣參花麵粉有限公司內生產廠房)	<p>The Property comprises an industrial complex for flour production being erected on a parcel of industrial land with a total site area of 70,061.30 sq.m. (Please see Notes (a)(b)(c)). The majority of the buildings of the industrial complex was completed on 10 November 2016, which have been built for approximately 7 years. The Quality-Control R&amp;D Center is completed on 31 December 2019, which has been built for 4 years.</p> <p>According to the Certificate of Real Estate Ownership provided by the Company, the breakdown of the Property with a total gross floor area of approximately 46,819.94 sq.m. as owner-occupied and is planned as below:</p>	As at the Valuation Date, the Property was fully occupied by the owner.	RMB160,500,000 (RENMINBI ONE HUNDRED SIXTY MILLION AND FIVE HUNDRED THOUSAND)  (100% interest attributable to the Group: RMB162,300,000)																																				
	<table border="1"> <thead> <tr> <th style="text-align: left;">Usage as advised by the Company</th> <th style="text-align: center;">No. of Storey</th> <th style="text-align: center;">Gross Floor Area sq.m.</th> </tr> </thead> <tbody> <tr> <td>Finished product packaging workshop, bran packaging workshop (成品打包車間，麩皮打包車間)</td> <td style="text-align: center;">1</td> <td style="text-align: right;">13,770.00</td> </tr> <tr> <td>Flour production workshop with daily processing capacity of 800 tons of wheat (日處理小麥800噸麵粉生產車間)</td> <td style="text-align: center;">8</td> <td style="text-align: right;">19,643.99</td> </tr> <tr> <td>Work tower, grain silo (工作塔，卸糧倉)</td> <td style="text-align: center;">8</td> <td style="text-align: right;">1,506.94</td> </tr> <tr> <td>Vertical silo (立筒倉)</td> <td style="text-align: center;">4</td> <td style="text-align: right;">1,937.66</td> </tr> <tr> <td>Round silo (淺圓倉)</td> <td style="text-align: center;">4</td> <td style="text-align: right;">2,424.41</td> </tr> <tr> <td>R&amp;D workshop (研發車間)</td> <td style="text-align: center;">3</td> <td style="text-align: right;">1,422.72</td> </tr> <tr> <td>Office Building (辦公大樓)</td> <td style="text-align: center;">1</td> <td style="text-align: right;">1,280.44</td> </tr> <tr> <td>Fire Pump room (消防泵房)</td> <td style="text-align: center;">1</td> <td style="text-align: right;">86.79</td> </tr> <tr> <td>Fire Pump room and toilet (消防泵房及廁所)</td> <td style="text-align: center;">1</td> <td style="text-align: right;">86.79</td> </tr> <tr> <td>Quality-Control R&amp;D Center (品控研發中心)</td> <td style="text-align: center;">3</td> <td style="text-align: right;">4,660.20</td> </tr> <tr> <td><b>Grand Total:</b></td> <td></td> <td style="text-align: right;"><b><u>46,819.94</u></b></td> </tr> </tbody> </table>	Usage as advised by the Company	No. of Storey	Gross Floor Area sq.m.	Finished product packaging workshop, bran packaging workshop (成品打包車間，麩皮打包車間)	1	13,770.00	Flour production workshop with daily processing capacity of 800 tons of wheat (日處理小麥800噸麵粉生產車間)	8	19,643.99	Work tower, grain silo (工作塔，卸糧倉)	8	1,506.94	Vertical silo (立筒倉)	4	1,937.66	Round silo (淺圓倉)	4	2,424.41	R&D workshop (研發車間)	3	1,422.72	Office Building (辦公大樓)	1	1,280.44	Fire Pump room (消防泵房)	1	86.79	Fire Pump room and toilet (消防泵房及廁所)	1	86.79	Quality-Control R&D Center (品控研發中心)	3	4,660.20	<b>Grand Total:</b>		<b><u>46,819.94</u></b>		
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**APPENDIX III**

**PROPERTY VALUATION REPORT**

Cont'd

The Property is located at the west of Guotai Road (國泰路) and South of Jinxiu Road (錦繡大道), Gu'an County, Langfang City, Hebei Province, the PRC. Developments nearby are mainly distribution warehouses and industrial workshops in nature.

According to the Company, the Property is for flour production; there are neither environmental issues and litigation dispute; nor any plan to change the use of the Property.

The land use rights of the Property have been granted for land use term with the earliest expiry dates on 12 March 2063 and last expiry dates on 3 July 2064 and for industrial uses.

Notes:

- (1) According to Certificate of Real Estate Ownership No. (2021)0003277, the building ownership of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with the gross floor area of approximately 35,827.18 sq.m. for the land use term due to expire on 13 July 2064 for industrial use.

As advised by the Company, the property is part of the aforesaid gross floor area.

- (2) According to Certificate of Real Estate Ownership No. (2021)0003274, the real estate ownership of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with the gross floor area of approximately 26,935.72 sq.m. for the land use term due to expire on 12 March 2063 for industrial use.
- (3) According to Certificate of Real Estate Ownership No. (2021)0003279, the real estate ownership of the Property have been vested to Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司), a 100% owned subsidiary of the Company, with the gross floor area of approximately 13,770.00 sq.m. for the land use term due to expire on 5 September 2063 for industrial use.
- (4) According to Business Licence No. 911310227387114907 dated 23 March 2021, Gu'an County Shenhua Flour Co., Ltd has been established as a limited company with a registered capital of RMB27,310,000 for a valid operation period from 9 January 2002 to 8 January 2032.
- (5) We have been provided with a legal opinion on the title of the property issued by the Company's PRC legal adviser which contains, inter-alia, the following information:
- a) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with aggregate land area of about 45,396.80 sq.m..
  - b) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with aggregate land area of about 15,998.10 sq.m..
  - c) Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) has legally obtained the land use rights with aggregate land area of about 8,666.40 sq.m..
  - d) All land premium of the property stated in the Grant Contract of State-owned Land Use Rights have been paid and settled.
  - e) Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) has legally obtained the building portion of the property with aggregate gross floor area of about 76,532.90 sq.m..

**APPENDIX III**

**PROPERTY VALUATION REPORT**

- f) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Bank of Langfang — Gu An Branch (廊坊銀行股份有限公司固安支行) Limited on 8 November 2022 (No.: GY2022GAGDZ9), Gu'an County Shenhua Flour Co., Ltd uses the land, under the Certificate for the Use of State-owned Land (Document Nos.: (2015)020002 & (2014)020038, and building under the Certificate of Real Estate Ownership (Document Nos.: (2021)0003277 & (2021)0003279 as collateral to guarantee the main creditor's right of the Working Capital Mortgage Contract (No.: GYGAGJZ2022ND13) signed by Gu'an County Shenhua Flour Co., Ltd as the debtor.
- g) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Bank of Hebei — Langfang Branch (河北銀行股份有限公司廊坊分行) on 6 January 2024 (DY240109000168 & DY240109000178), Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) uses the land, under the Certificate for the Use of State-owned Land (Nos: (2015)020002 & (2014)020038, and building under the Certificate of Real Estate Ownership (Nos: (2021)0003277 & (2021)0003279) as collateral to guarantee the main creditor's right of the Working Capital Mortgage Contract (No: DK240105000009) signed by Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) as the debtor.
- h) According to the Mortgage Contract signed between Gu'an County Shenhua Flour Co., Ltd (固安縣參花麵粉有限公司) and Agricultural Development Bank of China — Gu An Branch (中國農業發展銀行固安縣支行) on 13 June 2022 (No.: 13102201-2022YGADZ0005), Gu'an County Shenhua Flour Co., Ltd uses the land and building under the Certificate of Real Estate Ownership (No. (2021)0003274) as collateral to guarantee the main creditor's right of up to RMB100,000,000 under the maximum mortgage Contract signed by Gu'an County Shenhua Flour Co., Ltd as the debtor.
- i) Notwithstanding that the property is subject to a legal charge as disclosed in Note (d) and Note (e). above, Gu'an County Shenhua Flour Co., Ltd. (固安縣參花麵粉有限公司) still has the rights to occupy and use the land-use rights of the property; and the property is not subject to any other sealed order and any other restrictions on other interest(s) or third party's rights.
- (6) The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the opinion of the PRC legal adviser:

Certificate of Real Estate Ownership	Yes
Business Licence	Yes



**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANY LAW**

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 9 May 2019 under the Companies Act (As Revised) of the Cayman Islands (the "**Companies Act**"). The Company's constitutional documents consist of its Memorandum of Association (the "**Memorandum**") and its Articles of Association (the "**Articles**").

**1.        MEMORANDUM OF ASSOCIATION**

- (a)    The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Act and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b)    The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

**2.        ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on [●] with effect from the [REDACTED]. The following is a summary of certain provisions of the Articles:

**(a)       Shares**

*(i)       Classes of shares*

The share capital of the Company consists of ordinary shares.

*(ii)      Variation of rights of existing shares or classes of shares*

Subject to the Companies Act, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (including at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANY LAW**

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

*(iv) Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Act in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

<b>APPENDIX IV</b>	<b>SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANY LAW</b>
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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year. The period of thirty (30) days may be extended for a further period or periods not exceeding thirty (30) days in respect of any year if approved by members by ordinary resolution.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

*(v) Power of the Company to purchase its own shares*

The Company is empowered by the Companies Act and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

The board may accept the surrender for no consideration of any fully paid share.

**APPENDIX IV                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND THE CAYMAN ISLANDS COMPANY LAW**

*(vi) Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

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**(b) Directors**

*(i) Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

A Director (including a managing or other executive Director) may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or

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- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Act and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Act and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

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*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Act to be exercised or done by the Company in general meeting.

*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

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The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or past Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

***(vi) Compensation or payments for loss of office***

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.



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*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) the giving of any security or indemnity either:-
  - (aaa) to the Director or his close associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or
  - (bbb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (bb) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (cc) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:-
  - (aaa) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or
  - (bbb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, his close associate(s) and employee(s) of the Company or any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

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**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

**(i) *Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Act, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

**(ii) *Voting rights and right to demand a poll***

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. Votes (whether on a show of hands or by way of poll) may be cast by such means, electronic or otherwise, as the Directors or the chairman of the meeting may determine.

Any corporation which is a member may by resolution of its directors or other governing body authorise such person as it thinks fit to act as its representative at any general meeting of the Company or at any meeting of any class of members. The person so authorised shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member and such corporation shall for the purposes of the Articles be deemed to be present in person at any such meeting if a person so authorised is present thereat.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, the right to speak and to vote, and where a show of hands is allowed, the right to vote individually on a show of hands.

All members have the right to speak and vote at a general meeting except where a member is required, by the rules of the Stock Exchange, to abstain from voting to approve the matter under consideration.

Where the Company has any knowledge that any member is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

***(iii) Annual general meetings and extraordinary general meetings***

The Company must hold an annual general meeting of the Company for each financial year and such general meeting must be held within six (6) months after the end of the Company's financial year unless a longer period would not infringe the rules of the Stock Exchange.

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Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings, on a one vote per share basis. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business or resolution specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitioner(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitioner(s) as a result of the failure of the board shall be reimbursed to the requisitioner(s) by the Company.

Notwithstanding any provisions in the Articles, any general meeting or any class meeting may be held by means of such telephone, electronic or other communication facilities as to permit all persons participating in the meeting to communicate with each other, and participation in such a meeting shall constitute presence at such meeting.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

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- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers; and
- (ee) the fixing of the remuneration of the directors and of the auditors.

**(v) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy or, for quorum purposes only, two persons appointed by the clearing house as authorized representative or proxy, and entitled to vote. In respect of a separate class meeting (including an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

**(vi) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) *Accounts and audit***

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

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The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall by ordinary resolution appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by ordinary resolution remove the auditor at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed and approved by the Company by an ordinary resolution passed at a general meeting or in such manner as the members may by ordinary resolution determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

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**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Act.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of



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such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members maintained in Hong Kong shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Act or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

Unless otherwise provided by the Companies Act, a resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

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- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Act and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

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**(b) Share capital**

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Act provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Act); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Act provides that a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, reduce its share capital in any way by special resolution and confirmed by the Grand Court of the Cayman Islands (the "**Court**") or by special resolution approved by a solvency statement in accordance with the Companies Act.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares or fractions of shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Act expressly provides that it shall be lawful for the rights attaching to any shares or fractions of shares to be varied, subject to the provisions

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of the company's articles of association, so as to provide that such shares or fractions of shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Act.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Act permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

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**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

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Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to the Tax Concessions Act of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 16 May, 2019.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Act prohibiting the making of loans by a company to any of its directors.

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**(m) Inspection of corporate records**

The notice of registered office is a matter of public record. A list of the names of the current directors and alternate directors (if applicable) is made available by the Registrar of Companies for inspection by any person on payment of a fee. The register of mortgages is open to inspection by creditors and members.

Members of the Company have no general right under the Companies Act to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The register of members shall contain such particulars as required by Section 40 of the Companies Act. A branch register must be kept in the same manner in which a principal register is by the Companies Act required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Act for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Act of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(p) Beneficial Ownership Register**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, 25% or more of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated

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competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21



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days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by (i) a majority in number representing seventy-five per cent. (75%) in value of creditors, or (ii) seventy-five per cent. (75%) in value of shareholders or class of shareholders, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

The Companies Act also contains statutory provisions which provide that a company may present a petition to the Court for the appointment of a restructuring officer on the grounds that the company (a) is or is likely to become unable to pay its debts within the meaning of section 93 of the Companies Act; and (b) intends to present a compromise or arrangement to its creditors (or classes thereof) either, pursuant to the Companies Act, the law of a foreign country or by way of a consensual restructuring. The petition may be presented by a company acting by its directors, without a resolution of its shareholders or an express power in its articles of association. On hearing such a petition, the Court may, among other things, make an order appointing a restructuring officer or make any other order as the Court thinks fit.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, after making the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the approval by the said holders, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

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**(u) Economic Substance Requirements**

Pursuant to the International Tax Cooperation (Economic Substance) Act of the Cayman Islands ("ES Act") that came into force on 1 January 2019, a "relevant entity" is required to satisfy the economic substance test set out in the ES Act. A "relevant entity" includes an exempted company incorporated in the Cayman Islands as is the Company; however, it does not include an entity that is tax resident outside the Cayman Islands. Accordingly, for so long as the Company is a tax resident outside the Cayman Islands, including in Hong Kong, it is not required to satisfy the economic substance test set out in the ES Act.

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for Display" in Appendix VI to this document. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

## FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES

### 1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Act as an exempted company with limited liability on 9 May 2019. Our Company has established a place of business in Hong Kong at 2408, World-Wide House, 19 Des Voeux Road Central, Central, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 September 2020. Mr. Tang Yu Him has been appointed as the authorised representative of our Company for acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, its operations are subject to the Cayman Islands company laws and its constitution, which comprises the Memorandum and the Articles. A summary of certain provisions of its constitution and relevant aspects of the company law of the Cayman Islands is set out in Appendix IV to this document.

### 2. Changes in authorised and issued share capital of our Company

#### (a) *Changes in the authorised and issued share capital*

As at the date of incorporation of our Company, our Company had an authorised share capital of HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each. On 9 May 2019 (i.e. the date of its incorporation), one subscriber Share was allotted and issued, fully paid for cash at par, to an officer of the registered agent of our Company. On the same date, such share was transferred to Affluent Aspire, and our Company further allotted and issued 99 Shares, fully paid for cash at par, to Affluent Aspire. The following alterations in the share capital of our Company have taken place since the date of incorporation up to the date of this document:

- (i) our Company allotted and issued 880 Shares to Affluent Aspire on 21 May 2020 and 20 Shares to Guofu HK on 25 May 2020, respectively, details of which are set out in the section headed "History, Reorganisation and Corporate Structure — Reorganisation" in this document;
- (ii) pursuant to the written resolutions passed by all our Shareholders on [●] 2024, among others, the authorised share capital of our Company was increased from HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each to HK\$[10,000,000] divided into [10,000,000,000] Shares of HK\$0.001 each by the creation of an additional of [9,620,000,000] Shares of HK\$0.001 each, each ranking *pari passu* with the Shares then in issue in all respects;
- (iii) on [●] 2024, our Shareholders resolved that conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the [REDACTED], our Directors were authorised to capitalise an amount of HK\$[REDACTED] standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par [REDACTED] Shares and [REDACTED] Shares for allotment and issue to Affluent Aspire and Guofu HK, respectively, whose names appeared in the register of members of our Company at close of business on [●] 2024; and

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- (iv) immediately following completion of the [REDACTED] (without taking into account any Shares which may be issued upon the exercise of options under the Share Option Scheme or the [REDACTED]), [REDACTED] Shares will be issued fully paid or credited as fully paid, and [REDACTED] Shares will remain unissued.

See section headed "History, Reorganisation and Corporate Structure — Corporate Development — Our Company" in this document for the details of changes in the share capital of our Company.

*(b) Information as at the Latest Practicable Date and immediately after the [REDACTED]*

The following is a description of the authorised share capital and the share capital of our Company in issue and to be issued as fully paid immediately prior to and following the completion of the [REDACTED]:

<i>Authorised share capital:</i>		<i>HK\$</i>
<u>[10,000,000,000]</u>	Shares	<u>[10,000,000]</u>
 <i>Shares in issue or to be issued, fully paid or credited as fully paid:</i>		
1,000	Shares in issue as at the Latest Practicable Date at HK\$0.001 each	1
[REDACTED]	Shares to be issued pursuant to Capitalisation Issue	[REDACTED]
<u>[REDACTED]</u>	Shares to be issued pursuant to the [REDACTED]	<u>[REDACTED]</u>
<u>[REDACTED]</u>	Total	<u>[REDACTED]</u>

*Assumptions*

The above table assumes that the [REDACTED] becomes unconditional and Shares are issued pursuant to the [REDACTED] and the Capitalisation Issue. It takes no account of any Shares which may be issued upon the exercise of options under the Share Option Scheme or the [REDACTED] or of any Shares which may be issued or purchased by us pursuant to the [REDACTED] and Repurchase Mandate granted to our Directors to issue or purchase Shares as described below.

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Immediately following completion of the [REDACTED] and the Capitalisation Issue and upon the exercise of the [REDACTED] in full but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, it is expected that the share capital of our Company will be comprised [REDACTED] Shares.

**(c) Founder shares**

Our Company has no founder shares, management shares or deferred shares.

Other than pursuant to the [REDACTED], the Capitalisation Issue, the exercise of the [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any shares of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no alteration in the share capital of our Company since our incorporation up to the date of this document.

**3. Resolutions in writing of our Shareholders passed on [●] 2024**

Pursuant to the written resolutions passed by all of our Shareholders on [●] 2024, among others:

- (a) our Company approved and conditionally adopted the Memorandum in substitution for and to the exclusion of the then existing memorandum of association of our Company with effect from the [REDACTED];
- (b) our Company approved and conditionally adopted the Articles in substitution for and to the exclusion of the then existing articles of association of our Company with effect from the [REDACTED];
- (c) the authorised share capital of our Company was increased from HK\$380,000 divided into 380,000,000 Shares of HK\$0.001 each to HK\$[10,000,000] divided into [10,000,000,000] Shares of HK\$0.001 each by the creation of an additional of [9,620,000,000] Shares of HK\$0.001 each, each ranking *pari passu* with the Shares then in issue in all respects with immediate effect;
- (d) conditional on all the conditions set out in the section headed "Structure and Conditions of the [REDACTED] — Conditions of the [REDACTED]" in this document being fulfilled:
  - (i) the [REDACTED] and the grant of the [REDACTED] (which shall be exercisable by the [REDACTED] on behalf of the [REDACTED]) were approved and our Directors were authorised to allot and issue the [REDACTED] pursuant to the [REDACTED] and such number of Shares as may be required to be allotted and issued upon the exercise of the [REDACTED];

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- (ii) the rules of the Share Option Scheme were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected by the Stock Exchange, and at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with our Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (iii) conditional on the share premium account of our Company being credited as a result of the issue of new Shares under the [REDACTED], our Directors were authorised to capitalise HK\$[REDACTED], standing to the credit of the share premium account of our Company by applying that sum in paying up in full [REDACTED] Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on [●] 2024 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholding in our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares (other than the right to participate in the Capitalisation Issue) and our Directors were authorised to give effect to such capitalisation;
- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with unissued Shares in the capital of our Company and to make or grant offers, agreements and options which may require the exercise of such powers, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or pursuant to the exercise of any options which have been or may be granted under the Share Option Scheme or other arrangements regulated by Chapter 17 of the Listing Rules, or under the [REDACTED] or the Capitalisation Issue, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, with an aggregate number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the [REDACTED] (but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the [REDACTED] or exercise of options that may be granted under the Share Option Scheme) and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Act to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

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- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules, with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Capitalisation Issue and the [REDACTED] (but excluding (where applicable) any Shares which may be issued pursuant to the exercise of the [REDACTED] or exercise of options that may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Act to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the number of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

**4. Group reorganisation**

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the [REDACTED] of the Shares on the Stock Exchange. For information relating to the Reorganisation, please refer to the section headed "History, Reorganisation and Corporate Structure" in this document.

**5. Information about our subsidiaries in PRC**

Our Group has the following subsidiaries in PRC, a summary of the corporate information of these enterprises as at the Latest Practicable Date is set out as follows:

		<b>1. WFOE</b>	<b>2. Shenhua Flour</b>
(i)	Full name of company	Langfang Gu'an County Shenhua Enterprise Management Company Limited* (廊坊固安縣參花企業管理有限公司)	Gu'an County Shenhua Flour Co., Ltd.* (固安縣參花麵粉有限公司)
(ii)	Date of establishment	15 October 2019	9 January 2002
(iii)	Nature	Wholly foreign-owned enterprise	Limited liability company

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		<b>1. WFOE</b>	<b>2. Shenhua Flour</b>
(iv)	Registered holder	Shenhua HK	WFOE
(v)	Registered capital fully paid up	(Note)	RMB27.31 million
(vi)	Term of operation (or, where applicable, its expiry date)	14 October 2049	8 January 2032
(vii)	Equity interest attributable to our Group	100%	100%

*Note:* According to the articles of association of WFOE, the registered capital of WFOE has to be fully paid up by December 2029.

The scope of permitted business as recorded in the business licences of our respective PRC subsidiaries as at the Latest Practicable Date is set out below:

<b>WFOE</b>	Enterprise management services, processing and sales of wheat flour (for the above items which are subject to approval, subject to the approval from relevant authorities which needs to be obtained prior to operation)
<b>Shenhua Flour</b>	Processing and sales of wheat flour (all-purpose and specialty); sales of agricultural by-products; purchase, storage, and sales of grain; processing and sales of convenience foods, baked goods and locally produced fresh agricultural products; testing services import and export by goods, leasing of self-owned property; information technology consultancy services (for the above items which are subject to approval, subject to the approval from relevant authorities which needs to be obtained prior to operation)

**6. Changes in share capital of subsidiaries**

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this document.

Save as disclosed in section headed "History, Reorganisation and Corporate Structure" in this document, there were no changes in the registered capital of our subsidiaries during the two years preceding the date of this document.



**7. Buy-back by our Company of its own securities**

This paragraph includes information required by the Stock Exchange to be included in this document concerning the buy-back by our Company of its own securities.

*(a) Provisions of the Listing Rules*

The Listing Rules permit companies with a primary [REDACTED] on the Stock Exchange to buy-back their securities on the Stock Exchange subject to certain restrictions, the summary of which is set out below:

*(i) Shareholders' approval*

All proposed buy-back of securities (which must be fully paid up in the case of shares) by a company [REDACTED] on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by our Shareholders on [●] 2024, the Buy-back Mandate was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be [REDACTED] and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the total number of Shares in issue immediately following completion of the [REDACTED] and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme). The Buy-back Mandate will expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable Cayman Islands law to be held, or the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

*(ii) Source of funds*

Buy-back by our Company must be paid out of funds legally available for the purpose in accordance with our Company's Memorandum and Articles of Association and the Companies Act. A listed company may not buy-back its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands law, any buy-back by our Company may only be made out of profits of our Company, or out of share premium account, or out of the proceeds of a fresh issue of share made for the purpose of the buy-back. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of profits of our Company or from sums standing to the credit of our Company's share premium account. Subject to the provisions of the Companies Act, a buy-back may also be paid out of capital.

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*(iii) Connected parties*

A company is prohibited from knowingly repurchasing securities from a "core connected person", that is, a director, chief executive or substantial shareholder of our Company or any of their respective close associates and a core connected person shall not knowingly sell his securities to our Company, on the Stock Exchange.

*(b) Reasons for buy-back*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the Shareholders to enable our Company to buy-back Shares in the market. Such buy-back may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such buy-back will benefit our Company and the Shareholders.

*(c) Funding of buy-back*

In buy-back securities, our Company may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this document and taking into account the current working capital position of our Group, our Directors consider that, if the Buy-back Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this document. However, our Directors do not propose to exercise the Buy-back Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Buy-back Mandate, on the basis of [REDACTED] Shares in issue immediately after the [REDACTED], would result in up to [REDACTED] Shares being bought back by our Company during the period in which the Buy-back Mandate remains in force.

*(d) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company or its subsidiaries if the Buy-back Mandate is exercised.

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Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buy-back Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No core connected person (as defined in the Listing Rules) has notified our Company that he has a present intention to sell Shares to our Company, or has undertaken not to do so if the Buy-back Mandate is exercised.

If, as a result of a securities buy-back, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Buy-back Mandate.

Our Directors confirmed that the Buy-back Mandate does not contain any unusual features. Our Directors will not exercise the Buy-back Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

### FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP

#### 8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this document and are or may be material:

- (a) the Deed of Indemnity; and
- (b) the [REDACTED].






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**9. Intellectual Property Rights of our Group**

(a) *Trademarks*

As of the Latest Practicable Date, our Group has registered the following trademarks:

Trademark	Registered owner	Class	Place of registration	Trademark number	Duration of validity period
1. 	Shenhua Flour	30	PRC	21413782	21 November 2017 to 20 November 2027
2. 	Shenhua Flour	30	PRC	6406596	21 March 2010 to 20 March 2030
3. 	Shenhua Flour	30	PRC	3159208	14 June 2003 to 13 June 2033
4. 	Shenhua Flour	30	PRC	47885813	21 March 2021 to 20 March 2031
5. 	Shenhua Flour	30	PRC	47864853	14 March 2021 to 13 March 2031

(b) *Domain name*

As at the Latest Practicable Date, our Group has registered the following domain name:

Domain name	Date of registration	Expiry date
shenhuamianfen.com	25 February 2019	25 February 2025

Information contained in the above website does not form part of this document.

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(c) *Copyrights*

As at the Latest Practicable Date, our Group has registered the following copyrights:

Title of copyright	Registered owner	Registration number	Place of registration	Registration date
1. Shenhua Wheat Pattern* (參花麥穗圖)	Shenhua Flour	Guozuodengzi-2017-F-00497713	PRC	13 November 2017
2. Shenhua Green Flower Petals Pattern* (參花綠色花瓣圖)	Shenhua Flour	Guozuodengzi-2017-F-00497714	PRC	13 November 2017

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of our Group.

**FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF**

**10. Directors**

(a) *Particulars of service contracts and letters of appointment*

Each of our Executive Directors (namely, Mr. Yao and Mr. Yao Wei) has entered into a service contract with our Company pursuant to which he agreed to act as an Executive Director for an initial term of three years with effect from [●] 2024. The service contract can be terminated by not less than three month's notice in writing served by either the Executive Director or our Company, or otherwise determined.

Each of our Executive Directors is entitled to a basic salary set out below. In addition, our Executive Directors are also entitled to a discretionary management bonus taking into consideration the financial performance of our Group and the relevant Director's individual contribution to our Group for the financial year concerned, provided that the aggregate amount of the bonuses payable to all the Executive Directors for any financial year of our Company shall not exceed 10% of the audited consolidated net profit of our Group (after taxation, minority interests and payment of such bonuses but before extraordinary or exceptional items) in respect of that financial year of our Company. An Executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him.

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The basic annual salaries of the Executive Directors upon [REDACTED] are as follows:

<b>Name</b>	<b>Amount</b>
Yao Zhiwan	RMB[200,000]
Yao Wei	RMB[200,000]

Each of Mr. Chan Yuk Hiu Taylor, Ms. Shi Jingmin and Mr. Huang Weining, being the Independent Non-executive Directors, has entered into a letter of appointment with our Company on [●] 2024. Each letter of appointment is for an initial term of three years commencing on the [REDACTED], unless terminated by not less than three months' notice in writing served by either the Independent Non-executive Director or our Company, or otherwise terminated earlier in accordance with the terms of their letter of appointment. The appointments of the Independent Non-executive Directors are subject to the provisions of retirement and rotation of Directors under the Articles. Each Independent Non-executive Director is entitled to an annual director's fee of RMB[120,000].

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of its subsidiaries (other than contracts expiring or determinable by our Group within one year without the payment of compensation (other than statutory compensation)).

**(b) Directors' remuneration**

During the Track Record Period, the aggregate of the remuneration (including salaries, allowances, benefits in kind and contribution to retirement schemes) paid by our Group to our Directors were approximately RMB220,000, RMB222,000 and RMB221,000, respectively.

Under the arrangements currently in force, the aggregate amount of Directors' fee and other emoluments (excluding any discretionary bonuses, if any) payable to our Directors by our Group and benefits in kind receivable by our Directors for the year ending 31 December 2024 is estimated to be approximately RMB[0.4] million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2023 (i) as an inducement to join or upon joining our Company or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2023.

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*(c) Interests and short positions of Directors and chief executives of our Company in the shares, underlying shares or debentures of our Company and its associated corporations*

Immediately following completion of the [REDACTED] and the Capitalisation Issue (but not taking into account of any Shares that may be allotted and issued pursuant to the exercise of any option(s) which may be granted under the Share Option Scheme), the interests or short positions of our Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:

*(i) Interest in our Company*

<b>Name of Director</b>	<b>Capacity/ Nature of interest</b>	<b>Number of Shares held immediately after Capitalisation Issue and [REDACTED]<sup>(1)</sup></b>	<b>Percentage of shareholding after Capitalisation Issue and [REDACTED]</b>
Mr. Yao	Interest in Controlled Corporation <sup>(2)</sup>	[REDACTED] Shares (L)	[REDACTED]%

Notes:

- (1) The letter "L" denotes the person's long position in the relevant Shares.
- (2) The entire issued share capital of Affluent Aspire is legally and beneficially owned by Mr. Yao. Accordingly, Mr. Yao is deemed to be interested in [REDACTED] Shares held by Affluent Aspire by virtue of the SFO. Mr. Yao is an Executive Director.

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(ii) *Interests in associated corporation*

Name of associated corporation	Name	Capacity/ Nature of interest	Number of shares	Percentage of issued share capital
Affluent Aspire	Mr. Yao	Beneficial owner	100 shares (L) <sup>(1)</sup>	100%

*Note:*

(1) The letter "L" denotes the long position in the shares.

**11. Interest discloseable under the SFO and substantial shareholders**

So far as our Directors are aware, immediately following the completion of the [REDACTED] and the Capitalisation Issue (but not taking into account of any Shares which may be allotted and issued upon the exercise of the [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme), based on the information available on the Latest Practicable Date, the following persons/entities (other than a Director or chief executive of our Company) will have or be deemed or taken to have an interest and/or a short position in the Shares or the underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be recorded in the register of our Company required to be kept under section 336 of the SFO, or who will be, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other members of our Group:

Name	Capacity/ Nature of interest	Number of Shares held after Capitalisation Issue and [REDACTED] <sup>(1)</sup>	Percentage of shareholding after Capitalisation Issue and [REDACTED]
Affluent Aspire <sup>(2)</sup>	Beneficial Owner	[REDACTED] Shares (L)	[REDACTED]%
Ms. Wang Shuying <sup>(3)</sup>	Interest of Spouse	[REDACTED] Shares (L)	[REDACTED]%

*Notes:*

(1) The letter "L" denotes the person's long position in the relevant Shares.

(2) Affluent Aspire is wholly owned by Mr. Yao, our Executive Director.

(3) Ms. Wang Shuying is the spouse of Mr. Yao Zhiwan. Under the SFO, Ms. Wang Shuying is taken to be interested in the same number of Shares in which Mr. Yao Zhiwan is interested.



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**12. Related party transactions**

During the two years immediately preceding the date of this document, our Group engaged in the related party transactions as mentioned in note 25 of the Accountants' Report set out in Appendix I to this document.

**13. Disclaimers**

Save as disclosed in this appendix:

- (a) taking no account of any Shares which may be taken up or acquired under the [REDACTED] or any Shares which may be allotted and issued upon the exercise of the [REDACTED] and the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the [REDACTED] and the Capitalisation Issue will have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at the general meetings of our Company or any other members of our Group;
- (b) none of our Directors or chief executives of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in C3 to the Listing Rules, in each case once the Shares are [REDACTED] on the Stock Exchange;
- (c) none of our Directors nor the experts named in the paragraph headed "21. Qualifications and consents of experts" below has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this document, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for [REDACTED] either in his/her own name or in the name of a nominee;
- (d) none of our Directors nor the experts named in the paragraph headed "21. Qualifications and consents of the experts" below is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to the business of our Group taken as a whole;

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- (e) none of the experts named in the paragraph headed "21. Qualifications and consents of experts" below has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group; and
- (f) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**14. Share Option Scheme**

*(a) Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by our Shareholders on [●] 2024 and its implementation is conditional on the [REDACTED].

*(i) Purpose*

The purpose of the Share Option Scheme is to incentivize and reward an Eligible Person (as defined below) for their contribution to our Group and to align their interests with that of our Company so as to encourage them to work towards enhancing the value of our Company.

*(ii) Who may participate*

The Board (including any committee or delegate of the Board appointed by the Board to perform any of its functions pursuant to the rules of the Share Option Scheme) may, at its absolute discretion, offer to grant an option to subscribe for such number of Shares as the Board may determine to any of the following classes of participants:

- (i) any director and employee of any member of our Group;
- (ii) any director or employee of any of the holding companies, fellow subsidiaries or associated companies of our Company; and
- (iii) any person (including an entity) that provides services to us on a continuing or recurring basis in its ordinary and usual course of business which are in the interests of our long term growth (the "**Service Provider(s)**").

The basis of eligibility of any of the participants shall be determined by the Board from time to time. In assessing the eligibility of any participant, the Board will consider all relevant factors as appropriate, including, among others, (i) work performance; (ii) years of service; and (iii) potential or actual contribution to the

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business of the Group (if the participant is an employee or a director of any member of our Group), the actual degree of involvement in and/or cooperation with us and length of our business relationship with the participant (if the participant is a Service Provider). The basis of eligibility of any of the Service Provider participants to the grant of any options shall be determined by us from time to time on the basis of their contribution to our development and growth, the degree of involvement in and/or cooperation with our Group and length of our business relationship with the Service Provider, and the actual or potential support, advice, efforts and contributions the Service Provider participant has exerted and given towards our success.

For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of these classes of participants shall not, by itself, unless our Directors otherwise so determine, be construed as a grant of option under the Share Option Scheme.

*(iii) Scheme Mandate Limit and the Service Provider Sublimit*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme must not in aggregate exceed 10% of the total number of Shares in issue as of the [REDACTED], being [REDACTED] Shares, or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the Share Option Scheme and any Other Scheme (as defined below) of our Company will not be counted for the purpose of calculating the Scheme Mandate Limit.

Subject to above, within the Scheme Mandate Limit, the total number of Shares which may be issued upon exercise of all options to be granted to Service Providers shall not exceed [REDACTED] Shares, representing 1% of the total number of Shares in issue on the [REDACTED] (the "**Service Provider Sublimit**").

The Service Provider Sublimit was determined with reference to the potential dilution effect arising from grants to Service Providers, the actual or expected improvement of our financial performance that is attributable to the Service Providers and the time for using the Service Provider in the activities of our Group. Considering the fact that the individual limit under Rule 17.03D(1) of the Listing Rules is also 1%, there is no other share schemes involving grant of new options over our Shares, our hiring practice and organisational structures and that Service Providers have contributed or is expected to contribute to our long-term growth of our Group's business, the Board is of the view that the Service Provider Sublimit is appropriate and reasonable.

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The Board may, with the approval of the Shareholders in general meeting, refresh the Scheme Mandate Limit and the Service Provider Sublimit once every three years provided that the total number of Shares which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option schemes ("**Other Schemes**") of our Company as refreshed must not exceed 10% of the Shares in issue as at the date of approval of the refreshment of the Scheme Mandate Limit and the Service Provider Sublimit. Refreshments of Scheme Mandate Limit (and the Service Provider Sublimit) to be made within a three-year period must be approved by the Shareholders (other than our Controlling Shareholders and their associates, or if there is no Controlling Shareholder, other than the Directors (excluding Independent Non-executive Directors), and the chief executive of our Company and their respective associates) pursuant to Listing Rule 17.03C(1). The Board may, with the approval of the Shareholders in general meeting, grant options to any Eligible Person specifically identified by them which would cause the Scheme Mandate Limit and/or the Service Provider Sublimit to be exceeded. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

At any time, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the Share Option Scheme and any Other Schemes of our Company to the Eligible Persons must not exceed 30% of the total number of Shares in issue from time to time.

The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or independent financial adviser appointed by the Board shall certify in writing to the Board to be fair and reasonable, in the event of any alteration in the capital structure of our Company whether by way of capitalization of profits or reserves, rights issue, consolidation or subdivision of shares, or reduction of the share capital of our Company provided that no such adjustment shall be made in the event of an issue of Shares as consideration in respect of a transaction.

Our Company may grant options under the Share Option Scheme and any Other Schemes of our Company beyond any of the limits as set out above to such extent as may be permitted under the Listing Rules from time to time.

*(iv) Maximum entitlement of each individual*

No options shall be granted to any Eligible Person under the Share Option Scheme and any Other Schemes of our Company which, if exercised, would result in such Eligible Person becoming entitled to subscribe for such number of Shares as, when aggregated with the total number of Shares already issued or to be issued to him under all options granted to him (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of offer of such options, exceeds 1% of the Shares in issue at such date or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion.

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Any further grant of options to an Eligible Person in excess of this 1% limit or such higher limit as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion shall be subject to the approval of the Shareholders in general meeting with such Eligible Person and his close associates (or if such Eligible Person is a connected person of our Company, his associates) abstaining from voting. Our Company must send a circular to the Shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted to such Eligible Person in the 12-month period) and such other information required under the Listing Rules.

The number and terms (including the Option Price) of the options to be granted to such Eligible Person must be fixed before the Shareholders' approval and the date of the Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price under Rule 17.03E of the Listing Rules.

*(v) Grant of options to connected persons*

Each grant of options to a Director (including an Independent Non-executive Director), chief executive or substantial shareholder of our Company, or any of their respective associates, under the Share Option Scheme must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the proposed grantee of the options).

Where any grant of options to a substantial shareholder or an Independent Non-executive Director of our Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options by the Board must be approved by the Shareholders in general meeting. Such grantee, his associates and all core connected persons of our Company must abstain from voting on the resolution to approve such further grant of options. Our Company shall send to the Shareholders a circular containing the information required under the Listing Rules for the purpose of seeking the approval of the Shareholders.

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*(vi) Acceptance of an offer of options*

An offer of options shall be open for acceptance for such period (not exceeding 30 days inclusive of, and from, the date of offer) as the Board may determine and notify to the Eligible Person concerned provided that no such offer shall be open for acceptance after the expiry of the duration of the Share Option Scheme. An offer of options not accepted within this period shall lapse. An amount of HK\$1.00 is payable upon acceptance of the grant of an option and such payment shall not be refundable and shall not be deemed to be a part payment of the Option Price.

*(vii) Option Price*

Subject to any adjustment made as described in sub-paragraph (xxi) below, the Option Price shall be such price as determined by the Board and shall not be less than the higher of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of the option;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of the option; and
- (c) the nominal value of the Shares.

*(viii) Duration of Share Option Scheme*

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on the [REDACTED], after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto which are at that time or become thereafter capable of exercise under the Share Option Scheme, or otherwise to the extent as may be required in accordance with the provisions of the Share Option Scheme.

*(ix) Time of vesting and exercise of options*

Any option shall be vested on an Option-holder immediately upon his acceptance of the offer of options provided that if any vesting schedule and/or conditions are specified in the offer of the option, such option shall only be vested on an Option-holder according to such vesting schedule and/or upon the fulfilment of the vesting conditions (as the case may be). Any vested option which has not lapsed and which conditions have been satisfied or waived by the Board in its sole discretion may, unless the Board determines otherwise in its absolute discretion, be exercised at any time from the next business day after the offer of options has been accepted. Any option which remains unexercised shall lapse upon the expiry of the option period, which period shall be determined by the Board and shall not exceed

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10 years from the offer date of the option or such longer period as the Stock Exchange may allow pursuant to a waiver granted at the Stock Exchange's discretion (the "**Option Period**").

An option shall be subject to such terms and conditions (if any) as may be determined by the Board and specified in the offer of the option, including any vesting schedule and/or conditions, any minimum period for which any option must be held before it can be exercised and/or any performance target which needs to be achieved by an Option-holder before the option can be exercised. Such terms and conditions determined by the Board must not be contrary to the purpose of the Share Option Scheme and must be consistent with such guidelines (if any) as may be approved from time to time by the Shareholders.

No option may be exercised in circumstances where such exercise would, in the opinion of the Board, be in breach of a statutory or regulatory requirement.

*(x) Restriction on the time of grant of options*

A grant of options may not be made after inside information has come to our knowledge until (and including) the trading day after which such inside information has been announced as required under the Listing Rules. In particular, no option may be granted during the period commencing one month immediately preceding the earlier of:

- (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (b) the deadline for our Company to publish an announcement of the results for any year, or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement. The period during which no option may be granted will cover any period of delay in the publication of a results announcement.

*(xi) Ranking of the Shares*

No dividends (including distributions made upon the liquidation of our Company) will be payable and no voting rights will be exercisable in relation to an option that has not been exercised. Shares allotted and issued on the exercise of an option will rank pari passu in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

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*(xii) Restrictions on transfer*

Except for the transmission of an option on the death of an Option-holder to his personal representatives, neither the option nor any rights in respect of it may be transferred, assigned or otherwise disposed of by any Option-holder to any other person or entity. If an Option-holder transfers, assigns or disposes of any such option or rights, whether voluntarily or involuntarily, then the relevant option will immediately lapse.

*(xiii) Rights on voluntary resignation*

If an Option-holder ceases to be an Eligible Person by reason of his voluntary resignation (other than in circumstances where he is constructively dismissed), any outstanding offer of options shall continue to be open for acceptance for such period as determined by the Board at its absolute discretion and notified to such Eligible Person, and all options (to the extent vested but not already exercised) will continue to be exercisable for such period as the Board may determine at its absolute discretion and notify to such Eligible Person on the date of cessation of employment of such Eligible Person.

*(xiv) Rights on termination of employment*

If an Option-holder ceases to be an Eligible Person by reason of (a) his employer terminating his contract of employment in accordance with its terms or any right conferred on his employer by law, or (b) his contract of employment, being a contract for a fixed term, expiring and not being renewed, or (c) his employer terminating his contract for serious or gross misconduct, then any outstanding offer of an option and all options, vested or unvested, will lapse on the date the Option-holder ceases to be an Eligible Person.

*(xv) Rights on death, disability, retirement and transfer*

If an Option-holder ceases to be an Eligible Person by reason of:

- (a) his death; or
- (b) his serious illness or injury which in the opinion of the Board renders the Option-holder concerned unfit to perform the duties of his employment and which in the normal course would render the Option-holder unfit to continue performing the duties under his contract of employment for the following 12 months provided such illness or injury is not self-inflicted; or
- (c) his retirement in accordance with the terms of an Option-holder's contract of employment; or



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- (d) his early retirement by agreement with the Option-holder's employer;  
or
- (e) his employer terminating his contract of employment by reason of redundancy; or
- (f) his employer ceasing to be a member of the Group or an associated company or under the control of our Company; or
- (g) a transfer of the business, or the part of the business, in which the Option-holder works to a person who is neither under the control of our Company nor a member of the Group or associated companies of our Company; or
- (h) if the Board determines in its absolute discretion that circumstances exist which mean that it is appropriate and consistent with the purpose of the Share Option Scheme to treat an Option-holder whose options would otherwise lapse so that such options do not lapse but continue to subsist in accordance with (and subject to) the provisions of the Share Option Scheme,

then, any outstanding offer of an option which has not been accepted and any unvested option will lapse and the Option-holder or his personal representatives (if appropriate) may exercise all his options (to the extent vested but not already exercised) within a period of one month of the date of cessation of employment. Any option not exercised prior to the expiry of this period shall lapse.

If the Board determines that an Option-holder who ceases to be an Eligible Person in circumstances such that his options continue to subsist in accordance with (h) above:

- (a) is guilty of any misconduct which would have justified the termination of his contract of employment for cause but which does not become known to our Company until after he has ceased employment with any member of our Group or associated companies of our Company; or
- (b) is in breach of any material term of contract of employment (or other contract or agreement related to his contract of employment), without limitation, any confidentiality agreement or agreement containing non-competition or non-solicitation restrictions between him and any member of our Group or associated companies of our Company; or
- (c) has disclosed trade secrets or confidential information of any member of our Group or associated companies of our Company; or

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- (d) has entered into competition with any member of our Group or associated companies of our Company or breached any non-solicitation provisions in his contract of employment,

then it may, in its absolute discretion, determine that any unexercised options, vested or not vested, held by the Option-holder shall immediately lapse upon the Board resolving to make such determination (whether or not the Option-holder has been notified of the determination).

*(xvi) Rights on cessation to be a director*

In the event that any director ceases to be a director of any member of the Group or associated companies of our Company, our Company shall, as soon as practicable thereafter, give notice to the relevant Option-holder who as a result ceases to be an Eligible Person. Any outstanding offer of an option which has not been accepted and any unvested option will lapse on the date the Option-holder ceases to be an Eligible Person. The Option-holder (or his personal representative) may exercise all his options (to the extent vested but not already exercised) within a period of one month of the date of the notification by the Board. Any option not exercised prior to the expiry of this period shall lapse.

*(xvii) Rights on a general offer*

If as a result of any general offer made to the holders of Shares, the Board becomes aware that the right to cast more than 50% of the votes which may ordinarily be cast on a poll at a general meeting of our Company has or will become vested in the offeror, any company controlled by the offeror and any person associated with or acting in concert with the offeror, the Board will notify every Option-holder of this within 14 days of becoming so aware or as soon as practicable after any legal or regulatory restriction on such disclosure no longer applies. Each Option-holder will be entitled to exercise his options (to the extent vested but not already exercised) during the period of one month starting on the date of the Board's notification to the Option-holders. All options, vested or unvested, not exercised before the end of such period will lapse.

*(xviii) Rights on company reconstructions*

In the event of a compromise or arrangement, our Company shall give notice to all Option-holders on the same date as it gives notice of the meeting to the Shareholders or creditors to consider such a compromise or arrangement and each Option-holder (or his personal representative) may at any time thereafter, but before such time as shall be notified by our Company, exercise all or any of his options (to the extent vested but not already exercised), and subject to our Company receiving the exercise notice and the Option Price, our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

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*(xix) Rights on winding up*

In the event a notice is given by our Company to the Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up our Company, our Company shall on the same date as or soon after we dispatch such notice to the Shareholders give notice thereof to all Option-holders and each Option-holder shall be entitled to exercise all or any of his options (to the extent vested but not already exercised) at any time no later than seven days prior to the proposed general meeting of our Company, and subject to our Company receiving the exercise notice and the Option Price, our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot, issue and register under the name of the Option-holder such number of fully paid Shares which fall to be issued on exercise of such options. Any options, vested or not unvested, not so exercised will lapse.

*(xx) Lapse of option*

An option will lapse on the earlier of:

- (a) the expiry of the option period as determined by the Board; or
- (b) the date when any circumstance referred to in paragraph (xii) above occurs; or
- (c) the expiry of the time provided for in the applicable rule where any of the circumstances provided in paragraphs (xiii) to (xix) above apply.

*(xxi) Effect of alteration to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalization of profits or reserves, further rights issues of Shares, consolidation or subdivision of shares, or reduction of the share capital of our Company in accordance with applicable laws and regulatory requirements (other than an issue of any share capital as consideration in respect of a transaction), such corresponding adjustments (if any) shall be made to the number of Shares, the subject matter of the option (insofar as it is unexercised) and/or the price at which the options are exercisable, as the auditors of our Company or an independent financial adviser appointed by the Board shall certify in writing to the Board to be in their opinion fair and reasonable.

Any such adjustments shall be made on the basis that an Option-holder shall have the same proportion of the issued share capital of our Company as that to which he was entitled before such adjustment. No such adjustment shall be made the effect of which would be to enable any Share to be issued at less than its nominal value, or to increase the proportion of the issued share capital of our Company for which any Option-holder would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustments.

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The auditors of our Company or the independent financial adviser appointed by the Board (as appropriate) must confirm to the Board in writing that the adjustment satisfies the requirements of the Note to paragraph 17.03(13) of the Listing Rules and such applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange, except where such adjustment is made on a capitalization issue.

The capacity of the auditors or independent financial advisers mentioned above is that of experts and not of arbitrators and their certification shall be final and binding on our Company and the Option-holders in the absence of fraud or manifest error. The costs of the auditors or independent financial advisers shall be borne by our Company.

*(xxii) Cancellation of option*

Unless the Option-holder agrees, the Board may only cancel an option (which has been granted but not yet exercised) if, at the election of the Board, either:

- (a) our Company pays to the Option-holder an amount equal to the fair market value of the option at the date of cancellation as determined by the Board at its absolute discretion, after consultation with the auditors of our Company or an independent financial adviser appointed by the Board; or
- (b) the Board offers to grant the Option-holder replacement options (or options under any other share option scheme of any member of the Group) or makes such arrangements as the Option-holder may agree to compensate him for the loss of the option; or
- (c) the Board makes such arrangements as the Option-holder may agree to compensate him for the cancellation of the option.

Where our Company cancels options granted to a participant and makes a new grant to the same participant, such new grant may only be made under the Share Option Scheme with available Scheme Mandate Limit approved by the Shareholders. The options cancelled will be regarded as utilised for the purpose of calculating the Scheme Mandate Limit.

*(xxiii) Termination of the Share Option Scheme*

The Share Option Scheme will expire automatically on the day immediately preceding the tenth anniversary of the [REDACTED]. The Board may terminate the Share Option Scheme at any time without Shareholders' approval by resolving that no further options shall be granted under the Share Option Scheme and in such case, no new offers to grant options under the Share Option Scheme will be made and any options which have been granted but not yet exercised shall either (a) continue subject to the Share Option Scheme, or (b) be cancelled in accordance with paragraph (xxii).

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*(xxiv) Amendments to the Share Option Scheme*

The Board may amend any of the provisions of the Share Option Scheme (including amendments in order to comply with changes in legal or regulatory requirements) at any time (but not so as to affect adversely any rights which have accrued to any Option-holder at that date), except that any amendments to the terms and conditions of the Share Option Scheme which are of a material nature or any amendments to the advantage of present or future Option-holders in respect of matters contained in Rule 17.03 of the Listing Rules may only be made with the approval of the shareholders of our Company save where the amendments take effect automatically under the existing terms of the Share Option Scheme.

Any amendments to the terms of options granted to an Option-holder who is a substantial shareholder of our Company or an Independent Non-executive Director, or any of their respective associates, must be approved by the Shareholders in general meeting. The resolution to approve the amendment must be taken on a poll and any connected person of our Company must abstain from voting on the resolution to approve such amendment, except that such a connected person may vote against such resolution.

Any change to the authority of the Board in relation to any amendment of the rules of the Share Option Scheme may only be made with the approval of the Shareholders in general meeting.

*(xxv) Conditions of the Share Option Scheme*

The adoption of the Share Option Scheme is conditional on:

- (a) the [REDACTED] granting (or agreeing to grant) approval (subject to such conditions as the Stock Exchange may impose) for the [REDACTED] of, and permission to [REDACTED] in, the Shares which may fall to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; and
- (b) the commencement of the [REDACTED] in the Shares on the Stock Exchange.

If the condition above are not satisfied on or before the date following six months after the date on which the Share Option Scheme was conditionally adopted:

- (a) the Share Option Scheme shall forthwith determine;
- (b) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (c) no person shall be entitled to any rights or benefits or be under any obligation under or in respect of the Share Option Scheme or any option.

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An application has been made to the [REDACTED] to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED] in, the new Shares which may be issued pursuant to the exercise of the options which may be granted pursuant to the Share Option Scheme.

*(xxvi) Performance targets*

If and to the extent that any performance target is required to be achieved by any grantee before an option is capable of being exercised, such performance target shall be based on, amongst other things, length of continued employment with our Group, business or financial performance results, annual corporate targets or goals achieved, relevant transaction milestones, individual performance, and appraisal on contribution to our Group. There may be instances where it may be impracticable or inappropriate to include specific performance targets as a vesting condition of options. We consider that a grant of options after taking into account actual performance and/or contribution of the individual grantee and appropriate communication to the grantee of such correlation would also have the effect of incentivising and rewarding that grantee for their contribution. It is important that we retain the flexibility to tailor incentives and rewards to achieve the purpose of the Share Option Scheme and to ensure that our Group can continue to offer consistent and market competitive remuneration packages to its employees.

Where a grantee is an Independent Non-executive Director, the vesting of options shall not be subject to performance targets, unless our Board is satisfied that the existence of such target will not lead to any bias in the decision-making or compromise the objectivity and independence of such grantee in the course of performance by him of his duties as an Independent Non-executive Director.

*(xxvii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest (legal or beneficial) in favour of or enter into any agreement with any other person over or in relation to any option, except for the transmission of an option on the death of the grantee to his personal representative(s) on the terms of this Share Option Scheme, or, subject to the Stock Exchange granting a waiver, on a case-by-case basis, transfer to vehicle (such as a trust or a private company) for the benefit of the participant and any family members of such participant (for example, for estate planning or tax planning purposes) that would continue to meet the purpose of the Share Option Scheme and comply with the requirements under Chapter 17 of the Listing Rules.

*(xxviii) Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as of the Latest Practicable Date. Any such valuation will have to be made on the basis of a certain option pricing model or other method that depends on various assumptions

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including the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options granted as of the Latest Practicable Date would be based on a number of speculative assumptions that are not meaningful and would be misleading to investors.

As of the Latest Practicable Date, no option had been granted or agreed to be granted by our Company pursuant to the Share Option Scheme.

Details of the Share Option Scheme, including particulars and movements of the options granted during each financial year of our Company, and our employee costs arising from the grant of the options will be disclosed in our annual report.

*(xxix) Compliance with Listing Rules*

The Share Option Scheme complies with Chapter 17 of the Listing Rules.

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**15. Tax and other indemnities**

Our Controlling Shareholders (collectively the "**Indemnifiers**") have pursuant to a deed of indemnity referred to in the paragraph headed "Further information about the business of our Group — 8. Summary of material contracts" in this Appendix (the "**Deed of Indemnity**"), on a joint and several basis, given indemnities in favour of our Group in respect of any amount which any member of our Group becomes liable to pay after the date of the Deed of Indemnity being:

- (a) to the extent of which is applicable, any duty which is or hereafter becomes payable by any member of our Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (the "**Estate Duty Ordinance**") or any law equivalent or similar thereto under the laws of any jurisdiction outside Hong Kong, or under the provision of section 43 of the Estate Duty Ordinance or any law equivalent or similar thereto under the laws of any jurisdiction outside Hong Kong, by reason of the death of any person and by reason of the assets of any members of our Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death, as a result of that person making or having made a relevant transfer to any members of our Group at any time on or before the [REDACTED];
- (b) to the extent of which is applicable, any amount recovered against any members of our Group under the provision of section 43(7) of the Estate Duty Ordinance in respect of any duty payable under section 43(1)(c) or section 43(6) of the Estate Duty Ordinance, by reason of the death of any person and by reason of the assets of any members of our Group or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death, as a result of that person making or having made a relevant transfer to any members of our Group at any time on or before the [REDACTED];

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- (c) to the extent of which is applicable, any amount of duty which any members of our Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance in respect of the death of any person in any case where the assets of another company are deemed for the purpose of estate duty to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of any members of our Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance, in each case at any time on or before the [REDACTED], but only to the extent to which any members of our Group is unable to recover an amount or amounts in respect of that duty from any other person under the provision of section 43(7)(a) of the Estate Duty Ordinance or any law equivalent or similar thereto under the laws of any jurisdiction outside of Hong Kong;
- (d) any undeclared tax, overdue tax and any other form of tax burden (including tax burden arising from receipt, accumulation or acceptance of income, profit or gain) of any members of our Group before the [REDACTED];
- (e) any claim, fine or other form of liability that may arise from breach of any law, regulation and rule by any members of our Group before the [REDACTED];
- (f) all reasonable costs (including all legal costs), expenses or other liabilities which any members of our Group may properly incur in connection with:
  - (i) the investigation, assessment or the contesting of any claim or other claim pursuant to the Deed of Indemnity;
  - (ii) the settlement of any claim under the Deed of Indemnity;
  - (iii) any legal proceedings in which any members of our Group claims under or in respect of the Deed of Indemnity; or
  - (iv) the enforcement of any settlement or judgment in respect of any legal proceedings referred to in paragraph (iii) above.

In addition, pursuant to the Deed of Indemnity, the Indemnifiers have agreed and undertaken to jointly and severally indemnify the members of our Group and each of them and at all times keep the same indemnified on demand from and against all claims, damages, losses, costs, expenses, fines, actions and proceedings whatsoever and howsoever arising at any time whether present or in the future as a result of or in connection with:

- (a) any alleged or actual violation or non-compliance by any members of our Group with any laws, regulations or administrative orders or measures in the Cayman Islands, BVI, the PRC and Hong Kong on or before the [REDACTED];



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- (b) any and all expenses, payments, sums, outgoing, fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to, legal and other professional costs), charges, contributions, liabilities, fines, penalties (the "Costs") which any members of our Group may incur, suffer or accrue, directly or indirectly from or on the basis of or in connection with any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) or any other applicable laws, rules and regulations by any members of our Group on or before the [REDACTED] (in the case of our Group Members);
- (c) any irregularities in relation to any corporate documents of any members of our Group; and
- (d) all direct losses and damages that we may suffer as a result of the breach of non-compliance incidents and defective property title (in particular, title defects relating to the current production base as set out in the section headed "Business — Property — Title defects relating to our production base" in this document) as disclosed in this document.

The Deed of Indemnity does not however cover any claim and the Indemnifiers shall be under no liability in respect of any taxation or liability:

- (a) to the extent that provision has been made for such taxation in the audited consolidated accounts of our Group as set out in Appendix I to this document (the "Accounts");
- (b) to the extent that such taxation claim arise(s) or is/are incurred as a consequence of any retrospective change in the law or regulations or the interpretation or practice by the Hong Kong Inland Revenue Department or any other tax or government authorities in any part of the world coming into force after the [REDACTED] or to the extent such claim arise(s) or is/are increased by an increase in rates of taxation after the [REDACTED] with retrospective effect;
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, our Group which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 1 January 2024 and up to the [REDACTED];
- (d) to the extent that such taxation or liability is/are discharged by another person who is not a member of our Group and that none of the members of our Group is required to reimburse such person in respect of the discharge of such taxation or liability;
- (e) to the extent that such taxation or liability would not have arisen but for any act or omission by any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected after the [REDACTED] without the prior written consent or agreement of the

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Indemnifiers, which the relevant member of our Group ought reasonably to have known would give rise to such taxation or liability;

- (f) to the extent that any provisions or reserve made for taxation in the audited consolidated accounts of our Group as set out in Appendix I to this document which is finally established to be an over-provision or as an excessive reserve, in which case the Indemnifiers' liability in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve; and
- (g) to the extent that such claim arises or is incurred as a consequence of a change in any accounting policy or practice adopted by our Group after the [REDACTED].

Our Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands is likely to fall on our Group.

### 16. Litigation

During the Track Record Period and up to the Latest Practicable Date, neither our Company nor any of our subsidiaries were involved in any actual, pending or threatened arbitration, litigation or administrative proceedings of material importance, which had or could have had a material adverse impact on our business, results of operation or financial conditions.

### 17. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Stock Exchange for the [REDACTED] of, and permission to [REDACTED] in, the Shares in issue and to be issued as mentioned in this document, including the [REDACTED] and any Shares which may fall to be allotted and issued pursuant to (a) the Capitalisation Issue; (b) the [REDACTED]; and (c) the exercise of options which may be granted under the Share Option Scheme.

The Sole Sponsor has satisfied the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules. The sponsor's fees in connection with the [REDACTED] are approximately HK\$5.5 million.

### 18. Compliance adviser

In accordance with the requirements of the Listing Rules, our Company has appointed Zhongtai International Capital Limited as its compliance adviser to provide consultancy services to our Company to ensure compliance with the Listing Rules for a period commencing on the [REDACTED] and ending on the date on which our Company complies with the Listing Rules in respect of its financial results for the first full financial year ending 31 December 2025.

### 19. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$44,000 and are payable by our Company.

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**20. Promoters**

Our Company does not have any promoter (as defined in the Listing Rules). Within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the [REDACTED] and the related transactions described in this document.

**21. Qualifications and consents of experts**

The qualifications of the experts who have given reports, letter or opinions (as the case may be) in this document are as follows:

<b>Name</b>	<b>Qualification</b>
Zhongtai International Capital Limited	Licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO
KPMG	Certified Public Accountants  Public Interest Entity Auditor registered in accordance with the Accounting and Financial Reporting Council Ordinance
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	Legal advisers to our Company as to PRC law
Cushman & Wakefield Limited	Property valuer
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co	Industry consultant
BT Corporate Governance Limited	Internal control consultant

Each of the experts named above has given and has not withdrawn their respective written consents to the issue of this document with copies of their reports, letters, opinions or summaries of opinions (as the case may be), all of which are dated the date of this document and made for incorporation in this document and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any members of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of our Group.

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**22. Binding Effect**

[REDACTED]

**23. Taxation of holders of Shares**

*(a) Hong Kong*

*(i) Profits*

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as the Shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax.

Gains from sales of the Shares effected on the Stock Exchange will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of the Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

*(ii) Stamp duty*

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of the Shares. The duty is charged on each of the purchaser and the seller at the current rate of 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

*(iii) Estate duty*

Estate duty has been abolished in Hong Kong by The Revenue (Abolition of Estate Duty) Ordinance 2005 which came into effect on 11 February 2006.

*(b) The Cayman Islands*

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**APPENDIX V**

**STATUTORY AND GENERAL INFORMATION**

**24. Miscellaneous**

- (a) Within two years preceding the date of this document:
  - (i) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no commissions, discounts, brokerages (other than under the [REDACTED]) or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries;
  - (iii) no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of its subsidiaries; and
  - (iv) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) No founders, management or deferred shares of our Company or any of our subsidiaries have been issued or agreed to be issued;
- (c) Our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2023 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (d) There has not been any interruption in the business of our Group which has had a material adverse effect on the financial positions of our Group in the 12 months preceding the date of this document;
- (e) None of the equity and debt securities of our Company is listed or dealt with on any other stock exchange nor is any listing or submission to deal being or proposed to be sought;
- (f) None of our Directors nor any of the persons whose names are listed in paragraph headed "21. Qualifications and consents of experts" in this Appendix has received any commissions, discounts, agency fees, brokerages or other special terms in connection with the issue or sale of any share or loan capital of any member of our Group;
- (g) Subject to the provisions of the Companies Act, the principal register of members of our Company will be maintained in the Cayman Islands by [REDACTED] and a branch register of members of our Company will be maintained in Hong Kong by [REDACTED]. Unless the Directors otherwise agree, all transfers and other documents of title of the Shares must be lodged for registration with and registered

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**STATUTORY AND GENERAL INFORMATION**

by, our Company's branch [REDACTED] in Hong Kong and may not be lodged in the Cayman Islands;

- (h) All necessary arrangements have been made to enable the Shares to be admitted into CCASS;
- (i) There is no arrangement under which future dividends have been waived;
- (j) No company within our Group is presently listed on any stock exchange or traded on any trading system;
- (k) Our Directors have been advised that the use of a Chinese name registered as a dual foreign name in the Cayman Islands in conjunction with the English name of our Company does not contravene the Cayman Islands law;
- (l) Our Company has no outstanding convertible debt securities or debentures; and
- (m) None of the persons whose names are listed in the paragraph headed "21. Qualifications and consents of experts" under this Appendix:
  - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
  - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group; and
  - (iii) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

**25. Bilingual document**

The English language and Chinese language versions of this document are being published separately [REDACTED].

In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

**APPENDIX VI**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR DISPLAY**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this document delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) the written consents referred to in the paragraph headed "Other information — 21. Qualifications and consents of experts" in Appendix V to this document; and
- (b) a certified copy of each of the material contracts referred to in the paragraph headed "Further information about the business of our Group — 8. Summary of material contracts" in Appendix V to this document.

**DOCUMENTS AVAILABLE FOR DISPLAY**

Copies of the following documents will be available for display on the websites of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company at [shenhuamianfen.com](http://shenhuamianfen.com) up to and including the date which is 14 days from the date of this document:

- (a) our Memorandum of Association and Articles of Association;
- (b) the Accountants' Report from KPMG, on the historical financial information of our Group for each of the three years ended 31 December 2023, the text of which is set out in Appendix I to this document;
- (c) the audited consolidated financial statements of our Group for each of the three years ended 31 December 2023;
- (d) the report on unaudited [REDACTED] financial information of our Group from KPMG, the text of which is set out in Appendix II to this document;
- (e) the industry report prepared by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.;
- (f) the rules of the Share Option Scheme;
- (g) the letters, summary of values and valuation certificates relating to the property interests of our Group prepared by Cushman & Wakefield Limited, the text of which is set out in Appendix III to this document;
- (h) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law referred to in Appendix IV to this document;
- (i) the Cayman Companies Act;
- (j) the legal opinions prepared by Jingtian & Gongcheng in respect of certain aspects of our Group and the property interests of our Group in the PRC and summary of PRC laws and regulations relating to our business;

**APPENDIX VI**

**DOCUMENTS DELIVERED TO THE REGISTRAR OF  
COMPANIES IN HONG KONG AND AVAILABLE FOR DISPLAY**

- (k) the material contracts referred to in the paragraph headed "Further information about the business of our Group — 8. Summary of material contracts" in Appendix V to this document;
- (l) the written consents referred to in the paragraph headed "Other information — 21. Qualifications and consents of experts" in Appendix V to this document; and
- (m) the service contracts and letters of appointment referred to in the paragraph headed "Further information about Directors, management and staff — 10. Directors — (a) Particulars of service contracts and letters of appointment" in Appendix V to this document.