

## FINANCIAL INFORMATION

*You should read the following discussion and analysis together with our historical financial information, including the notes thereto, included in the Accountant’s Report in Appendix I to this document. Our historical financial information has been prepared in accordance with IFRS.*

*The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis 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 predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in this document, including but not limited to the sections headed “Risk Factors” and “Business.”*

### OVERVIEW

We are a leading spicy snack food company in China with strong growth momentum and an influential brand. According to Frost & Sullivan, in terms of retail sales value in 2021, we ranked first among all spicy snack food enterprises in China, with a market share of 6.2%, and ranked first in each of the seasoned flour product and spicy vegetable snack product categories. Weilong is a popular snack food brand among young consumers in China. To fulfill our mission “to let the world fall in love with Chinese flavors”, we are committed to making authentic Chinese gourmet more entertaining, casual, convenient and affordable, and to introducing more spicy snack food products that offer consumers a cheerful consumption experience.

We have a diversified spicy snack food product portfolio, covering seasoned flour products, vegetable products and bean-based and other products. The first two product categories account for most of our revenue.

During the Track Record Period, we recorded rapid growth in revenue and outstanding profitability. In 2019, 2020 and 2021, our total revenue reached RMB3,384.8 million, RMB4,120.4 million and RMB4,800.2 million, respectively, while our net profit was RMB658.1 million, RMB818.8 million and RMB826.7 million and our net profit margin was 19.4%, 19.9% and 17.2% during those years, respectively. Our adjusted net profit (a non-IFRS measure) amounted to RMB659.0 million, RMB821.2 million and RMB907.8 million in 2019, 2020 and 2021, respectively, and our adjusted net profit margin (a non-IFRS measure) was 19.5%, 19.9%, 18.9% during those years.

### IMPACT OF COVID-19 AND COMPANY’S RECENT DEVELOPMENT

#### Impacts of the COVID-19 Outbreak

Since the end of December 2019, the outbreak of a novel strain of coronavirus named COVID-19 has materially and adversely affected the global economy. In response, China, together with other countries and regions across the world, has taken various measures to contain the spread of the virus. In the first half of 2022, there had been large-scale resurgence of COVID-19, including the highly transmissible Delta and Omicron variant in various provinces across China (the “Resurgence”).

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Although there was no suspension of operations at our production plants, our production capacity was affected in April 2022 primarily due to higher absence rate of work staff. Our supply chain was also, to a certain extent, impacted. As we have maintained long term relationship with nationwide suppliers, such impacts on our raw material procurement were limited. We have also taken additional measures including procuring from back-up suppliers, applying for transportation pass, designating specialized coordinator, and utilizing self-owned vehicles to pick up goods, to minimize the negative impact on our raw material procurement. We have not encountered any shortage of raw materials. On the other hand, some of our product deliveries were delayed. During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes, litigation, or legal proceedings for not being able to fulfill our orders resulting from COVID-19 outbreak which would have a material adverse effect on our business.

We prioritize the health conditions of our employees in all our business operations. In response to the COVID-19 outbreak, we have employed various measures to mitigate the impact of the COVID-19 outbreak on our business operations, such as (i) organizing shuttle buses for our staff and monitoring them closely to track their health and wellness status; (ii) increasing salaries for certain production workers to alleviate their financial difficulties, which also helped us retain a steady workforce; and (iii) increasing our sales and marketing efforts on online channels that are catered to the evolving consumption habits and preferences. In response to the Resurgence, we have employed measures including (i) conducting routine sanitization; (ii) requiring regular negative COVID-19 PCR result; (iii) providing preventive gears such as masks, gloves, and medicines; and (iv) designating separate venue for quarantine purposes.

There is no guarantee that the prolonged pandemic will not affect the demands for our products and our operations in the future. Should China experience a further outbreak, our business operation may be impacted. Our results of operations and financial position will be affected by the future development of COVID-19, including its local and global severity and actions taken to contain it, which are highly uncertain and unpredictable.

See “Risk Factors – Risks relating to Our Business and Industry – The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions.” As of the Latest Practicable Date, our business operations and financial conditions were not materially impacted by the COVID-19 outbreak.

### Recent Developments

Certain production lines of our Xinglin plant have been put into operation for tests and trials since May 2022. In addition, in March 2022, we entered into a land use right transfer agreement for a parcel of land with an area of 139,496.00 sq.m. with the local government in Yunnan Province. As of the Latest Practicable Date, we had paid the full consideration of the land use right to the local government and are in the process of registering a land ownership certificate for such land which will be used for our Yunnan Plant.

In April 2022, our Company, our Controlling Shareholders and Pre-[REDACTED] investors entered into a supplemental share purchase agreement, pursuant to which our Company agreed issued and sold to these investors a total number of 157,626,890 ordinary shares, at a par value of US\$0.00001 of each share, for a consideration of US\$1,576.2689. In accordance with the relevant accounting standards, such an issue of shares

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will result in a one-off share-based payment expense to be charged to our consolidated statements of profit and loss in 2022.

Since May 2022, we have initiated price increases for our major products in response to the rising procurement prices of certain raw materials used in our production, and as a part of our overall product upgrade and operation strategy adjustment, underpinned by our persistence in delivering quality products to our customers.

After performing sufficient due diligence work which our Directors consider appropriate and after due and careful consideration, the Directors confirm that, up to the date of this document, save for the above, there has been no material adverse change in our financial or trading position or prospects since December 31, 2021, being the end date of the periods reported on in the Accountant’s Report in Appendix I to this document, and there is no event since December 31, 2021 that would materially affect the information as set out in the Accountant’s Report in Appendix I to this document.

### **BASIS OF PREPARATION**

The Historical Financial Information has been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by International Accounting Standards Board (“IASB”). The Historical Financial Information has been prepared under the historical cost convention, as modified by the revaluation of certain financial assets at fair value through profit or loss.

The preparation of Historical Financial Information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying our Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in note 4 of Appendix I to this document.

All effective standards, amendments to standards and interpretations, including IFRS 9 Financial Instruments (“IFRS 9”) and IFRS 15 Revenue from Contracts with Customers (“IFRS 15”) which are mandatory for the financial year beginning January 1, 2018 and IFRS 16 Leases (“IFRS 16”) which is mandatory for the financial year beginning January 1, 2019, are consistently applied to our Group throughout the Track Record Period.

### **MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS**

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, including the following:

#### **Consumer Demand**

We are a leading spicy snack food company committed to turning authentic Chinese gourmet into casual snack food that consumers can enjoy anywhere and anytime. Our results of operations are largely depended on consumer demand for snack foods with authentic Chinese flavor, which is affected by the evolving consumers’ preferences and tastes. According to Frost & Sullivan, demand from young Chinese consumers for snack food

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products has been growing continuously during the past five years. From 2016 to 2021, the spicy snack food market in China in which we operated grew at a CAGR of 8.7%, which was higher than the CAGR of 6.1% for the snack food market. For more details, see “Industry Overview – Overview of China’s Snack Food Industry.”

Our business depends on our deep understanding of evolving consumer preferences. Consumer preferences may shift due to a variety of factors, including changes of dietary habits, pace of life and consumption trends. As a leading brand in the spicy snack food industry in China, our strong research and development capabilities have enabled us to continuously launch entertaining, casual, convenient and affordable snack food products with considerable popularity.

We believe that our continuous deep focus on consumers’ demand has helped us attract and retain a loyal group of consumers and position us as a renowned spicy snack food company in China and is critical to our ability to further grow our business.

### Product Mix

With our commitment of turning authentic Chinese gourmet into casual snack food, we continue to expand our product mix. Our present product mix primarily includes seasoned flour products, vegetable products, and bean-based and other products. Under each product category, we sell products with different flavors or package sizes to satisfy various consumer demands. See “Business – Our Brand and Products.” Typically, different products vary in retail prices, raw materials, package formats and sales channels and thus have different gross margins. In addition, our seasoned flour products are further classified into classic packaging and premium packaging products in order to implement our product positioning and business strategies. Each of our products has its own unique positioning with different marketing strategies and promotional costs. As a result, our revenue and profitability are largely affected by our product mix.

We believe that our increasingly diverse product mix enables us to respond to changing market conditions and consumer preferences quickly. We have been optimizing our product mix in an effort to facilitate our revenue and profitability. For example, our newly-launched vegetable products gained wide attraction in the market and fueled our revenue and profit growth during the Track Record Period.

The table below sets forth our revenue and gross profit margins of our key product categories during the Track Record Period.

	Year ended December 31,					
	2019		2020		2021	
	Revenue (RMB’000)	Gross margin(%)	Revenue (RMB’000)	Gross margin(%)	Revenue (RMB’000)	Gross margin(%)
Seasoned flour products .....	2,474,574	37.2	2,690,287	37.6	2,918,039	35.9
Vegetable products .....	664,959	37.2	1,167,541	39.3	1,664,120	39.9
Bean-based and other products .....	245,233	35.4	262,529	36.3	218,041	37.9
<b>Total</b> .....	<b>3,384,766</b>	<b>37.1</b>	<b>4,120,357</b>	<b>38.0</b>	<b>4,800,200</b>	<b>37.4</b>

Also see “– Description of Major Components of Our Results of Operations – Gross Profit.”

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### **Distribution Network**

We have established a nationwide sales and distribution network by fully integrating our online and offline resources in order to ensure consumers’ easy access to our products and distribution.

In 2019, 2020 and 2021, we generated 92.6%, 90.7% and 88.5% of our revenue from our offline distributors, respectively. We have a nationwide offline sales and distribution network that deeply penetrates the Chinese market. As of December 31, 2021, we cooperated with more than 1,900 offline distributors and our distributors’ sales network covered approximately 690,000 retail points of sale in China, with significant potential for future channel expansion. During the Track Record Period, we significantly expanded the coverage of our distribution network on a nationwide basis and further upgraded the structure of our sales channels from traditional channels, towards modern channels, such as national or regional hypermarkets, supermarkets and chained convenience stores.

We benefit from our well-established business relationships with our distributors. We regularly conduct evaluations on our distributors’ performance, such as requesting for submission of inventory level and sales reports. With our proprietary sales management system, we are able to more effectively monitor our distributors and the inventory level and sales situations at retail points of sale. See “Business – Our Sales Channel.”

In addition, as an essential complement to our offline distributors, our products are available and sold to consumers on a growing number of e-commerce platforms to adapt to changing consuming trends. During the Track Record Period, we gradually increased efforts on our self-operated online stores for better control of online sales and got familiar with online consumers’ demand on an independent basis. Our revenue from online distribution increased by 60.2% from RMB144.0 million in 2019 to RMB230.7 million in 2020 and further increased by 31.0% to RMB302.3 million in 2021. Our revenue from online direct sales increased by 41.5% from RMB106.8 million in 2019 to RMB151.1 million in 2020 and further increased by 66.4% to RMB251.5 million in 2021.

We believe our ability to grow our business will depend on whether we can continue to expand our sales and distribution network to connect with more consumers and to provide them easy access to our products.

### **Costs of Raw Materials and Packaging Materials**

We have exposure to fluctuations in the prices of raw materials and packaging materials, each of which may have impact on our cost of sales of goods or distribution expenses. Increased costs or distribution expenses will reduce our profit margins if we are unable to pass on these additional costs from our customers through higher prices.

The main raw materials used in our products are soybean oil, flour and konjac. In addition to these inputs into our products, delivery of our products to distributors requires extensive use of packaging materials, such as cardboard boxes and packaging bags. The price of most of our raw materials and packaging materials generally fluctuates according to the market conditions such as movement of global oil price and the COVID-19 impact. We have not entered into any hedging activities in relation to their prices. However, we monitor the supply and cost trends of these raw materials and packaging materials and have sought to mitigate the impact of price

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fluctuations to us. For example, as the supply of certain raw materials are seasonal, we usually purchase these raw materials in advance from their places of origin during their harvest season according to our scheduled production plans and expected customer demand.

In 2019, 2020 and 2021, the cost of raw materials accounted for 29.8%, 27.8% and 29.8% of our total revenue, respectively, and the cost of packaging materials accounted for 14.7%, 13.5% and 14.0% of our total revenue, respectively.

### **Our ability to further increase our production capacity**

During the Track Record Period, the utilization rate at each of our four production plants fluctuated, as a result of changes in the actual production volume at each of our production plants, which corresponds to changes in market demand and gradual increases in our designed production volume. Our ability to further increase our production capacity is critical to supporting our stable and continuous business growth, which involves additional costs and uncertainties. For example, revenue from our kelp products increased significantly in 2020 and 2021, primarily because we expanded the production lines for such products. In addition, to manage and strengthen our production capacity, we plan to build new production plants, upgrade our existing production equipment, develop more production lines and improve our production process. See “Future Plans and Use of [REDACTED].” In all, our revenue and results of operations in the future may rely on our ability to further increase our production capacity to cater for the market demand. See “Business – Our Production.”

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Some of our accounting policies require us to apply estimates and assumptions as well as complex judgements related to accounting items. The estimates and assumptions we use and the judgements we make in applying our accounting policies have a significant impact on our financial position and operational results. Our management continually evaluates such estimates, assumptions and judgements based on past experience and other factors, including industry practices and expectations of future events that are deemed to be reasonable under the circumstances. There has not been any material deviation from our management’s estimates or assumptions and actual results, and we have not made any material changes to these estimates or assumptions during the Track Record Period. We do not expect any material changes in these estimates and assumptions in the foreseeable future.

We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates, assumptions and judgements used in the preparation of our financial statements. See notes 2 and 3 of Appendix I to this document for details of the critical accounting policies, estimates, assumptions and judgements involved in the preparation of our financial statements.

### **Revenue Recognition**

#### ***Revenue from contracts with customers***

Revenue from contracts with customers is recognized when control of goods is transferred to the customers at an amount that reflects the consideration to which we expect to be entitled in exchange for those goods.

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When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which we will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. No significant element of financing is deemed present as the sales are made with a prepayment or a credit term up to 90 days, which is consistent with market practice.

### *Sale of goods*

Revenue from the sale of goods is recognized at the point in time when control of the asset is transferred to the customer, generally upon the acceptance of the goods. The costs of transporting finished goods to a customer are recognized in distribution and selling expenses when occurred.

Some contracts for the sale of goods provide customers with rights of return, volume rebates and trade incentive. The rights of return, volume discounts and trade incentive give rise to variable consideration.

### *Rights of return*

For contracts which provide a customer with a right of return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which our Group will be entitled. The requirements in IFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a liability is recognized. A right of return asset (and the corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

### *Variable consideration: volume discounts*

The goods are often sold with retrospective volume discounts based on aggregate sales over a 12-month period. Revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

### *Trade incentive – co-advertising services*

We may enter into agreements with our customers in relation to product advertising and promotion, under which the customers will be entitled to an advertising allowance. If no distinct service can be identified, the amounts due by us to our customers would be deducted from revenue.

### *Contract liabilities*

A contract liability is recognized when a payment is received, or a payment is due (whichever is earlier) from a customer before we transfer the related goods. Contract liabilities are recognized as revenue when we satisfied the performance obligation under the contract (i.e., transfers control of the related goods to the customer).

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### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials, direct labor and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realizable 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.

### **Current and deferred income tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where our Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where our Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.



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Current and deferred tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

### **Investments and other financial assets**

#### *Classification*

Our Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (“OCI”) or through profit or loss); and
- those to be measured at amortized cost.

The classification depends on our business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether our Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (“FVOCI”).

We reclassify debt investments when and only when its business model for managing those assets changes.

#### *Recognition and derecognition*

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which our Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and our Group has transferred substantially all the risks and rewards of ownership.

#### *Measurement*

At initial recognition, we measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at financial assets at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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We measure fair values of financial instruments using the following fair value hierarchy that reflects the observability and significance of the inputs used in making the measurements:

- **Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by us is the current bid price;
- **Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2; and
- **Level 3:** Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As of December 31, 2019, 2020 and 2021, our wealth management products, structured deposits and investment in fund management products were measured at fair value using level 3 inputs. As these instruments are not traded in an active market, their fair values have been determined by using various applicable valuation techniques, including the use of quoted market prices or dealer quotes for similar instruments, and the discounted cash flow model and unobservable inputs mainly including assumptions of expected future cash flows and discount rate. For details, see note 3.3 to the Accountant's Report in Appendix I to this document.

### *Debt instruments*

Subsequent measurement of debt instruments depends on our business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which our Group classifies its debt instruments:

- **Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in

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other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

### *Equity instruments*

Our Group subsequently measures all equity investments at fair value. Where our management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss as other income when our Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

### *Impairment*

Our Group assesses on a forward-looking basis the expected credit loss associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, impairment is measured as lifetime expected loss.

For other receivables, impairment is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses.

### **Property, plant and equipment**

Property, plant and equipment are stated at historical cost less depreciation less impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to our Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for a separate asset is de-recognized when replaced. All other repairs and maintenance are charged to the consolidated statements of profit or loss during the reporting period in which they are incurred.

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Depreciation is calculated using the straight-line depreciation method to allocate their cost, net of their residual values over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- (i) Buildings: 20 years;
- (ii) Machinery: 10 years;
- (iii) Vehicles: three-five years;
- (iv) Furniture and office equipment: five years;
- (v) Electronic equipment: three years; and
- (vi) Building improvement and decoration: three years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. See note 2.9 of Appendix I of this document.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "other gains/(losses), net" in the statement of profit or loss.

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### DESCRIPTION OF MAJOR COMPONENTS OF OUR RESULTS OF OPERATIONS

The following table sets out a summary of our consolidated statements of profit or loss for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
<b>Revenue from contracts with customers</b> .....	3,384,766	4,120,357	4,800,200
Cost of sales of goods .....	(2,130,463)	(2,554,692)	(3,007,169)
<b>Gross profit</b> .....	<u>1,254,303</u>	<u>1,565,665</u>	<u>1,793,031</u>
Distribution and selling expenses .....	(281,265)	(370,975)	(520,613)
Administrative expenses .....	(138,204)	(201,096)	(359,110)
Net impairment losses on financial assets .....	—	(600)	(303)
Other income, net .....	35,148	58,841	152,666
Other (losses)/gains, net .....	(1,744)	31,427	11,715
<b>Operating profit</b> .....	<u>868,238</u>	<u>1,083,262</u>	<u>1,077,386</u>
Finance income .....	107	481	24,782
Finance costs .....	(3,215)	(5,785)	(5,536)
Finance (costs)/income, net .....	(3,108)	(5,304)	19,246
Share of net profit of associate accounted for using the equity method .....	1,378	379	—
<b>Profit before income tax</b> .....	<u>866,508</u>	<u>1,078,337</u>	<u>1,096,632</u>
Income tax expense .....	(208,409)	(259,573)	(269,903)
<b>Profit for the year</b> .....	<u><u>658,099</u></u>	<u><u>818,764</u></u>	<u><u>826,729</u></u>

### Non-IFRS Measures

To supplement our consolidated financial statements, which are presented in accordance with IFRS, we also use adjusted net profit as additional financial measure, which is not required by, or presented in accordance with IFRS. We believe this non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items.

We believe this measure provides useful information to investors and others in understanding and evaluating our combined results of operations in the same manner as it helped our management. However, our presentation of adjusted net profit may not be comparable to similarly titled measures presented by other companies. The use of this non-IFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for an analysis of, our results of operations or financial condition as reported under IFRS.

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We define adjusted net profit as net profit for the year adjusted by adding back share-based payment expenses and [REDACTED]. The following table reconciles our adjusted net profit for the years presented to the most directly comparable financial measures calculated and presented in accordance with IFRS, which is net profit for the year:

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
<b>Reconciliation of net profit to adjusted net profit</b>			
Profit for the year .....	658,099	818,764	826,729
<i>Add:</i>			
Share-based payment expenses <sup>(1)</sup> .....	—	—	50,519
[REDACTED] expenses <sup>(2)</sup> .....	[REDACTED]	[REDACTED]	[REDACTED]
<b>Adjusted net profit (Unaudited) <sup>(3)</sup></b> .....	<b>659,004</b>	<b>821,221</b>	<b>907,750</b>

- (1) Share-based payment expenses mainly represent the arrangement that we receive services from employees as consideration for our equity instruments.
- (2) [REDACTED] expenses mainly relate to the [REDACTED].
- (3) A non-IFRS measure.

### Revenue

#### *Revenue by product*

During the Track Record Period, our revenue was primarily derived from the sales of seasoned flour products and vegetable products. The table below sets forth a breakdown of our revenue by product category for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Seasoned flour products .....	2,474,574	73.1	2,690,287	65.3	2,918,039	60.8
– premium-packaging products .....	1,272,401	37.6	1,423,713	34.6	1,592,659	33.2
– classic-packaging products .....	1,202,173	35.5	1,266,574	30.7	1,325,380	27.6
Vegetable products .....	664,959	19.6	1,167,541	28.3	1,664,120	34.7
Bean-based and other products .....	245,233	7.3	262,529	6.4	218,041	4.5
<b>Total</b> .....	<b>3,384,766</b>	<b>100.0</b>	<b>4,120,357</b>	<b>100.0</b>	<b>4,800,200</b>	<b>100.0</b>

Our total revenue showed an increasing trend during the Track Record Period. Revenue from our seasoned flour products increased by 8.7% from RMB2,474.6 million in 2019 to RMB2,690.3 million in 2020 and further increased by 8.5% to RMB2,918.0 million in 2021, primarily due to (i) increasing market demand as a result of greater recognition among consumers; (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020 and further increased to 623 as of December 31, 2021. Revenue from the sales of premium packaging products, both in the absolute amount and as a percentage of total revenue, was higher than that from the sales of classic packaging products during the Track Record Period. Revenue from our seasoned flour products as a percentage

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of our total revenue decreased from 73.1% in 2019 to 65.3% in 2020 and further decreased to 60.8% in 2021, reflecting our more diversified product mix following the significant growth of the sales volume of vegetable products, which accounted for 19.6%, 28.3% and 34.7% of our total revenue, respectively, during those years. Our revenue from vegetable products, grew both in absolute amount and as a percentage of our total revenue in 2019, 2020 and 2021, as the market demand for such products increased and we continued to expand our production capacity for such products during the same periods.

The table below sets forth a breakdown of our sales volume and average selling price per kg by product category for the periods indicated:

		<u>Year ended December 31,</u>		
		<u>2019</u>	<u>2020</u>	<u>2021</u>
Seasoned flour products .....	ton	173,296.0	179,511.4	193,598.6
	RMB/kg	14.3	15.0	15.1
Vegetable products .....	ton	24,130.1	41,585.4	60,699.3
	RMB/kg	27.6	28.1	27.4
Bean-based and other products .....	ton	11,378.9	10,161.0	7,212.7
	RMB/kg	21.6	25.8	30.2

Our sales volume of the seasoned flour products and vegetable products showed an increasing trend during the Track Record Period. The sales volume of our seasoned flour products and vegetable product were generally in line with the revenue scales of such two product categories during the Track Record Period. The continued increases in the sales volume of our seasoned flour products were attributable to a combination of (i) our enhanced product and brand recognition; and (ii) an expansion of our distribution network across China with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020 and further increased to 623 as of December 31, 2021. The increases in the sales volume of our vegetable products during the Track Record Period were mainly the results of (i) an increase in the market demand for such products; (ii) an expansion of our distribution network and an increase of distribution coverage of such products; and (iii) an increase in our production capacity for such products in 2020 and 2021 with the designed production capacity for vegetable products increased from 24,756.2 tons in 2019 to 45,936.0 tons in 2020 and further increased to 79,992.0 tons in 2021. See “Business – Our Sales Channel – Offline Channels.” The decrease in the sales volume of our bean-based and other products during the Track Record Period was mainly because (i) we adopted a new packaging design for our bean-based products, and it took time for consumers to become familiar with our new design, and (ii) we discontinued certain such products to optimize the product mix.

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### *Revenue by sales channel*

The table below sets forth our revenue by sales channel for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
<b>Offline channels</b> .....	3,133,928	92.6	3,738,582	90.7	4,246,420	88.5
<b>Online channels</b> .....	250,838	7.4	381,775	9.3	553,780	11.5
– Online distribution .....	144,034	4.2	230,677	5.6	302,289	6.3
– Online direct sales .....	106,804	3.2	151,098	3.7	251,491	5.2
<b>Total</b> .....	<b>3,384,766</b>	<b>100.0</b>	<b>4,120,357</b>	<b>100.0</b>	<b>4,800,200</b>	<b>100.0</b>

During the Track Record Period, we generated revenue from offline channels and online channels (including online distribution and online direct sales). Our revenue from offline channels contributed a significant portion of our total revenue, and revenue from this sales channel continued to increase during the Track Record Period. Our revenue from offline distributors was partially offset by volume discounts and the co-advertising allowance paid to our offline distributors. Our volume discounts were mainly determined by the purchase amount of our distributors and our discount policy adjusted according to the market condition and product type. Our co-advertising allowance was mainly determined by the fulfillment progress of the advertising targets and the marketing expenses incurred by our distributors. See note 2.23 in the Accountant’s report in Appendix I to this [REDACTED]. On the other hand, our revenue generated from online channels increased by 52.2% from 2019 to 2020, and compared to our offline distributors, such online sales channels grew at a faster pace in 2020 due to our increased efforts to develop our online direct sales channel and the accelerated adaptation to online shopping by consumers during the COVID-19 pandemic. Our revenue generated from online channels increased by 45.1% from 2020 to 2021, among which our revenue generated from online direct sales increased by 66.4% from RMB151.1 million in 2020 to RMB251.5 million in 2021, and our revenue generated from online distribution increased by 31.0% from RMB230.7 million in 2020 to RMB302.3 million in 2021, primarily due to a growth in both online direct sales and online distribution resulting from our increasing online advertising activities and cooperation with new e-commerce platforms in 2021. Our revenue generated from online direct sales grew at a faster pace in 2021 as compared to online distribution, primarily due to an increase in products directly sold to consumers through our self-operated online stores as a result of (i) our increased advertising and promotion efforts on our self-operated online stores, and (ii) our cooperation with new e-commerce platforms such as Douyin and Kuaishou in 2021.



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### *Revenue by geographic location*

The table below sets forth a breakdown of revenue contribution as a percentage of our total revenue from offline distributors by geographic location of the offline distributor’s registered office during the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB’000	%	RMB’000	%	RMB’000	%
Eastern China .....	643,417	20.6	771,855	20.7	900,102	21.2
Central China .....	622,002	19.8	733,724	19.6	867,891	20.4
Northern China .....	594,036	19.0	630,655	16.9	690,145	16.3
Southern China .....	509,064	16.2	637,186	17.0	708,449	16.7
Southwestern China .....	389,107	12.4	475,410	12.7	508,582	12.0
Northwestern China .....	376,302	12.0	489,752	13.1	551,455	12.9
Overseas <sup>(1)</sup> .....	—	—	—	—	19,796	0.5
<b>Total</b> .....	<b>3,133,928</b>	<b>100.0</b>	<b>3,738,582</b>	<b>100.0</b>	<b>4,246,420</b>	<b>100.0</b>

(1) Revenue contributed overseas is from offline distributors registered overseas.

During the Track Record Period, we generated relatively balanced revenue from offline distributors in different geographic areas in China. The geographic distribution of our domestic revenue is generally in line with the economic development and population of different regions in China.

### **Cost of Sales of Goods**

Our cost of sales of goods primarily consists of (i) raw materials, mainly raw materials for our production, such as soybean oil, flour and konjac; (ii) packaging materials, mainly including cardboard boxes and packaging bags; (iii) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to our manufactory staff; (iv) cost for purchasing OEM products, mainly the cost for purchasing finished products from OEM suppliers to diversify our product mix and supplement our production capacity; and (v) manufacturing overheads, which represent utilities, depreciation and amortization, and repairs and maintenance relating to our production.

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The table below sets forth a breakdown of the components of our cost of sales of goods and as percentages of our total revenue for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Raw materials .....	1,008,995	29.8	1,145,423	27.8	1,429,420	29.8
Packaging materials .....	496,801	14.7	557,517	13.5	673,915	14.0
Employee benefit expenses .....	283,290	8.4	358,489	8.7	348,053	7.2
Cost for purchasing OEM products .....	195,307	5.8	302,574	7.3	312,115	6.5
Manufacturing overheads .....	99,086	2.9	138,587	3.4	191,394	4.0
Tax surcharges and others .....	46,984	1.3	52,102	1.3	52,272	1.1
<b>Total .....</b>	<b>2,130,463</b>	<b>62.9</b>	<b>2,554,692</b>	<b>62.0</b>	<b>3,007,169</b>	<b>62.6</b>

### Gross Profit

The table below sets forth a breakdown of our gross profit and gross margin by product category for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Seasoned flour products .....	920,009	37.2	1,012,162	37.6	1,046,962	35.9
Vegetable products .....	247,574	37.2	458,302	39.3	663,403	39.9
Bean-based and other products .....	86,720	35.4	95,201	36.3	82,666	37.9
<b>Total .....</b>	<b>1,254,303</b>	<b>37.1</b>	<b>1,565,665</b>	<b>38.0</b>	<b>1,793,031</b>	<b>37.4</b>

Our total gross profit showed an increasing trend during the Track Record Period as the result of the continuous increase in gross profit from vegetable products and seasoned flour products. Gross profit from our vegetable products increased by 85.1% from RMB247.6 million in 2019 to RMB458.3 million in 2020, primarily due to an increase in the sales volume and changes of product mix of such products, as driven by the increasing market demand. Gross profit from our vegetable products increased by 44.8% from RMB458.3 million in 2020 to RMB663.4 million in 2021, primarily due to (i) an increase in the sales volume; (ii) a decrease in employee benefit expenses relating to our manufactory staff as a result of the improvement of production process and automation of Luohe Weidao Plant in 2021; and (iii) the decrease in the purchase price of packaging materials of such products. Gross profit from our seasoned flour products increased by 10.0% from RMB920.0 million in 2019 to RMB1,012.2 million in 2020 and further increased by 3.4% to RMB1,047.0 million in 2021, primarily due to the increased revenue from such products.

### Distribution and Selling Expenses

Our distribution and selling expenses are primarily related to the enhancement of our offline and online sales and distribution network. Our distribution and selling expenses primarily consist of (i) transportation expenses, primarily representing transportation expenses relating to the transportation of our finished products to

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our customers; (ii) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to marketing staff; and (iii) promotion and advertising expenses relating to both online and offline advertising activities, mainly including online platform promotion expenses.

The table below sets forth a breakdown of the components of our distribution and selling expenses and as percentages of our total revenue for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Transportation expenses .....	127,084	3.8	148,224	3.6	164,927	3.4
Employee benefit expenses .....	93,479	2.8	135,094	3.3	220,478	4.6
Promotion and advertising expenses .....	30,820	0.9	46,658	1.1	78,679	1.6
Other distribution and selling expenses <sup>(1)</sup> .....	29,882	0.8	40,999	1.0	56,529	1.2
<b>Total</b> .....	<b>281,265</b>	<b>8.3</b>	<b>370,975</b>	<b>9.0</b>	<b>520,613</b>	<b>10.8</b>

(1) Other distribution and selling expenses primarily include travelling expenses and office expenses.

### Administrative Expenses

Our administrative expenses primarily consist of (i) employee benefit expenses (including salaries, bonuses, pension cost, other social insurance costs and housing benefits) relating to administrative staff; (ii) office and travel expenses, which represent expenses incurred for office use and business travel of our staff; (iii) depreciation and amortization, relating to our office buildings and equipment; (iv) research and development expenses, primarily representing expenses incurred for our internal research and development activities and expenses to third-party companies which collaborate with us in research and development activities; and [REDACTED] expenses.

The table below sets forth a breakdown of the components of our administrative expenses and as percentages of our total revenue for the periods indicated:

	Year ended December 31,					
	2019		2020		2021	
	RMB'000	% of total revenue	RMB'000	% of total revenue	(RMB'000)	% of total revenue
Employee benefit expenses .....	87,895	2.6	131,128	3.2	218,467	4.6
Office and travel expenses .....	11,868	0.4	18,572	0.5	25,903	0.5
Depreciation and amortization .....	11,467	0.3	15,422	0.4	34,918	0.7
Research and development expenses .....	573	0.0	3,376	0.1	5,497	0.1
[REDACTED] expenses <sup>(1)</sup> .....	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other administrative expenses <sup>(2)</sup> .....	25,496	0.8	30,141	0.7	43,823	1.0
<b>Total</b> .....	<b>138,204</b>	<b>4.1</b>	<b>201,096</b>	<b>4.9</b>	<b>359,110</b>	<b>7.5</b>

(1) [REDACTED] expenses in 2019 mainly represent the fee paid to auditor. [REDACTED] expenses in 2020 and 2021 mainly represent fees paid to auditor, lawyers and the specialists for internal control.

(2) Other administrative expenses primarily include professional fees and expenses for repairs and maintenance and utilities.

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### Other Income, Net

Our other income primarily consist of (i) government grants from government authorities as rewards for our contribution to the local economic growth; (ii) net sales of scraps and raw materials; and (iii) VAT reduction.

A significant portion of government grants received by our Company during the Track Record Period came from the Administration Committee of Luohe Economic and Technological Development Zone. These government grants mainly include subsidies as rewards to our contribution to the local economy, as well as our investment in production capacity expansion. Our Company has obtained approval documents issued by competent authorities or signed relevant agreements with competent authorities for the above-mentioned government grants. According to the confirmation and related policy documents issued by the relevant competent authority, our PRC Legal Advisors confirmed that the relevant competent authority had the requisite authority, and had obtained proper approvals, for providing the aforesaid government grants to us during the Track Record Period in all material aspects.

The following table sets out a breakdown of the major components of our other income for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
<b>Government grants</b>			
Related to income .....	24,706	46,145	130,988
Related to assets .....	426	3,260	3,525
<b>Sale of scraps and raw materials, net</b> .....	10,016	9,436	16,162
<b>VAT reduction</b> .....	—	—	1,991
<b>Total</b> .....	<b>35,148</b>	<b>58,841</b>	<b>152,666</b>

### Other (Losses)/Gains, net

Our other net other gains/losses primarily consist of (i) fair value gains on financial assets at fair value through profit or loss relating to the purchase of wealth management products and structured deposit; (ii) loss on disposal of property, plant and equipment; (iii) impairment of property, plant and equipment; (iv) net foreign exchange losses; and (v) donation.

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The following table sets out a breakdown of the major components of our other gains and losses for the periods indicated:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>
Fair value gains on financial assets at fair value through profit or loss .....	13,978	36,597	27,416
Loss on disposal of property, plant and equipment .....	(7,990)	(2,901)	(1,647)
Donation .....	(620)	(1,660)	(11,695)
Gain on disposal of a subsidiary .....	—	149	—
Loss on disposal of an investment accounted for using the equity method .....	—	(1,677)	—
Net foreign exchange losses .....	(3)	(279)	(6,148)
Impairment of property, plant and equipment .....	(5,717)	—	—
Net impairment loss on other non-current assets .....	(1,175)	—	(76)
Others .....	(217)	1,198	3,865
<b>Total</b> .....	<u><b>(1,744)</b></u>	<u><b>31,427</b></u>	<u><b>11,715</b></u>

### Finance Income and Finance Costs

Our finance income consists of interest from bank. Our finance costs consist of (i) interest expense on bank borrowings; (ii) finance cost on lease liabilities; and partially offset by (iii) borrowing costs capitalized in property, plant and equipment.

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>
<b>Finance income:</b>			
Interests from bank .....	107	481	24,782
<b>Finance costs:</b>			
Interest expense on bank borrowings .....	(3,591)	(9,070)	(9,730)
Finance cost on lease liabilities .....	(1,462)	(895)	(694)
less: borrowing costs capitalized in property, plant and equipment .....	1,838	4,180	4,888
<b>Finance costs</b> .....	<u><b>(3,215)</b></u>	<u><b>(5,785)</b></u>	<u><b>(5,536)</b></u>
<b>Finance income/(costs), net</b> .....	<u><b>(3,108)</b></u>	<u><b>(5,304)</b></u>	<u><b>19,246</b></u>

### Income Tax Expense

We incurred income tax expense of RMB208.4 million, RMB259.6 million and RMB269.9 million in 2019, 2020 and 2021, respectively, with an effective income tax rate of 24.1%, 24.1% and 24.6%, respectively. The statutory Enterprise Income Tax (“EIT”) rate for our businesses in China is 25%, while our subsidiaries, Lewei Seasoning Processing and Lewei Agricultural Foods Processing are partially exempted from tax under relevant Chinese laws and regulations as it is engaged in preliminary processing of agricultural products. Our effective income tax rates are mainly affected by, in addition to applicable EIT rates, among other things, tax-free profits of the companies under our Group which engaged in preliminary processing of agricultural products; and

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preferential conditions of additional deduction of income tax for research and development expenses applied to us. As of the Latest Practicable Date, we did not have any material disputes with tax authorities.

### RESULTS OF OPERATIONS

#### 2021 Compared to 2020

##### *Revenue*

Our revenue increased by 16.5% from RMB4,120.4 million in 2020 to RMB4,800.2 million in 2021, primarily due to (i) the increase in the demand for vegetable products and seasoned flour products, and (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 584 as of December 31, 2020 to 623 as of December 31, 2021 and the number of retail points of sale in China that our distributors’ sales network covered increased from approximately 570,000 as of December 31, 2020 to approximately 690,000 as of December 31, 2021. See “Business – Our Sales Channels – Offline Channels.”.

##### *Seasoned flour products*

Revenue from seasoned flour products increased by 8.5% from RMB2,690.3 million in 2020 to RMB2,918.0 million in 2021, primarily due to an increase of the sales volume of our seasoned flour products with relatively stable average selling price. The sales volume increased by 7.8% from 179,511.4 tons in 2020 to 193,598.6 tons in 2021, primarily due to (i) increasing market demand as a result of greater brand recognition among consumers; and (ii) our expansion of distribution network.

##### *Vegetable products*

Revenue from vegetable products increased by 42.5% from RMB1,167.5 million in 2020 to RMB1,664.1 million in 2021, primarily due to an increase in the sales volume of our vegetable products. The sales volume increased by 46.0% from 41,585.4 tons in 2020 to 60,699.3 tons in 2021, primarily due to (i) an increase in the market demand for such products; (ii) our expansion of distribution network and a further increase of the distribution coverage of such products; and (iii) a continuous increase in the production capacity for the vegetable products with the designed production capacity for vegetable products increased from 45,936.0 tons in 2020 to 79,992.0 tons in 2021. The average selling price per kg decreased by 2.5% from RMB28.1 in 2020 to RMB27.4 in 2021, mainly because we carried out promotion activities for our main vegetable products to seize more market and maintain our product competitiveness.

##### *Bean-based and other products*

Revenue from bean-based and other products decreased by 16.9% from RMB262.5 million in 2020 to RMB218.1 million in 2021, primarily due to a decrease in the sales volume of our bean-based and other products. The sales volume decreased from 10,161.0 tons in 2020 to 7,212.7 tons in 2021, primarily because (i) we adopted a new packaging design for our bean-based products, and it took time for consumers to become familiar with our new design; and (ii) we discontinued certain such products to optimize the product mix. The average selling price of our bean-based and other products increased from RMB25.8 per kg to RMB30.2 per kg mainly due to the increase in sales of products with higher selling prices, such as products in gift boxes.

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### *Cost of sales of goods*

Our cost of sales of goods increased by 17.7% from RMB2,554.7 million in 2020 to RMB3,007.2 million in 2021, primarily due to the increases in cost of raw materials and packaging materials, which was generally in line with the growth of our revenue. The increases in our cost of raw materials and packaging materials were mainly attributable to (i) an increase in the purchase price of certain raw materials of our products; and (ii) increases in the consumption of raw materials and packaging materials as a result of an increase of total production volume.

### *Gross profit and gross margin*

Our gross profit increased by 14.5% from RMB1,565.7 million in 2020 to RMB1,793.0 million in 2021, mainly due to the increase in our revenue. Our gross profit margin remained relatively stable at 38.0% in 2020 and 37.4% in 2021.

- Gross profit from seasoned flour products increased by 3.4% from RMB1,012.2 million in 2020 to RMB1,047.0 million in 2021, mainly due to the increased revenue from such products, while the gross margin from seasoned flour products decreased from 37.6% in 2020 to 35.9% in 2021, mainly due to the increase in the price and procurement cost of soybean oil, one of the major raw materials for producing our seasoned flour products.
- Gross profit from vegetable products increased by 44.8% from RMB458.3 million in 2020 to RMB663.4 million in 2021, mainly due to (i) an increase in the sales volume; and (ii) an increase of our gross margin from vegetable products from 39.3% in 2020 to 39.9% in 2021, which was primarily due to a decrease in employee benefit expenses relating to our manufactory staff as a result of the improvement of production process and automation of Luohe Weidao Plant in 2021, and the decrease in the purchase price of packaging materials of such products, partially offset by a decrease in the selling price of such products from 2020 to 2021.
- Gross profit from bean-based and other products decreased by 13.2% from RMB95.2 million in 2020 to RMB82.7 million in 2021, mainly due to the decrease in the revenue of such products. Gross margin from bean-based and other products increased from 36.3% in 2020 to 37.9% in 2021, mainly due to the increase in the sales of products of higher gross margin under this category, such as products in gift boxes.

### *Distribution and selling expenses*

Our distribution and selling expenses increased by 40.3% from RMB371.0 million in 2020 to RMB520.6 million in 2021, mainly due to (i) an increase in the employee benefit expenses from RMB135.1 million in 2020 to RMB220.5 million (including share-based payment of approximately RMB9.5 million) in 2021, primarily due to an increase in the bonuses of our sales staff as performance incentives; (ii) an increase in promotion and advertising expenses from RMB46.7 million in 2020 to RMB78.7 million in 2021 as a result of an increase in online promotion and advertising expenses primarily incurred in connection with our online advertising activities, such as live streaming, carried out on e-commerce platforms as well as other online media platforms;

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and (iii) an increase in the transportation expenses, which generally in line with the increase of sales volume of our products from 2020 to 2021.

### *Administrative expenses*

Our administrative expenses increased by 78.6% from RMB201.1 million in 2020 to RMB359.1 million in 2021, mainly due to (i) an increase in employee benefit expenses from RMB131.1 million to RMB218.5 million (including share-based payment of approximately RMB41.0 million) primarily due to an increase in the number and average salaries of administrative staff to support our business growth; and (ii) the incur of [REDACTED] expenses in 2021 in relation to the [REDACTED].

### *Other income, net*

Our other net income increased significantly from RMB58.8 million in 2020 to RMB152.7 million in 2021, primarily due to an increase in government subsidy as a reward to our contribution to local economic growth.

### *Other gains, net*

Our net other gains decreased by 62.7% from RMB31.4 million in 2020 to RMB11.7 million in 2021, primarily due to (i) an increase in our donation to support the disaster relief works related to the flood in Henan in 2021; (ii) a decrease in fair value gains on financial assets at fair value through profit or loss as a result of a decrease in our purchase of wealth management products; and (iii) an increase in net foreign exchange losses.

### *Finance income and finance costs*

We recorded a net finance income of RMB19.2 million in 2021, and we recorded a net finance cost of RMB5.3 million in 2020. The change was primarily due to the increase in our interest from bank in 2021 as a result of our increased term deposits with initial term over three months.

### *Income tax expense*

Our income tax expenses increased from RMB259.6 million in 2020 to RMB269.9 million in 2021, primarily due to an increase of our taxable income in 2021.

### *Profit for the year*

As a result of the foregoing, our profit for the year was RMB818.8 million in 2020 and RMB826.7 million in 2021, respectively, which remained relatively stable. Our net profit margin for the year decreased from 19.9% in 2020 to 17.2% in 2021, primarily due to (i) the increase in the purchase price of certain main raw materials; (ii) the increase in our operating costs including distribution and selling expenses, primarily attributable to the increase in bonuses of our sales staff and advertising expenses, and administrative expenses, primarily attributable to the increase in the number and average salaries of administrative staff and the [REDACTED] expenses in 2021.



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### 2020 Compared to 2019

#### *Revenue*

Our revenue increased by 21.7% from RMB3,384.8 million in 2019 to RMB4,120.4 million in 2020, primarily due to (i) the strong demand for our seasoned flour products and vegetable products, and (ii) our expansion of distribution network with the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020.

#### *Seasoned flour products*

Revenue from seasoned flour products increased by 8.7% from RMB2,474.6 million in 2019 to RMB2,690.3 million in 2020, primarily due to (i) an increase of the sales volume of our seasoned flour products in 2020; and (ii) an increase of the average selling price of such products. The sales volume increased slightly from 173,296.0 tons in 2019 to 179,511.4 tons in 2020, primarily due to (i) increasing market demand as a result of greater brand recognition among consumers; and (ii) an expanded coverage of our distribution network. See “Business – Our Sales Channels – Offline Channels.” The average selling price per kg increased by 4.9% from RMB14.3 in 2019 to RMB15.0 in 2020 primarily because we selectively increased the selling price of certain seasoned flour products.

#### *Vegetable products*

Revenue from vegetable products increased by 75.6% from RMB665.0 million in 2019 to RMB1,167.5 million in 2020, primarily due to (i) an increase in the sales volume; and (ii) an increase in the average selling price of such products. The sales volume increased by 72.3% from 24,130.1 tons in 2019 to 41,585.4 tons in 2020, primarily due to (i) an increase in the market demand for such products, especially a continuous increase in the popularity of *Fengchi Kelp* among consumers; (ii) an increase in our production capacity of our vegetable products in 2020 with our total designed capacity growing by 21,180 tons from 2019 to 2020; (iii) our expansion of distribution network and an increase of the distribution coverage of such products; and (iv) our launch of vegetable products in new package sizes. The average selling price per kg increased by 1.8% from RMB27.6 in 2019 to RMB28.1 in 2020, due to changes in the product mix within this product category. Such changes in the product mix mainly represent increased sales of certain vegetable products with higher average selling prices per kg.

#### *Bean-based and other products*

Revenue from bean-based and other products increased by 7.1% from RMB245.2 million in 2019 to RMB262.5 million in 2020, primarily due to a 19.4% increase in the average selling price per kg of such products from RMB21.6 in 2019 to RMB25.8 in 2020. This is mainly due to changes of the product mix of other products and an increase of the selling price of certain bean-based products such as our Doupi products in certain package sizes. The sales volume of bean-based and other products decreased by 10.7% from 11,377.9 tons in 2019 to 10,161.0 tons in 2020 as a result of the optimization of the product mix of such products. We discontinued some production lines of certain bean-based and other products such as Tofu Skin and Dougan in 2020.

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### *Cost of sales of goods*

Our cost of sales of goods increased by 19.9% from RMB2,130.5 million in 2019 to RMB2,554.7 million in 2020, primarily due to (i) increases in the consumption of raw materials and packaging materials as a result of an increase of total production volume, which was partially offset by the decrease in the purchase price of packaging materials; and (ii) an increase in the employee benefit expenses primarily due to an increase in the number of our staff for newly established production lines and increased salaries of workers at our production lines to help overcome the difficulties caused by the COVID-19 pandemic.

### *Gross profit and gross margin*

Our gross profit increased by 24.8% from RMB1,254.3 million in 2019 to RMB1,565.7 million in 2020, mainly due to the increase in our revenue. Our gross profit margin increased from 37.1% in 2019 to 38.0% in 2020, mainly due to the increased selling prices of seasoned flour products and changes in the product mix.

- Gross profit from seasoned flour products increased by 10.0% from RMB920.0 million in 2019 to RMB1,012.2 million in 2020, primarily due to increased revenue from such products. Gross margin from seasoned flour products increased from 37.2% in 2019 to 37.6% in 2020, primarily because we selectively increased the selling prices of certain products.
- Gross profit from vegetable products increased by 85.1% from RMB247.6 million in 2019 to RMB458.3 million in 2020, primarily due to the substantial increase in the revenue from such products. Gross margin from vegetable products increased from 37.2% in 2019 to 39.3% in 2020, primarily due to changes in the product mix.
- Gross profit from bean-based and other products increased by 9.8% from RMB86.7 million in 2019 to RMB95.2 million in 2020, primarily due to an increase in the revenue from such products. Gross margin from bean-based and other products increased from 35.4% in 2019 to 36.3% in 2020, primarily due to changes of the product mix of our other products and an increase of the selling prices of certain bean-based products in 2020.

### *Distribution and selling expenses*

Our distribution and selling expenses increased by 31.9% from RMB281.3 million in 2019 to RMB371.0 million in 2020, which is primarily due to (i) an increase in the employee benefit expenses relating to the continuous expansion of our sales team in 2020; (ii) an increase in the transportation expenses, which is generally in line with the increase of sales volume of our products from 2019 to 2020; and (iii) an increase in promotion and advertising expenses as a result of continued increase in online promotion fees paid to e-commerce platforms such as Tmall, JD.com to promote our products and our brands.

### *Administrative expenses*

Our administrative expenses increased by 45.5% from RMB138.2 million in 2019 to RMB201.1 million in 2020, primarily due to an increase in the employee benefit expenses as a result of an increase in the number of our administrative staff to cater for the need of our business expansion.

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### *Other income, net*

Our other net income increased by 67.4% from RMB35.1 million in 2019 to RMB58.8 million in 2020. Such increase mainly represents government subsidy as a reward to our contribution to local economy and job creation.

### *Other gains/(losses), net*

We recorded net other losses of RMB1.7 million in 2019, and we recorded net other gains of RMB31.4 million in 2020, primarily due to an increase in the fair value of wealth management products and structured deposits as a result of our cash management activities.

### *Finance income and finance costs*

Our finance costs increased by 79.9% from RMB3.2 million in 2019 to RMB5.8 million in 2020, primarily due to an increase in interest expense on bank borrowings mainly relating to upgrades of our equipment, partially offset by an increase in borrowing costs capitalized in property, plant and equipment relating to our construction of new production line in Weidao Plant in 2020. Our finance income increased significantly from RMB0.1 million in 2019 to RMB0.5 million in 2020, primarily due an increase in interests from bank as a result of an increase of our cash in bank.

### *Income tax expense*

Our income tax expenses increased by 24.5% from RMB208.4 million in 2019 to RMB259.6 million in 2020, primarily due to an increase of our taxable income in 2019 and 2020.

### *Profit for the year*

As a result of the foregoing, our profit for the year increased by 24.4% from RMB658.1 million in 2019 to RMB818.8 million in 2020. Our net profit margin for the year increased from 19.4% in 2019 to 19.9% in 2020, primarily due to increased selling prices of certain products and enhancement in product mix.

## LIQUIDITY AND CAPITAL RESOURCES

### **Cash Flow**

We have historically funded our cash requirements principally from cash generated from operations, and to a lesser extent, borrowings.

We had cash and cash equivalents of RMB89.0 million, RMB161.7 million, and RMB494.3 million as of December 31, 2019, 2020 and 2021, respectively. Going forward, we believe that our liquidity requirements will be satisfied by using a combination of cash generated from operating activities, borrowings under our banking facilities from time to time and the net [REDACTED] received from the [REDACTED].

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Taking into account the financial resources available to us including our cash and cash equivalents on hand, and the estimated net [REDACTED] from the [REDACTED], our Directors are of the view that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this document.

The following table sets out our cash flows for the periods indicated:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>(RMB'000)</u>	<u>(RMB'000)</u>	<u>(RMB'000)</u>
Net cash generated from operating activities .....	750,005	706,401	889,126
Net cash used in investing activities .....	(619,554)	(878,781)	(1,780,817)
Net cash (used in)/generated from financing activities .....	(217,693)	245,605	1,260,476
Net increase/(decrease) in cash and cash equivalents .....	(87,242)	73,225	368,785
Cash and cash equivalents at the beginning of the year .....	176,236	88,994	161,740
Effects of exchange rate changes on cash and cash equivalents .....	—	(479)	(36,250)
Cash and cash equivalents at the end of the year .....	88,994	161,740	494,275

### *Net Cash Generated from Operating Activities*

Net cash generated from operating activities primarily comprises our profit or loss before tax for the period adjusted by: (i) non-cash and non-operating items; and (ii) changes in working capital.

In 2021, our net cash generated from operating activities was RMB889.1 million, which was primarily attributable to profit before tax of RMB1,096.6 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB92.0 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB27.4 million, and negative movements in working capital of: (i) an increase in inventories of RMB63.2 million; (ii) an increase in trade, other receivables and prepayments of RMB55.7 million primarily due to an increase in input VAT recoverable; and (iii) an decrease in contract liabilities of RMB52.7 million; and such cash outflows were partially offset by an increase in trade and other payables of RMB118.3 million primarily relating to salary and welfare payables and deposits payables.

In 2020, our net cash generated from operating activities was RMB706.4 million, which was primarily attributable to profit before tax of RMB1,078.3 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB50.5 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB36.6 million, and negative movements in working capital of: (i) an increase in inventories of RMB150.0 million primarily due to our reserve of raw materials in anticipation of increased demand; (ii) an increase in trade, other receivables and prepayments of RMB127.3 million primarily due to an increase in prepayments for raw materials; and such cash outflows were partially offset by an increase in trade and other payables of RMB82.5 million, primarily relating to salary and welfare payables.

In 2019, our net cash generated from operating activities was RMB750.0 million, which was primarily attributable to our profit before tax of RMB866.5 million, as adjusted by non-cash items such as depreciation of property, plant and equipment of RMB38.2 million and non-operating items such as fair value gains on financial assets at fair value through profit or loss of RMB14.0 million, and positive movements in working capital of:

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(i) an increase in trade and other payables of RMB90.5 million, primarily relating to trade payables and salary and welfare payables; (ii) an increase in contract liabilities of RMB87.5 million, primarily because the customers ordered more products from us in December 2019 in anticipation of Chinese New Year in January 2020, whereas the Chinese New Year in 2019 was in February, and such cash inflows were partially offset by (i) an increase in inventories of RMB93.8 million primarily due to our increased inventory of raw materials in anticipation of growing demand for our products; and (ii) an increase in trade, other receivables and prepayments of RMB44.5 million related to prepayments for raw materials and an increase in input VAT recoverable.

### *Net Cash Used in Investing Activities*

In 2021, our net cash used in investing activities was RMB1,780.8 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB11,736.8 million, relating to our purchase of wealth management products and structured deposits; (ii) increase in our investment in term deposits with initial term over three months of RMB2,375.7 million; and (iii) payments for acquisition of property, plant and equipment of RMB377.3 million mainly relating to our Weidao Plant and Xinglin Plant. These cash outflows were partially offset by (i) redemption of financial assets at fair value through profit or loss of RMB11,854.4 million as most of wealth management products purchased by us are of short-term nature; and (ii) redemption of term deposits with initial term of over three months of RMB822.6 million.

In 2020, our net cash used in investing activities was RMB878.8 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB22,838.7 million, relating to our purchase of wealth management products and structured deposits; (ii) payments for acquisition of property, plant and equipment of RMB336.5 million mainly relating to our Weidao Plant and Xinglin Plant; and (iii) government grants received related to assets of RMB107.0 million, which mainly represent subsidies related to our investment in production capacity expansion, representing investment in Xinglin Plant as well as Weidao Plant. Our Xinglin Plant is expected to become fully operational by 2023 as disclosed in “Future Plans and Use of [REDACTED]”. The basic construction of our Luohe Weidao Plant was completed and is currently under further expansion. For details of our plants, see “Business – Our Production”. These cash outflows were partially offset by redemption of financial assets at fair value through profit or loss of RMB22,441.6 million as most of wealth management products purchased by us are of short-term nature.

In 2019, our net cash used in investing activities was RMB619.6 million, which was primarily attributable to (i) purchase of financial assets at fair value through profit or loss of RMB12,549.9 million, relating to our purchase of wealth management products and structured deposits; (ii) payments for acquisition of property, plant and equipment of RMB190.6 million relating to our newly constructed Weidao Plant and newly added Pingping production line and purchase of production equipment to improve their production capacity. These cash outflows were partially offset by redemption of financial assets at fair value through profit or loss of RMB12,105.3 million as most of wealth management products purchased by us are in short term.

### *Net Cash Generated from/(Used in) Financing Activities*

In 2021, our net cash generated from financing activities was RMB1,260.5 million, which was primarily attributable to the capital injection in connection with Pre-[REDACTED] Investment of RMB3,600.7 million, which was partially offset by (i) the repurchase of shares in connection with Pre-[REDACTED] Investments of RMB1,802.1 million; (ii) dividends paid of RMB596.0 million.

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In 2020, our net cash generated from financing activities was RMB245.6 million, which was primarily attributable to the proceeds from bank borrowings of RMB320.0 million, which was partially offset by the repayments of bank borrowings of RMB100.0 million.

In 2019, our net cash used in financing activities was RMB217.7 million, which was primarily attributable to dividends paid of RMB308.1 million and was partially offset by proceeds from bank borrowing of RMB100.0 million.

See “– Borrowings and Indebtedness.”

### KEY LINE ITEMS OF OUR CURRENT ASSETS AND LIABILITIES

The following table sets out our current assets and liabilities as of the dates indicated:

	As of December 31,			As of April 30,
	2019	2020	2021	2022
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
<b>Current assets</b>				
Trade, other receivables and prepayments	136,832	246,777	319,007	352,182
Inventories	399,930	541,026	604,255	517,334
Financial assets at fair value through profit or loss	458,564	842,289	802,103	1,413,683
Restricted cash	1,553	12,106	294	—
Term deposits with initial term of over three months	—	56,133	766,331	540,280
Cash and cash equivalents	88,994	161,740	494,275	486,904
<b>Total current assets</b>	<b>1,085,873</b>	<b>1,860,071</b>	<b>2,986,265</b>	<b>3,310,383</b>
<b>Current liabilities</b>				
Trade and other payables	401,388	462,114	593,855	547,328
Contract liabilities	189,837	233,251	180,583	259,897
Current income tax liabilities	49,333	72,848	77,417	28,276
Borrowings	137,720	393,366	396,112	795,816
Lease liabilities	8,501	6,372	7,545	5,925
<b>Total current liabilities</b>	<b>786,779</b>	<b>1,167,951</b>	<b>1,255,512</b>	<b>1,637,242</b>
<b>Net current assets</b>	<b>299,094</b>	<b>692,120</b>	<b>1,730,753</b>	<b>1,673,141</b>

Our net current assets increased from RMB299.1 million as of December 31, 2019 to RMB692.1 million as of December 31, 2020, primarily due to an increase in the financial assets at fair value through profit or loss. Our net current assets increased from RMB692.1 million as of December 31, 2020 to RMB1,730.8 million as of December 31, 2021, primarily due to an increase in our term deposits with initial term of over three months and an increase in our cash and cash equivalents. Our net current assets decreased from RMB1,730.8 million as of December 31, 2021 to RMB1,673.1 million as of April 30, 2022, primarily due to an increase in borrowings and a decrease in term deposits with initial term of over three months.

### Inventories

Our inventories mainly include raw materials and packaging materials, finished goods and semi-finished goods, with raw materials and finished goods being the largest components. As of December 31, 2019, 2020 and

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2021, our raw materials and packaging materials accounted for 88.3%, 90.8% and 87.6%, of our total inventories, respectively. Our raw material inventory mainly includes soybean oil, flour and konjac. In particular, as the supply of vegetable raw materials and seasonings are seasonal, we usually purchase these raw materials in advance from their key production region during their harvest season according to our scheduled production plans and expected customer demand. The following table sets out a breakdown of our inventories as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Raw materials and packing materials .....	353,195	491,252	529,538
Finished goods and goods in transit .....	39,283	43,727	69,467
Semi-finished goods .....	428	395	113
Low-value consumption goods .....	7,024	5,652	5,137
<b>Total</b> .....	<b>399,930</b>	<b>541,026</b>	<b>604,255</b>

Our inventories increased by 35.3% from RMB399.9 million as of December 31, 2019 to RMB541.0 million as of December 31, 2020, primarily due to our increased reserve of raw materials, primarily vegetable raw materials and seasonings to cater the growing market demand for our products.

Our inventories increased from 11.7% from RMB541.0 million as of December 31, 2020 to RMB604.3 million as of December 31, 2021, primarily attributable to (i) an increase in our reserve of raw materials and packing materials at the end of 2021 in response to the expected surge in price of certain raw materials at the end of 2021 as well as to mitigate the shortage risk of such raw materials and packing materials in anticipation of the resurgence of COVID-19 cases; (ii) an increase in the price and procurement cost of certain main raw materials of our products in 2021; and (iii) an increase in finished goods for sale in anticipation of the surging sales before the Chinese New Year in January 2022, whereas the Chinese New Year in 2021 was in February.

The table below sets forth the amount of our finished goods by product categories inventories as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(ton)		
Seasoned flour products .....	1,526	1,222	1,269
Vegetable products .....	510	1,121	1,410
Bean-based and other products .....	296	185	249

The following table sets out the number of our inventory turnover days and turnover days of certain types of inventories for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
Inventory turnover days <sup>(1)</sup> .....	60	67	70
– Finished goods and goods in transit inventory turnover days <sup>(2)</sup> .....	5	6	7
– Raw materials inventory turnover days <sup>(3)</sup> .....	54	60	62

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- (1) Our inventories mainly include raw materials and packaging materials, finished goods and semi-finished goods, with raw materials and finished goods being the largest components. Inventory turnover days for each period equals the average of the beginning and ending balances of inventory for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021.
- (2) Finished goods and goods in transit inventory turnover days for each period equals the average of the beginning and ending balances of finished goods and goods in transit for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021.
- (3) Raw materials inventory turnover days for each period equals the average of the beginning and ending balances of raw materials for that period divided by cost of sales for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021.

Our inventory turnover days increased from 60 days in 2019 to 67 days in 2020, primarily due to our reserve of vegetable raw materials in advance. Our inventory turnover days remained relatively stable at 70 days in 2021 compared with that of 2020.

As of April 30, 2022, RMB342.4 million, or 56.7%, of our inventories as of December 31, 2021 had been sold or used. Our inventories as of December 31, 2021 were mainly vegetable raw materials, majority of which were purchased in the fourth quarter of 2021 directly from their key production region to ensure stable supply for our production for surging sales before the Chinese New Year holiday in January 2022 as well as for production in the rest of the year of 2022 with a proportion of such purchase being used in the first quarter of 2022. See “Business – Raw Materials, Packaging Materials and Suppliers.”

### Trade, Other Receivables and Prepayments

The following table sets out a breakdown of our trade and other receivables:

	As of December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
<b>Trade receivables:</b>			
Receivables from third parties .....	18,615	40,744	56,552
Loss allowance .....	—	—	(429)
<b>Total trade receivables</b> .....	<b>18,615</b>	<b>40,744</b>	<b>56,123</b>
<b>Other receivables:</b>			
Deposits as guarantees to suppliers .....	4,464	4,953	11,234
Proceeds receivable from sale of property, plant and equipment .....	3,018	—	1,400
Loans to third parties .....	1,500	800	400
Loss allowance .....	(200)	(800)	(474)
Others .....	923	960	1,201
<b>Total other receivables</b> .....	<b>9,705</b>	<b>5,913</b>	<b>13,761</b>

### *Trade Receivables*

We generally require our offline distributors to make payments by cash before delivery. In line with the industry practices associated with online e-commerce platforms, we grant up to 90 days of credit terms to our online e-commerce platforms customers.



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Our trade receivables significantly increased from RMB18.6 million as of December 31, 2019 to RMB40.7 million as of December 31, 2020 and further increased to RMB56.1 million as of December 31, 2021, primarily due to an increase in product sales through online retailers including Tmall Supermarket and JD Supermarket to which we generally grant longer credit terms.

Our Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The expected loss rates are based on the payment profiles of sales and the corresponding historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. As at December 31, 2021, the expected loss rates of trade receivables ranged from 0.03% to 4.57%. We made a loss allowance of RMB0.4 million in 2021.

The following table sets forth an aging analysis of our trade receivables, based on invoice date, as of the dates indicated:

	As at December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Within 90 days .....	15,751	35,681	52,312
91-180 days .....	2,864	5,063	4,240
	18,615	40,744	56,552

As of December 31, 2019, 2020 and 2021, the ageing of our trade receivables was within 180 days respectively, among which bad debt losses were not material. Based on our previous experience with collection of trade receivables from and our close cooperation with such entities, we believe there is no recoverability issue for trade receivables as of December 31, 2021, primarily because (i) those outstanding balance were within the credit period granted to such entities; (ii) such entities enjoy good credit quality as they experienced rapid business and financial development during the past several years; and (iii) we have not had any debt collection issues with such entities.

The following table sets out the number of our average trade receivables turnover days for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
Average trade receivables turnover days <sup>(1)</sup>	1.8	2.6	3.7

(1) Trade and bills receivables turnover days for each period equals the average of the beginning and ending balances of trade and bills receivables for that period divided by revenue for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021.

During the Track Record Period, the average turnover days of trade receivables were well within the credit period granted to our customers. We saw a general increasing trend in the turnover days of our trade receivables during the Track Record Period, primarily due to our increased sales revenue from online channels with relatively longer terms of settlement according to distribution contracts.

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As of April 30, 2022, RMB52.0 million, or 91.9%, of our trade receivables as of December 31, 2021 had been subsequently settled.

### *Other Receivables*

Our other receivables primarily represent (i) deposits as a guarantee to suppliers, which mainly refer to deposits to certain e-commerce platforms relating to advertisement and promotion activities and staff dormitory rental deposit; and (ii) proceeds receivable from sale of property, plant and equipment relating to our sales of disused production equipment. Our other receivables decreased by 39.1% from RMB9.7 million as of December 31, 2019 to RMB5.9 million as of December 31, 2020, primarily because we did not record proceeds receivable from sale of property, plant and equipment in 2020. Our other receivables increased by 132.7% from RMB5.9 million as of December 31, 2020 to RMB13.8 million as of December 31, 2021, primarily due to (i) an increase in deposits to certain e-commerce platforms; and (ii) an increase of security deposits for purchase of lands.

### *Prepayments*

	As of December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Prepayments for raw materials .....	57,877	125,338	37,800
Prepayments for services .....	5,062	6,496	42,281
Input VAT recoverable .....	45,573	68,286	159,373
Prepayment for income tax .....	—	—	4,946
Prepayments for [REDACTED] expenses .....	—	—	[REDACTED]
<b>Total prepayments</b> .....	<b>108,512</b>	<b>200,120</b>	<b>249,123</b>

Our prepayments primarily represent prepayments for raw materials and input VAT recoverable, which represents the value added input tax in excess of the value added output tax, which can be deductible or recoverable in the future. Our prepayments increased by 84.4% from RMB108.5 million as of December 31, 2019 to RMB200.1 million as of December 31, 2020, primarily due to a significant increase in procurement for raw materials, primarily vegetable raw materials, to meet our increase demand for vegetable products in 2020. Our prepayments increased by 24.5% from RMB200.1 million as of December 31, 2020 to RMB249.1 million as of December 31, 2021, primarily due to (i) an increase in input VAT recoverable relating to our purchase of raw materials and equipments; and (ii) an increase in prepayments for consulting services provided by a third-party service provider.

### **Financial Assets at Fair Value through Profit or Loss**

Our financial assets at fair value through profit or loss primarily consist of wealth management products, structured deposits and investment in fund management products. We had RMB458.6 million in financial assets at fair value through profit or loss as of December 31, 2019, which increased by 94.6% to RMB892.3 million as of December 31, 2020, primarily representing our wealth management products and structured deposits by the end of 2020 reflecting our improved cash positions at the end of the year. Our financial assets at fair value

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through profit or loss decreased from RMB892.3 million as of December 31, 2020 to RMB802.1 million as of December 31, 2021, because we strategically decreased our investment in wealth management and structured deposits products in anticipation of a decrease in return rates of such products.

We began to regularly purchase short-term wealth management products in 2018 to improve the return on surplus cash balances and invested in structured deposits in 2019. In 2020, based on our cash flow and the downward trend of market interest rates, we have gradually adopted a wealth management investment strategy by combining long-term and short-term investment and selected wealth management products with higher yields to obtain higher investment returns, while safeguarding our fund liquidity at the same time. During the Track Record Period, we mainly purchased wealth management products and structured deposits issued by large state-owned joint-stock commercial banks. The wealth management products we purchased invest principally in low-to-medium risk and liquid fixed-income instruments that are quoted on the interbank market or exchanges in China, including, among others, treasury bonds, corporate bonds, medium-term notes, short-term commercial paper and interbank deposits. However, in general, neither the principal nor the returns of any wealth management product are protected or guaranteed by the issuing bank. We generally invest up to 90% of our cash balance, and the average maturity of the wealth management products and structured deposits we mainly purchased was within one year, with an actual average return rate between 1.15% and 4.40% in the Track Record Period.

The following table sets out the fair value balances of our wealth management products, structured deposits and investment in fund management products as of December 31, 2019, 2020 and 2021 and nature of these products such as estimated weighted average return rate.

	<u>Fair value as of December 31,</u>			<u>Product nature</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	
	<i>thousand</i>	<i>thousand</i>	<i>thousand</i>	
Wealth management product	303,240	586,497	454,882	The estimated weighted average return rate of these products is between 2.15% and 4.40% each year, and the maturity periods of the majority of our wealth management products were below one year. The return of these products was determined by reference to the return of their respective underlying investments.
Structured deposits	155,324	305,792	220,274	These products mainly consisted of principal protected money market products issued by domestic commercial banks. The estimated weighted average return rate of these products is 1.15% to 4.10% each year. The return of the structured deposits was determined by reference to the return of their respective underlying investments.
Investment in fund management products	—	—	126,947	The products consisted of bond funds products. The estimated return rates of the product was 2.25% per annum.

We invest in primarily bank-issued short-term wealth management products and structured deposits with a maturity up to one year. Our investment and risk management policies in relation to investment activities include:

- wealth management products shall be of low risk with reasonable returns and liquidity;

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- criteria for selecting wealth management products and structured deposits investment include our risk exposure, expected return and liquidity;
- we only choose to purchase low-risk products issued by banks, and try to select products issued by large state-owned joint-stock commercial banks;
- investments in wealth management products and structured deposits are subject to a multi-layered approval process involving our finance and accounting departments and senior management;
- approvals from our finance and accounting departments and senior management are required for each investment transaction; and
- upon the maturity dates of each investment, designated personnel at our finance department would be responsible for the redemption and disposition of the investments according to the relevant contracts.

Our wealth management product, structured deposits and investment in fund management products were categorized as level 3 as of December 31, 2019, 2020 and 2021. We have instituted internal policies on valuation methodologies, models and procedures for valuation of level 3 financial assets. The fair value of the level 3 “*Financial Assets at Fair Value through Profit or Loss*” was estimated using a discounted cash flow valuation model. The significant unobservable inputs are the expected yield rate. Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value and reconciliation of level 3 measurements are disclosed in note 3.3 of the Appendix I to this document.

Our finance department is responsible for performing the valuations, with focuses on methodologies, computation basis, benchmark yield rate of financial investment products of banks, key assumptions, qualifications and underlying rationales. When carrying out the valuation work, the finance department ensures the valuation methodologies adopted are appropriate as to the underlying financial instruments to reflect accurately the economic substance. Our finance department also performs risk assessments on (i) the effectiveness of its valuation models to enhance the reasonableness and reliability of such models periodically, and (ii) any material adjustments to existing valuation models or the implementation of any new valuation models. The finance department directly reports its valuation process and results to the chief financial officer of our Company, with various discussions being held to understand the computing basis and rationale.

Based on the above procedures, our Directors are satisfied with the valuation work for financial assets categorized within level 3 of fair value measurement in the historical financial information for the purpose of the preparation of the Accountant’s Report in Appendix I to this document.

Details of the fair value measurement of financial assets, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 3.3 of the Accountant’s Report in Appendix I to this document which was issued by the Reporting Accountant in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants’ Report on Historical Financial Information in Investment Circulars”

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issued by the Hong Kong Institute of Certified Public Accountants. The Reporting Accountant's opinion on the Historical Financial Information, as a whole, of the Group for the Track Record Period is set out on page I-2 of Appendix I to this document.

In relation to the valuation of the Group's level 3 financial assets, the Joint Sponsors have conducted, among others, the following independent due diligence work:

- (i) discussed with the management of the Company, in particular with the relevant personnel in charge of finance and business operations who are familiar with the valuation of the level 3 financial assets, to understand (a) the nature and details of the level 3 financial assets, and the procedures performed for such valuation, (b) the Group's internal policies and procedures regarding classification and valuation assessment of level 3 financial assets and (c) the key basis, methodologies and assumptions adopted by the Group for such independent valuation assessment;
- (ii) conducted expert due diligence interview with the Reporting Accountant and noted that (a) the Reporting Accountant is not aware of any material issue related to the valuation of the financial assets at fair value through profit or loss that cause the Reporting Accountant unable to issue an unmodified opinion on the Group's consolidated financial information for the Track Record Period as a whole; and (b) there was no disagreement between the Reporting Accountant and the management of the Company in relation to the classification, key basis, methodologies and assumptions for the valuation of level 3 financial assets; and
- (iii) reviewed relevant notes in the Accountant's Report and the relevant underlying agreements concerning the corresponding level 3 financial assets during the Track Record Period.

### **Term Deposits with Initial Term over Three Months**

Our term deposits with initial term over three months (non-current portion) were RMB110.0 million and RMB954.3 million as of December 31, 2020 and December 31, 2021, respectively. The increase in term deposits in 2021 was mainly because we strategically increased our investment in products with comparatively longer term and higher investment return as compared to wealth management products. All of our term deposits with initial term over three months (non-current portion) were denominated in Renminbi as of December 31, 2021, with its increase in December 31, 2021 mainly contributed by cash from redemption of financial assets at fair value through profit or loss and the cash generated from our operating activities in 2021. Our financial assets measured at fair value through profit and loss were investment in wealth management products, structured deposit and investment in fund management products.

In April 2018, the Guiding Opinions of the People's Bank of China, the China Banking and Insurance Regulatory Commission, the China Securities Regulatory Commission, and the State Administration of Foreign Exchange on Regulating the Asset Management Business of Financial Institutions, with the transition period extended to the end of 2021, was adopted to regulate the wealth management product market in China, increasing uncertainties to return rates of investment in wealth management products and the risks associated therewith. Therefore, after performing internal risk assessment process, we decided to shift a portion of cash from investment in financial assets at fair value through profit or loss to term deposits during the first half of 2021. As

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of December 31, 2021, we had term deposits with initial term over three months (non-current portion) of RMB954.3 million, of which the fixed interest rate ranged from 3.55% to 4.18% per annum. As a result, we believe term deposit is a suitable alternative to wealth management products considering its similar return rates and low-risk nature.

We expect to incur capital expenditure of approximately RMB997.6 million and RMB838.0 million in 2022 and 2023, respectively, mainly for the construction of productions plants and purchase of related production equipment, which would be primarily financed by cash generated from operating activities and proceeds from our pre-[REDACTED] financing. See “– Capital Expenditures and Capital Commitments”. As of December 31, 2021, we had cash and cash equivalents of RMB494.3 million and financial assets at fair value through profit or loss of RMB802.1 million. In any case, if there is a need for additional working capital under such expansion activities, according to relevant agreements, cash can be withdrawn before the prescribed maturity date, without suffering losses on its principals.

### Trade and Other Payables

The following table sets out a breakdown of our trade and other payables as of the dates indicated:

	As of December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
<b>Trade payables:</b>			
– Third parties .....	160,201	146,608	177,542
– Related parties .....	—	9,234	20,350
	160,201	155,842	197,892
<b>Other payables:</b>			
Salary and welfare payables .....	127,696	171,550	213,883
Amounts due to related parties .....	2,366	2,338	260
Deposits payables .....	23,107	23,158	53,667
Freight charges payables .....	24,707	25,099	22,169
Payables for purchase of property, plant and equipment .....	17,040	35,661	49,768
Tax payable .....	12,609	12,473	6,905
VAT payable related to contract liabilities .....	16,604	20,761	17,277
Utilities payables .....	6,435	6,068	9,234
Others .....	10,623	9,164	22,800
	<b>241,187</b>	<b>306,272</b>	<b>395,963</b>
	<b>401,388</b>	<b>462,114</b>	<b>593,855</b>

### Trade Payables

Our trade payables are primarily payables to our raw material suppliers and OEM suppliers. We purchased OEM products mainly for sales through online channels to expand consumer choices. See “Business – Our Suppliers.” Our trade payables decreased by 2.7% from RMB160.2 million as of December 31, 2019 to RMB155.8 million as of December 31, 2020, primarily due to (i) a decrease in the payables to our OEM suppliers relating to an increase in our production capacity in 2020; and (ii) a decrease in the payables to packaging materials suppliers due to the settlement at the end of the year. Our trade payables increased by 27.0% from RMB155.8

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million as of December 31, 2020 to RMB197.9 million as of December 31, 2021, primarily due to an increase in payables for purchasing raw materials and packaging materials to increase our reserves in response to the surge in price of certain raw materials at the end of 2021 as well as to mitigate the shortage risk of such raw materials and packing materials in anticipation of the resurgence of COVID-19 cases.

The following table sets out the number of our trade payables turnover days for the periods indicated:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
Trade payables turnover days <sup>(1)</sup> .....	24	23	21

(1) Trade payables turnover days for each period equals the average of the beginning and ending balances of trade payables for that period divided by cost of sales of goods for that period and multiplied by 365 for each of the three years ended December 31, 2019, 2020 and 2021.

We saw a general decreasing trend in the turnover days of our trade payables during the Track Record Period, primarily due to our improved payment efficiency and shorten payment process.

As of December 31, 2019, 2020 and 2021, we did not have trade payables aging more than 90 days. We did not have any material defaults in payment of trade payables during the Track Record Period. As of April 30, 2022, all of our trade payables as of December 31, 2021 had been subsequently settled.

***Other payables***

Our other payables primarily represent (i) salary and welfare payables including provisions related to social insurance and housing provident fund contributions, unpaid salaries and year-end awards; and (ii) deposits payables including deposits from distributors. Our other payables increased by 27.0% from RMB241.2 million as of December 31, 2019 to RMB306.3 million as of December 31, 2020, primarily due to an increase in salary and welfare payables as a result of an increase in the number of our employees and an increase in the salaries of our workers at production lines. Our other payables increased by 29.3% from RMB306.3 million as of December 31, 2020 to RMB396.0 million as of December 31, 2021, primarily attributable to (i) an increase in salary and welfare payables as a result of a provision made in relation to our social insurance fund contributions; (ii) an increase in deposits payables primarily referring to quality assurance money in relation to our newly built plants; and (iii) an increase in payables for property, plant and equipments for our newly built plants.

**Contract Liabilities**

Our contract liabilities are primarily advance payments from customers. Our contract liabilities increased by 22.9% to RMB233.3 million as of December 31, 2020, primarily due to an increase in the demand for our products from our distributors.

Our contract liabilities decreased by 22.6% from RMB233.3 million as of December 31, 2020 to RMB180.6 million as of December 31, 2021, primarily due to (i) an increase in products we delivered to distributors at the end of 2021 in anticipation of the Chinese New Year in January 2022, whereas the Chinese New Year in 2021 was in February; and (ii) an improved effectiveness of our products delivery process.

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### **BORROWINGS AND INDEBTEDNESS**

Our borrowings are RMB137.7 million, RMB393.4 million, and RMB460.1 million and RMB913.1 million as of December 31, 2019, 2020, 2021 and April 30, 2022. Our borrowings are primarily short-term secured bank loans which we obtain for the construction of plants and other operating needs.

Our borrowings increased significantly from RMB137.7 million in 2019 to RMB393.4 million in 2020, primarily due to a working capital loan of RMB200.0 million which we obtained from a Chinese commercial bank. See note 30 of the Appendix I of this document. Our borrowings increased from RMB393.4 million as of December 31, 2020 to RMB460.1 million as of December 31, 2021, primarily due to an non-current portion of secured borrowings from bank of RMB64.0 million as of December 31, 2021. As of April 30, 2022, being the indebtedness date for the purpose of the indebtedness statement, we had a total indebtedness of RMB924.9 million, including bank borrowings of RMB913.1 million, which were primarily guaranteed bank borrowings, with effective interest rates ranging from 2.16% to 3.97% per annum, and lease liabilities of RMB11.8 million. As of April 30, 2022, we had unutilized banking facilities of RMB82.7 million.

Our Directors confirm that, as of the Latest Practicable Date, there was no material covenant which would impact our ability to undertake additional debt financing. Our Directors further confirm that we did not experience any unusual difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date.

As of December 31, 2019, 2020 and 2021, our current and non-current lease liabilities were RMB25.8 million, RMB17.5 million and RMB14.7 million, respectively, primarily representing our outstanding payments mainly in respect of leases of equipment and certain properties from third parties.

Except as disclosed above, during the Track Record Period and up to April 30, 2022, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees.

### **CONTINGENT LIABILITIES**

We did not have any material contingent liabilities as of December 31, 2019, 2020 and 2021.



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### CAPITAL EXPENDITURES AND CAPITAL COMMITMENTS

#### Capital Expenditures

The following table sets out a breakdown of our capital expenditures for the periods indicated:

	Year ended December 31,		
	2019	2020	2021
	(RMB'000)	(RMB'000)	(RMB'000)
Payments for acquisition of property, plant and equipment .....	190,619	336,505	377,290
One-off payment made for purchase of right-of-use assets .....	—	113,346	—
Payment of intangible assets .....	387	281	15,198
<b>Total</b> .....	<b>191,006</b>	<b>450,132</b>	<b>392,488</b>

Our historical capital expenditures primarily consist of payments for acquisition of property, plant and equipment, one-off payment made for purchase of right-of-use assets and payment of intangible assets. We funded our capital expenditure requirements mainly from cash generated from operations.

We plan to fund our planned capital expenditures using cash generated from operations and the net [REDACTED] received from the [REDACTED]. We expect our capital expenditures to be approximately RMB[REDACTED] million and RMB[REDACTED] million in 2022 and 2023, respectively, which will mainly be used for construction of our Xinglin Plant and Yunnan Plant and purchase of related production equipment. See “Future Plans and Use of [REDACTED]”. We plan to support such capital expenditures with net [REDACTED] received from the [REDACTED], net cash generated from operating activities and interest-bearing borrowings.

#### Capital Commitments

As of December 31, 2019, 2020 and 2021, we had capital commitments for property, plant and equipment of RMB64.2 million, RMB58.5 million and RMB141.7 million, respectively.

We recognized right-of-use assets for leases, other than short-term and low-value leases, see note 18 in Appendix I of this document. As of December 31, 2019, 2020 and 2021, we had commitment about short-term lease and low-value lease of RMB4.6 million and RMB1.9 million and RMB1.9 million, respectively.

### OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of the Latest Practicable Date, we had not entered into any off-balance sheet arrangements.

### RELATED PARTY TRANSACTIONS

See note 35 of Appendix I to this document for more details about our related party transactions during the Track Record Period. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance. As of December 31, 2021, the balances of amounts due

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to the Controlling Shareholders, borrowings guaranteed by the Controlling Shareholders, borrowings from the companies controlled by the Controlling Shareholders during the Track Record Period, which were non-trade in nature, had been settled. The balances with other related parties as of December 31, 2019, 2020 and 2021 were trade in nature.

### KEY FINANCIAL RATIOS

The following table sets out our key financial ratios for the periods indicated:

	<u>Year ended/As of December 31,</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
Net profit margin <sup>(1)</sup> .....	19.4%	19.9%	17.2%
Adjusted net profit margin <sup>(2)</sup> .....	19.5%	19.9%	18.9%
Return on assets <sup>(3)</sup> .....	49.9%	35.7%	20.3%
Return on equity <sup>(4)</sup> .....	135.6%	66.9%	31.2%
Current ratio <sup>(5)</sup> .....	1.38	1.59	2.38
Quick ratio <sup>(6)</sup> .....	0.87	1.13	1.90
Gearing ratio <sup>(7)</sup> .....	16.9%	24.1%	12.5%

(1) Equals profit for the period divided by revenue and multiplied by 100%. See “– Description of Major Components of Our Results of Operations.”

(2) Equals adjusted net profit for the period as a non-IFRS measure divided by revenue and multiplied by 100%.

(3) Equals profit for the years ended December 31, 2019, 2020 and 2021 divided by the average of the beginning and ending balance of total assets for that period and multiplied by 100%.

(4) Equals profit for the years ended December 31, 2019, 2020 and 2021 divided by the average of the beginning and ending balance of total equity for that period and multiplied by 100%.

(5) Equals current assets divided by current liabilities as of the same date.

(6) Equals current assets less inventories and divided by current liabilities as of the same date.

(7) Equals total debt divided by total equity and multiplied by 100%.

### Return on Assets

The return on assets ratio decreased from 35.7% in 2020 to 20.3% in 2021, primarily due to an increase in total assets of RMB2,250.1 million in 2021 as a result of (i) an increase of RMB1,554.5 million in our term deposits with initial term of over three months (including current and non-current portions) and (ii) an increase of RMB300.9 million in our property, plant and equipment.

The return on assets ratio decreased from 49.9% in 2019 to 35.7% in 2020, primarily due to an increase in total assets of RMB1,296.6 million in 2020 as a result of an increase of RMB433.7 million in our total financial assets at fair value through profit or loss (including both current and non-current portions) and an increase of RMB292.4 million in property, plant and equipment.

### Return on Equity

The return on equity ratio decreased from 66.9% in 2020 to 31.2% in 2021, primarily due to increases in our retained earnings and other reserves from capital injection.

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The return on equity ratio decreased from 135.6% in 2019 to 66.9% in 2020, primarily due to an increase of our equity of RMB818.1 million due to an increase in our retained earnings related to our significant profit growth in 2020.

### **Current Ratio and Quick Ratio**

The current ratio increased from 1.59 as of December 31, 2020 to 2.38 as of December 31, 2021 and the quick ratio increased from 1.13 as of December 31, 2020 to 1.90 as of December 31, 2021, primarily due to an increase of RMB710.2 million in our term deposits with initial term of over three months (current portions), while our current liabilities increased by 7.5% in 2021.

The current ratio increased from 1.38 as of December 31, 2019 to 1.59 as of December 31, 2020 and the quick ratio increased from 0.87 as of December 31, 2019 to 1.13 as of December 31, 2020, primarily due to an increase of our current assets of 71.3% in 2020, mainly attributable to an increase of RMB383.7 million in our current financial assets at fair value through profit or loss in 2020, while our current liabilities increased by 48.4% in 2020.

### **Gearing Ratio**

The gearing ratio decreased from 24.1% as of December 31, 2020 to 12.5% as of December 31, 2021, primarily due to an increase in our retained earnings and other reserves from capital injection in 2021.

The gearing ratio increased from 16.9% as of December 31, 2019 to 24.1% as of December 31, 2020, primarily because we obtained a working capital loan of RMB200.0 million from a Chinese commercial bank.

## **FINANCIAL RISK DISCLOSURE**

We are exposed to a variety of financial risks, including market risk (interest rate, currency risk and other price risk), credit risk and liquidity risk.

### **Market Risk**

Market risk comprises two types of risks, which arise from recognized financial assets and liabilities not denominated in the functional currency (foreign exchange risk) and interest income/costs from cash and cash equivalents and borrowing as a result of changes in interest rates (interest rate risk). See note 3.1(a) of Appendix I to this document.

#### ***Foreign exchange risk***

Foreign exchange risk primarily arises from recognized assets and liabilities denominated in a currency other than the functional currency of the respective group entities. Our Group manages its foreign exchange risk by minimizing non-functional currency transactions.

Our Group mainly operates in China with most of the transaction settled in RMB. The functional currencies of the subsidiaries in mainland is RMB, while the functional currency of our Company and

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subsidiaries outside mainland of China is HKD or USD. Both the entities in and outside mainland of China have assets and liabilities like cash at bank and other major licensed payment institution, restricted cash, term deposits with initial term over three months are denominated in USD, and HKD. Foreign exchange risk arises from the fluctuation in exchange rate.

Our Group has continued to closely track and manage its exposure to fluctuation in foreign exchange rates confronted by the majority of our Group’s deposits denominated in foreign currencies during the Track Record Period. Our Group did not enter into any forward contract to manage its exposure to foreign exchange risk for the Track Record Period.

### ***Interest rate risk***

Our Group’s income and operating cash flows are substantially independent from changes in market interest rate. Borrowings carried at floating rates expose our Group to cash flow interest-rate risk, which is partially offset by cash held at variable rates, whereas borrowings carried at fixed rates expose our Group to fair value interest-rate risk.

### **Credit Risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to our Group. Our Group’s exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its operations.

Credit risk is managed on a group basis. The credit risk of our Group’s financial assets, which mainly comprise cash and cash equivalents, restricted cash, term deposits with initial term over three months, trade receivables, other receivables and financial assets at fair value through profit or loss, arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

All of our Group’s trade receivables and other receivables have no collateral.

Our Group assessed the credit quality of the counterparties by taking into account their financial position, credit history, forward looking information and other factors. Management also regularly reviews the recoverability of these receivables and follow up the disputes or amounts overdue, if any.

See note 3.1(b) of Appendix I to this document.

### **Liquidity Risk**

To manage the liquidity risk, our Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Company’s operation and mitigate the effects of fluctuations cash flows. Our Company expects to fund its future cash flow needs through internally generated cash flows from operations.

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The maturity analysis of borrowings that shows the remaining contractual maturities is disclosed in Note 30 of Appendix I to this document. Generally, there is no specific credit period granted by the suppliers but the related payables are normally expected to be settled within one year after receipt of goods or services.

See note 3.1(c) of Appendix I to this document.

### **DIVIDEND**

We paid dividends of RMB308.1 million, RMB1.4 million and RMB596.0 million, respectively, in 2019, 2020 and 2021.

We may distribute dividends by way of cash or by other means that our Board considers appropriate. Distribution of dividends is subject to the discretion of our Board and, if necessary, the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that our Board may deem relevant. Subject to applicable laws and regulations, our dividend policy is to distribute to our Shareholders no less than 25% of our distributable profits for any particular year after the [REDACTED]. We cannot assure you that we will be able to distribute dividends of the above amount or any amount, or at all, in any year. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future.

Any declaration and payment as well as the amount of dividend will be subject to our constitutional documents and the Cayman Companies Act. We are a holding company incorporated under the laws of the Cayman Islands. As a result, the payment and amount of any future dividend will depend on the availability of dividends received from our subsidiaries and other reserves lawfully available for distribution. Our shareholders in a general meeting may approve any declaration of dividends, which must not exceed the amount recommended by our Board. No dividend shall be declared or payable except out of our profits and reserves lawfully available for distribution.

### **DISTRIBUTABLE RESERVES**

As of December 31, 2021, our Company had a distributable reserve of RMB1.2 billion.

### **UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS**

The following is an illustrative statement of the unaudited [REDACTED] adjusted consolidated net tangible assets which has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the [REDACTED] as if it had taken place on December 31, 2021 and based on the consolidated net tangible assets attributable to the owners of our Company as at December 31, 2021 as shown in the Accountant's Report in Appendix I to this document, and adjusted as described below.

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This unaudited [REDACTED] adjusted consolidated net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position of our Group had the [REDACTED] been completed as at December 31, 2021 or at any future date.

	Audited consolidated net tangible assets attributable to the owners of our Company as of December 31, 2021	Estimated net [REDACTED] from the [REDACTED]	Unaudited [REDACTED] adjusted consolidated net tangible assets attributable to the owners of our Company as of December 31, 2021	Unaudited [REDACTED] adjusted consolidated net tangible assets per share
	Note 1 RMB'000	Note 2 RMB'000	RMB'000	Note 3 RMB
				Note 4 HK\$
Based on the [REDACTED] of HK\$[REDACTED] per share . . . .	[3,660,189]	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]
Based on the [REDACTED] of HK\$[REDACTED] per share . . . .	[3,660,189]	[REDACTED]	[REDACTED]	[REDACTED] [REDACTED]

- (1) The audited consolidated net tangible assets attributable to the owners of our Company as of December 31, 2021 is extracted from the Accountant's Report set forth in Appendix I to the document, which is based on the audited consolidated net assets attributable to the owners of our Company as of December 31, 2021 of RMB[3,669,929,000] with an adjustment for the intangible assets attributable to the owners of our Company as of December 31, 2021 of RMB[9,740,000].
- (2) The estimated net [REDACTED] from the [REDACTED] are based on the indicative [REDACTED] of HK\$[REDACTED] and HK\$[REDACTED] per share after deduction of the estimated [REDACTED] fees and other related expenses payable by our Company (excluding RMB[REDACTED] which had been charged to the consolidated statements of profit or loss up to December 31, 2021), and takes no account of any shares which may be issued upon the exercise of the [REDACTED].
- (3) The unaudited [REDACTED] adjusted consolidated net tangible assets per share are determined after the adjustments as described in note (2) above and on the basis that [REDACTED] shares are in issue, assuming the [REDACTED] had been completed on December 31, 2021 but takes no account of any shares which may fall to be issued upon the exercise of the [REDACTED].
- (4) For the purpose of this unaudited [REDACTED] adjusted consolidated net tangible assets, the balance stated in Renminbi is converted into Hong Kong dollars at a rate of HK\$1.00 to RMB[0.8551]. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
- (5) No adjustments have been made to the unaudited pro forma adjusted consolidated net tangible assets to reflect any trading results or other transactions of the Group entered into subsequent to December 31, 2021.

### [REDACTED] EXPENSE

[REDACTED] expenses represent professional fees, [REDACTED] commissions and other fees incurred in connection with the [REDACTED]. We expect to incur [REDACTED] expenses of approximately HK\$[REDACTED] million (based on the mid-point of the indicative [REDACTED] range and assuming the [REDACTED] is not exercised), of which approximately HK\$[REDACTED] million will be directly attributable to the issue of our Shares and therefore capitalized, and the remaining HK\$[REDACTED] million will be expensed in our consolidated statements

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of profit or loss. The [REDACTED] expense is expected to account for [REDACTED]% of gross [REDACTED] from the [REDACTED]. Our Directors do not expect such expenses to materially impact our results of operations in 2022.

The following table sets forth the breakdown of [REDACTED] expenses by nature.

<u>[REDACTED] fee breakdown</u>	<u>Total Amount</u>	
	(assuming the [REDACTED] is not exercised)	(assuming the [REDACTED] is fully exercised)
	(HKD in millions)	
[REDACTED] fees .....	[REDACTED]	[REDACTED]
Non-[REDACTED] fees .....	[REDACTED]	[REDACTED]
Professional fees .....	[REDACTED]	[REDACTED]
Non-professional fees .....	[REDACTED]	[REDACTED]

**DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES**

Our Directors confirm that, except as otherwise disclosed in this document, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.