

## INDUSTRY OVERVIEW

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### OVERVIEW OF CHINA’S SNACK FOOD INDUSTRY

Snack food refers to packaged foods that are usually consumed between meals or during leisure times. China is one of the largest snack food markets in the world. According to the Frost & Sullivan Report, the market size of China’s snack food industry in terms of retail sales value in 2021 was RMB825.1 billion, with a CAGR of 6.1% from 2016 to 2021. Driven by increasing disposable income, accelerating urbanization, diversifying consumption occasions, continuous upgrade of existing products and introduction of new products, and the improvement of retail channels, the market size of China’s snack food industry is expected to grow at a 6.8% CAGR from 2021 to 2026 to reach RMB1,147.2 billion in terms of retail sales value by 2026.

According to the Frost & Sullivan Report, the annual growth rate of China’s snack food industry in terms of retail sales value in 2020 slowed down to 1.9% due to the negative effects of the COVID-19 outbreak, and increased to 6.5% in 2021 due to the lessened effects of the COVID-19. Despite the Omicron variant of COVID-19 outbreak in early 2022, the industry is expected to continue to recover with pandemic impact gradually under control.

According to the Frost & Sullivan Report, snack food can be divided into 10 categories, namely (i) confectionery, chocolates and preserves; (ii) roasted seeds and nuts; (iii) crispy snack foods; (iv) bread, cakes and pastries; (v) biscuits; (vi) meat and aquatic animal snacks; (vii) seasoned flour products; (viii) vegetable snacks; (ix) dried tofu snacks; and (x) other snacks.

The table below sets forth the breakdown of retail sales value of China’s snack food industry from 2016 to 2026 by category:

	Retail Sales Value			CAGR	
	2016	2021	2026E	2016-2021	2021-2026E
	(RMB billion)	(RMB billion)	(RMB billion)		
Confectionery, chocolates and preserves	159.5	192.2	229.3	3.8%	3.6%
Roasted seeds and nuts	104.2	151.2	222.0	7.7%	8.0%
Crispy snack foods	67.3	94.1	133.3	6.9%	7.2%
Bread, cakes and pastries	68.2	88.8	121.8	5.4%	6.5%
Biscuits	63.5	82.3	110.5	5.3%	6.1%
Meat and aquatic animal snacks	61.4	85.2	122.3	6.8%	7.5%
Seasoned flour products	29.1	45.5	69.7	9.4%	8.9%
Vegetable snacks	14.6	28.6	62.6	14.4%	17.0%
Dried tofu snacks	12.8	18.2	25.7	7.3%	7.1%
Other snacks <sup>(1)</sup>	32.2	39.0	50.0	3.9%	5.1%
<b>Total</b>	<b>612.8</b>	<b>825.1</b>	<b>1,147.2</b>	<b>6.1%</b>	<b>6.8%</b>

(1) Other snacks include products such as jelly and eggs, among others.

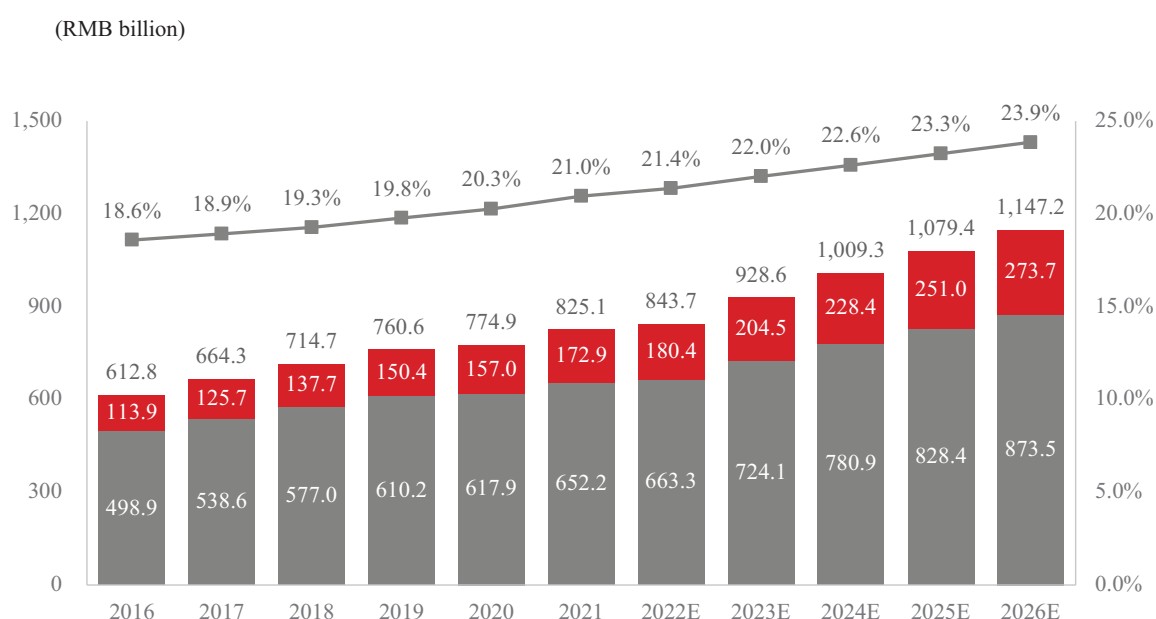
Source: National Bureau of Statistics, China National Food Industry Association, Frost & Sullivan Report

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According to the Frost & Sullivan Report, snack food can also be divided into two key segments by flavor: spicy snack food and non-spicy snack food. Spicy snack food refers to snack food whose raw materials contain one or several types of spices; non-spicy snack food refers to snack food whose raw materials do not contain any spices. The chart below sets forth the breakdown of retail sales value of China’s snack food industry from 2016 to 2021 by flavor:

**Retail sales value of China’s snack food industry by flavor**

CAGR	Total snack food	Spicy snack food	Non-spicy snack food	■ Spicy snack food
2016-2021	6.1%	8.7%	5.5%	■ Non-spicy snack food
2021-2026E	6.8%	9.6%	6.0%	■ Spicy snack food proportion



Source: Frost & Sullivan Report

### OVERVIEW OF CHINA’S SPICY SNACK FOOD INDUSTRY

Spicy flavor has a long history in China. According to the Frost & Sullivan Report, there is an increasing popularity of spicy snack food in China. Amid the development of spicy snack food industry in recent years, food producers have been developing new products to adapt to changing consumer preferences, which has been a growth driver of the spicy snack food industry. The retail sales value of China’s spicy snack food industry has increased from RMB113.9 billion in 2016 to RMB172.9 billion in 2021, representing a CAGR of 8.7%, which was higher than CAGR of the overall snack food industry in China during the same period. The percentage of spicy snack food in the China’s overall snack food industry in term of retail sales value has increased from 18.6% in 2016 to 21.0% in 2021. According to the Frost & Sullivan Report, retail sales value of China’s spicy snack food industry is expected to grow at a CAGR of 9.6% from 2021 to 2026 and reach RMB273.7 billion by 2026, while China’s non-spicy snack food industry is expected to grow at a CAGR of 6.0% during the same period.

According to the Frost & Sullivan Report, spicy snack food consist of the following categories: (i) spicy meat and aquatic animal snacks, (ii) seasoned flour products, (iii) spicy vegetable snacks, (iv) spicy crispy snack

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foods, (v) spicy roasted seeds and nuts, (vi) spicy dried tofu snacks and (vii) other spicy snacks. Each of the seven categories above is a sub-category of its corresponding broader snack foods counterpart. Most spicy sub-categories enjoy a higher growth rate compared to their respective snack food category. The table below sets forth the breakdown of retail sales value of China’s spicy snack food industry from 2016 to 2026 by category:

	Retail Sales Value			CAGR	
	2016	2021	2026E	2016-2021	2021-2026E
	(RMB billion)	(RMB billion)	(RMB billion)		
Spicy meat and aquatic animal snacks .....	33.9	47.6	69.2	7.0%	7.8%
Seasoned flour products .....	29.1	45.5	69.7	9.4%	8.9%
Spicy vegetable snacks .....	13.3	26.5	58.7	14.8%	17.2%
Spicy crispy snack foods .....	14.4	20.4	29.3	7.2%	7.5%
Spicy roasted seeds and nuts .....	12.8	18.1	26.1	7.2%	7.6%
Spicy dried tofu snacks .....	6.3	9.2	13.5	7.9%	8.0%
Other spicy snacks .....	4.1	5.6	7.2	6.4%	5.2%
<b>Spicy snack food total .....</b>	<b>113.9</b>	<b>172.9</b>	<b>273.7</b>	<b>8.7%</b>	<b>9.6%</b>

Source: Frost & Sullivan Report

Seasoned flour product is a popular authentic Chinese gourmet. According to Frost & Sullivan, in recent years, the popularity of seasoned flour products among young consumers has further increased. According to a survey by Frost & Sullivan, seasoned flour products have become one of the favorite snack foods among young consumers. In terms of retail sales value, the market size of China’s seasoned flour products in 2021 was RMB45.5 billion, realizing a CAGR of 9.4% from 2016 to 2021, and is expected to grow at a CAGR of 8.9% to reach RMB69.7 billion by 2026.

Vegetable snacks refer to snack food made of vegetables including kelp, konjac, seaweed, lotus root chips and other vegetables, while puffed vegetable chips are excluded from this category. Spicy vegetable snacks refer to snack food made of vegetables with one or several types of spices added. It was not until the late 1990s that packaged vegetable snacks were available. Nonetheless, benefiting from the exquisite flavor as well as healthy ingredients, spicy vegetable snacks are becoming more and more popular among Chinese consumers. The continuous launch of new products such as konjac and kelp further drove the growth of spicy vegetable snacks, making it the fastest growing category among overall spicy snack food industry in China. According to the Frost & Sullivan Report, the retail sales value of China’s spicy vegetable snacks market increased from RMB13.3 billion in 2016 to RMB26.5 billion in 2021, representing a CAGR of 14.8%, and is estimated to further reach RMB58.7 billion by 2026, representing a CAGR of 17.2% from 2021 to 2026.

Spicy dried tofu snacks refer to snack food made of beans with one or several types of spices added. Their raw materials include various kinds of beans, such as soybeans, peas and broad beans. Most dried tofu snacks are reprocessed products of tofu. Dried tofu has a long history of more than 2,000 years in the Chinese culinary tradition. Since the 1990s, packaged dried tofu snacks have become popular among Chinese consumers. According to the Frost & Sullivan Report, the retail sales value of China’s spicy dried tofu snacks market was RMB9.2 billion in 2021, and is estimated to reach RMB13.5 billion by 2026, representing a CAGR of 8.0% from 2021 to 2026.

### MARKET DRIVERS AND FUTURE TRENDS

***Economic Growth and Increasing Disposable Income.*** China’s per capita annual disposable income has grown to RMB35.1 thousand in 2021, and is expected to further increase to RMB51.1 thousand by 2026. Economic growth and the increase in per capita disposable income will significantly increase the purchasing power of consumers, thereby driving the growth of spicy snack food market.

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**Growing Consumer Base.** The consumption of spicy snack food provides consumers with a cheerful experience, bringing a sense of joy, satisfaction and comfort. As such, consumers across various age groups all enjoy spicy snack food, cultivating a growing consumer base for spicy snack food. In addition, interprovincial migration due to accelerating urbanization, as well as improvement of logistics infrastructure, have enabled the expansion of regional delicacies. Spicy food, which was primarily consumed in Hunan, Hubei, Sichuan, Chongqing, Guizhou and Jiangxi, are gradually becoming popular nationwide. The development of Internet, e-commerce and social media in China have also contributed to the prevalence of spicy snack food. For example, an increasing number of internet celebrities regard spicy snack food as an interesting element for their content. Events including food taste test on well-known social platforms, further accelerate the spread of spicy snack food among the public. In addition, a new industry standard for seasoned flour products has been promulgated and has come into effect since October 1, 2022. The new standard will significantly reduce the number of varieties of food additives and lower the content of salt and oil in seasoned flour products, and is expected to raise entry barriers to the players in the industry. Leading players with higher operating standards could benefit from the rising industry standard and gain more market share in the future.

**Diversified Consumption Occasions and Increasing Consumption Frequency.** Evolving consumption habits are key to the growth of China’s spicy snack food industry. Consumption of spicy food is no longer limited to meals, but has expanded to a variety of occasions, including leisure activities, entertainment, travel and office hours. The diversification of consumption occasions has increased the consumption frequency of spicy snack food, further boosting its market growth.

**Continuous Launch of New Products.** Leading spicy snack food producers in China continuously launch products with new flavors. At present, spicy snack food have expanded to new spicy flavors such as sweet spicy and sour spicy to meet the needs of a wider range of consumers, which in turn promotes the development of the industry. In addition, there are a number of potential segments emerging in the spicy snack food industry, such as kelp, konjac and other spicy vegetable snacks. Benefitting from their healthy attributes, exquisite texture, and continuous upgrade of existing products and introduction of new products, such products are highly appealing to consumers. Among them, konjac products are gaining popularity owing to its healthy attributes of high dietary fiber, low carbohydrate and low fat content. According to the Frost & Sullivan Report, in 2021, China’s per capita annual consumption of konjac was less than 0.1 kilogram, while Japan’s per capita annual consumption was around 2.0 kilograms, indicating significant growth potential for konjac products in China.

**Improvement of Sales Channels.** The accessibility of spicy snack food has been increased by the development of offline retail channels, including modern and traditional channels, especially the further penetration of the offline retail channels into lower-tier cities. Furthermore, online channels are growing rapidly owing to the rising online shopping demand from young consumers. The improvement of retail sales channels raises consumers’ consumption frequency, gradually releasing the market potential in lower-tier cities. According to the Frost & Sullivan Report, the spicy snack food industry in lower-tier cities is expected to grow at a CAGR of 11.0% from 2021 to 2026, faster than the growth rate of the overall spicy snack food industry.

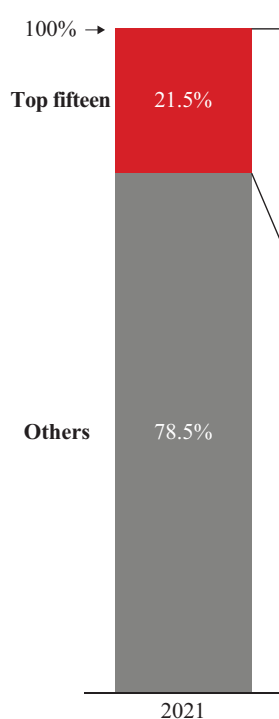
## COMPETITIVE LANDSCAPE

According to the Frost & Sullivan Report, the snack food market in China is relatively fragmented, with the top 15 players accounting for an aggregate market share of 21.5% in 2021 in terms of retail sales value. In 2021, we ranked 10th in China’s snack food market, among approximately 3,000 domestic and MNC (“multinational companies”) companies with a presence in China which had an annual revenue of over RMB20.0 million and we ranked sixth among all domestic companies, accounting for 1.3% of the overall market in terms of retail sales value.

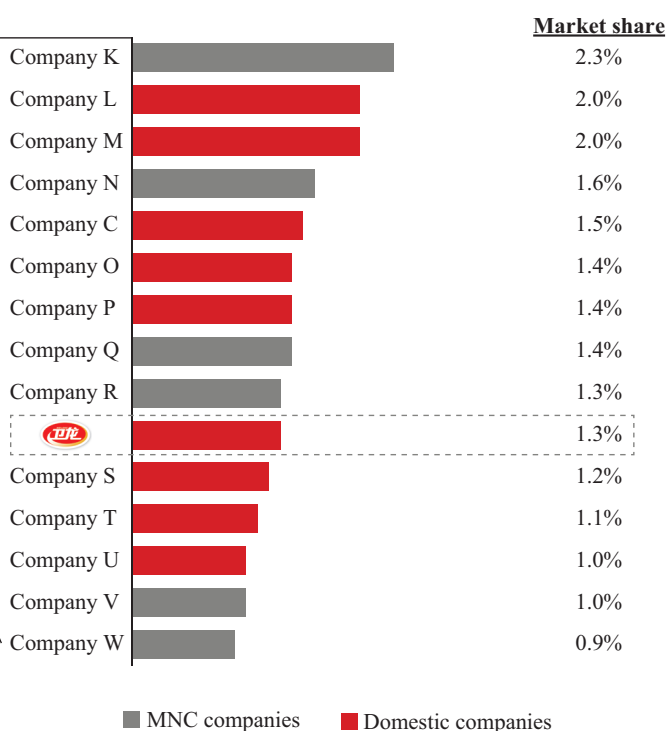
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### Snack food market concentration, 2021

Market share by retail sales value



### Market share of top fifteen players by retail sales value, 2021



Note: Top fifteen players in the snack food market in China in 2021 included both listed companies such as Dali Foods Group Company Limited, Want Want China Holdings Limited, Three Squirrels Inc., and Chacha Food Company, Limited, and private companies.

Source: Frost & Sullivan Report

- Company K is a subsidiary of a listed company on NASDAQ, with its China branch headquartered in Shanghai, Company K mainly produces and sells different types of snack and other food, such as beverages, potato chips, bottled water and other casual snacks. Company K was founded in 1988. Company K’s listed parent company had around 291,000 employees globally and the registered capital of Company K was around USD16.8 million as of December 31, 2021.
- Company L is a listed company on Hong Kong Stock Exchange. Headquartered in Hui’an, Fujian Province, Company L mainly produces and sells different types of snack and other food, including biscuits, bread, potato chips and beverages. Founded in 1993, Company L had over 40,000 employees and the registered capital was around RMB1,450 million as of December 31, 2021.
- Company M is a listed company on Hong Kong Stock Exchange. Headquartered in Hong Kong, Company M is manufacturing, distributing and selling rice crackers, dairy products and beverages, snack food and other products. Founded in 2008, Company M had over 41,000 employees and the registered capital was around USD50.0 million as of December 31, 2021.
- Company N is a subsidiary of a private multinational company, with its China branch headquartered in Beijing, Company N mainly produces and sells different types of snack food, including chocolate, candies and other casual snack products. Founded in 1993, Company N had around 13,000 employees and the registered capital was around USD61.0 million as of December 31, 2021.

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- Company O is a listed company on Shenzhen Stock Exchange. Headquartered in Wuhu, Anhui Province, Company O mainly produces and sells nuts, preserved fruits, jujube products and beverages. Founded in 2012, Company O had over 4,600 employees and the registered capital was around RMB401.0 million as of December 31, 2021.
- Company P is a listed company on Shanghai Stock Exchange. Headquartered in Shenyang, Liaoning Province, Company P mainly produces and sells different kinds of snack food, including bread, cake and pastries and mooncakes. Founded in 1997, Company P had over 11,700 employees and the registered capital was around RMB952.2 million as of December 31, 2021.
- Company Q is a subsidiary of a listed company on Korean Stock Exchange, with its China branch headquartered in Langfang, Hebei Province, Company Q mainly produces and sells different types of snack food, including pies, cakes, puffed foods, candies and biscuits. Founded in 1995, Company Q had over 8,500 employees and the registered capital was around USD102.5 million as of December 31, 2021.
- Company R is a subsidiary of a listed company on Swiss Exchange, with its China branch headquartered in Beijing, Company R mainly produces and sells different types of snack and other food, including coffees, ice creams, bottled water, chocolates, candies and biscuits. Founded in 1995, Company R had over 26,000 employees and the registered capital was around RMB3,525 million as of December 31, 2021.
- Company S is a private company. Headquartered in Shenzhen, Guangdong Province, Company S mainly produces and sells different types of snack food, including jelly puddings, nori products, milk teas and chocolate cookies. Founded in 1998, Company S had over 15,000 employees and the registered capital was around RMB60.0 million as of December 31, 2021.
- Company T is a listed company on Shenzhen Stock Exchange. Headquartered in Hefei, Anhui Province, Company T mainly produces and sells different types of snack food, including sunflower seeds, nuts and leisure snacks. Founded in 2001, Company T had over 4,800 employees and the registered capital was around RMB507.0 million as of December 31, 2021.
- Company U is a private company. Headquartered in Jinjiang, Fujian Province, Company U mainly produces and sells different types of snack food, including bakery products, beverages and biscuits. Founded in 2014, Company U had over 12,000 employees and the registered capital was around RMB50.0 million as of December 31, 2021.
- Company V is a subsidiary of a private multinational company, with its China branch headquartered in Shanghai, Company V mainly produces and sells different types of snack food, including chocolates and candies. Company V was founded in 2007. Company V’s listed parent company had over 34,000 employees globally and the registered capital of Company V was around USD2.0 million as of December 31, 2021.
- Company W is a subsidiary of a private multinational company, with its China branch headquartered in Shanghai, Company W is the manufacturer and distributor of confectioneries and

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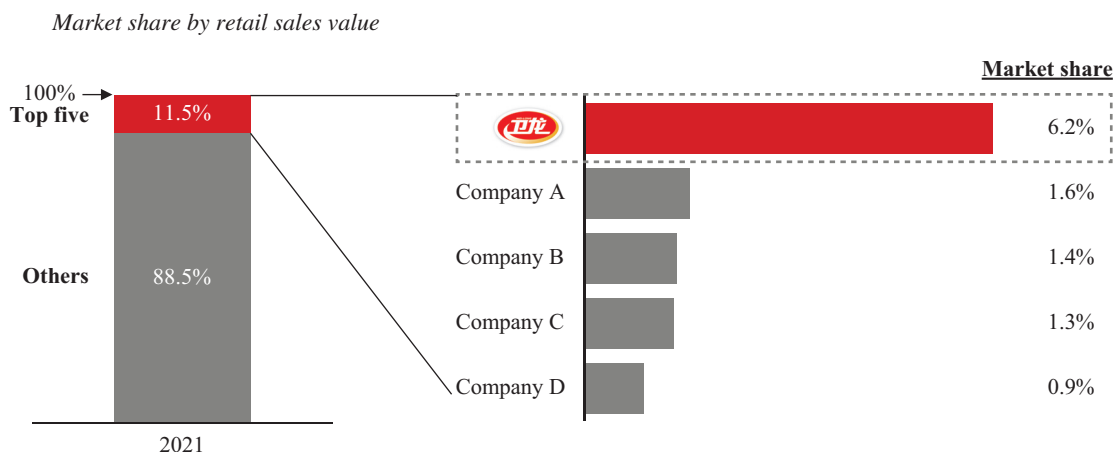
chewing gums. Founded in 1994, Company W had over 2,000 employees and the registered capital was around USD12.2 million as of December 31, 2021.

According to the Frost & Sullivan Report, the spicy snack food market in China is also relatively fragmented, with the top five players accounting for an aggregate market share of 11.5% in 2021 in terms of retail sales value. In 2021, we were the largest spicy snack food player in China with market share of 6.2%, 3.9 times of the second largest in terms of retail sales value, exceeding the aggregate market share of players ranked 2nd to 5th.

The charts below set forth the details of the concentration in China’s spicy snack food market, and market shares of China’s top five spicy snack food players by retail sales value in 2021:

**Spicy snack food market concentration, 2021**

**Market share of top five players by retail sales value, 2021**



Source: Frost & Sullivan Report

Note: The retail sales value of top five players refers to the retail sale value of packaged products. Top five players by retail sales value in the spicy snack food industry in China in 2021 included Juwei Food Co., Ltd, Bestore Co., Ltd, and YouYou Foods Co., Ltd.

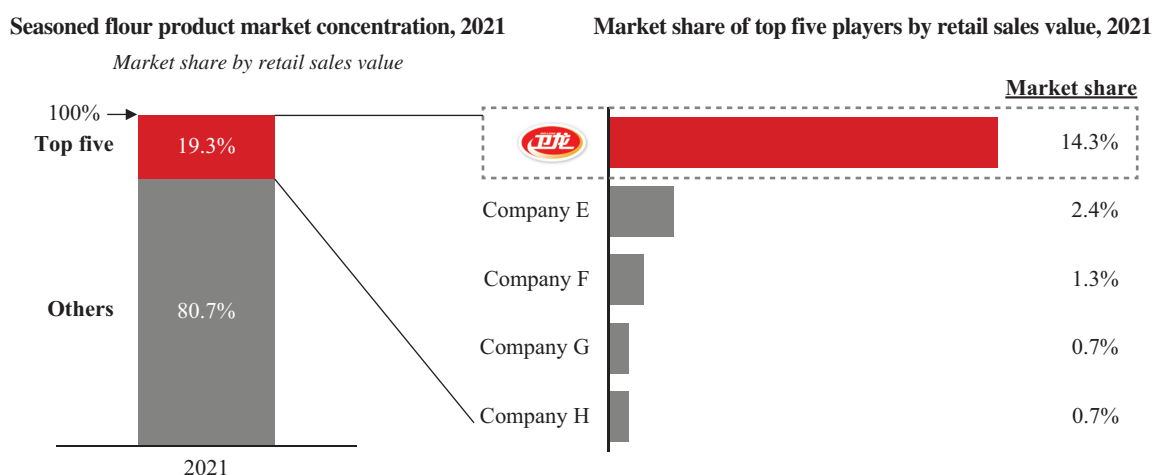
- Company A is a listed company on Hong Kong Stock Exchange. Headquartered in Wuhan, Hubei Province, Company A mainly produces and sells different types of casual braised food, including braised duck-related products, braised eggs, braised vegetables and braised seafood products. Founded in 2006, Company A had over 4,300 employees and the registered capital was around RMB104.3 million as of December 31, 2021. Company A had over 2,700 retail stores and 4 manufacturing bases in China as of December 31, 2021.
- Company B is a listed company on Shanghai Stock Exchange. Headquartered in Changsha, Hunan Province, Company B mainly produces and sells different types of casual braised food, including duck necks, vegetable snacks and other casual braised products. Founded in 2008, Company B had over 4,800 employees and the registered capital was around RMB608.6 million as of December 31, 2021. Company B had over 13,000 retail stores in China as of December 31, 2021.
- Company C is a listed company on Shanghai Stock Exchange. Headquartered in Wuhan, Hubei Province, Company C mainly sells different types of casual snack food, including nuts, seafood snacks, meat snacks, roasted seeds and preserved plums and fruits. Founded in 2010, Company C had over 11,000 employees and the registered capital was around RMB401.0 million as of December 31, 2021. Company C had over 2,900 retail stores in China as of December 31, 2021, among which around 900 were self-operated.

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- Company D is a listed company on Shanghai Stock Exchange. Headquartered in Chongqing, Company D mainly produces and sells different types of snack food, including chicken feet with pickled peppers, seafood products and vegetable snacks. Founded in 2007, Company D had over 1,500 employees and the registered capital was around RMB308.5 million as of December 31, 2021. Company D generated around 95% of its total sales through offline retail channels during the year of 2021.

According to the Frost & Sullivan Report, we are the largest player in China’s seasoned flour product market and spicy vegetable snacks market, respectively, in terms of retail sales value in 2021.

The top five players in China’s seasoned flour product market accounted for an aggregate market share of 19.3%, in terms of retail sales value in 2021. We were the largest seasoned flour products player in China with 14.3% market share in 2021, 5.9 times of the second largest in terms of retail sales value, exceeding the aggregate market share of players ranked 2nd to 5th. The table below sets forth the details of market share of top five players in the seasoned flour product market in China by retail sales value in 2021:



Source: Frost & Sullivan Report

Note: The retail sales value of top five players refers to the retail sales value of packaged products

- Company E is a private company. Headquartered in Xinzheng, Henan Province, Company E mainly produces and sells different types of spicy snack food, including seasoned flour products, konjac products, bean-based products, vegetable products and fish products. Founded in 2013, Company E had around 2,000 employees and the registered capital was around RMB100.0 million as of December 31, 2021.
- Company F is a private company. Headquartered in Guangzhou, Guangdong Province, Company F mainly produces and sells different types of spicy snack food, including seasoned flour products, egg products, konjac products and kelp products. Founded in 2013, Company F had around 800 employees and the registered capital was around RMB10.0 million as of December 31, 2021. Company F had 3 manufacturing bases in Xiantao, Guangzhou and Pingjiang in China as of December 31, 2021.
- Company G is a private company. Headquartered in Pingjiang, Hunan Province, Company G mainly produces and sells different types of spicy snack food, including seasoned flour products



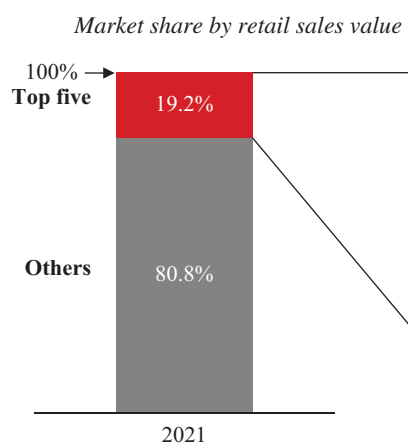
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and fish products. Founded in 2000, Company G had over 1,200 employees and the registered capital was around RMB50.0 million as of December 31, 2021. Company G’s main manufacturing base was located in Hunan Province as of December 31, 2021.

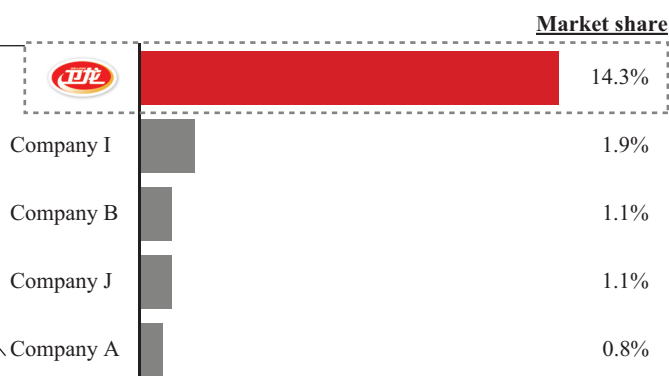
- Company H is a private company. Headquartered in Pingjiang, Hunan Province, Company H mainly produces and sells different types of spicy snack food, including seasoned flour products and bean-based products. Founded in 2007, Company H had over 1,200 employees and the registered capital was around RMB68.6 million as of December 31, 2021. Company H’s main manufacturing base was located in Hunan Province as of December 31, 2021.

China’s spicy vegetable snacks market is relatively fragmented, with the top five players accounting for an aggregate market share of 19.2% in terms of retail sales value in 2021. In 2021, we were the largest spicy vegetable snacks player in China with 14.3% market share, 7.6 times of the second largest in terms of retail sales value, exceeding the aggregate market share of players ranked 2nd to 5th. The table below sets forth the market share details of the top five spicy vegetable snacks players in China by retail sales value in 2021:

**Spicy vegetable snacks market concentration, 2021**



**Market share of top five players by retail sales value, 2021**



Source: Frost & Sullivan Report

Note: The retail sales value of top five players refers to the retail sales value of packaged products

- Company I is a private company. Headquartered in Chengdu, Sichuan Province, Company I mainly produces and sells different types of spicy snack food, including Sichuan flavor enoki mushroom, konjac products and bean-based products. Founded in 2001, Company I had 5 standard production lines and the registered capital was around RMB10.0 million as of December 31, 2021.
- Company J is a listed company on Shanghai Stock Exchange. Headquartered in Shanghai, Company J mainly produces and sells different types of casual snack food, including nuts, meat snacks, roasted seeds and vegetable snacks. Founded in 2002, Company J had over 7,500 employees and the registered capital was around RMB336.8 million as of December 31, 2021. Company J had over 3,400 retail stores and around 2,200 of them were self-operated as of December 31, 2021.

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### ENTRY BARRIERS

The entry barriers of China’s spicy snack food industry mainly include:

**Brand and Reputation.** Acquiring new consumers and increasing repurchase rate are of great importance to spicy snack food players in China, and brand image is a key factor affecting consumers’ decision-making process. Effective promotion and marketing events can build up an impressive brand image and attract consumers. The leading spicy snack brands in China have cultivated a large and loyal consumer base who may not be easily persuaded to try other brands.

**R&D Capability.** Consumers’ demand on taste for spicy snack food has been evolving amid consumption upgrade in China. Spicy snack food companies need to keep launching new products, which puts forth high requirements for R&D capabilities.

**Distribution Network.** It is crucial for spicy snack food companies in China to establish a widely covered and highly penetrated distribution network as it affects product availability, sales and profitability. Generally, establishment of a comprehensive distribution network requires highly experienced sales teams and strong relationship with regional distributors, both of which need long-term investment. Additionally, the entry barriers of modern retail channels, such as supermarkets and chained convenience stores, are rising due to increasing entry cost and market competition. The continuous penetration of e-commerce channels and growing competition between online and offline players will also pose a challenge to new entrants as they need the ability to quickly adapt to channel evolutions with timely strategies.

**Supply Chain Management.** Strong supply chain management capability can help spicy snack food companies better control product quality and manage costs. An integrated supply chain covering raw material procurement, production and distribution can significantly reduce cost and raise operational efficiency. It is arduous and time-consuming for new entrants to establish a comprehensive supply chain management system.

**Management Capability.** A large number of spicy snack food companies in China adopt nationwide expansion strategies to gain market share. To manage a large number of regional distributors and sales teams, competent management teams with substantial experience and industry insights are critical for building up effective systems and executing operation-optimizing initiatives such as periodic online and offline inspection, staff training, distributor assessment, among others.

### SALES CHANNELS AND REGIONS

According to the Frost & Sullivan Report, the sales channels of China’s spicy snack food primarily consist of four categories, including:

- Traditional channel, which mainly includes small grocery stores, non-chained convenience stores, wholesale markets, and mom-and-pop stores. These stores are typically owned and operated by individual merchants or households.
- Modern channel, which mainly includes shopping malls, supermarkets and chained convenience stores.
- E-commerce channel, which mainly refers to online sales platforms.
- Other channels, which mainly includes airports, train and bus stations, highway service areas, catering services channels, hotels, internet cafés, among others.

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Traditional and modern channels account for the vast majority of China’s spicy snack food market. In terms of retail sales value in 2021, traditional and modern channels accounted for 43.1% and 31.3% of the overall market respectively, while the e-commerce channel took up 12.4%. Supported by offline channels’ further penetration into lower-tier cities and efficiency improvement, traditional and modern channels are expected to increase at a CAGR of 9.7% and 7.8% respectively from 2021 to 2026. Amid continuous online penetration and rising online shopping demand from young consumers, e-commerce channel is expected to grow at a CAGR of 15.4% from 2021 to 2026. The table below sets forth the retail sales value breakdown of China’s spicy snack food market by channels from 2016 to 2026:

	Retail Sales Value			CAGR	
	2016	2021	2026E	2016-2021	2021-2026E
	(RMB billion)	(RMB billion)	(RMB billion)		
Traditional channel .....	48.9	74.6	118.3	8.8%	9.7%
Modern channel .....	39.0	54.2	78.9	6.8%	7.8%
E-commerce channel .....	8.8	21.4	43.8	19.5%	15.4%
Other channels .....	17.2	22.7	32.7	5.7%	7.6%
<b>Total .....</b>	<b>113.9</b>	<b>172.9</b>	<b>273.7</b>	<b>8.7%</b>	<b>9.6%</b>

Lower-tier cities account for the largest share of the overall spicy snack food market. The spicy snack food market at lower-tier cities accounted for 63.6% of the overall market in 2021 in terms of retail sales value. The spicy snack food market at lower-tier cities grew at a CAGR of 9.6% from 2016 to 2021, and is expected to grow at a CAGR of 11.0% from 2021 to 2026, which is higher than the growth rate of the spicy snack food market at Tier 1 and Tier 2 cities. The following table sets forth the retail sales value breakdown of China’s spicy snack food market by city tiers from 2016 to 2026:

	Retail Sales Value			CAGR	
	2016	2021	2026E	2016-2021	2021-2026E
	(RMB billion)	(RMB billion)	(RMB billion)		
Tier 1 cities .....	15.9	21.7	29.5	6.4%	6.3%
Tier 2 cities .....	28.5	41.2	58.6	7.6%	7.3%
Lower-tier cities .....	69.5	110.0	185.6	9.6%	11.0%
<b>Total .....</b>	<b>113.9</b>	<b>172.9</b>	<b>273.7</b>	<b>8.7%</b>	<b>9.6%</b>

## RAW MATERIALS

Soybean oil, flour and kelp are some of the important raw materials for spicy snack food. The following charts set forth the average annual prices of soybean oil, flour and kelp in China from 2016 to 2021:



Source: [China National Grain & Oils Information Center](#), Frost & Sullivan Report

Sources: [Ministry of Agriculture](#), Frost & Sullivan Report

Sources: [Price Bureau of Shandong Province](#), Frost & Sullivan Report

## INDUSTRY OVERVIEW

According to the Frost & Sullivan Report, soybean oil price showed a decreasing trend from RMB6.4/kg in 2016 to RMB5.7/kg in 2018 mainly attributed to the increasing supply of beans and rebounded to RMB9.6/kg in 2021 led by the increasing soybean price in the international market as China relies on imported soybean to a large extent; the average wholesale price of flour maintained relatively stable over the past five years; the price index for kelp declined from 2016 to 2019, and then bounced back from 2020 to 2021 primarily due to the increasing market demand for kelp-made snacks.

### CONSUMER SURVEY

From February 2021 to March 2021, we commissioned Frost & Sullivan to conduct online and offline questionnaire surveys with 2,220 participants randomly selected across different cities in China to better understand product preferences and the market from a consumer’s perspective. The details of the survey conducted by Frost & Sullivan are set forth below.

#### Snack Food Consumption Frequency

81.9% of the respondents said they would consume snacks at least once a week and 34.6% of the respondents said they would consume snacks at least 2-3 times a week.

#### Flavor and Category Preference

- Spicy is one of the top flavors that consumers would choose when purchasing snack products.
- Seasoned flour products have become one of the favorite snack foods for consumers in China. 48.3% of the respondents said that they liked seasoned flour products.
- Among the respondents born after 1995, 14.6% said seasoned flour products is their favorite, ranking 2nd among all snack food categories; among the respondents born after 1985, 11.7% said that seasoned flour products is their favorite, ranking 3rd among all snack food categories.

#### Weilong’s Consumer Base

According to the consumer survey conducted in 2021:

- 95.0% of Weilong’s consumers were at or under the age of 35.
- 55.0% of Weilong’s consumers were at or under the age of 25, making up the majority of Weilong’s consumer base.

#### Brand Awareness

- Weilong is the most well-recognized and favored brand in China’s spicy snack food market.
- Weilong is the most well-recognized brand in China’s seasoned flour product market.
- Weilong is the most well-recognized brand in China’s spicy vegetable snack market.

#### Consumer Satisfaction

- Weilong is the most satisfying brand for consumers in China’s spicy snack food market.

## **INDUSTRY OVERVIEW**

- Weilong is the most satisfying brand for consumers in China’s seasoned flour product market.
- 98.0% of the respondents who have consumed Weilong said that they would like to consume the products of Weilong again in the future.

According to the Frost & Sullivan Report, the survey was conducted through multiple channels including online and offline questionnaire surveys, and participants were randomly selected to ensure a fair and extensive coverage. Such process is closely monitored to ensure the collection of sufficient effective samples. According to the Frost & Sullivan Report, all of the 2,220 participants are effective samples, which are sufficient to better understand product preferences and the spicy snack food market from a consumer’s perspective, and are comparable to other similar surveys in the food industries.

### **SOURCES OF INDUSTRY INFORMATION**

We commissioned Frost & Sullivan to conduct a detailed analysis of China’s snack food industry and China’s spicy snack food industry and compile the Frost & Sullivan Report. During the compilation of the Frost & Sullivan Report, Frost & Sullivan conducted primary and secondary researches, and obtained knowledge, statistics, information and industry insights about the industry trends of China’s snack food market and China’s spicy snack food market. Primary research involves discussing the status of the industry with leading industry participants and industry experts. Secondary research involves reviewing company reports, independent research reports, and Frost & Sullivan’s own research database. The Frost & Sullivan Report is compiled based on the following assumptions: (1) China’s economy is likely to maintain a steady growth in the next decade; (2) China’s social, economic and political environment is likely to remain stable in the forecast period; and (3) market drivers like rising purchasing power due to rising disposable income, increasing urbanization rate, continuous launch of new products, and improving retail channels are likely to drive the growth of China’s snack food industry.

As part of the compilation of the Frost & Sullivan Report, we also commissioned Frost & Sullivan to conduct online and offline questionnaire surveys with 2,220 consumers randomly selected in China to better understand the product preferences and market from a consumer’s perspective (“the Survey”).

Frost & Sullivan is an independent global consulting firm, which was founded in 1961 in New York. It offers industry research and market strategies and provides growth consulting and corporate training. We have contracted to pay Frost & Sullivan a fee of RMB880,000 for compiling the Frost & Sullivan Report. We have extracted certain information from the Frost & Sullivan Report in this section and in the “Summary”, “Risk Factors”, “Business”, “Financial Information” and other sections of this document in order to provide a more comprehensive overview of the industry in which we operate.