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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. According to Frost & Sullivan, 95.0% of our consumers are at or under the age of 35, and 55.0% are at or under the age of 25, and we are the most well-recognized and favored spicy snack food brand among consumers in China and the No. 1 snack food brand in terms of brand awareness among those at or under the age of 25.

We specialize in turning authentic Chinese gourmet into casual snack food that consumers can enjoy anywhere and anytime. To fulfill our mission “to let the world fall in love with Chinese flavors”, we are committed to adhering to the value of “being a consumer-centric and innovation-driven organization.” (“外以消費者體驗為中心、內以創造者為本”), and 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.

20 years ago, inspired by traditional Chinese formulas, we started our business with seasoned flour products, also commonly known as *Latiao* (辣條). In the early years, we produced some popular seasoned flour products with enticing spicy flavor using our self-developed formulas and raw materials procured from reputable suppliers, and offered them through a broad distribution channel at affordable prices to young consumers, which helped our brand cultivate a broad customer base. Our products accompanied the youthhood of the millennials in China, who became our first loyal customers. Over the years, we continued to enhance our formulas and improve our production process and techniques to maintain our leading position in the seasoned flour product category.

We are dedicated to using household food materials, such as soybean, flour and kelp, as our main ingredients and adhere to our product development philosophy of “maximizing the intrinsic value of nature with an industrialized approach”. With our outstanding product development capabilities, we have in recent years diversified into vegetable and bean-based products and launched multiple brands such as our “*Fengchi*” and “*Kiss Burn*” series. Our modern and well received products have satisfied the taste buds of generations and accumulated a broad and customer base across various age groups. In 2021, two of our product categories each generated over RMB1.0 billion in annual retail sales value, and, among them, four products each generated over RMB500.0 million in annual retail sales value.

We constantly adapt to changing purchasing behavior of consumers and have quickly expanded to supermarkets, chained convenience stores and e-commerce channels, which have wide exposure to young consumers. As of June 30, 2022, we cooperated with more than 1,830 offline distributors and our distributors’ sales network covered approximately 735,000 retail points of sale in China, with significant potential for future expansion. Meanwhile, we have strengthened our presence on major e-commerce platforms. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from online channels amounted to RMB250.8 million, RMB381.8 million, RMB553.8 million, RMB268.4 million, and RMB239.4 million, accounting for approximately 7.4%, 9.3%, 11.5%, 11.7%, and 10.6%, respectively, of our total revenue. In

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addition, we use e-commerce and social media channels to build a trendy and engaging brand image through interactive marketing activities, turning young consumers into our natural brand promoters.

During the Track Record Period, we achieved strong growth 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. Our revenue slightly decreased by 1.8% from RMB2,302.8 million in the six months ended June 30, 2021 to RMB2,260.5 million in the six months ended June 30, 2022. From 2019 to 2021, the CAGR of our total revenue reached 19.1%, far exceeding the 4.2% CAGR of the snack food industry in China for the same period, according to Frost & Sullivan. Our net profit margin reached 17.2% in 2021, higher than the average net profit margin of approximately 10% in the snack food industry in China in 2021, according to Frost & Sullivan.

Leveraging our strong brand recognition, product competitiveness and channel distribution capability, we believe that we will continue to increase our market share and capitalize on future growth opportunities in the spicy snack food industry, which, according to Frost & Sullivan, is expected to reach a total addressable market of RMB273.7 billion by 2026.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success and differentiated us from our competitors:

Leader and pioneer in the spicy snack food industry in China

We are the largest spicy snack food company in China. According to Frost & Sullivan, in terms of retail sales value in 2021, we ranked first in the spicy snack food industry in China, with a market share of 6.2%, being 3.9 times that of the second largest company, and ranked first in each of the seasoned flour product and spicy vegetable snack product categories.

We are a pioneer in the spicy snack food industry in China. Through turning authentic Chinese gourmet into casual snack food that consumers can enjoy anywhere and anytime, we have been leading the development of various categories of spicy snack food. We are among the first movers in the *Latiao* industry, and through 20 years of market cultivation, we turned *Latiao* into a sought-after snack food among Chinese consumers. In 2021, the market size of the seasoned flour product category in China, with *Latiao* as its main product, reached RMB45.5 billion in retail sales value. We have expanded into new categories such as vegetable and bean-based products and launched multiple brands such as “*Fengchi*” and “*Kiss Burn*” series, and created two product categories each generating over RMB1.0 billion in annual retail sales value and, among them, four products each generating over RMB500.0 million in annual retail sales value in 2021.

We are one of the fastest growing and most profitable enterprises in the snack food industry in China. From 2019 to 2021, the CAGR of our revenue reached 19.1%, far exceeding the 4.2% CAGR of the snack food industry for the same period, according to Frost & Sullivan. Our net margin reached 17.2% in 2021, higher than the average net profit margin of approximately 10% in the snack food industry in 2021, according to Frost & Sullivan. With the enticing nature of spicy flavors and the widespread spicy food culture in China, spicy snack food has become increasingly popular, particularly among the younger generation. In 2021, the market size of the

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spicy snack food industry in China reached RMB172.9 billion in retail sales value, and is expected to grow at a CAGR of 9.6% from 2021 to 2026, outpacing the expected CAGR of 6.8% in the broader snack food industry for the same period, according to Frost & Sullivan. Leveraging our strong brand recognition, product competitiveness and channel distribution capability, we believe that we will continue to increase our market share and capitalize on the future growth opportunities in the industry.

Broad and loyal follower base cultivated by frequent consumption, creating an influential brand among young consumers

Our brand has stood the test of time. The youthful spirit of our brand has been instilled in our consumers' mind, accumulating broad follower base across various age groups. Under our well-known Weilong brand, our products, closely attuned to consumer preference and easily accessible through omni-channel at any time and any time, enjoy high consumption frequencies. Approximately 11 billion individual packs of our products, which refers to the smallest level of product package suitable for direct consumption, were consumed in 2021. In the early years, Weilong became a classic in the youthhood memory of the millennials who were attracted to the enticing spicy flavors, high quality and affordable price of our products. We form the taste memory in consumers' youthhood, establish an early emotional affinity with consumers, and build rich product portfolio with high quality to meet the diverse and evolving needs of consumers, thereby increasing our brand stickiness and enhancing our brand vitality.

We are a highly sought-after snack food brand among the younger generation in China. According to Frost & Sullivan, Generation Z and the millennials are the major consumption force in the snack food industry in China, representing 38.0% of the country's population and 68.8% of snack food consumption. A consumer survey conducted by Frost & Sullivan indicated that 95.0% of our consumers were at or under the age of 35 and 55.0% were at or under the age of 25. We are also the most well-recognized and favored spicy snack food brand among consumers in China and the No. 1 snack food brand in terms of brand awareness among those at or under the age of 25. In 2021, Bilibili launched 2021 Bilibili Top 100 Popular Chinese Products among Young People (2021 哔哩哔哩百大年轻人喜爱的中国产品) event and our Weilong Gift Pack (卫龙大礼包) won the award of “Top 100 Popular Chinese Products among Young People”. The younger generation of consumers in China grew up in the digital era and enjoy sharing topical and fun events on social media. Through e-commerce and social media channels with large exposure to young people, we carry out interactive marketing activities, turning young consumers into our natural brand promoters. We are dedicated to raising our brand awareness, enhancing our brand influence and strengthening the rapport with our consumers, especially young consumers.

Continuous Upgrade of Existing Products and Introduction of New Products that makes authentic Chinese gourmet entertaining, casual, convenient and affordable

Inspired by authentic Chinese gourmet, we strive to develop, introduce and promote snack food with a distinctive Chinese feature. We adhere to our product development philosophy of “maximizing the intrinsic value of nature with an industrialized approach”, conduct rigorous and in-depth fundamental research, and use advanced production techniques to retain food's original flavor and nutritional content to the greatest extent. We use household food materials as our main ingredients, and with a consumer-centric approach and guided by our vision of making our products “entertaining, casual, convenient and affordable”, we lead the efforts of turning authentic Chinese gourmet into casual snack food. We continue to roll out new products with high quality and

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affordable price to satisfy the needs of consumers of different age groups and at different consumption occasions, providing them with a cheerful experience.

We have a diversified product portfolio that drove our revenue growth during the Track Record Period. Our ability to continuously launch new products is key for us to grow from the leader in the seasoned flour products into the leader in the broader spicy snack food industry. Benefiting from our continuous upgrade of existing products and introduction of new products, brand recognition and nationwide sales and distribution network, our capability to launch new products keeps improving. In particular, in recent years, we have rolled out popular vegetable products widely recognized by the market. For example, our “*Fengchi Kelp*” uses kelp stipes as its raw material, and through pasteurization technology and streamlined processes, fully retains the original freshness, fragrance, tenderness, crispness and color of the kelp. Well received by consumers, “*Fengchi Kelp*” reached RMB100.0 million in retail sales value within one year after launch. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we have generated RMB665.0 million, RMB1,167.5 million, RMB1,664.1 million, RMB793.0 million and RMB817.6 million, respectively, from our vegetable products, amounting to 19.6%, 28.3%, 34.7%, 34.4% and 36.2% of our total revenue, respectively. We continue to enhance the flavor and stability of our seasoned flour products through the upgrade of ingredients, production and packaging techniques, and introduce new products into our seasoned flour product category with 46 SKUs as of the Latest Practicable Date. Furthermore, we launched brands such as “*Fengchi*” and “*Kiss Burn*” series to build a multi-category and multi-brand portfolio, which solidifies our overall market position and enhances the competitiveness and incentives of our distributors, facilitating our continuing expansion of retail points of sale and shelf space while reducing risks associated with product concentration.

Our R&D model which integrates different teams forms the core of our product development. We built R&D teams in food technology, industrialized production techniques and packaging and preservation technology, pairing technical talents with them to conduct in-depth specialized research. Through close collaboration among teams, we integrate the technologies in each module across multiple product development phases, which significantly improves the speed and success rate of our existing product upgrade and new product launch. Our R&D team members specialize in various fields such as food engineering, biotechnology, polymer materials, food nutrition and packaging design. Meanwhile, we share a long-term cooperative relationship with Jiangnan University, a well-known university in the food science industry, with which we jointly established a laboratory of food science and technology and developed our talent reserves, to strengthen our edge in product and technology R&D.

Omni-channel sales and distribution network with a huge growth potential that effectively reaches young consumers

We have established sales and marketing channels with wide exposure to the younger generation. In the early days, we established effective reach to consumers in their youthhood and started our brand education early. With the rise of modern and online sales channels, we have quickly adapted to the evolving purchasing behavior of consumers and expanded to supermarkets, chained convenience stores and e-commerce channels, which have wide exposure to young consumers. We continue to use entertaining marketing campaigns to enforce a trendy and fun image of Weilong in consumers’ mindset, turning young consumers into our natural brand promoters as they forward or re-post our marketing campaigns on various social media channels. We leverage the Internet and social media to enhance our youthful brand image through topical events and cross-brand marketing, and, as a

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result, form emotional resonance with young consumers. We have also been cultivating a broad and loyal follower base through social media.

We have an expansive sales and distribution network that deeply penetrates the Chinese market. As of June 30, 2022, we cooperated with more than 1,830 offline distributors which covered approximately 735,000 retail points of sale in China. As of June 30, 2022, our products were sold through distributors to over 140 national or regional operators for hypermarkets, supermarkets and chained convenience stores. According to Frost & Sullivan, our potential target retail points of sale could reach over three million nationwide, indicating immense potential for future expansion. We are committed to enhancing our distribution network management with distributors in different tiers of cities with tailored strategies. Since 2020, in lower-tier cities, we endeavored to enhance our distribution network management with distributors with strong local resources and empower them to more effectively manage and serve their designated retail points of sale, so as to improve the service quality, increase single-store sales and expand our shelf space at retail points of sale. In certain Tier 1 and Tier 2 cities, we have been establishing local sales offices and internal sales force to facilitate distributors to better serve retail points of sale especially for national or regional hypermarkets, supermarkets, chained convenience stores, and scaled standalone retail stores, by coordinating in-store product display, marketing activities and product promotion, so as to increase retail shelf space and single-store sales. We continue to improve efficiency in managing our sales channels by developing and utilizing our information systems. Our proprietary sales management system is expected to monitor, and track in real time, the inventory level in our distribution network. We strive to establish our visibility and control over retail points of sale through digital assistance to distributors and our timely guidance on their procurement and sales activities.

We established our presence in major e-commerce platforms and actively expand our online business as a complement to our offline channels. We have a dedicated e-commerce team that analyzes online users and sales data to create a product mix that better suits consumers consumption habits and to continuously improve our online user engagement and back-end service capabilities. Meanwhile, we introduced various new products and gift boxes through online channels for market sounding, which plays an important role in guiding our new product R&D and large-scale manufacturing and offline distribution. From 2019 to 2021, our online business grew at a CAGR of 48.6%. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from online channels amounted to RMB250.8 million, RMB381.8 million, RMB553.8 million, RMB268.4 million, and RMB239.4 million, accounting for approximately 7.4%, 9.3%, 11.5%, 11.7% and 10.6%, respectively, of our total revenue.

A focus on quality through establishing an industry-leading production system and strict quality assurance system

Producing high quality products is our principle. We strive to use high-quality ingredients, scientifically sound formulas and advanced production techniques to present the original flavor and nutritional value of raw materials used in our processed food products. We have established long-term partnerships with well-known suppliers including COFCO, Yihai Kerry and Sinograin, directly sourcing key raw materials from selected production areas, and meticulously managing product screening, transportation and strategic reserves from the sources to maintain the quality and stability of our raw materials supply. Meanwhile, we attach great importance to accessing upstream ingredient. For example, we have established a cooperative relationship with a business partner in one of the main konjac production areas in China to ensure adequate supply of high-quality konjac. We

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have a team carrying out in-depth specialized research of the underlying technology of food processing and the properties of various food ingredients to make our products healthier and safer. In terms of production, we modify traditional techniques and adopt production techniques tailored to each ingredient. We focus on streamlining the process and reducing manual operations to ensure food safety and retain the intrinsic value of natural ingredients. In 2020, we participated in the formulation of the industry food safety standard for seasoned flour products, which also reflects the recognition of our high product quality from various stakeholders in society.

We strive for the advancement of our capabilities in production and quality control. Most of our production lines have achieved automation, and we have implemented strict monitoring of key parameters throughout the process. We have an electronic control and mechanical design team of more than 10 members, engaged in the R&D of automated production equipment and systems based on our process requirements. Most of our automation equipment is developed in-house. Meanwhile, we established partnerships with equipment manufacturers to automate our production procedures and upgrade our production facilities. As of June 30, 2022, we had 106 patents related to our production such as material supply, puffing, and cutting.

We have established a stringent quality assurance system with traceability from procurement to sales. We have a strict supplier screening and assessment mechanism, and have set up a thorough management system to inspect our procurement and storage process to ensure the high quality and safety of raw materials. Standardization and automation in production along with the manufacture monitoring system have significantly increased the stability of our production and product quality. We have put in place quality monitoring and management system for different products during our production and logistic process to achieve seamless integration of food safety risk management across the supply chain. Our products are in compliance with the HACCP and FSSC 22000 food safety system certifications.

Strong corporate culture and a dedicated, earnest and vigorous management team

Our team is dedicated to the mission “to let the world fall in love with Chinese flavors” and the value of “being a consumer-centric and innovation-driven organization.” (“外以消費者體驗為中心、內以創造者為本”), which has made us a company dedicated to existing products upgrade and new products introduction with consumers at our core. Our founders, who are self-made entrepreneurs, have seen their roles as reshaping and spreading China’s profound food culture and made unremitting efforts in the Chinese snack food industry for 20 years toward our vision. Our core management team members share consistent values, mission and cohesion, which allow them to work together to provide consumers with the best products and services, underpinned by their extensive experience in operations and management.

Our young and vibrant management team, which is equipped with high perseverance and strong entrepreneurial spirits, along with our talent training, management and incentive mechanism, has laid a solid foundation for a long-term and stable development of Weilong. Our core management team is 41 years old on average, with an average of approximately 16 years of experience in the industry. We have created an excellent corporate culture centering on the mission “to let the world fall in love with Chinese flavors”, and our management team stays true to our original mission, spreading China’s profound food culture to the world.

We greatly value our social responsibilities and are committed to community welfare. We work actively to support education in rural areas and underprivileged children. We have been frequently rewarded for these

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efforts, including being awarded the 2020 “Award for Outstanding Contribution” in charitable collection, the 2019 “Award for Outstanding Contribution” in charity and the 2018 “Meritorious Service Enterprise Award”. Moreover, since 2014, we have focused on corporate sustainability and investment in the improvement of our production environment and the upgrade of our facilities. We developed an energy management system to achieve real-time data collection, analysis and seamless management of energy consumption across various equipment.

OUR STRATEGIES

Our vision is to make authentic Chinese gourmet more entertaining, casual, convenient and affordable, embrace digital-intelligentization and ultimately build a great business that brings joy and happiness to people for 123 years. To that end, we intend to implement the following strategies:

Continue to expand product categories and improve product quality to enhance the core competency of our products

We will continue to optimize our product portfolio through the expansion of product categories and improve our product quality so as to fulfill our corporate mission “to let the world fall in love with Chinese flavors.”

We strive to expand our product offerings inspired by authentic Chinese gourmet, to explore the growth potential of our existing product portfolio, and to continuously introduce new product categories.

- We will further optimize the consumption experience of our main products by introducing new flavors, upgrading packaging designs, enriching the nutritional value, and enhancing production techniques, so as to appeal to a wider range of consumers and strengthen our market leadership.
- As the strategic expansion of our product portfolio drives our long-term growth, we will focus on developing more popular products in the vegetable, meat and egg snack product categories, among others.
- In addition, to better suit different consumption occasions, such as at home or on-the-go, we intend to upgrade existing package designs and introduce new package designs and the specifications of our products to attract more consumers and increase their consumption frequencies.

We strive to enhance our core competencies in food safety and quality controls, capitalizing on our source-to-sale product quality management system.

- *Source control:* We plan to improve our food quality control system, including adopting more stringent standards in the selection of suppliers and the procurement of raw materials, improving our capabilities in detecting and preventing food safety issues, and upgrading our testing capabilities for food nutritional content.
- *Production techniques:* We plan to widely adopt our visualized intelligent production system and online process monitoring system to achieve transparent, seamless and closed-loop quality control management.

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- *Traceability management:* We intend to establish a two-way, source-to-sale traceability system covering the whole lifecycle of our products across procurement, manufacturing, sales and distribution, to ensure the food safety and improve quality of our products.

We plan to obtain certification from international food safety management systems, such as the British Retail Consortium and International Featured Standard, laying a foundation for our potential global expansion.

Continue to be devoted to brand building and enhance user engagement

As a leading company in the spicy snack food industry in China, we will further devote our efforts to brand building to enhance our brand recognition and user loyalty through the following ways:

- We will continue our brand building strategy that targets young consumers through content-based marketing, branding activities and the involvement of key opinion leaders. Meanwhile, we will explore a multi-brand strategy and expand into more product categories with growth potential and to cover wider price bands and consumer demographics. In this way, we strive to solidify our leading position in multiple segments of the snack food industry in China.
- We strive to expand our consumer base, resonate with young consumers and enhance user engagement. We plan to use big data sourced from different sales channels and social media platforms to analyze user behavior. By integrating marketing resources through various channels and platforms, we will implement more accurate and efficient marketing strategies and develop personalized consumer interactions to further enhance user stickiness and brand loyalty.

Increase the breadth and depth of our distribution network

We have built a omni-channel distribution network, and we plan to take the following measures to increase the breadth and depth of our distribution network and to further enhance our management capabilities for distribution channels in the future:

- We plan to work closely with distributors in different tiers of cities who are capable of covering a wider range of retail points of sale so as to further capture market opportunities with tailored strategies. We intend to continue to enhance our distribution network management with distributors with strong local capabilities in lower-tier cities and establish local sales offices in selected Tier 1 and Tier 2 cities to strengthen coverage and service capabilities of retail points of sale such as national or regional supermarkets, supermarkets, chained convenience stores, and scaled standalone retail stores. As of the Latest Practicable Date, we had established local sales offices in cities including Beijing, Guangzhou, Shenzhen, Nanjing, Hefei, Changsha, Shenyang, Suzhou, Jinan, Fuzhou, Hangzhou, Chengdu, Zhengzhou, Xi’an and Wuhan. We plan to support distributors in strengthening their operational capabilities in terms of sales management, expansion of retail coverage, logistics and shelf display, so that we can improve our management of distributors and enhance our retail presence. Moreover, as we continue to develop our proprietary sales management system, we will further enhance the efficiency of our distribution network.

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- As we continue to expand our product categories and brand portfolio, we strive to expand the our sales networks to include more diversified channels, such as sales outlets in transportation network and vending machine network reaching a broader range of consumer group.
- In addition to our current coverage of mainstream e-commerce platforms in China, we will also strengthen our cooperation with other types of emerging online channels, further improve the integration of resources in our sales and distribution network and enhance the integration of our online and offline channels, In this way, we strive to further optimize our effective omni-channel strategy.
- On the premise of continuous and steady domestic growth, we intend to gradually establish our distribution network overseas in the mid to long term. We intend to prudently select local distributors in countries and areas with dense population, high GDP growth, or high disposable income per capita such as Southeast Asia and North America.

Accelerate digital intelligentization to improve our operating efficiency

To achieve our goal of “interconnection and digital intelligentization of all business processes” (“**互聯互通，一切業務數智化**”), we will continue to implement the digital intelligentization of our business to further enhance our operating efficiency and management capability through the following three steps:

- ***Building a data-enabled Weilong:*** To achieve a paperless and data-enabled operation, we will continue to track, collect and analyze data generated through our core business processes, including R&D, manufacturing, sales and distribution, among others. For example, we will gradually leverage our data analytics capabilities to optimize warehousing and logistics management, which could improve our inventory turnover level and achieve lower warehousing and logistics costs.
- ***Establishing a digitalized Weilong:*** We aim to achieve digitization across our entire business processes, key decision-making mechanisms and data systems, to enhance our operational efficiency. For example, we plan to integrate and analyze multi-dimensional data, with respect to inventory level and performance of the sales team and retail points of sale, to construct a digital analysis system that enables us to monitor in real time the efficiency of our distribution network, enabling us to further enhance our distribution management. Furthermore, we will use digitalized methods to further analyze consumer preferences and detect market trends in order to optimize our product expansion strategy.
- ***Achieving an intelligent Weilong:*** In the future, we plan to exploit technologies such as big data, artificial intelligence, industrial internet and real-time computing to drive revolutions in our products and service offerings, our operation models, our organization and our corporate governance. In this way, we endeavor to achieve full-scope intelligent management, strengthen our competitive advantages and enhance our long-term core competencies.

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Improve manufacturing capability and strategically expand production capacity

In order to further enhance our supply capabilities to address market demand, we strive to optimize our supply chain through various measures including expansion of our production capacity, integration of the industry value chain and upgrade through automation:

- In order to meet consumers’ increasing demands for our products, we plan to complete the construction of our Luohe Xinglin Plant in Luohe, Henan Province, and build a new plant in Qujing, Yunnan Province, both of which involve the construction of warehouses, the procurement of manufacturing facilities and the recruitment of talents in manufacturing management. We plan to selectively build a new plant in Eastern China to expand our production capacity in response to demands in regional markets and future market potential.
- For our key raw materials, we plan to selectively enter into strategic alliances with, or invest in, high-quality suppliers, in order to ensure the timely supply of key raw materials with stable quality, and to minimize the risks of price fluctuation.
- We will take advantage of facility upgrade and technological innovation to increase automation level and reduce manpower in our key manufacturing processes. The investment in integrated and automated infrastructure will enable us to materialize flexible manufacturing capabilities, better satisfy the customized product preferences of consumers and realize fast response to market demand.

Further enhance our R&D capabilities and upgrade our R&D facilities and management systems

Our R&D capability is critical for us to remain at the forefront of the market. Building on our R&D facilities and integrated R&D management platforms, we strive to provide substantial support for our application technology and product development. In particular,

- With the newly established Weilong Research Institute, our R&D program will place more emphasis on basic food technology, in sub-fields such as biology, protein, starch, fermentation and preservation, through external technical support guided by the integration of industry practices and academic research. Such efforts will enable us to improve the research, product development and upgrade of our products.
- We plan to significantly increase our investment in R&D facilities, by purchasing advanced research and analytical instruments for our Weilong Research Institute and applied R&D centers, and establishing integrated software systems to achieve industry-leading R&D and applications capabilities.
- We plan to develop a modern closed-loop R&D management system, by setting up a data-enabled platform that integrates internal and external R&D resources, optimizing our module-based R&D process, recruiting more talents, and advancing our work centered on “product lifecycle management”, so as to further improve our efficiency in R&D activities.

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OUR BRAND AND PRODUCTS

We are the leading brand of spicy snack food in China, in terms of retail sales value and market share in 2021, according to Frost & Sullivan. We are the most well-recognized and favored brand of spicy snack food among consumers and we are the No. 1 snack food brand in terms of brand awareness among those at or under the age of 25, according to Frost & Sullivan. We have been developing and offering a variety of popular and delicious spicy snack food, bringing a cheerful consumption experience to a broad consumer base spanning multiple generations.

Our market leadership and brand power are solidified by our aspiration and continuous efforts to upgrade existing products and introduce new products that are entertaining, casual, convenient and affordable. Our products cultivated our customers’ taste memories in their youthhood to establish an emotional connection with our customers, resulting in the increased purchase frequency of our products and enhanced brand loyalty. Our brand is widely recognized among Chinese consumers, especially Generation Z and the millennials, who are the major consumption force in the snack food industry in China and can easily resonate with our brand.

We focus on the R&D, manufacturing, sales and distribution of spicy snack food. We are committed to continuously upgrading our existing products and introducing new products in the Chinese snack food industry. We adhere to the principle of maximizing the intrinsic value of nature with an industrialized approach and are committed to keeping our products entertaining, casual, convenient and affordable, continuously providing consumers with a cheerful consumption experience.

- **Entertaining:** Entertainment is a fun and enthusiastic attitude towards life. We create entertaining interactions with consumers from multiple dimensions, such as product selection, packaging, naming of products and brands, through which we build emotional connections with consumers.
- **Casual:** Derived from traditional food, our products are designed with specifications suitable for various consumption occasions, turning authentic Chinese gourmet into casual snack food. Consumers can enjoy our products anywhere and anytime in various consumption occasions such as leisure activities, entertainment, travel and office hours, so as to obtain a more casual consumption experience.
- **Convenient:** We are committed to making our products easily accessible and readily available to consumers, bringing our products closer to consumers through broad and accessible channels, and enhancing the consumption experience for every package and every bite.
- **Affordable:** We are committed to providing consumers with affordable products. With premium flavors which consumers enjoy, we serve our high-quality products at a price level that consumers can purchase without burden, thus creating a cheerful consumption experience for customers.

We address the changing preferences of consumers and therefore have a growing consumer base and a high degree of customer satisfaction, created by continually rolling out popular snacks. We have a well-diversified and strategically-constructed product portfolio, covering the following categories:

- Seasoned flour products, primarily comprising *Big Latiao* (大麵筋), *Mini Latiao* (小麵筋), *Spicy Hot Stick* (麻辣棒), *Mini Hot Stick* (小辣棒) and *Kiss Burn* (親嘴燒).

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- Vegetable products, primarily comprising *Konjac Shuang* (魔芋爽) and *Fengchi Kelp* (風吃海帶).
- Bean-based and other products, primarily comprising *Soft Tofu Skin* (軟豆皮), *78° Braised Egg* (78°滷蛋) and meat products.

Our products are directly contained in individual packs of different specifications, including small packs and large packs. To enable consumers to enjoy our products conveniently, we launched small packs, which are independent, bite-size packages in single servings, usually contained within larger packaging bags. We also serve some other products in large packs, which are packaging bags of larger size that directly contain such products.

We will continuously select products and offer more new types when providing existing product categories above.

The following table sets forth a breakdown of our revenue by product categories for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million)	%
							(unaudited)			
Seasoned flour products	2,474.6	73.1	2,690.3	65.3	2,918.0	60.8	1,401.1	60.9	1,341.4	59.3
Vegetable products	665.0	19.6	1,167.5	28.3	1,664.1	34.7	793.0	34.4	817.6	36.2
Bean-based and other products	245.2	7.3	262.6	6.4	218.1	4.5	108.7	4.7	101.5	4.5
Total	3,384.8	100.0	4,120.4	100.0	4,800.2	100.0	2,302.8	100.0	2,260.5	100

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

		Year ended December 31,			Six months ended June 30,	
		2019	2020	2021	2021	2022
Seasoned flour products	ton	173,296.0	179,511.4	193,598.6	94,669.9	81,588.7
	RMB/kg	14.3	15.0	15.1	14.8	16.4
Vegetable products	ton	24,130.1	41,585.4	60,699.3	29,003.5	27,861.4
	RMB/kg	27.6	28.1	27.4	27.3	29.3
Bean-based and other products	ton	11,378.9	10,161.0	7,212.7	3,665.8	2,943.4
	RMB/kg	21.6	25.8	30.2	29.7	34.4

Seasoned Flour Products

Seasoned flour products represent our most classic product category. Our seasoned flour products are mainly comprised of *Big Latiao* (大麵筋), *Mini Latiao* (小麵筋), *Spicy Hot Stick* (麻辣棒), *Mini Hot Stick* (小辣棒) and *Kiss Burn* (親嘴燒).

Big Latiao (大麵筋) and *Mini Latiao* (小麵筋) are derived from beef tendon noodle, a traditional food in Northern China, with wheat flour as its main ingredient processed through extruding and puffing processes. *Big*

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Latiao (大麵筋) and *Mini Latiao* (小麵筋) are flavored with spicy chili oil, with a spicy and sweet flavor, and a spongy and chewy texture. They are the most classic products under our Weilong brand.

Big Latiao (大麵筋):



Mini Latiao (小麵筋):



Spicy Hot Stick (麻辣棒) and *Mini Hot Stick* (小辣棒) are the extensions of *Big Latiao* (大麵筋), with a pliable and chewy texture. Our *Spicy Hot Stick* (麻辣棒) and *Mini Hot Stick* (小辣棒) have a stronger spicy flavor compared to our other seasoned flour products.

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Spicy Hot Stick (麻辣棒):

Mini Hot Stick
(小辣棒):



Kiss Burn (親嘴燒) is a soft, juicy, and thick flour slice with a chewy texture:



In order to meet the needs of different markets and consumers in China, our seasoned flour products have been sold in two packaging specifications, namely classic packaging and premium packaging, since 2015; we sell other products in premium packages only.

- **Classic packaging products:** our classic packaging products usually use transparent packaging. Our classic packaging products initially gained access to the market through traditional channels, which mainly include small grocery stores, non-chained convenience stores, wholesale markets and mom-and-pop stores, and gradually expanded to a wider range of sales channels.
- **Premium packaging products:** our premium packaging products usually use non-transparent packaging. Our premium packaging products initially gained access to the market through modern channels, such as supermarkets and chained convenience stores, and gradually expanded to more sales channels.

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The following table sets forth our revenue of seasoned flour products by packaging specifications during the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB (million)	%	RMB (million)	%	RMB (million)	%	RMB (million) <i>(unaudited)</i>	%	RMB (million) <i>(unaudited)</i>	%
Classic packaging	1,202.2	35.5	1,266.6	30.7	1,325.4	27.6	671.3	29.2	561.1	24.8
Premium packaging	1,272.4	37.6	1,423.7	34.6	1,592.6	33.2	729.8	31.7	780.3	34.5
Total	2,474.6	73.1	2,690.3	65.3	2,918.0	60.8	1,401.1	60.9	1,341.4	59.3

Vegetable Products

Our vegetable products mainly comprise *Konjac Shuang* (魔芋爽) and *Fengchi Kelp* (風吃海帶), which are low in calorie and have a crispy texture.

Konjac Shuang (魔芋爽) uses konjac grown at a high altitude as its main ingredient. It is processed through the traditional hot pot red oil cooking methods, with flavors such as spicy and sour spicy. Adopting advanced technology, *Konjac Shuang* is made into a high dietary fiber snack product which is springy, juicy, crispy, tender and with rich flavors.



bulk packs



net weight: 24g



net weight: 150g

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Fengchi Kelp (風吃海帶) is derived from unprocessed kelp and selects the finest and most tasty parts as raw materials to preserve the tender and crispy texture, fresh and refreshing flavors. This retains the original nutrition and flavor to the greatest extent, integrating deliciousness and nutrition.



Bean-based and Other Products

In addition to seasoned flour products and vegetable products, we also produce bean-based products and other products, such as *Soft Tofu Skin* (軟豆皮) and *78° Braised Egg* (78°滷蛋).

Soft Tofu Skin (軟豆皮) is made of high-quality soybean protein, which goes through an extrusion technology to retain the original flavor, nutrition, ultra-thinness and rich taste of soybean protein. This preserves the high-quality characteristics of soybean protein, becoming the characteristic *Soft Tofu Skin* (軟豆皮).



Our other products mainly include products such as *78° Braised Egg* (78°滷蛋) and meat products.

78° Braised Egg (78°滷蛋) is a new product we launched in 2021. By using our unique temperature-controlled slow-cooking techniques, we strive to preserve the rich nutrients, tender texture, and delicate taste of egg white and yolk, while giving it a mellow braising taste with a little spicy flavor. Its eye-catching egg-shaped package design provides a fun experience for consumers.



net weight: 35g

net weight: 525g

(35g per individual pack × 15 packs)

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The table below sets out the launch time, shelf life, suggested retail price and net weight specification of our main products in China as of the Latest Practicable Date.

Product Category	Main Products	Launch Time	Shelf Life	Suggested Retail Price per Individual Package	Net Weight per Individual Package
Seasoned flour products	<i>Big Latiao</i> (大麵筋)	2008	120 days	RMB 1.0 – 18.8	28g, 65g, <u>100g</u> , 102g, 106g, 312g, bulk
	<i>Mini Latiao</i> (小麵筋)	2008	120 days	RMB 1.0 – 18.8	24g, <u>26g</u> , 60g, 280g, 312g, bulk
	<i>Kiss Burn</i> (親嘴燒)	2010	150 days	RMB 1.0 – 18.8	24g, 90g, 300g, bulk
	<i>Spicy Hot Stick</i> (麻辣棒)	2018	120 days	RMB 3.0 – 18.8	52g, 78g, <u>100g</u> , bulk
	<i>Mini Hot Stick</i> (小辣棒)	2018	150 days	RMB 5.0	50g
Vegetable products	<i>Konjac Shuang</i> (魔芋爽)	2014	180 days	RMB 1.5 – 29.8	24g, 50g, 150g, 350g, bulk
	<i>Fengchi Kelp</i> (風吃海帶)	2019	180 days	RMB 1.5 – 29.8	26g, 50g, 180g, 350g, bulk
Bean-based and other products	<i>Soft Tofu Skin</i> (軟豆皮)	2015	180 days	RMB 1.5 – 29.8	16g, 30g, 60g, 220g, bulk
	<i>78° Braised Egg</i> (78° 滷蛋)	2021	120 days	RMB 3.0	35g

OUR SALES CHANNELS

We distribute our products through our offline channels and online channels. The table below sets out a breakdown of our revenue by sales channel for the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Offline channels ⁽¹⁾	3,133,928	92.6	3,738,582	90.7	4,246,420	88.5	<u>2,034,446</u>	<u>88.3</u>	<u>2,021,169</u>	<u>89.4</u>
Online channels	250,838	7.4	381,775	9.3	553,780	11.5	<u>268,396</u>	<u>11.7</u>	<u>239,360</u>	<u>10.6</u>
– Online distribution ⁽²⁾	144,034	4.2	230,677	5.6	302,289	6.3	<u>153,590</u>	<u>6.7</u>	<u>117,861</u>	<u>5.2</u>
– Online direct sales ⁽³⁾	106,804	3.2	151,098	3.7	251,491	5.2	<u>114,806</u>	<u>5.0</u>	<u>121,499</u>	<u>5.4</u>
Total	<u>3,384,766</u>	<u>100.0</u>	<u>4,120,357</u>	<u>100.0</u>	<u>4,800,200</u>	<u>100.0</u>	<u>2,302,842</u>	<u>100.0</u>	<u>2,260,529</u>	<u>100.0</u>

(1) Offline channels mainly include distribution through our offline distributors. During the Track Record Period, our revenue generated from offline channels other than offline distributors was immaterial.

(2) Online distribution refers to the sales model under which we distribute goods to online retailers such as Tmall Supermarket and JD Supermarket, or other online distributors, who then sell our products to consumers.

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- (3) Online direct sales refers to the sales model under which we sell products directly to consumers through our self-operated online stores on multiple third-party online platforms, such as Tmall, JD.com, Pinduoduo, Douyin, and Kuaishou.

Offline Channels

We have a nationwide distribution network that deeply penetrates the Chinese market. As of June 30, 2022, we cooperated with more than 1,830 offline distributors which covered approximately 735,000 retail points of sale in China. We implement a strict screening and evaluation mechanism and from time to time visit distributors and retail points of sale to monitor their performance. We had an increasing percentage of revenue attributed to our offline corporate distributors during the Track Record Period. Meanwhile, we also strategically engaged offline individual distributors to explore new markets, especially in counties, as individual distributors can leverage their local resources and knowledge to cover retail points of sale. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, 48.5%, 49.9%, 49.7%, 47.9% and 51.1% of our offline distributors were corporations, contributing to 51.9%, 56.9%, 61.4%, 60.9% and 62.8% of our revenue from offline channel, respectively, while the remaining were individuals. According to the information collected from our distributors, as of June 30, 2022, among our 1,832 offline distributors registered in China, most of the individual distributors covered 300 to 850 retail points of sale, had 3 to 7 vehicles, and had 3 to 9 employees, and most of the corporate distributors covered 200 to 1,000 retail points of sale, had 2 to 8 vehicles, and 3 to 12 employees. As of June 30, 2022, we engaged 38 overseas distributors, for the distribution of our products in markets such as Southeast Asia and North America.

The table below sets forth a breakdown of number of our offline distributors in China by geographic location of the offline distributor’s registered office during the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Number	%	Number	%	Number	%	Number	%	Number	%
Eastern China	412	15.9	279	14.3	272	14.1	291	13.5	275	15.0
Central China	604	23.3	413	21.2	395	20.5	408	19.0	374	20.4
Northern China	482	18.6	416	21.3	361	18.8	492	22.9	343	18.7
Southern China	342	13.2	281	14.4	294	15.3	309	14.4	274	15.0
Southwestern China	387	14.9	289	13.9	305	15.9	326	15.1	288	15.7
Northwestern China	365	14.1	272	14.8	297	15.4	326	15.1	278	15.2
Total	<u>2,592</u>	<u>100.0</u>	<u>1,950</u>	<u>100.0</u>	<u>1,924</u>	<u>100.0</u>	<u>2,152</u>	<u>100.0</u>	<u>1,832</u>	<u>100.0</u>

The table below sets forth a breakdown of number of our offline distributors in China by city tiers of the offline distributor’s registered office during the periods indicated:

	Year ended December 31,						Six months ended June 30,			
	2019		2020		2021		2021		2022	
	Number	%	Number	%	Number	%	Number	%	Number	%
Tier 1 Cities and Tier 2 Cities	554	21.4	449	23.0	440	22.9	492	22.9	433	23.6
Lower-tier Cities	2,038	78.6	1,501	77.0	1,484	77.1	1,660	77.1	1,399	76.4
Total	<u>2,592</u>	<u>100.0</u>	<u>1,950</u>	<u>100.0</u>	<u>1,924</u>	<u>100.0</u>	<u>2,152</u>	<u>100.0</u>	<u>1,832</u>	<u>100.0</u>

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We mainly adopt a single-layer distribution model. For each geographical region, we choose a certain number of distributors who are key to our business expansion and cooperation in the region. Our criteria for selecting potential distributors include their reputation, market coverage, industry experience, track record, financial condition, warehousing and delivery capabilities, management capabilities and ability to penetrate retail points of sale. We usually deliver products to distributors after they have made payment and generally do not accept returns or exchange of products from distributors except for quality issues that occur during the warranty period of the product.

We have formulated general guidance at the headquarter level as well as detailed working principles for procuring new offline distributors. Criteria for potential offline distributor selection include scale of business, size and quality of employee team and transportation capabilities. When we enter a new region or market, we initially identify retail points of sale for snack food and other fast-moving consumer goods with strong sales performance and favorable location, and seek to obtain information in relation to the distributors they work with, which may become our potential offline distributors in the region. We also periodically attend fairs and expositions such as the China Food and Drinks Fair to identify and engage new distributors. After identifying appropriate distributors, our regional operational managers will conduct a preliminary discussion of cooperation with them and gather their background information for internal assessment.

We regularly visit our distributors and review their performance to maintain efficient operation of our distribution system. We have established an in-house service team responsible for monitoring distributors and retail points of sale by visiting them from time to time, which consisted of 423, 732, 675, and 737 employees as of December 31, 2019, 2020 and 2021, and June 30, 2022, respectively. Our service team visits our distributors to ensure they are able to manage the retail points of sale according to the business planning manual. The business planning manual lays out various operation guidelines such as procurement of new retail points of sale, display and exhibition of our products, implementation of promotion activities, and analysis of the operation performance. Our service team helps the distributors to understand and implement the business planning manual, and update the manual from time to time. In addition, our service team helps the distributors review their retail points of sale management and business performance, and examines whether the distributors have exercised reasonable management of the retail points of sale.

We have reasons to believe the above measures are effective in managing our distribution network and enabling the distributors to manage and monitor the retail points of sale. Our service team evaluates distributors based on their creditworthiness, inventory level in the regions of distribution, performance in developing and expanding distribution network, improvement in operating capabilities and sales performance. We also implement a series of policies covering the management of our distributors, such as the management of inventory turnover days and requirements for distributors to regularly visit retail points of sale. On average, our service team paid 10 to 23 visits to our distributors and 72 to 148 visits to retail points of sale per employee every month during the Track Record Period. With our proprietary sales management system, we are able to more effectively monitor the sales at our retail points of sale. See “– Information Technology.” We have also supported distributors to enhance their retail points of sale management capabilities, such as encouraging our distributors to designate their employees as sales specialists to visit retail points of sale and collect relevant information with our proprietary sales management system.

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In some cases, when our distributors cannot directly cover remote or unfamiliar markets in their designated areas, some of our distributors may further sell our products to sub-distributors. In general, we do not enter into contracts with such sub-distributors, thus having no control over sales activities of such sub-distributors. According to Frost & Sullivan, it is a common industry practice for practitioners in the industry in which we operate to rely on third-party distributors to sell the practitioners’ products to sub-distributors and retailers without entering into contractual relationships with such sub-distributors and retailers. From 2019, in order to further enhance market penetration, we adjusted the sales region of some of our distributors, and selectively established direct supply and distribution relationships with original sub-distributors under such distributors. As we continue to improve our management of distributors and enhance our retail presence, we expect that the contribution by such sub-distributors will decline gradually.

In general, our offline distributors are responsible for managing their sub-distributors, including ensuring that the sub-distributors’ operations are in line with our overall sales and distribution strategy. To the best of our knowledge, our distributors will visit their sub-distributors from time to time to monitor the market conditions, sales and inventory levels. In the event of any violation or misconduct of sub-distributors identified by our distributors, our distributors will accordingly notify the relevant sub-distributors and request them to take corrective and rectification measures. In case of failure to promptly correct or rectify the relevant violation or misconduct, our distributors may terminate the business relationship with relevant sub-distributors.

We believe that our sales correspond to actual end-consumers demand and therefore our products are at low risk of channel stuffing in our distribution network, because (i) most of the time we deliver products to distributors after they have made payment and, to the best of our knowledge, some of our distributors also deliver products to sub-distributors after the sub-distributors have made payment to distributors; (ii) we generally do not allow returns of products sold to distributors, except for quality issues that occurred during the warranty period. To the best of our knowledge, the same approach is generally adopted during the sales from our distributors to their sub-distributors; (iii) we require our distributors to report to us regularly on, and to maintain a reasonable level of, their inventory; and (iv) our products generally have a short shelf life of 120 – 180 days. After we adopt our proprietary sales management system, we expect to be able to monitor, and track in real time, the inventory level in our distribution network. See “– Information Technology.”

The table below sets out the total number of offline distributors and their movements for the periods indicated:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
Number of distributors at the beginning of the period	1,849	2,592	1,950	<u>1,950</u>	<u>1,947</u>
Number of new distributors for the period ¹	1,297	1,490	729	<u>509</u>	<u>256</u>
Number of terminated distributors for the period ²	554	2,132	732	<u>306</u>	<u>333</u>
Net increase (or decrease) in number of distributors for the period	743	(642)	(3)	<u>203</u>	<u>(77)</u>
Number of distributors at the end of the period	2,592	1,950	1,947	<u>2,153</u>	<u>1,870</u>

1. New distributors refer to distributors that placed its first order with us in our system in a particular year or period.
2. Terminated distributors refer to distributors that terminated their collaboration with us and closed their accounts with us in a particular period.

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During the Track Record Period, we adopted an active expansion strategy for our distribution network, and developed a considerable number of new distributors. Meanwhile, we also proactively sought for the optimal distribution management strategy that best fits for our business development. Through stringent management standards, we terminated our business relationship with a number of distributors that failed to deliver satisfactory sales performance as we expected, that lacked sufficient operational capabilities, that failed to engage in active transactions within certain period of time, and that failed to strictly follow our management policies for distributors. Consequently, we were able to keep developing and optimizing our offline distribution network. During the Track Record Period, changes in the number of our distributors are due to the following reasons:

In 2019, we commenced our business relationship with 1,297 new distributors, mainly due to our efforts in achieving higher channel penetration and in enhancing retail presence. We strategically and selectively established direct distribution relationships with some of the original sub-distributors under our existing distributors; in the same year, mainly due to our adoption of stringent management policies for distributors, we terminated our business relationship with 554 distributors that failed to grow business as fast as we expected, that experienced decline in sales performance, and that failed to engage in active transactions for an extended period of time.

In 2020, we commenced our business relationship with 1,490 new distributors, mainly due to our efforts in expanding our business and in achieving higher channel penetration. In the same year, we terminated our business relationship with 2,132 distributors. We replaced a relatively large number of distributors in 2020 in line with our strategy to further expand and upgrade our offline distribution network to support our rapid business growth. We intend to engage high-quality and professional distributors to more efficiently and effectively penetrate lower-tier cities as well as to reach a broader base of potential consumers. As a result, we carried out a distributor assessment program by the end of the third quarter in 2020, during which, we valued the overall strength of a distributor from a variety of perspectives. We adopted a multi-angle scoring mechanism to perform a comprehensive assessment of distributors, primarily focusing on (i) number of employees, (ii) logistics and storage capabilities, such as number of vehicles and storage area, (iii) number of retail points of sale the relevant distributor covers, (iv) office space and internal management systems, (v) cashflow position, and (vi) term of operation and the relevant experience of the management team. We prioritized the cooperation with distributors who scored higher during such program. Apart from this distributor assessment program, we also continued to improve and tighten our distributor management policies to incentivize the distributors to improve their performance, through terminating cooperation with distributors who failed to effectively cover their designated market, those with weak sales performance, and those who failed to maintain active transactions for a certain period of time. In light of such actions to improve our distribution network, despite we experienced a decrease in the number of distributors in 2020 compared with 2019, the number of counties that our distribution network covered increased from 513 as of December 31, 2019 to 584 as of December 31, 2020.

In 2021, we commenced our business relationship with 729 new distributors, mainly due to our efforts in enhancing our retail presence in line with our expansion in distribution network and achieving higher channel penetration. During 2021, we continued to implement more stringent distributor monitoring policies and to carry out our initiatives on a larger scale of encouraging distributors to effectively cover and manage retail points of sale. In the same period indicated, we terminated our business relationship with 732 distributors due to their weak sales performance, failure to engage in active transactions for a certain period of time, and failure to follow

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our distributor management policies to effectively cover their designated markets. The number of counties that our distribution network covered increased from 584 as of December 31, 2020 to 623 as of December 31, 2021. With a view to improve the service quality, expand the shelf space at retail points of sale and increase single-store sales, we are committed to enhancing our distribution network management with distributors to more effectively manage and serve their designated retail points of sale.

In the six months ended June 30, 2022, we commenced our business relationship with 256 new distributors, mainly due to our efforts in expanding distribution network and achieving higher channel penetration. In the same period indicated, we terminated our partnership with 333 distributors, mainly due to their failure to engage in active transactions for an extended period of time, their weak sales performance and their failure to follow our distributor management policies to effectively cover their designated markets. The number of counties that our distribution network covered decreased from 623 as of December 31, 2021 to 592 as of June 30, 2022 with retail points of sale covered increased from approximately 690,000 as of December 31, 2021 to approximately 735,000 as of June 30, 2022, primarily because we terminated our business with certain distributors in areas with limited market potentials while continuing to expand our distribution network through enhanced cooperation with distributors to increase their coverage of retail points of sales in adjacent areas.

The average revenue generated through sales to our retained offline distributors, referring to those distributors remained in business relationship with us as of the end of each year/period, amounted to RMB1.2 million, RMB1.6 million, RMB2.0 million, RMB0.9 million and RMB1.0 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. The average revenue generated through sales to our terminated offline distributors amounted to RMB0.1 million, RMB0.3 million, and RMB0.4 million, RMB0.3 million and RMB0.3 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively.

As of June 30, 2022, the average length of our business relationship with offline distributors and online distributors were 32.6 months and 26.5 months, respectively, and the average length of our business relationship with our top 20 offline distributors was 50.0 months.

During the Track Record Period and up to the Latest Practicable Date, we have no material unresolved disputes or lawsuits with these terminated distributors. For distributors that have terminated their business relationship with us, if they still have inventory remaining, we will not accept their product return (except for quality issues) as stipulated in the distribution agreement; instead, we usually coordinate with other distributors to take over their remaining inventory, if any. As we primarily terminate our business relationship with distributors for (i) poor performance, (ii) inactivity over 90 days, and (iii) failure to follow our distributor management policies to effectively cover their designated markets. The terminated distributors usually reported little or no inventory. In the six months ended June 30, 2022, terminated distributors reported a total inventory of 24.8 tons at the time of termination. See "Our Sales Channels – Offline Channels." Due to our relatively stable market coverage, our distribution network has and will remain stable, despite the termination of business relations with some distributors.

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The table below sets out the revenue contribution from new offline distributors and terminated offline distributors for the periods indicated:

	<u>Year ended December 31,</u>			<u>Six months ended June 30,</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>	<u>2022</u>
			RMB (million)		
Revenue from new offline distributors in the year/ <u>period</u> ⁽¹⁾ . . .	314.9	454.1	383.9	▲101.7	▲88.1
Revenue from terminated offline distributors in the year/ <u>period</u> ⁽²⁾	63.3	663.6	313.8	▲84.3	▲92.4

(1) Refers to the revenue from the new distributors generated in the year or period of their engagement.

(2) Refers to the revenue from the terminated distributors in the year or period of their termination.

We typically enter into standard distribution agreements, which are sales and purchase agreements in nature, with our distributors. As of the Latest Practicable Date, our distribution agreements did not contain non-competing terms. The salient terms of our standard distribution agreements used during the Track Record Period are set out below:

- *Duration.* The duration of the distribution agreements is typically one year.
- *Designated distribution area.* Offline distributors are not allowed to sell our products outside of their designated distribution areas.
- *Sales and performance target.* Distributors are incentivized to achieve or overachieve monthly and annual sales targets. We also set market performance targets for our offline distributors, including increasing the number of retail points of sale, expanding product display and stabilizing product prices. We conduct evaluation and inspection of their sales and performance, based on which we determine the incentive scheme.
- *Pricing policy.* We are entitled to adjust the prices at which we sell products to our distributors based on market conditions.
- *Access to information.* Distributors are required to provide sales reports to us upon request. These sales reports include sales volume, sales amounts and inventory levels by retail points of sale.
- *Payment.* We require our distributors to make payment before the delivery of products.
- *Logistics.* We are responsible for delivering our products to locations agreed between distributors and us.
- *Inventory.* Distributors are required to keep a reasonable inventory level of our products in accordance with our guidelines to avoid stock shortage.
- *Obsolete stock arrangements.* We are responsible for providing products with at least two thirds of the shelf life upon arrival at the distributors’ warehouses.

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- *Return arrangements.* For defective products within their shelf life, offline distributors are entitled to return or exchange such products upon our confirmation.
- *Sub-distribution.* We authorize our distributors to set up and sell products to sub-distributors.
- *Termination.* We have the right to terminate the contract with distributors who breach the distribution agreement. We list several conditions that may result in breach of contract in the distribution agreements, including occasions where distributors fail to purchase products from us for 60 consecutive days, or fail to reach the performance target in accordance with the agreement for three consecutive months.
- *Permitted Product for Sale (not in use in standardized contract since 2021).* Distributors are not allowed to sell other companies’ products in the same category with our products or in competition with our products, products that counterfeit our products, or our products that are expired, spoiled, or otherwise defective.

We believe that our standard distribution agreements enable us to sufficiently incentivize the distributors to actively market and sell our products and provide us with sufficient control over the distribution network.

We did not rely on any single distributor or a small number of distributors during the Track Record Period. Our revenue from any single offline distributor accounted for no more than 3.0% of our total revenue for each year/period during the Track Record Period. See “– Our Customers.”

We formulate and implement stringent policies to prevent existing employees from working for or owning equity in any of our distributors. When any former employee of ours becomes an employee of one of our distributors, or has equity in one of our distributors, we require our distributors to notify us. In addition, our internal control policy ensures the equal treatment of our distributors. During the Track Record Period, none of our existing or former employees were the legal representatives or executive managers of our distributors. To our best knowledge, during the Track Record Period, all of our distributors were Independent Third Parties. To our best knowledge, the offline distributors, or their respective associates, do not have any past or present family, business, employment, or financial relationships with us or our subsidiaries, our shareholders, directors or senior management, or any of their respective associates.

Online Channels

To complement our offline channels, we also sell our products through our online channels, either under our online direct sales model, or under our online distribution model. Under our online direct sales model, we sell products directly to consumers through our self-operated online stores; under our online distribution model, we sell our products to online retailers and online distributors for them to further distribute our products on their platforms or online stores to consumers. Revenue generated from online channels (including online direct sales model and online distribution model) in 2019, 2020 and 2021 grew at a CAGR of 48.6%. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from our self-operated online stores on third-party online platforms amounted to RMB106.8 million, RMB151.1 million, RMB251.5 million, RMB114.8 million and RMB121.5 million, respectively, accounting for approximately 3.2%, 3.7%, 5.2%, 5.0% and 5.4%,

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respectively, of our total revenue in the same periods. During the same periods, revenue generated from online distribution, including online retailers and online distributors, amounted to RMB144.0 million, RMB230.7 million, RMB302.3 million, RMB153.6 million and RMB117.9 million, respectively, accounting for approximately 4.2%, 5.6%, 6.3%, 6.7% and 5.2%, respectively, of our total revenue.

Online direct sales: We sell products directly to consumers via our self-operated online stores on third-party online platforms, including Tmall, JD.com, Pinduoduo, Douyin, and Kuaishou. As of the Latest Practicable Date, we did not sell our products through our official website or operate any online sales platform. Consumers can place orders for our products in our self-operated online stores and make payments via online payment channels. Under our online direct sales model, we are responsible for the logistics, fulfillment and after-sales services of the orders. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, revenue generated from our self-operated online stores on third-party online platforms amounted to RMB106.8 million, RMB151.1 million, RMB251.5 million, RMB114.8 million and RMB121.5 million, respectively, accounting for approximately 3.2%, 3.7%, 5.2%, 5.0% and 5.4%, respectively, of our total revenue in the same periods.



Online distribution: We distribute our products to customers via well-known online retailers, including Tmall Supermarket and JD Supermarket. At the same time, we also sell our products to online distributors, and such online distributors sell our products to consumers, primarily through third-party online platforms. During the Track Record Period, revenue generated from online distribution, including online retailers and online distributors, amounted to RMB144.0 million, RMB230.7 million, RMB302.3 million, RMB153.6 million and

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RMB117.9 million, respectively, accounting for approximately 4.2%, 5.6%, 6.3%, 6.7% and 5.2%, respectively, of our total revenue in the same periods.

We typically enter into sales and purchase agreements with our online retailers. The salient terms of our sales and purchase agreements used during the Track Record Period are set out below:

- *Duration.* The duration of the sales and purchase agreements is typically around 12 months.
- *Rights and Obligations.* We are generally responsible for supplying the products to the online retailers. Online retailers are generally responsible for displaying the products we sell through their channels, providing users with tools or modules to search and sort information, and arranging logistics and after-sale service of the orders.
- *Sales and performance target.* We generally do not set sales target for online retailers.
- *Pricing policy.* We sell our products to online retailers at price levels that have been mutually agreed by us and the online retailers.
- *Payment.* We deliver our products to our online retailers before our online retailers make payments to us. Depending on the specific arrangements with the online retailers, we may grant a credit period to online retailers of up to 60 days.
- *Return arrangements.* Our online retailers are entitled to return products to us for various reasons, including product quality issues, obsolete inventory, or product return from consumers to such online retailers.
- *Termination.* Either party has the right to terminate the contract with the other party, if the other party breaches the sales and purchase agreement and fails to rectify such breach within a reasonable period of time.

We typically enter into standard distribution agreements with our online distributors. The salient terms of our standard distribution agreements used during the Track Record Period are set out below:

- *Duration.* The duration of the distribution agreements is typically one year.
- *Designated distribution platform.* The distribution agreements designate the specific third-party online platforms, and the specific online stores at such third-party online platforms, that the online distributors are allowed to sell our products. Online distributors are generally not allowed to sell our products outside such designated online stores.
- *Sales and performance target.* Online distributors are incentivized to achieve or overachieve monthly, quarterly and annual sales targets. We provide online distributors that achieve or overachieve such sales targets with quarterly or annual rewards as a percentage of the sales revenue by such online distributors.

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- *Pricing policy.* We are entitled to adjust the prices at which we sell products to our online distributors based on market conditions.
- *Payment.* We require our online distributors to make payment before the delivery of products.
- *Logistics.* We are responsible for delivering our products to locations agreed between our online distributors and us.
- *Return arrangements.* Our online distributors are entitled to inspect the quality of our products upon delivery, and may raise request for product returns if the volume, product types, specifications or quality of the products delivered do not match those on the sales order. After delivery and the receipt of the products, online distributors are generally not allowed to return our products.
- *Sub-distribution.* Our online distributors are not allowed to engage sub-distributors, or assign their rights or obligations to any third party, without our written consent.
- *Termination.* Either party has the right to terminate the contract with the other party, if the other party breaches the distribution agreement and fails to rectify such breach within a reasonable period of time. We have the right to terminate the contract with our online distributors if our online distributors sell our products outside their designated distribution platforms, or at a price that materially disrupts our policy.

The table below sets out the total number of online distributors and their movements for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	2019	2020	2021	2021	2022
Number of online distributors at the beginning of the period	59	56	22	22	18
Number of new online distributors for the period ¹	32	25	11	7	5
Number of terminated online distributors for the period ²	35	59	15	1	2
Net increase (or decrease) in number of online distributors for the period	(3)	(34)	(4)	6	3
Number of online distributors at the end of the period	56	22	18	28	21

1. New online distributors refer to online distributors that started to have their initial transaction records with us in a particular year or period.
2. Terminated online distributors refer to online distributors that terminated their collaboration with us for certain reasons and closed their accounts with us in a particular period.

During the Track Record Period, we continued to manage our online distribution network by engaging new online distributors primarily as a result of the organic growth of our online business while terminating cooperations with online distributors that either failed to meet our expectation and deliver satisfactory sales performance, measured by metrics such as sales revenue or frequency of transactions, or would potentially compete with our online self-operated stores operated on third-party online platforms under our direct sales model.

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Coordination between Sales Channels

Any sales carried out by distributors outside their designated geographic areas, or any sales across online and offline channels without our prior approval, will be deemed as cannibalization. To minimize cannibalization among the distributors and sales channels, we typically adopt the following measures:

- We grant specific geographical regions to our offline distributors so that we can reduce the degree of competition between different offline distributors. The distribution agreements we signed with distributors generally specify the designated geographic areas. Our distribution agreements generally prohibit the distributors from selling the products outside the respective designated geographical regions without our prior written consent;
- We coordinate our different sales channels by providing, to certain extent, products in different packaging and weight specifications. The distribution agreements we sign with distributors generally specify the types of products to be distributed. We provide gift box packaging and more combination of SKUs of products to our online distributors and online distribution platforms, compared to offline distributors. For different online platforms, we also assign differentiated products. For example, we assign products with different specifications to Tmall and our online distributors, catering to different consumer purchase preferences;
- We have established a traceability system to minimize the risk of cannibalization. Most packaged products are identifiable with a QR code on their packages of the smallest sellable unit, their wholesale box packages, and their delivery notes from us. Products sold in bulk are identifiable with a QR code on their delivery boxes and delivery notes from us. For example, we offer *Konjac Shuang* in packages and in bulk packs. Each package of *Konjac Shuang*, which contains 20 smaller single individual packs, is a smallest sellable unit to end-consumers. We sell such packaged products in wholesale boxes to our distributors. Meanwhile, *Konjac Shuang* in bulk packs are usually sold in bulk or by weight at retail points of sale to end-consumers. For such products, we sell them in delivery boxes to our distributors. All distributors are required to scan the QR code when they receive the products to record the flow of products. Receiving distributor scans the QR code on the products to confirm products receipt and complete the registration process, which allows our system to establish a link between the products and the receiving distributor. The receiving distributor is marked permanently as the first distributor. If the products carrying the QR code are sold outside the designated sales region of the first distributor, our sales team or distributors in the affected regions could easily track such on-sell activities by tracing the products through their QR code back to the first distributor;
- To avoid potential competition between our online distributors and our self-operated online stores, we have differentiated the combination and packaging of the products, catering to different consumers’ needs. For example, we offer snack variety packs in our online self-operated stores and snack in bulk to our online distributors. This is because our self-operated online stores usually attract customers with higher brand awareness, who are more interested in trying out our comprehensive product selection. Meanwhile, our online distributors usually offer the

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representative products of us and other brands at the same time, allowing their customers to purchase diversified products in one transaction. In addition, we sometimes provide different snack combinations and packaging for one product sold across different e-commerce platforms. We also tailor our marketing campaigns and strategies to the target consumers on the specific e-commerce platform, from white-collar workers to those who are more price sensitive, thus avoiding cross-platform competition.

- We require our distributors and employees to report cannibalization they have identified through our proprietary technology system;
- We have a team responsible for auditing any violations by distributors such as cannibalization; and
- We are entitled to terminate the distribution agreements with those distributors that are repeatedly engaged in severe cannibalization.

Pricing

Our sales prices are set with reference to various factors, such as product positioning, production costs, market competition and reasonable profit level of our distributors. Our distributors are recommended to follow our pricing system with product prices and can adjust the price of the products where appropriate. Our distributors shall not take any actions that may materially disrupt our pricing system. We recommend the same suggested retail price range to the same SKU of products sold through online and offline channels. See “– Our Sales Channels – Offline Channels.” Our sales staff periodically review our distributors’ selling prices through on-site checks.

Anti-Bribery and Corruption Policy

In order to maintain our reputation and integrity, we have implemented anti-bribery and corruption policy which requires our employees, distributors, and suppliers to conduct business legally and ethically. We request our suppliers and distributors to undertake in writing not to conduct non-compliances, suspicious transactions, fraud, corruption or bribery by signing *Integrity Agreement* with us. Our *Integrity Agreement* prohibits our suppliers, distributors, and employees from offering unauthorized payment, such as bribes, kickbacks, or benefit with each other.

Pursuant to our anti-bribery and corruption policy, suppliers who engage in non-compliances, suspicious transactions, fraud, corruption or bribery will be suspended and receive a fine of the highest of 1) amount that is 10-100 times of the actual bribery amount; 2) 30% of contract amount; and 3) RMB10,000. Employees who engage in non-compliances, suspicious transactions, fraud, corruption or bribery will be discharged and reported to relevant authorities in grave cases. Our anti-bribery and corruption policy also provides whistle blowing contact details including hotline and email address. Whistle blowers will receive monetary reward in the amount equal to the penalty amount under our anti-bribery and corruption policy. Information of the whistle blowers are strictly confidential.

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INFORMATION TECHNOLOGY

Leveraging information technology, we effectively monitor and optimize our management system, sales, production and other processes. Our information system is based on our four major types of infrastructure, including IaaS/PaaS system, three-tier network architecture, data center and hybrid cloud, on which a series of functions such as product operation and data management are realized through the following information systems.

- **The ERP system:** We employed an ERP system to empower our sales and distribution, raw materials management, production planning, logistics and quality control. With this system, we have achieved real-time monitoring of our production equipment.
- **Our proprietary sales management system:** In respect of sales channels, since the beginning of the second quarter of 2021, we have started to adopt our proprietary sales management system, which combines functions such as management of sales orders, route planning for retail points of sale, visiting inventory management for distributors and monitoring of product display at retail points of sale. Capitalizing on this system, we are able to address the entire business process management spanning across our chain of distribution. Our proprietary sales management system helps us to empower our distributors and enhance information sharing and collaboration among our distributors, their employees, retail points of sale and us, thereby promoting the efficiency of our distribution network.
- **The item-specific serial code information system:** In addition, in respect of sales channel management, we have established an item-specific serial code information system to trace our products by adding a QR code that can be scanned and verified on the product packing box.
- **The automated warehousing recording system:** In respect of warehousing, we have established an automated warehousing recording system to ensure the real-time keeping of warehousing records.
- **The supplier relationship management system.** Our supplier relationship management system enables us to integrate resources along the supply chain, align value propositions to potentially decrease our high upfront cost, and cultivate mutually beneficial business relationships.
- **The enterprise asset management system.** We aim to manage and optimize the quality and utilization of assets throughout the lifecycle of our key equipments via our digital enterprise asset management system to lower their failure rates and maintenance costs, improve their reliability, and increase our operational efficiency.
- **The Industrial Internet of Things.** Through the wide use of smart sensors and actuators installed upon our factory, machines and equipment, together with software and applications we co-developed with an R&D partner, we have enhanced our manufacturing and industrial processes and facilitated our personnels with better data analysis capabilities, visualized decision-making panels and seamless operations.

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- **The piece-wage system:** In respect of production, we have adopted a self-developed piece-rate wage system for workers, which can automatically calculate workers' wages based on their workload, thus facilitating the management of workers' wages.
- **OA process approval system:** Through our OA system, we are able to implement electronic approval procedures for our business processes that require approval, which greatly enhanced the efficiency of our operations.
- **Contract management system:** We have adopted a contract management system which manages all the contracts that we entered into through an integrated platform, leading to significant improvement in our operational efficiency.
- **Expense control and reimbursement system:** We have adopted an advanced expense control and reimbursement system, which helps us better manage our expense control process, covering business-related occasions such as travel application, ticket booking, and reimbursement. This also realizes unified monitoring and management in our business processes.

MARKETING AND PROMOTION

We design and implement entertaining branding activities and marketing promotional strategies to reinforce and add more vitality to our brands, thereby continually enlarging our consumer base and increasing customer loyalty. We believe the best marketing strategy is turning our customers into our natural brand promoters. To this end, we endeavor to increase consumer participation and interaction in building our brands, and strengthen the communication with consumers through packaging design and copywriting design.

Our marketing strategy successfully builds emotional connection with young consumers and has cultivated a stable and loyal consumer base to further enhance our brand influence. According to Frost & Sullivan, our customers are typically at or under the age of 35, who are tech-savvy with fast-paced lifestyles and are willing to pay higher prices for food with immediate gratification for trending products. We expand our reach to the younger generations through a variety of touch points, making them familiar with our brands from a young age. In addition, we combine product slogans with decorative packaging designs which are tied firmly to pop culture, creating classic, interactive and entertaining content that are well-placed in the minds of young people to further enhance brand loyalty.

Our outstanding product quality and reputation accumulated throughout the decades have placed our products among the most popular snack food for consumers. As the leader in spicy snack industry with accumulated industry experience, expertise and advanced level of R&D, we have actively undertaken advertising and product education campaigns such as seminars discussing industry standards for seasoned flour products with the CIFST and KOLs in nutrition and food safety. At the same time, we rank No. 1 among snack foods for Generation Z consumers. According to Frost & Sullivan, Generation Z consumers are longing for joy in the consumption process and are receptive to fun, amusing and trendy marketing. One of our key marketing themes is to cultivate consumers' memories and spark their nostalgia for the tastes of their youthhood, facilitating reminiscences and prolonging their emotional connection with our brands. We cooperate with famous content creators and launch attractive videos on Bilibili, catering to the media preference of Generation Z and expanding

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our brand exposure. With the support from the younger generations, in 2021, we were awarded the “China-Z 100” 2021 Bilibili Top 100 Popular Chinese Products among Young People.

Set out below are some of the representative marketing events carried out during the Track Record Period:

- *Topic-based Marketing.* We created the topic of “Double Eleven, Add-on Items for You”(“雙11衛你湊單”) and “Weilong Latiao Gaokao Quiz”(衛龍辣條摸底考試) to celebrate the National College Entrance Examination.
- *Theme-based Products.* We developed the “Everything Can be Spicy”(“萬物皆可辣”) series of peripheral products, which contributed over 1,900 million views to our brand exposure, and our *Latiao* Quilt became a hot topic in Weibo in terms of search frequency.
- *Store Interface Marketing.* Our Tmall self-operated store webpage changed to food court style during the summer, Disco style and fashion show style on Double Eleven and Excel style on Double Twelve, which made our brand appeal to a wider range of consumers.
- *Festival Marketing.* We offered Weilong *Latiao* New Year’s Eve Dinner, which contributed over 70 million views to our brand exposure, and our *Latiao* Dumpling became a hot topic in Weibo.
- *Co-branded products.* We entered into co-branding partnerships with notable brands in the retail and sports sectors, to foster strategic alliances to explore new opportunities in other markets and engage with prospective consumers. For example, we launched co-branded sneakers with Anta and co-branded *Latiao* Baozi with a leading new retail platform.

We strategically utilize multiple marketing vehicles through a combination of offline channels, online platforms and social media platforms to enhance awareness and recognition of our brands and ensure comprehensive consumer exposure. We carry out themed promotional events during holiday seasons and launch free trial activities at our retail points of sale to promote our existing and new products. We also place print and digital display advertisements at salient locations in and outside retail points of sale to capture consumers’ attention and kindle their interest in our products. We maintain various official social media accounts to actively engage with consumers, addressing their questions or concerns while promoting our products. Our principal Weilong official social media accounts had approximately 3.23 million followers as of the Latest Practicable Date. We also engage celebrities as brand ambassadors to market our brands, which further helps promote our brand image and increase awareness of our brands among consumers.

We have a professional and experienced marketing team. Our marketing department at our headquarters is in charge of marketing strategy, brand operation and channel development. We assign marketing directors in each of our sales regions to execute our marketing strategies and oversee regional sales and marketing efforts. We also engage third-party marketers or marketing companies to assist in implementing marketing projects, including marketing video recording.

In addition, as part of our online marketing strategies, we cooperate with internet celebrities to promote our products through live streaming on major social media platforms, to achieve broad exposure to online

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consumers. We engage internet celebrities to taste test our products and share their feedback with their large network of followers.

We may enter into one-off contracts for each of our cooperation with internet celebrities. The salient terms of such contracts are set out below:

- *Cooperation Contents.* Internet celebrities provide us with mutually agreed product promotion services. We typically stipulate the products, discount prices, discount method and other details of our promotion activities in our contract with internet celebrities.
- *Payment.* Our payment to the internet celebrities typically consists of a fixed live streaming fee and a commission of 20% of the sales amount generated from the internet celebrities’ promotion activities. Our commission settlement period with the internet celebrities is typically 30 days after the promotion activities.
- *Confidentiality.* Pursuant to the contracts, the internet celebrities shall not leak our commercial secrets to any third parties.
- *Termination.* We are entitled to terminate our contracts with the internet celebrities if the internet celebrities materially breach the contracts and have not taken any remedial measures within 30 days after the breach.

In line with the Administrative Measures for Online Trading taking effect on May 1, 2021, when carrying out online trading activities through online social networking, webcasting, and other online services, we display goods or services, their actual business entities, after-sales service, and other information in a conspicuous manner, or provide the link identification of the above-mentioned information. Our PRC Legal Advisor is of the view that the Company has complied with the applicable laws and regulations in relation to the aforesaid online trading activities in all material aspects.

OUR CUSTOMERS

Our customers primarily encompass distributors, and to a lesser extent, customers of our self-operated online stores are mostly individual consumers. For details of distributors, see “– Our Sales Channels.” All of our five largest customers in each of 2019, 2020, 2021 and the six months ended June 30, 2022, were distributors. The revenue from our five largest customers combined accounted for 8.4%, 4.9%, 5.5% and 6.2%, respectively, of our total revenue for the periods indicated. The change in the absolute amount and contribution of revenue generated from our top five customers during the Track Record Period was primarily due to our constant expansion of distribution network and rapid growth in online channels that affected revenue contribution percentage of top five customers.

OUR RESEARCH AND DEVELOPMENT

We are committed to presenting authentic and consumer-preferred tastes with best-in-class quality and uncompromising food safety standards. To maintain our competitive edge, we engage in a variety of research and development activities and invest in upgrades, renovation and emerging technologies to meet ever-changing consumer preferences and promote the sustainable growth of sales.

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We focus on the modularization of our food research and development as well as fresh-retaining and packaging technologies. We enhance our advantages in each module and further achieve synergies among the modules, simultaneously applying our technologies to the development of multiple categories of products.

As the leader in spicy snack industry with accumulated industry experience, expertise and advanced level of R&D, we worked with the CIFST and other academic institutes and associations in drafting the Industry Standards for Seasoned Flour Products (QB/T 5729-2022), which was promulgated by the Ministry of Industry and Information Technology on April 24, 2022 and came into effect on October 1, 2022. In July 2022, we assisted the CIFST to host a seminar discussing the abovementioned industry standards, which provided guidance for the development of the industry in the long term. 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.

Product Research and Development

We rely on research and development efforts to yield new products and upgrade the existing products to spur consumption desires of consumers. We invest in advanced technology in connection with product development and upgrades. In order to offer a wider array of specialty snack food, we search for suitable ingredients in large and easily accessible quantities and subsequently develop fun and healthy products that appeal to consumers according to the principles of making Chinese gourmet more entertaining, casual, convenient, and affordable. Depending on market conditions, we typically develop more than one to two new products to market each year. As of the Latest Practicable Date, we had more than four products in the research and development pipeline. Specifically, we plan to launch new vegetable products in 2024, and new bean-based and other products, including bean-based products, meat-based products, and meal replacement products from 2023 to 2025. Our research and development phase usually lasts for approximately one year. We will then conduct online and offline market testing and analysis for our new products during the product introduction phase, which typically lasts one year.

In order to maximize the intrinsic value of nature with an industrialized approach, we partner with academic institutions to apply modern technology to our product development process. For instance, we have jointly established a laboratory with Jiangnan University (江南大學) to adjust our ingredient selection and production techniques, excavate functional components of our products and further upgrade our existing products and introduce new products.

In order to better understand consumer needs, we track and collect real-time consumption data, including consumers’ comments and preferences, through our self-operated online stores. We may also engage third-party data providers to collect market data and media data.

Production Techniques Research and Development

In order to ensure the quality and stability in the flavor and taste of our products, we continuously enhance production techniques and renovate our equipment in pursuit of efficiency enhancement, cost reductions and process modularization. Our development team is responsible for developing and upgrading our automated

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production lines in-house or in collaboration with our third-party equipment manufacturer partners. As of June 30, 2022, most of our production lines were developed in-house or developed through collaboration with our third-party equipment manufacturer partners.

Research and Development Investment and R&D Team

In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, our total investment in research and development activities were RMB15.9 million, RMB24.2 million, RMB33.5 million, RMB10.1 million and RMB23.5 million, respectively.

We have established two applied research and development centers, one in Henan and the other in Shanghai, and established our Weilong Research Institute in Henan. The applied research and development center in Henan will mainly focus on the upgrade and iteration of our existing products, and the optimization of our production techniques and facilities, whereas the applied research and development center in Shanghai will mainly focus on the development of new products. Our Weilong Research Institute focuses on the research of basic food technology, which is equipped with liquid chromatograph, liquid mass spectrometer, gas chromatograph, gas mass spectrometer, texture analyzer, near-infrared analyzer, lipid oxidation stability analyzer and automatic nitrogen analyzer. Leveraging our matured instrumentation technology, testing instruments and laboratory management system, our Weilong Research Institute has the testing capability for risk hazards. It also has food physical properties research capability, food flavor research capability and food biotechnology research capability.

We have a professional and experienced research and development team. As of the Latest Practicable Date, we had 80 research and development professionals, and approximately 56.3% of whom have postgraduate degrees, with specialties covering food engineering, food safety and nutrition, polymer chemistry, biology, inspection and testing and other fields. We have teams of experts specialized in diverse areas, including a team for the research and development of packaging materials with emphasis on material structure, user experience and suitability evaluation. We have established a team for fundamental research responsible for biotechnology, flavor research, inspection science, physical property research, food nutrition and safety research and other basic food technologies, as well as an application research and development technical team focusing on seasoned flour products, vegetable products, and bean-based and other products. We regularly organize employees to participate in industry associations and exhibitions in such fields. We conduct regular technical exchanges with suppliers and scientific research institutions in various professional fields, and we have set up an internal research and development forum to conduct product technology exchanges and training to maintain our team's professionalism.

OUR PRODUCTION

According to Frost & Sullivan, automation in Chinese traditional food processing enterprises is currently under development, and there is still a large gap between the levels of food industry production techniques in China and those in western developed countries. In terms of the Chinese traditional food processing enterprises, we pioneered in the production and quality control in the spicy snack food industry. We strictly monitor the key parameters of production lines.

Automation and standardization define our production techniques. As of the Latest Practicable Date, most of the key production techniques for our vegetable products and the majority of the key production techniques for

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our seasoned flour products and bean-based and other products are automated. Automation and standardization in our production lead to several advantages:

- Precise quality control: with automated production techniques, the temperature, pressure and processing time for each key step in the production techniques can be accurately controlled, making quality control much easier and resulting in products of higher quality.
- Reduction in labor and energy costs: automated production techniques can effectively reduce costs in labor and energy. Given our increasingly automated processes, our energy consumption per ton is gradually reduced. For example, the average electricity consumption of konjac products per kilogram continued to decrease during the Track Record Period.

Meanwhile, to maximize production efficiency and broaden our product portfolio, we also cooperate with reliable OEM suppliers for the production of products that we sell in relatively smaller amount, such as fish tofu. We engage OEM suppliers primarily to (i) facilitate the production of some of our new products in their initial testing stages, or the production of some of our products produced in smaller volume, that we prefer not to mass-produce in-house; and (ii) ease the short-term pressure on our production facilities when our actual demand temporarily exceeds our production capacities in peak seasons. We carefully take into account factors such as price, quality, production capacity, financial conditions, delivery scheme, business scale and reputations of OEM suppliers. We carefully manage and monitor the performance of our OEM suppliers, and require our OEM suppliers to comply with our internal guidelines and policies. In the event of any failure by our OEM suppliers to meet our internal guidelines and policies, we may cease to work with them. We maintain long-term relationships with our OEM suppliers. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, the procurement amounts from our OEM suppliers accounted for 9.2%, 11.8%, 10.4%, 9.9% and 11.1%, of the cost of sales of goods for the periods indicated, respectively.

The following table sets forth the breakdown of the production volume by producer during the Track Record Period:

	<u>Years ended December 31,</u>			<u>Six months ended</u>	
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>June 30,</u>	
				<u>2021</u>	<u>2022</u>
			ton		
Attributed to our internal production	195,898	211,829	244,897	117,959	103,500
Attributed to OEM production	14,007	20,856	17,932	8,998	7,475
Total	209,905	232,685	262,829	126,957	110,975

The salient terms of the agreements with our representative OEM suppliers are set forth as below:

- *Term:* One year in general.
- *Principal rights and obligations of parties involved:* We specify the product type, unit price, quantity, delivery timeline and other detailed items in each purchase order we send to our OEM suppliers from time to time. The OEM suppliers are obligated to produce the products we demand.

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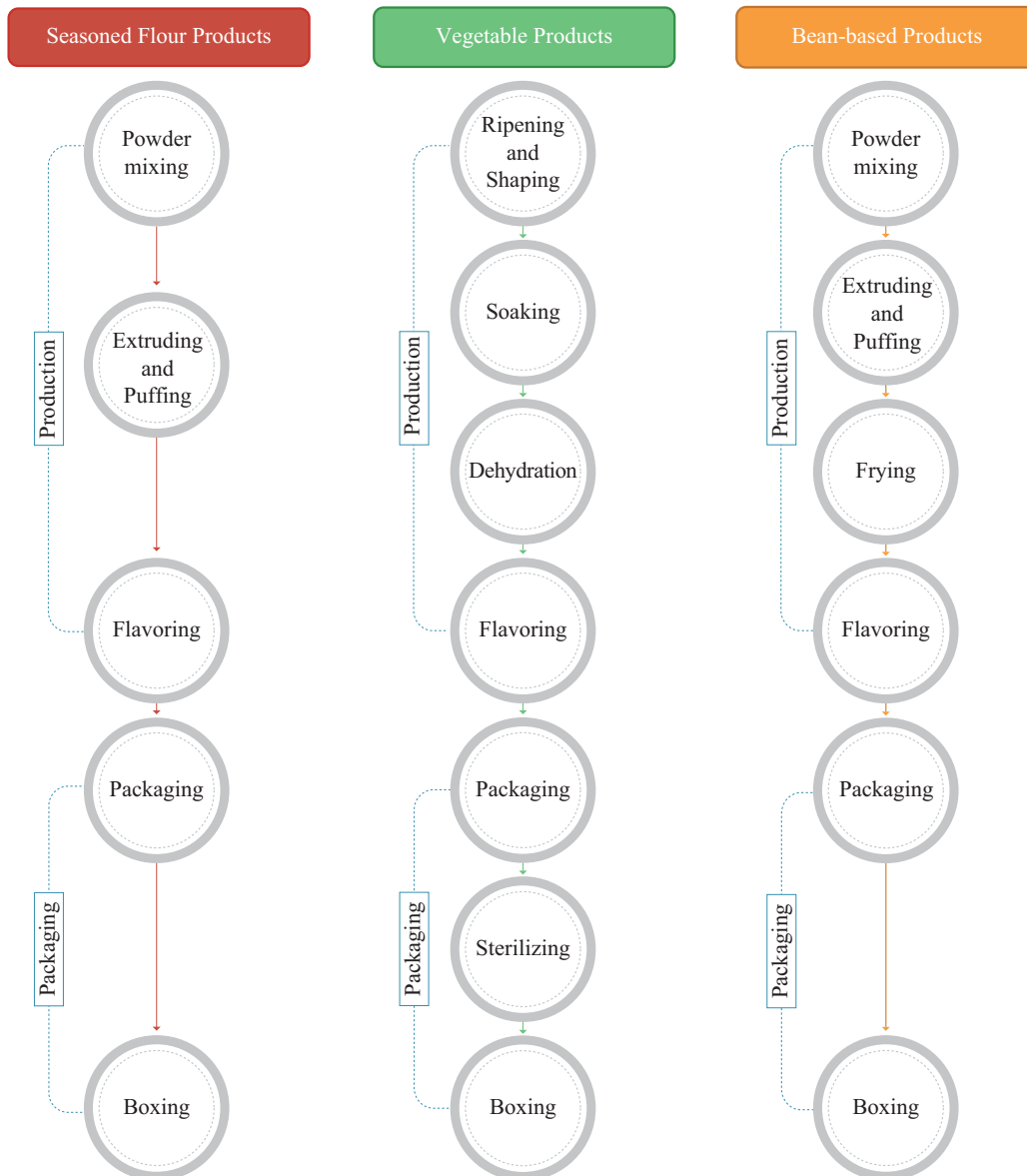
- *Minimum purchase:* The contract may specify the minimum purchase.
- *Payment and delivery:* We are responsible for timely payment of the consigned processing fee to the OEM suppliers, who are responsible for delivery at our domicile.
- *Further subcontracting:* Further subcontracting is not allowed without our consent.
- *Product returns:* We may return products to OEM suppliers under scenarios such as product quality issues or late delivery.
- *Termination:* We have the right to notify the OEM suppliers and terminate the contract in instances such as their late delivery, non-conforming delivery, unqualified products, complaints or investigations, and disclosure of confidential information.

Our Production Process

Our standard production process includes food production and packaging processes. For the production process of seasoned flour products, it typically includes powder mixing, extruding and puffing and flavoring. For the packaging process, it includes wrapping and boxing. For the production process of vegetable products, it typically includes ripening and shaping, soaking, dehydration, flavoring, packaging, sterilizing and boxing.

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The diagram below illustrates the key steps of our production process:



The details of the key steps in the production processes of seasoned flour products are as follows:

- *Powder mixing*: Use wheat flour as the main ingredient, and add water, edible salt and various auxiliary materials for powder mixing.
- *Extruding and puffing*: Extrude and puff the above mixed powder into dough.
- *Flavoring*: Evenly mix the dough with the seasoning and seasoning oil.
- *Packaging*: Put the seasoned semi-finished products on a quantitative basis into packaging bags and seal them.
- *Boxing*: Put the packaged products into cardboard boxes and seal them.

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The details of the key steps in the production processes of vegetable products are as follows:

- *Ripening and shaping*: Use konjac as the main ingredient, add water to puff it and add dietary alkali for ripening and shaping.
- *Soaking*: Conduct acid-base neutralization for the shaped semi-finished products.
- *Dehydration*: Dehydrate the semi-finished products.
- *Flavoring*: Evenly mix the dehydrated semi-finished products with the seasoning and seasoning oil.
- *Packaging*: Put the seasoned semi-finished products by package quantity into packaging bags and seal them.
- *Sterilizing*: Sterilize the packaged products using pasteurization.
- *Boxing*: Put the sterilized products into cardboard boxes and seal them.

The details of the key steps in the production processes of bean-based products are as follows:

- *Powder mixing*: Use soybean meal as the main ingredient, and add water, edible salt and various auxiliary materials for powder mixing.
- *Extruding and puffing*: Extrude and puff the above mixed powder into bean dough.
- *Frying*: Fry and dehydrate the bean dough.
- *Flavoring*: Evenly mix the dehydrated bean dough with the seasoning and seasoning oil.
- *Packaging*: Put the seasoned semi-finished products by package quantity into packaging bags and seal them.
- *Boxing*: Put the packaged products into cardboard boxes and seal them.

Our Production Facilities

As of June 30, 2022, we had four plants in Henan, namely Luohe Pingping Plant, Luohe Weilai Plant, Zhumadian Weilai Plant and Luohe Weidao Plant and one plant under construction in Henan, namely Luohe Xinglin Plant, at which part of the production lines had been utilized for test production.

BUSINESS

The table below sets out the details of our production lines for the periods indicated:

Product Segment	Year ended December 31,									Six months ended June 30,		
	2019			2020			2021			2022		
	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate
	(ton)			(ton)			(ton)			(ton)		
Seasoned flour products	190,407.3	166,579.5	87.5%	235,972.0	168,855.3	71.6%	261,308.3	179,653.9	68.8%	107,773.2	75,497.2	70.1%
Vegetable products	24,756.2	21,760.4	87.9%	45,936.0	39,331.6	85.6%	79,992.0	60,599.3	75.8%	38,214.0	26,809.9	70.2%
Bean-based and other products	11,101.7	7,558.5	68.1%	4,860.6	3,642.6	74.9%	5,310.0	4,643.9	87.5%	1,545.8	1,192.5	77.1%
Total	226,265.2	195,898.4	86.6%	286,768.6	211,829.5	73.9%	346,610.2	244,897.1	70.7%	147,533.1	103,499.5	70.2%

- (1) The designed production capacity of the year or period is calculated based on the following assumptions: (i) All product lines are functioning in its full capacity; (ii) our production facilities operate 20 hours per day for most of our products, and 8 hours per day prior to 2021 and 16 hours per day in and after 2021 for very few products within the bean-based and other products category, and (iii) we operate 264 working days per year. According to Frost & Sullivan, our capacity calculation method, including the assumptions used therein, is generally in line with the standard of the relevant industry in China. The annualized design production capacity during the six months ended June 30, 2022 is calculated by the designed capacity times two.
- (2) The actual production during the year or period is the total volume of the products manufactured during that year or period. The annualized production during the six months ended June 30, 2022 is calculated by the actual designed capacity times two.
- (3) The utilization rate equals to the actual production volume divided by the designed production capacity during the same period.
- (4) Our designed production capacity for seasoned flour products increased from 190,407.3 tons in 2019 to 235,972.0 tons in 2020 and further increased to 261,308.3 tons in 2021 primarily due to more production lines started operation in the Luohe Weidao Plant in 2020. Our designed production capacity for seasoned flour products decreased in the six months ended June 30, 2022 primarily due to our key production equipment upgrade. The utilization rate for our seasoned flour products decreased in 2020 in comparison with 2019, mainly resulted from an increase in production capacity and the suspension of production during the first two months of 2020 due to the impact of COVID-19 outbreak, and further decreased slightly in 2021 compared with 2020 mainly due to the increase of designed production capacity.
- (5) Our designed production capacity for vegetable products was on an ascending trend from 2019 to 2021 as we purchased additional production facilities used for the production of vegetable products, based on market demand, during the same period and the annualized designed production capacity in the six months ended June 30, 2022 slightly decreased primarily in relation to our key production equipment upgrade. The utilization rate for our vegetable products decreased in 2019, 2020 and 2021 as the result of the increase in actual production being outpaced by the increase in designed production capacity. The annualized actual production of our vegetable products decreased in the six months ended June 30, 2022 primarily due to the impact of the COVID-19 Resurgence, which led to the decrease of the utilization rate for the same period.

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- (6) Our designed production capacity for bean-based and other products declined from 2019 to 2020 due to (i) our cease of certain bean-based and other products due to their weak performance, and (ii) our cooperation with certain OEM suppliers in respect of bean-based and other products to improve our overall production efficiency, which was partially offset by the increase of our designed production capacity, and increased from 2020 to 2021 due to the change of our production facilities for egg-based products from operating 8 hours per day to 16 hours per day. The production volume attributable to OEM suppliers amounted to 3,818.1 tons, and 6,410.8 tons respectively, in 2019 and 2020, partially offsetting the decrease in our production capacity from 11,101.7 tons in 2019 to 4,860.6 tons in 2020. For our bean-based and other products, our utilization rate increased in 2020 in comparison with 2019, resulted from a significant decrease in the number of production lines, increased in 2021 primarily due to the rise in production of egg-based products for pilot sales projects, and decreased in the six months ended June 30, 2022 primarily due to our cooperation with OEM suppliers for certain bean-based products to improve our overall production efficiency.

	Year ended December 31,									Six months ended June 30,		
	2019			2020			2021			2022		
	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate	Designed Capacity	Actual Production	Utilization Rate
Production Plants	(ton)			(ton)			(ton)			(ton)		
Luohe Pingping Plant	117,437.3	97,198.2	82.8%	123,619.5	97,032.5	78.5%	113,484.5	86,365.4	76.1%	52,696.9	34,292.0	65.1%
Luohe Weilai Plant	38,003.2	32,412.1	85.3%	60,358.8	39,029.5	64.7%	64,034.7	38,280.9	59.8%	28,278.6	18,382.6	65.0%
Zhumadian Weilai Plant	70,120.7	65,761.2	93.8%	71,253.9	55,391.1	77.7%	70,848.6	55,386.5	78.2%	18,354.1	14,557.8	79.3%
Luohe Weidao Plant	704.0	526.9	74.8%	31,536.4	20,376.3	64.6%	98,242.5	64,864.2	66.0%	48,203.5	34,202.7	71.0%
Luohe Xinglin Plant	=	=	=	=	=	=	=	=	=	N/A	2,064.4	N/A
Total	226,265.2	195,898.4	86.6%	286,768.6	211,829.5	73.9%	346,610.2	244,897.1	70.7%	147,533.1	103,499.5	70.2%

- (1) The utilization rate of our four plants generally decreased in 2020 in comparison with 2019, primarily as a result of the suspension of our production in early 2020 due to the outbreak of COVID-19. See “Financial Information – Impacts of the COVID-19 Outbreak.” In addition, the utilization rate at Luohe Weilai Plant and Luohe Weidao Plant decreased in 2020 compared to 2019 as a result of fast expansion in designed capacity.
- (2) The designed capacity of Luohe Pingping Plant and Zhumadian Weilai Plant decreased slightly in 2021, primarily due to (i) the shift of some production facilities to Luohe Weidao Plant, (ii) pause of production lines for equipment upgrade, and (iii) cease of production of certain products.
- (3) The annualized designed capacity of our Luohe Pingping Plant, Luohe Weilai Plant, Zhumadian Weilai Plant and Luohe Weidao Plant decreased in the first half in 2022 compared to in the first half in 2021 primarily due to our key production equipment upgrade in 2022.
- (4) We have initiated small-scale production testing at our Luohe Xinglin Plant, which is under construction with part of the production lines under planning. Thus, designed capacity and utilization rate are not applicable for Luohe Xinglin Plant.

BUSINESS

We develop and upgrade our automated production lines in collaboration with equipment manufacturers. We have a team dedicated to the research of automated equipment. As of June 30, 2022, the team had 12 key members. We have five major categories of equipment and machinery, including powder mixing equipment, ripening equipment, flavoring equipment, antimicrobial equipment and packaging equipment, all of which have improved our production efficiency. For example, our auto-loading, auto-flavoring and auto-packaging equipments have reduced manual work and labor cost.

We regularly inspect and maintain the production equipment and replace worn parts and components. Our major production equipment and machinery have an estimated average useful life of ten years. We use straight-line depreciation to make provision and depreciation, with an annual rate of depreciation of 9.5% during the Track Record Period. The remaining useful life of such equipment and machinery is, on average, approximately six years.

Our Production Expansion Plan

The market size for spicy snack food is large and fast growing. According to Frost & Sullivan Report, the market size for spicy snack food in China is expected to reach approximately RMB273.7 billion in 2026 at a CAGR of 9.6% from 2021 to 2026. Specifically, seasoned flour and spicy vegetable products are expected to continue to see high demand from the market. According to Frost & Sullivan Report, in 2026, the sales volume of seasoned flour products and spicy vegetable snacks is estimated to reach 2,066 thousand tons at a CAGR of 6.8% from 2021 to 2026 and 1,557 thousand tons at a CAGR of 15.0% from 2021 to 2026, respectively. We plan to seize the market potentials by continuing to enhance the core competency of our products, devote to brand building and enhance consumer engagement, increase the breadth and depth of our distribution network, and improve our operating efficiencies.

Assuming continuous production at our current four production plants with an 80% utilization rate, the market demands for our seasoned flour products, vegetable products, and certain of our bean-based and other products will exceed our production capacity in 2022. We plan to increase the production capacity for seasoned flour products by 90,000 tons and for vegetable products by 72,000 tons by 2025. Meanwhile, we plan to increase the production capacity for bean-based and other products by 14,745 tons by 2025 mainly to fulfill the market demand of new spicy snack products. We are dedicated to launching new spicy snack products such as spicy meat-based, potato-based, and egg-based products to cater to the evolving needs of customers.

During the Track Record Period, we built new production facilities and expanded our production lines depending on our expansion strategy and forecast market demand. We plan to expand our production facilities by taking into consideration the future corporate development strategy and market demand estimation.

BUSINESS

The table below sets out the details of our planned key production facilities:

Production facility	Product categories	Designed annual production capacity (ton)	Estimated date of completion	Estimated investment (HKD in millions)	Status as of the Latest Practicable Date
Luohe Xinglin Plant	vegetable products, bean-based and other products	57,945	2023	450	The plant is under construction, and part of the production lines are under planning, subject to purchase, installation and commissioning
Yunnan Qujing Plant	seasoned flour products, vegetable products	59,400	2025	360	entered into two land use right transfer agreements (土地使用權出讓協議) for the land with the local government

In addition, we are currently planning the development of an additional plant in Eastern China, which is scheduled to start construction in 2025, and become fully operational by 2028. This plant is expected to increase our production capacity for various products by 59,400 tons each year. See “Future Plans and Use of [REDACTED] – Use of [REDACTED].”

The following table sets out certain information of our plants:

	Location	Title Status
Luohe Pingping Plant	Luohe, Henan Province	leased, self-owned ⁽ⁱ⁾
Luohe Weilai Plant	Luohe, Henan Province	leased, self-owned ⁽ⁱⁱ⁾
Zhumadian Weilai Plant	Zhumadian, Henan Province	leased
Luohe Weidao Plant	Luohe, Henan Province	self-owned
Luohe Xinglin Plant	Luohe, Henan Province	self-owned
Yunnan Qujing Plant	Qujing, Yunnan Province	self-owned ⁽ⁱⁱⁱ⁾

- (i) The buildings in our Luohe Pingping Plant are partially leased and partially owned by us.
- (ii) The buildings for production in our Luohe Weilai Plant are self-owned, and the buildings for warehousing in our Luohe Weilai Plant are leased.
- (iii) 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. In September 2022, we entered into a land use right transfer agreement for a parcel of land with an area of 17,399.00 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 Qujing Plant.

With respect to plants that were built on leased properties, they are free from material title defects. See “– Properties – Leased Properties” for more information.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

We aim to provide safe and delicious products to our consumers by selecting high-quality raw materials. We cooperate with large-scale raw material providers and directly purchase raw materials from their key production region to ensure high-quality and stable supply of raw materials.

BUSINESS

We produce our products from a wide variety of ingredients. The primary raw materials that we use in the production of our products are soybean oil, flour and konjac, among others. Seasoning and other auxiliary materials such as Sichuan pepper are also used in our production process. We also purchase and use large quantities of packaging materials, including cardboard boxes and packaging bags.

We had a procurement team consisting of 44 personnel as of June 30, 2022. Our procurement team is responsible for purchasing raw materials, packaging materials, equipment and accessories, office supplies, labor protection products and other supplies that are necessary to the Group’s production, designing appropriate procurement strategies and ensuring quality and cost-effective purchases. Meanwhile, the procurement team is also responsible for purchasing bulk raw materials and strategic stockpile that are necessary to our production, planning and purchasing fundamental raw materials based on its analysis of the market.

Most of our primary raw materials, such as flour and soybean oil, are commodities. For commodities that we use across many of our product categories, such as flour and soybean oil, we coordinate sourcing requirements and centralize procurement to leverage our scale. Their prices generally fluctuate with market conditions. The prices of our other primary raw materials and packaging materials fluctuate as a result of various factors, including supply and demand, our bargaining power with our suppliers and logistics. On a case-by-case basis, we seek to establish preferred purchaser status and have developed long-term partnerships with some of our suppliers to achieve favorable pricing and dependable supply for certain commodities. Although the prices of raw materials and packaging materials may fluctuate in the future, there will be an adequate supply of raw materials and packaging materials generally available from numerous sources.

During the Track Record Period and up to the Latest Practicable Date, we closely monitored raw material prices, while not engaging in any hedging activities in connection with commodity prices but sought to mitigate the negative impact associated with the price fluctuations of raw materials by making purchases when prices are relatively low. We have also adopted the following measures to ensure we always have access to adequate supply and reasonable prices of our raw materials and packaging materials: (i) preparing market trend reports to regularly monitor market prices, and establishing a market database to analyze raw material costs, (ii) cooperating with strategic and alternative suppliers, (iii) conducting analysis of upstream suppliers along the supply chain to anticipate potential changes in prices, (iv) negotiating and determining purchase prices with our suppliers through long-term relationships, and (v) identifying alternative suppliers who offer competitive prices. We believe that these cost control measures enable us to better cope with the fluctuation of prices of our raw materials and packaging materials, strengthen our bargaining power and allow us to secure favorable prices with suppliers.

Our Raw Materials

Our raw materials include, among others, soybean oil, flour and konjac. We typically enter into procurement agreements with our raw material suppliers, and place orders based on market conditions. See “– Raw Materials, Packaging Materials and Suppliers – Our Suppliers.” All raw materials supplied by the suppliers are required to meet our quality standards and the standards set by competent government authorities, such as the Chinese national standards for flour (NY/T 1039-2014), soybean oil (GB/T 1535-2017), and kelp (GB 20554-2006). See “– Food Safety and Quality Control – Raw Material Quality Control.”

BUSINESS

We procure most of the seasoning materials from key producing regions, such as chili from Henan and Yunnan to maintain and stabilize the quality and flavor of our products.

We also use water in the course of production. We obtain water from the city tap water. We did not experience any water shortage or problems with water quality during the Track Record Period and had not received any complaints or been subject to any penalties in connection with water quality during the Track Record Period and up to the Latest Practicable Date.

Our Packaging Materials

Our packaging materials include, among others, cardboard boxes, packaging bags and thin packaging films. Substantially all packaging bags and labels for our products are produced by our packaging material suppliers. We generally enter into procurement agreements for packaging materials with a typical term of three months to one year. These agreements contain price terms and approximate expected purchase volume, while the actual purchase volume is determined by the purchase orders that we send to our suppliers. Packaging materials provided by our suppliers are required to meet the food safety standards set by competent government authorities in China. If the prices of packaging materials fluctuate significantly, we will invite suppliers to make new bids in a timely manner, in order to control costs.

Our Suppliers

We typically work with large and reputable domestic suppliers, such as Sinograin Oils Corporation (中儲糧油脂有限公司) and COFCO International (Beijing) Co., Ltd (中糧國際(北京)有限公司), with whom we have maintained long-term relationships to secure the key raw materials and packaging materials used in our production process. See “– Food Safety and Quality Control – Raw Material Quality Control.”

Our suppliers include raw material suppliers, packaging material suppliers and OEM suppliers. Our OEM suppliers provide OEM service for our products so that we can expand customer choices. See “– Our Production – Our Production Process.”

Below are the tables specifying the breakdown of our top five suppliers during the Track Record Period, with background information including principal business, and length of relationship with us:

BUSINESS

Supplier	Product/service offered	Length of Relations	Payment Clause	Purchase Amount (RMB'000)	% of Purchase Amount
Supplier A	Supply of bean oil	Since 2015	Settlement method is cash before delivery; payments and deliveries are made in installments; and the supplier shall issue bills of lading corresponding to the amount of cash payments made by the buyer.	110,116	5.7
Supplier D	Supply of oil and flour	2018-2020	When the cumulative transaction amount reaches 200 tons, the buyer shall make payments for the 200 tons of goods within the period specified by contract.	108,651	5.6
Supplier B	Supply of packaging materials	Since 2014	At a predetermined date each month, the supplier shall provide the buyer with billing statements from the previous month containing the transaction amount, price terms, order numbers and other information, along with receipts and proof of transaction, for the buyer to verify and make payments for last month's transactions within 15 business days.	88,675	4.6
Supplier E	Supply of bean oil	Since 2015	The buyer shall pay a deposit to the supplier equal to 20% of the contractual price on the day after the contract is signed. Goods are delivered upon cash payment, and the initial deposit can be used to offset the payment for the final delivery.	82,068	4.2
Supplier F	Supply of flour	Since 2017	When the cumulative transaction amount reaches 500 tons, the buyer shall make payments for the 500 tons of goods within the period specified by contract.	79,485	4.1

Note: We have switched to supplier D's affiliated entity for procurement of oil and flour after 2020 due to supplier D's internal corporate structural change.

BUSINESS

Supplier	Product/service offered	Length of Relations	Payment Clause	Purchase Amount (RMB'000)	% of Purchase Amount
Supplier B	Supply of packaging materials	Since 2014	At a predetermined date each month, the supplier shall provide the buyer with billing statements from the previous month containing the transaction amount, price terms, order numbers and other relevant information, along with receipts and proof of transaction, for the buyer to verify and make payments for last month's transactions within 15 business days.	145,986	6.2
Supplier A	Supply of bean oil	Since 2015	Settlement method is cash before delivery; payments and deliveries are made in installments; and the supplier shall issue bills of lading corresponding to the amount of cash payments made by the buyer.	140,405	6.0
Supplier E	Supply of bean oil	Since 2015	The buyer shall pay a deposit to the supplier equal to 20% of the contractual price on the day after the contract is signed. Goods are delivered upon cash payment, and the initial deposit can be used to offset the payment for the final delivery.	102,070	4.4
Supplier G	OEM	Since 2018	Account review will be conducted once a month on the 1st of next month unless the monthly cumulative transaction volume reaches 100 thousand pieces (all SKU included), where account review will be conducted twice a month; transactions from the 1st to the 15th of each month will be reviewed on the 16th of each month and transactions from 16th to 30th/31st will be reviewed on the 1st of next month. Payment will be made within 10 days upon receipt of the billing statement.	85,855	3.7
Supplier D	Supply of oil and flour	2018-2020	When the cumulative transaction amount reaches 200 tons, the buyer shall make payments for the 200 tons of goods within the period specified by contract.	83,844	3.6

Note: We have switched to supplier D's affiliated entity for procurement of oil and flour after 2020 due to supplier D's internal corporate structural change.

BUSINESS

2021

Supplier	Product/service offered	Length of Relations	Payment Clause	Purchase Amount (RMB'000)	% of Purchase Amount
Supplier E	Supply of oil and flour	Since 2015	For our oil products, the buyer shall pay a deposit to the supplier equal to 5%-20% of the contractual price on the day after the contract is signed. Goods are delivered upon cash payment, and the initial deposit can be used to offset the payment for the final delivery.	198,141	7.2
Supplier B	Supply of packaging materials	Since 2014	For our flour products, conditional on successful check and acceptance, payment will be made within 10 days upon receipt of the billing statement. At a predetermined date each month, the supplier shall provide the buyer with billing statements from the previous month containing the transaction amount, price terms, order numbers and other relevant information, along with receipts and proof of transaction, for the buyer to verify and make payments for last month's transactions within 15 business days. Conditional on receipt and satisfactory warehousing, full payment will be made upon receipt of the billing statement.	186,499	6.8
Supplier H	Supply of flour	Since 2017	Settlement method is cash before delivery; payments and deliveries are made in installments; and the supplier shall issue bills of lading corresponding to the amount of cash payments made by the buyer.	118,736	4.3
Supplier A	Supply of oil	Since 2015	Conditional on successful check and acceptance, payment will be made within seven business days upon receipt of the billing statement.	108,733	3.9
Supplier I	Supply of flour	Since 2015		84,613	3.1

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June 30, 2022

<u>Supplier</u>	<u>Product/service offered</u>	<u>Length of Relations</u>	<u>Payment Clause</u>	<u>Purchase Amount (RMB'000)</u>	<u>% of Purchase Amount</u>
<u>Supplier E</u>	<u>Supply of oil and flour</u>	<u>Since 2015</u>	<u>For our oil products, the buyer shall pay a deposit to the supplier equal to 5%-20% of the contractual price on the day after the contract is signed. Goods are delivered upon cash payment, and the initial deposit can be used to offset the payment for the final delivery.</u>	<u>97,227</u>	<u>8.4</u>
<u>Supplier A</u>	<u>Supply of oil</u>	<u>Since 2015</u>	<u>For our flour products, conditional on successful check and acceptance, payment will be made within 10 days upon receipt of the billing statement. Settlement method is cash before delivery; payments and deliveries are made in installments; and the supplier shall issue bills of lading corresponding to the amount of cash payments made by the buyer.</u>	<u>74,610</u>	<u>6.5</u>
<u>Supplier B</u>	<u>Supply of packaging materials</u>	<u>Since 2014</u>	<u>At a predetermined date each month, the supplier shall provide the buyer with billing statements from the previous month containing the transaction amount, price terms, order numbers and other relevant information, along with receipts and proof of transaction, for the buyer to verify and make payments for last month's transactions within 15 business days.</u>	<u>74,508</u>	<u>6.5</u>
<u>Supplier L</u>	<u>Supply of oil</u>	<u>Since 2021</u>	<u>Payment method is payment before delivery for each batch of goods supplied. The supplier will issue delivery order upon receipt of cash payment.</u>	<u>55,520</u>	<u>4.8</u>
<u>Supplier K</u>	<u>Supply of oil</u>	<u>Since 2018</u>	<u>Payment method is payment before delivery for each batch of goods supplied. The supplier will issue delivery order upon receipt of cash payment.</u>	<u>39,665</u>	<u>3.4</u>

BUSINESS

Purchases from our five largest suppliers in each of 2019, 2020, 2021 and the six months ended June 30, 2022, accounted for 24.2%, 23.9%, 25.3% and 29.6%, of our total purchases in relation to production in relevant periods, respectively.

We generally enter into procurement agreements with suppliers on an annual basis. The salient terms of standard procurement agreements are set out as below:

- *Duration.* The duration of procurement agreements is typically three months to one year.
- *Penalty.* We set penalty terms for breach of procurement agreements, such as quality issues with the products, or non-performance by the suppliers.
- *Price adjustment.* We will renegotiate prices according to the contractual stipulation if the market price of the raw materials of the products fluctuates significantly.
- *Logistics.* Except for a few suppliers that we are responsible for pick-up, the majority of suppliers are typically responsible for delivering their products to our designated warehouses, and they shall bear the delivery charges.
- *Quality control.* We are entitled to conduct on-site inspection of suppliers' plants and we may request rectification of any quality issues. If raw materials or products provided by suppliers fail to meet national or our standards or our policies, we are entitled to terminate the agreements and make claims for liabilities for breach of contract according to the contract.
- *Payment.* We typically settle fees to suppliers on a monthly basis, which are calculated based on the unit price and the actual supply volume of the last month. For certain special materials, we make payment in advance of the delivery by batch based on the current situation of the industry.
- *Anti-commercial bribery and confidentiality.* Our suppliers are prohibited from bribery or leakage of our commercial secrets to any third parties.
- *Termination.* We are entitled to terminate the procurement agreements if our suppliers breach the procurement agreements.

OUR LOGISTICS

During the Track Record Period and as of the Latest Practicable Date, the majority of our product transportation was provided by independent third-party logistics service providers. As of the Latest Practicable Date, we had eight logistics service providers. We typically enter into service agreements with logistics service providers with competent qualification, service ability and competitive price. We typically require a term of two months after we enter into service agreements with our logistics service providers for verification of their performance capability, during which period we monitor and review their performance and are entitled to terminate such agreements if they do not comply with service agreements and claim compensation as required by such agreements.

BUSINESS

We monitor the logistics quality by vehicle inspection, routine tracing, return visiting and retrospective discussion. We assess our logistics service providers based on frequency of timely delivery, transportation capability, overall service quality and other dimensions. Pursuant to our current service agreements, we are entitled to terminate the agreements if the logistics service providers fail to satisfy our service standards and requirements.

Some of our third-party logistics service providers were affected during the COVID-19 outbreak at the beginning of 2020 and 2022, and by the end of April 2020 and May 2022, all of our third-party logistics suppliers had resumed work. See "Financial Information – Impacts of the COVID-19 Outbreak."

OUR INVENTORY MANAGEMENT

As food preservation is time-sensitive, effective inventory management is vital to our ongoing success. We implement stringent inventory control management measures in order to ensure the high quality of our products with authentic tastes and to reduce the risks associated with deterioration of raw materials and finished products.

Our inventories primarily consist of raw materials, packaging materials and finished products. All of our warehouses maintain well-ventilated and dry storage conditions with controlled temperature and humidity to avoid the risk of deterioration of our inventories. We implement a first-in-first-out policy to manage the shelf life of our raw materials and finished products.

Our raw materials and packaging materials procurement is based on anticipated needs for finished products provided by our marketing team on a rolling basis. We set various safety inventory levels for products based on their various features and generate alerts when inventory turnover reaches the threshold. We also set out detailed rules and guidelines for storage conditions, including humidity, temperature, light condition and maximum turnover time for different types of raw materials, packaging materials and finished products, respectively, and we destroy returned or unsalable products upon receipt. Our inventory turnover is maintained at a reasonable level as a result of such precise management of inventory.

Our inventories are generally stored in our central warehouse in Henan, and we generally maintain an inventory level for three to five days of finished goods. We adjust the production plan through weekly communication between production and supply chain departments and incorporate updates from our distributors.

FOOD SAFETY AND QUALITY CONTROL

Food safety and quality is our top priority. Our food safety and quality assurance system covers the entire production process of our products, including steps from procurement, production, storage, distribution to sales.

Our ingredients primarily include wheat flour, konjac, kelp, water, and soybean oil. We also use food additives such as flavor enhancers including MSG and antioxidants including TBHQ. Our use of food additives is in strict compliance with applicable laws and regulations. Consumption of snack food with this level of food additives generally does not impose health risks for consumers.

BUSINESS

Our nutrients primarily include carbohydrate, protein, fat, and dietary fibers. The main source of fat in our products is soybean oil. The fat content of our main products ranges from less than 2% (*Fengchi Kelp*) to approximately 50% (*Soft Tofu Skin*), with the fat content of the majority of our main products under 25%. According to the Frost & Sullivan Report, saturated fat exists naturally in many foods and ingredients. Soybean oil generally has lower share of saturated fat comparing to animal sources or tropical plant-based oils. The saturated fat content in our products ranges from approximately 0.3% to 7.5%, with the saturated fat content in most of our products under 3.8%. Common health issues associated with excessive consumption of snack food with fat include obesity.

Underpinned by our dedication to delivering quality products to consumers, we are devoted to food and nutrition research in our continuous upgrade of existing products and launch of new products. For example, we offer *Kiss Burn* with 3.3g dietary fiber in every 100g of our products, which is also free of trans-fatty acids or cholesterol. Also, we offer *Fengchi Kelp* as a low-fat snack option with 2.6g fat contained in every 100g of our products. In addition, we launched an overall upgrade of our major products, among which we applied new packages, production techniques, ingredients and specification.

The food safety and quality assurance system covers the production, processing and sales of our products. The raw materials and products are tracked in order to meet customers' requirements and the corresponding legal and regulatory requirements. Leveraging on the HACCP Judgment Tree, we identified and controlled the food safety hazards associated with the products.

We set up control points for food safety and quality in every segment throughout the production process and carefully track and inspect our formulas, raw materials, food additives, and production processes. Our quality management center is responsible for food safety management, raw and packaging materials management, production process management and customer service management, as well as the establishment of food safety and quality assurance systems. We have been accredited with food safety management system certifications. Currently, Luohe Pingping, Luohe Weilai and Zhumadian Weilai have been accredited with FSSC 22000 and HACCP certifications.

Our operations are in compliance with applicable laws and regulations, and national and industrial standards in relation to food production and sales, including, but not limited to ISO22000:2018, ISO/TS22002-1, GB/T 27341-2009, Hazard Analysis and Critical Control Points (HACCP System) Certification Supplementary Requirements 1.0, and General Hygiene Practice for Food Production (GB 14881).

As of the Latest Practicable Date, we had established a quality control team responsible for formulating, managing and supervising our quality control system. It directly reports to the supervising senior management and is responsible for, among other things:

- establishing and enforcing quality standards and building teams responsible for quality assurance. For our major products, we have formulated enterprise standards more stringent than applicable national standards and have filed with local authorities;
- establishing product safety and quality assurance policies and management systems at headquarter and distributor levels and ensuring the effective implementation of such systems. Specifically, we established the product labeling and traceability system to ensure that the production and distribution of all of our products can be tracked;

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- following laws, regulations and policies relating to product quality and food safety and enhancing internal compliance controls;
- analyzing, evaluating, preventing and managing potential product safety risks. For example, we conduct hazard material analysis and control measures formulation by monitoring critical control points and critical limits of the manufacturing process, and carrying out corresponding verification procedures and corrective actions; and
- monitoring the implementation of distributor-level quality control measures at retail points of sale.

The quality control personnel are required to strictly comply with our product safety and quality control policies and procedures, such as conducting daily quality monitoring, maintaining quality management records and reporting to the headquarter on a timely basis.

Formula Quality Control

Product formulation is key to quality control. As of the Latest Practicable Date, we had a team consisting of 191 personnel, who are responsible for the research of the property and processing method of our fundamental ingredients. With this team, we are able to develop safer and more scientific formulas to control our products' quality.

Raw Material Quality Control

We have implemented and maintained stringent policies and procedures for selecting suppliers to secure the quality of our raw materials. We typically work with reputable suppliers. We comprehensively consider several factors in selecting and evaluating suppliers, including but not limited to operating environment and conditions, supply chain capabilities, product quality and production scale, and the relevant certifications of food safety systems by suppliers. Raw materials provided by our suppliers are required to meet national standards and our procurement standards. If the raw materials provided by suppliers fail to meet such standards as set out in the procurement agreements, we are entitled to terminate the procurement agreements and claim for damages. Furthermore, we have implemented a series of quality management measures for our raw materials, primarily including the following:

- Our raw materials and materials management personnel are required to conduct on-site inspections of suppliers' facilities and generate inspection reports, and conduct assessments and ratings on suppliers by reference to our Company's internal regulations.
- Our raw materials and materials acceptance personnel are required to inspect raw materials delivered to our warehouses upon receipt and evaluate whether the raw materials are in compliance with national laws, regulations and standards, and whether the raw materials meet the acceptance standards stipulated in the procurement agreements.

Production Process Quality Control

To ensure the quality of our products, we strictly adhere to our production procedures, pay close attention to and abide by the implementation and effect of laws, regulations and standards of the industry and corporate

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procedure documents, forming closed-loop management in system and regulation, training, training effect verification, on-site execution, inspection and improvement.

We set up multiple check points in every segment throughout the production process and the quality team monitors the production process in accordance with our internal quality guidance. For example, we conduct both regular and random hygiene inspections of our production facilities on a monthly basis. We select and closely monitor the control points in the production process which are critical for the quality of our finished products, including temperature, pressure and timing. We perform sample testing at each control point to identify quality issues. When a non-conforming product is found, we check all products in the same batch and work-in-progress to ensure that there are no other non-conforming products with quality issues. Any non-conforming product will be disposed immediately, and the incident shall be recorded for further cause analysis and improvement of quality control measures.

In addition to closely monitoring the production process, we believe that our employees are also an important factor in ensuring the integrity of the production process.

We require employees to maintain proper personal hygiene, conduct health check-ups before commencing employment, sanitize before entering facilities and enforce dress code at work for all employees during daily operation. In addition, we also provide regular training to our employees on various topics such as quality control and food safety to increase their awareness and professional knowledge.

Product Returns and Product Recalls

Distributors generally cannot return our products after receipt. Under the distribution agreements, returns and exchanges are only available for products that are defective or damaged. Under such circumstances, we will be responsible for the costs incurred by returned or exchanged products. The Company shall not bear the related expenses for returned normal products or other abnormal products which are not caused by the Company. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, the value of products returned in our offline channels and online distribution channels in terms of revenue amounted to RMB6.1 million, RMB4.9 million, RMB3.8 million, RMB0.9 million and RMB1.2 million, respectively, representing approximately 0.18%, 0.12%, 0.08%, 0.04% and 0.05%, respectively, of our total revenue for the same periods. According to Frost & Sullivan, the average product return level, including both online and offline channels, in the PRC snack food industry is generally approximately 0.5% to 1% dependent on factors such as product category and business model. Our product return level was lower than the industry level during the Track Record Period.

We have a dedicated team of customer service personnel and maintain a customer service system to ensure a timely response to all customer concerns, which we believe helps us reinforce our high-quality control standards to consumers and instills confidence in our products. Our customer service team keeps records of all inquiries, feedback and complaints, and the results of any investigation or resolution measures.

We have formulated product recall procedures. During the Track Record Period and up to the Latest Practicable Date, (i) we were not subject to any material administrative or other penalties from the Chinese government authorities in connection with product quality or food safety, (ii) we were not ordered to undertake any mandatory product recalls as required by any government authorities, which could have a material adverse effect on our business, financial condition and results of operations, (iii) we did not experience any incidents

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related to material product liability exposure, and (iv) we did not receive any material complaints from consumers in connection with product quality. During the Track Record Period, we did not conduct product recalls.

COMPETITION

According to Frost & Sullivan, the snack food industry in China, as well as the spicy snack food industry in China, are fragmented. In terms of retail sales value in 2021, the five largest brands in the snack food industry in China represented 9.4% of total market share, and the five largest brands in the spicy snack food industry in China represented 11.5% of total market share. We believe our brand power, product development ability, distributor network management ability and production and quality control ability enable us to compete effectively against our competitors. See “Industry Overview.”

We believe that we are well-positioned to excel in the competition within our industry. However, some of our current and potential competitors may have greater resources of capital, technology, brand, sales channel, product development and marketing than we do, and may be able to develop products and services that are more popular than ours. See “Risk Factors – Risks Relating to Our Business and Industry.” We operate in a highly competitive industry. Failure to compete effectively could adversely affect our market share, growth and profitability.

OUR EMPLOYEES

As of June 30, 2022, all of our employees were based in China. The table below sets forth the number of our employees by function as of June 30, 2022:

	Number of Employees	Percentage
Research and development and quality control	294	4.8%
Production and supply	4,321	70.2%
Sales and marketing	967	15.7%
Finance, HR, administration and others	571	9.3%
Total	6,153	100.0%

We are committed to establishing a competitive and fair remuneration and benefits system. In order to effectively motivate our employees through remuneration incentives and ensure that our employees receive market-competitive remuneration packages, we continually refine our remuneration and incentive policies through market research and comparison with our competitors. We adopt a KPI evaluation scheme and conduct performance evaluation for our employees on a KPI basis to provide feedback on their performance and assess their strengths. Compensation for our employees typically consists of basic salary, post allowance and performance-based bonus.

We provide our employees with a basic pension scheme, basic medical insurance, workplace injury insurance, unemployment insurance, maternity insurance and housing providence funds in accordance with relevant Chinese laws and regulations. We pay great attention to our employees’ welfare, and continually

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improve our welfare system. We offer employees additional benefits such as business insurance, and health examinations, among other things. We provide regular and specialized training tailored to the needs of our employees in different departments. We provide training to management and service personnel at all levels.

We have maintained a good relationship with our employees. During the Track Record Period, we did not have any strikes, protests or other material labor disputes that may impair our business and image.

INTELLECTUAL PROPERTY

Intellectual property rights are fundamental to our business and we devote significant time and resources to their development and protection. We currently hold a collection of intellectual property rights relating to certain aspects of our business operation. Such intellectual property consists primarily of trademarks, patents and copyrights. As of the Latest Practicable Date, we had registered 924 trademarks, 169 patents, 102 work copyrights and 14 software copyrights in China. In addition, we hold a perpetual and royalty-free license from Mr. LIU Weiping for three trademarks. According to the licensing agreement, our right to use such IP rights ceases only when the statutory period expires and is not renewed by Mr. LIU Weiping. According to relevant Chinese laws and regulations, the term of invention patent rights is 20 years, the term of utility model patent rights is 10 years and the term of design patent rights is 15 years; the term of validity of registered trademarks is 10 years, and the trademark is subject to renewal procedures once the term of validity expires; for the works of natural persons, the protection period for the personal rights of the copyright owner is not restricted, and the protection period of the property rights of copyright owner equals to the author’s lifetime and 50 years after his death. The intellectual property office in our legal department is responsible for communication with Mr. LIU Weiping with regard to future renewal. We currently have no plan to transfer the intellectual property rights from Mr. LIU Weiping to us as the IP license framework agreement we entered into with Mr. LIU Weiping will provide us the right to use most of Mr. LIU Weiping’s intellectual property rights at nil consideration commencing on the [REDACTED]. See “Connected Transactions – Fully Exempt Continuing Connected Transactions – 2. IP License Framework Agreement.”

We protect our intellectual property rights, including trademarks, patents, copyrights and domain names, strictly in accordance with the relevant laws and regulations. We have established an intellectual property management system, and regularly improve and update our intellectual property management system in line with business development. As our brand name is well recognized among consumers in China, we believe that protecting and enforcing our intellectual property rights is crucial to our business operation, branding and reputation. We seek to maintain registration of intellectual property rights that are material to our business under appropriate categories and in appropriate jurisdictions. On the other hand, proprietary know-how that is not patentable and processes for which patents are difficult to enforce are also important for us. We have established a complete set of confidentiality system for the formulas of our products. For example, we have included confidentiality clauses in OEM contracts, which provides that information regarding our formulas should be treated strictly as confidential. Also, for external personnel who come to our Company for training, study, visits and other activities, we require that they must be accompanied by our staff at all times. Without permission, visitors are not allowed to visit our R&D offices or laboratories, and visitors are denied access to our R&D documents and operating computers. We expect to rely on business confidentiality agreements to safeguard our interests in this respect. We have entered into confidentiality agreements, or employment agreements with confidentiality terms, with our employees, requiring them to strictly comply with our confidentiality requirements.

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As of the Latest Practicable Date, we were not aware of any material infringement (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. For details, see “Appendix IV – Statutory and General Information.”

SOCIAL RESPONSIBILITY, HEALTH, SAFETY AND ENVIRONMENTAL MATTERS

We have been, and will continue to be, highly committed to sustainable corporate responsibility projects. We are committed to social responsibilities, and consider environmental, social and governance (“ESG”) essential to our continuous development. We focus on areas such as economic responsibility, employee responsibility, customer responsibility, supplier responsibility, environment responsibility and public responsibility. We plan to set up metrics and targets for these ESG issues and to review our key ESG performance on a regular basis. Our Directors will actively participate in designing our ESG strategies and targets, and will evaluate, determine and address our ESG-related risk. We may from time to time engage independent professional third parties to help us make necessary improvements.

Social Responsibility

Leveraging our resources and expertise, we have been and will continue to be highly committed to sustainable corporate responsibility projects. We have been committed to help with post-disaster recovery, from the Wenchuan earthquake to the Yushu earthquake and further to the recent COVID-19 pandemic. In addition, we are committed to contributing to charitable causes, including education, assistance to handicapped persons, medical supporting and the alleviation of poverty. In 2020, we donated approximately RMB1.7 million for diversified social responsibility causes, including, but not limited to, donation of RMB250,000 to the frontline of pandemic prevention and RMB400,000 to an education foundation in Hunan Pingjiang County. In July 2021, we donated RMB10 million to support the disaster relief works related to the flood in Henan.

Health, Safety and Environment Matters

We are subject to Chinese laws and regulations in relation to labor, safety and environment protection matters. We have established occupational safety and sanitation systems and provide employees with workplace safety training on a regular basis to increase their awareness of work safety issues. We require our employees to submit to health examinations and hold a valid health certificate at work. During the Track Record Period and up to the Latest Practicable Date, we had complied with Chinese laws and regulations in relation to occupational health and workplace safety in all material respects and have not had any incidents which have materially and adversely affected our operations.

We consider the protection of the environment important and have implemented measures to ensure our compliance with all applicable requirements. Given the nature of our operations, we do not believe we are subject to material environmental liability risk or compliance costs. During the Track Record Period and up to the Latest Practicable Date, we were not subject to any fines or penalties for non-compliance with Chinese environmental laws and regulations, which could have a material adverse effect on our business, financial condition and results of operations.

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Governance

We acknowledge our responsibilities on environmental protection, social responsibilities and are aware of the climate-related issues that may have impact on our business. We are committed to complying with environmental, social and governance (“**ESG**”) reporting requirements upon [REDACTED]. We have established an ESG policies (the “**ESG Policy**”) in accordance with the standards of Appendix 27 to the Listing Rules, which outlined, among others, (i) the appropriate risk governance on ESG matters, including climate-related risks and opportunities; (ii) identification of key stakeholders and the communication channels to engage with them; (iii) ESG governing structure, (iv) ESG strategy formation procedures; (v) ESG risk management and monitoring; and (vi) the identification of key performance indicators (“**KPIs**”), the relevant measurements and mitigating measures.

Our ESG Policy also sets out the respective responsibility and authority of different parties in the above processes. Our Board has the overall responsibility for overseeing and determining our Group’s environmental-related, climate-related and social-related risks and opportunities impacting the Group, establishing and adopting the ESG Policy, strategies and targets of our Group, and reviewing our Group’s performance annually against ESG-related targets and revising the ESG strategies as appropriate if significant variance from the target is identified.

We have coordinated efforts across departments including our production department, R&D department and environmental safety department to report on ESG issues to our management. We undertake to establish an ESG committee one year within the [REDACTED] to assist our Board to oversee ESG governance, ensure implementation of ESG policies, monitor ESG-related performance and targets, adjust ESG strategies as appropriate and prepare the ESG report. We are also in the planning phase to establish an ESG working group to support our Board and ESG committee in implementing the agreed ESG Policy, targets and strategies, conducting materiality assessments of environmental-related, climate-related, social-related risks and assessing how we adapt our business in light of climate change, collecting ESG data from the relevant interested parties while preparing for the ESG report, and continuously monitoring the implementation of measures to address our Group’s ESG-related risks and responsibilities. The ESG working group would in general be responsible for the investigation of deviation from targets and liaise with the production department and environmental safety department to take prompt rectification actions. The ESG committee and ESG working group would report to our Board on a semi-annual basis via board meeting on the ESG performance of our Group, the effectiveness of these ESG systems and any applicable recommendations.

Occupational Health and Safety

We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, operation safety, warehouse safety, work-related injuries and emergency and evacuation procedures to promote occupational health and safety and to ensure compliance with applicable laws and regulations. Also, we provide suitable and necessary protection equipment to our employees, i.e., goggles, protective suits and masks to ensure their safety during work. Furthermore, we inspect our production facilities from time to time in order to ensure that such facilities are safe for use.

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Introduction of Safe and Healthy Products

As a highly popular snack food brand among the younger generation in China, we recognize the importance of public food safety. We have implemented safety and quality assurance system that covers the entire production process of our products. In addition, we aim to continue to offer healthy and nutritious products by conducting nutrition research, technology upgrade and product developments. In particular, we have (i) adopted new production techniques such as non-fried technologies and self-developed low temperature sterilization technologies to present the original flavors and retain nutrients of food; (ii) adopted the advisory “best before period” label instead of mandatory “use by” label in our food safety and quality assurance system for our shelf life date marking to ensure not only the safety of our products but also the high quality of our products; (iii) implemented stringent internal standards for food additives used in our products in compliance with relevant laws and regulations; and (iv) devoted to nutrition researches to keep updating our product formula. In particular, we have adopted non-fried technologies for all of our products except for *soft tofu skin*. We have also adjusted our formula and increased the content of dietary fiber in our products. We will continue to update existing products and launch new products to meet consumers’ increasing demands for healthier snack food.

Environmental Protection

We recognize the importance of environmental protection and sustainability, and our commitment to environmental protection and sustainability was recognized by the fact that we are listed on the fifth batch of national green manufacturing list in Henan province and the provincial green manufacturing list in Henan province in 2020.

We primarily use cardboard boxes, packaging bags and thin packaging films as packaging materials. See “Business – Raw Materials, Packaging Materials and Suppliers – Our Packaging Materials” for more information. During the Track Record Period, all cardboard boxes we used were biodegradable. Materials for our packaging bags and thin packaging films are mostly made of non-biodegradable aluminum-plastic composite film, plastic-plastic composite film, polyolefin shrink film and aluminum-plated composite film. We have endeavored to mitigate the impact on the environment from the use of plastic materials by reducing the plastic thickness for some of our product packages to control the total amount of plastics used. To our best knowledge, biodegradable packaging materials have not been widely adopted in the spicy snack food industry. We have been on a constant lookout for the latest development in the industry of environmentally friendly packaging materials and plan to switch to biodegradable alternatives for our packaging bags and thin packaging films two to three years after the technology of biodegradable materials matures by directly sourcing from packaging material suppliers. In addition, we will also conduct in-house R&D on renewable materials such as sugarcane fibers to develop biodegradable packaging materials. See “– Sustainable Development.” Our packaging materials are measured in different metrics. Our cardboard boxes and packaging bags are measured by pieces, and our thin packaging films are measured by meters. In 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, we had used 109.2 million, 135.8 million, 163.4 million, 77.1 million and 82.4 million pieces of cardboard boxes, 3,425.1 million, 4,693.2 million, 6,422.9 million, 3,057.5 million and 2,716.5 million pieces of packaging bags, and 283.7 million meters, 291.7 million meters, 321.1 million, 159.5 million and 135.2 million meters of thin packaging films, respectively.

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During the Track Record Period and up to the Latest Practicable Date, we had produced the following key pollutants, which have been dealt with through the implementation of corresponding environmental measures:

- **Management of Waste Water.** We generate waste water during the production process. Some of them are potentially hazardous, including chemical oxygen demand (COD), ammonia nitrogen (NH₃-N) and total phosphorus. Our waste water discharge requirements are implemented in accordance with the standards of the Pollution Discharge Permit issued by Luohe City Ecological Environment Bureau. We have adopted the following measures to minimize the impact of the waste water, including (i) establishment a sewage station and adoption of specific processes to treat production and domestic sewage and ensure that the discharged water meets the Comprehensive Wastewater Discharge Standard; (ii) contract with a qualified environmental protection company to treat the waste oil, excessive sludge and other waste generated in the sewage process; (iii) implementation of deodorization facilities to treat the odor generated by the sewage tank and (iv) use of biogas boilers to recycle the biogas to reduce greenhouse gas emissions.
- **Management of Waste Gas.** We generate waste gas during the production process. Some of them are potentially hazardous, including fume, hydrogen sulfide, ammonia and odor concentration. We follow the standards of the Pollution Discharge Permit to discharge waste gas. We have adopted the following measures to minimize the impact of the waste gas, including (i) use of high-efficiency electrostatic fume purification facilities, low-temperature plasma UV photolysis integrated machine, and activated carbon adsorption device for emissions of non-methane hydrocarbons and oil fume. Our organized emission concentration and emission rate of total non-methane hydrocarbons meet the requirements of the national standard of the *Integrated Emission Standard of Air Pollutants (GB16297-1996)*, and our emission concentration of oil fume meet the *Emission Standard of Fume Pollutants from Catering Industry (DB41/1604-2018)*; (ii) use of cloth bag dedusters to process and discharge the emissions of particulate matter. Our concentration of particulate matter emission meet the national standard of the *Integrated Emission Standard of Air Pollutants (GB16297-1996)*; and (iii) use of spray method to discharge the emissions of NH₃ and H₂S. Our emission concentration of NH₃ and H₂S meet the national standard requirements of *Emission Standards for Odor Pollutants(GB14554-93)*.
- **Management of Solid Waste.** We generate solid waste during our production processes. Some of them are potentially hazardous, including engine oil. All hazardous solid wastes were centrally and properly stored in hazardous waste warehouse of each main plant. The domestic solid waste was collected and processed by the city sanitation department. Other non-hazardous wastes were collected and processed by qualified contractors. During the Track Record Period, non-hazardous waste generated from our production processes include primarily thin packaging films, cardboard boxes, woven bags, and product scrap. According to relevant non-hazardous waste processing contracts, an annual average of approximately 924.0 tons of thin packaging films, 970.5 tons of cardboard boxes, 91.5 tons of woven bags, and 1,313.0 tons of product scrap were processed during the Track Record Period.

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Potential Financial Impact of ESG-Related Risks

Our business operations are subject to environmental protection laws and regulations promulgated by the Chinese government. For example, we are required by the relevant governmental authorities to carry out an environmental impact assessment before constructing factory or production equipment to minimize the impact of our business operation on the environment. Maintaining compliance with applicable environmental rules and regulations is costly. If we breach any environmental-related laws and regulations, or face any accusation of negligence in environmental protection, in addition to the potential fines and penalties, such incidents may also adversely affect our reputation and creditability. Our business opportunities may be negatively impacted, for instance, our suppliers may be less willing to grant us a longer credit term because of our reputational damage and loss of creditability.

Notwithstanding the above, due to our effective internal control and risk management measures as outlined in details below, our business, results of operation and financial condition had not been materially adversely impacted by any climate-related incident during the Track Record Period and up to the Latest Practicable Date.

Furthermore, potential transition risks may result from the transitioning to a lower-carbon economy which entails change in climate-related regulations and policy. Tightened environmental regulations may require significant investment to be made in transforming our business and operations. On the other hand, in the face of the potential transition risks, leading spicy snack food companies like us with modern management techniques and operating procedures may be able to adapt to the new environmental rules in a swifter manner, thereby capturing more business opportunities.

Our Strategies in Addressing ESG-Related Risks and Opportunities

Climate-related issues are among our key agenda. Supervised by our Board, we actively identify and monitor the climate-related risks and opportunities over the short, medium and long term and we seek to incorporate such climate-related issues into our businesses, strategy and financial planning. For examples, we continuously reduce energy consumption and reduce greenhouse gas emissions through energy-saving transformation.

We will incorporate physical and transition risk analysis into risk assessment processes. If the risks and opportunities are considered to be material, we will incorporate them into the strategy and financial planning process. We also aim to minimize the transition risk in the long term through enhanced energy efficiency, adoption of green supply chain and environment friendly ingredients and consumption of renewable energy, and we are committed to our emission reduction targets. This does not only reduce our exposure to transition risk but also improve the environmental performance of our products. Upon annual review of the progress against our targets for addressing climate-related issues, we may revise the ESG strategies as appropriate.

Risk Management and Mitigating Measures

We are planning on adopting a series of comprehensive and effective measures to identify, assess, manage and reduce the risk relating to ESG. For example, we monitor energy consumption data through the energy

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management system and generate reports; we monitor and reduce the discharge of water pollutants through the sewage treatment system; and we reduce the concentration of air pollutants through the exhaust gas treatment system. For details of our risk management policies and procedures, including the risk management processes for identifying and assessing risks, see “– Risk Management and Internal Controls.” Moreover, with a goal to minimize the impacts of our business operation on environment, we are in the process of developing our environmental protection management and control procedures, which provide guidance on managing and handling ESG-related matters.

We will also continuously monitor climate-related matters and governmental developments around actions to combat climate change and act to minimize the impact on our operations.

Metrics and Targets

Pollutant Discharge, Water and Energy Consumption

We strictly adhere to the standards, metric and targets set or issued by the relevant Chinese environment-related laws and regulations in assessing and managing our impacts on the environment as a result of our business activities, such as the consumption or use of potentially hazardous or harmful substances in our production. Historically, we mainly tracked the KPIs such as energy consumption, fresh water consumption, and water pollutants emission in relation to our principal business. During the Track Record Period, we hired third-party agencies to test the concentration of air pollutants in our waste gas emission periodically and issue relevant reports, as stipulated by relevant laws and regulations, to ensure the pollutant concentration was within the permitted range. In addition, we used the measured level of our energy consumption as a proxy to estimate our greenhouse gas (the “GHG”) emission. During the Track Record Period and up to the Latest Practicable Date, the discharge of pollutants generated during our production process had remained within prescribed regulatory limits and we believe that our business operations do not have a material adverse impact on the environment. Our production facilities in China are also subject to regular inspections by Chinese environmental regulatory authorities.

The following table illustrates the examples of the average amount of water and energy consumption for two products with representative production lines for during the Track Record Period:

Seasoned flour products

	<u>As of December 31,</u>			<u>As of</u> <u>June 30,</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Electricity consumption (kilowatt-hour of electricity/ton of product)	240.2	239.3	228.1	217.7
Fresh water consumption (ton of water/ton of product)	0.6	0.7	0.7	0.7

Konjac Shuang

	<u>As of December 31,</u>			<u>As of</u> <u>June 30,</u>
	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Electricity consumption (kilowatt-hour of electricity/ton of product)	905.1	884.5	777.9	823.8
Fresh water consumption (ton of water/ton of product)	20.2	24.3	22.3	17.1
Steam consumption (ton of steam/ton of product)	2.8	2.5	2.0	2.4

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Air Pollutants Emissions

Metrics and Targets. We are expected to achieve 10% reduction in air pollutant concentration in the foreseeable future. The emission concentration of different air pollutants is tested quarterly or semi-annually. We are taking steps to reduce air pollutants concentration such as using air pollutant purification equipment to reduce the emission of air pollutants.

GHG Emissions

Metrics and Targets. We are expected to achieve 10% reduction in GHG emissions in the foreseeable future. We strive to continuously reduce the level of GHGs by controlling our energy consumption.

Water Pollutants Emissions

Metrics and Targets. We are expected to achieve 10% reduction in water pollutant discharge in the foreseeable future. We use clean production and water filtration systems to reduce our water pollutants.

Energy Consumption

Metrics and Targets. We are expected to achieve 8% reduction in energy consumption in the foreseeable future. We reduce energy consumption by using comprehensive energy utilization projects such as energy-saving cold storages and PV system. We have put our PV system in use since September 2021, which effectively reduced our electricity procurement.

Fresh water consumption

Metrics and Targets. We are expected to achieve 10% reduction in fresh water consumption in the foreseeable future. We reduce energy consumption by using fine filter water saving project.

Sustainable Development

We endeavor to reduce negative impact on the environment through our commitment to sustainable development. Since 2018, we have adopted measures to reduce plastic waste, including launch of lightweight packaging, improvement of packaging process, and introduction of new packaging materials. In particular, we have adopted new plastic materials to reduce packaging thickness for certain of our products including *Konjac Shuang*, *Fengchi Kelp*, and *Kiss Burn*. We plan to reduce our total consumption of plastics gradually. In addition, by further introducing new packaging materials such as single-layer recyclable PE materials as more environmentally friendly alternatives to multi-layer PET materials, we help to raise the awareness of recyclable materials for our customers and consumers.

INSURANCE

In line with general market practice, we do not maintain any business interruption insurance, product liability insurance or environmental liability protection insurance, which are not mandatory under Chinese laws

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or relevant foreign laws. We do not maintain life insurance for key personnel or insurance policies covering damages to our network infrastructures or information technology systems. We maintain insurance to cover properties and assets, as well as medical expenses for production accidents. Our Directors consider that our existing insurance coverage is consistent with industry practice in China and sufficient for our present operations. See “Risk Factors – Risks relating to our business and industry – We have limited insurance to cover our potential losses and claims.” As of the Latest Practicable Date, we did not have any material outstanding insurance claims in relation to our business.

RISK MANAGEMENT AND INTERNAL CONTROLS

We have devoted ourselves to establishing and maintaining risk management and internal control systems consisting of policies, procedures and risk management methods that we consider to be appropriate for our business operations. We are dedicated to continually improving these systems, developing a risk management culture and raising the risk management awareness of all employees.

In order to identify, assess and control the risks that may create impediments to our success, we have implemented a risk management system that covers each material aspect of our operations, including financial security, production, logistics, technology and compliance. As our risk management is a systematic project, each of our departments is responsible for identifying and evaluating the risks relating to its area of operations. Our audit committee is responsible for overseeing and accessing our risk management policy and it supervises the performance of our risk management system.

PROPERTIES

Our headquarters office is located in Luohe, Henan Province, the PRC. We own and lease properties in China. As of the Latest Practicable Date, all of our production plants were located in China.

As of the Latest Practicable Date, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. According to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempt from the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance to include all interests in land or buildings in a valuation report as described under paragraph 34(2) of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance.

Owned Properties

As of the Latest Practicable Date, we owned land use rights of six parcels of land in China with an aggregate site area of approximately 499,243.22 sq.m., which were primarily used for production, storage, office or residential purposes. We had obtained the land use right certificates for all of the land owned by us. As of the Latest Practicable Date, among the six parcels of land we owned, three parcels, with an aggregate site area of approximately 292,261.89 sq.m., have buildings under construction. In addition, in March 2022, we entered into a land use right transfer agreement (土地使用權出讓協議) for a parcel of land with an area of 139,496.00 sq.m. with the local government in Yunnan Province. In September 2022, we entered into a land use right transfer agreement for a parcel of land with an area of 17,399.00 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. See “– Our Production – Our Production Expansion Plan.”

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As of the Latest Practicable Date, we owned a total aggregate gross floor area of approximately 175,666.18 sq.m. of buildings in China, which were primarily used for production, storage, office or residential purposes. Among them, we had obtained the building ownership certificates for those buildings with an aggregate gross floor area of approximately 171,393.22 sq.m., accounting for approximately 97.57% of the aggregate gross floor area of our owned buildings. We had not obtained the building ownership certificate for the remaining aggregate gross floor area of approximately 4,272.96 sq.m. as of the Latest Practicable Date, among which we had used approximately 1,921 sq.m. for warehousing with the rest unused as of the same time. As we did not fully conform to the construction plan as approved by local authorities, and consequently, we could not obtain relevant construction permits and could not complete the inspection and acceptance procedure upon the completion of construction of such building. As of the Latest Practicable Date, we were not aware of any incidents that have arisen due to the safety conditions of these properties and we were not aware that the relevant building ownership certificates were not obtained due to the safety conditions of these properties. We expect to continue using such building as warehouse while we are actively exploring potential rectifying measures. As advised by our PRC Legal Advisors, we may face the risks of (i) being required to rectify the violations of the construction planning or relevant regulations and paying a fine in the amount of 5% to 10% of the construction costs of such buildings; and if such rectification is not feasible, demolishing or turning over such buildings, as well as paying a fine of up to 10% of the construction costs of such buildings; (ii) paying a fine up to 2% of the construction costs for construction works without the permit for the commencement of the construction project; and (iii) paying a fine in the amount of 2% to 4% of the construction costs of such building for using the building without going through the inspection and acceptance procedures upon completion of the construction of the building. As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities because of the abovementioned defects of such owned building.

We believe that the defects of such owned building would not materially and adversely affect our business, results of operations and financial conditions, primarily because (i) the aggregate gross floor area we use in such building accounted for less than 1% of the aggregate gross floor area of our owned buildings; (ii) such building is not crucial to our operations as it is not used for production purpose; (iii) if necessary, we believe that we will be able to find comparable properties as alternatives at commercially acceptable terms to us, and such relocation will not have any material adverse effect on our financial condition or our results of operations, and (iv) we have obtained an indemnity from our founders, Mr. LIU Weiping and Mr. LIU Fuping to indemnify our Group against any claims, fines, economic losses and other losses which may arise from such defects.

In addition, in 2022, we entered into property purchase and sale agreements in Shanghai (《上海市商品房出售合同》) for a building with an area of 9,209.53 sq.m. and several vehicle parking lots with a total area of 1,568.97 sq.m. with a real estate development company in Shanghai. As of the Latest Practicable Date, we had obtained the ownership certificates for the abovementioned building and are in the process of registering the ownership certificate for the parking lots.

Leased Properties

As of the Latest Practicable Date, we entered into 44 lease agreements for a total aggregate gross floor area of approximately 85,700.97 sq.m. of buildings in China, which were primarily used for production, storage, office or residential purposes. Among them, we had obtained valid title certificates or documents to prove their

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legal rights from relevant landlords of those leased buildings with an aggregate gross floor area of approximately 57,702.97 sq.m. covered by 42 of our lease agreements, accounting for 67.33% of the aggregate gross floor area of our leased buildings, while for the other leased buildings with an aggregate gross floor area of approximately 27,998.00 sq.m. covered by the other two of our lease agreements, the landlords of such buildings had not provided us with the relevant title certificates as of the Latest Practicable Date. Such leased buildings are used for production, storage, office or residential purposes.

We believe that the reasons that the landlords failed to provide us with the relevant title certificates are beyond our control. In order to minimize the potential negative impacts of the above title defects on our operations, we have maintained regular and active communications with such landlords regarding the progress of their rectification of the title defects and we have obtained confirmations from all the relevant lessors where they promise to guarantee our use under the lease agreements. In addition, we have established internal guidelines and enhanced our internal control procedures to improve our evaluation of the new leased buildings from a compliance perspective, and we will make careful inspections of the title of leased buildings before signing the lease in the future. We will also consult our external legal advisor with regard to reviewing the title certificates and other documents of our new leased buildings in order to ensure compliance with applicable Chinese laws and regulations.

For any of our leased buildings with any of the aforementioned defects, we believe we are able to find comparable properties as alternatives at commercially acceptable terms to us if we must stop occupying any of these leased buildings, without any delay, significant costs and interruption to our business. In addition, we have obtained an indemnity from our founders, Mr. LIU Weiping and Mr. LIU Fuping to indemnify us against any claims, fines, economic losses and other losses from relocation which may arise from such defects.

In addition, as of the Latest Practicable Date, we had not registered 40 of our lease agreements with the relevant competent authorities in accordance with applicable Chinese regulations. As advised by our PRC Legal Advisors, failure to register the lease agreements would not affect the validity and enforceability of such lease agreements. However, if we and the landlords fail to register such lease agreements as required by the relevant competent authorities, we may be subject to a fine of RMB1,000 to RMB10,000 for each of the unregistered lease agreements. As of the Latest Practicable Date, we had not been subject to any administrative penalties by the relevant competent authorities, and the amount of potential penalties accounts for a minimal portion of our total revenue during the Track Record Period. As advised by our PRC Legal Advisors, the defects of such leased buildings would not materially and adversely affect our business. In addition, we have obtained an indemnity from our founders, Mr. LIU Weiping and Mr. LIU Fuping to indemnify us against any fines and other losses which may arise from such non-registration.

LEGAL PROCEEDINGS AND COMPLIANCE

Licenses, Approvals and Permits

According to our PRC Legal Advisors, as of the Latest Practicable Date, we had obtained all material licenses, permits, approvals and certificates that are material for our business operations in China and such licenses, permits, approvals and certificates are valid and subsisting.

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Legal Proceedings

During the Track Record Period and up to the Latest Practicable Date, we had not been and were not a party to any material legal, arbitral or administrative proceedings, which could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations.

Compliance

During the Track Record Period and up to the Latest Practicable Date, except as disclosed hereunder and elsewhere in this document, we had not been and were not involved in any non-compliance incidents that led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. Our Directors are of the view that, except as disclosed hereunder and elsewhere in this document, we had complied, in all material respects, with all relevant laws and regulations in China during the Track Record Period and up to the Latest Practicable Date.

Social Insurance and Housing Provident Funds

Background and Reasons for Non-compliance

During the Track Record Period and as of the Latest Practicable Date, we had not made social insurance and housing provident fund contributions for some of our employees timely or in full in accordance with the relevant Chinese laws and regulations. Based on relevant regulatory policies and the facts stated below, the aggregate amount of social insurance and housing provident fund contributions that we had failed to pay is estimated to be RMB30.2 million, RMB35.6 million, RMB33.0 million, and RMB13.1 million, in 2019, 2020, 2021 and the six months ended June 30, 2022, respectively. We have made full provision for such aforementioned underpaid amount at the end of each of the years comprising the Track Record Period. We were unable to make full social insurance and housing provident fund contributions for such employees primarily because (i) certain of our employees were not willing to bear the costs associated with social insurance and housing provident funds strictly in proportion to their salary, and (ii) a certain number of our employees are migrant workers who are typically not willing to participate in the social welfare schemes of the city where they temporarily reside and instead they chose to participate in local welfare schemes offered in their place of residency. In those cases, we provide these employees with compensation and benefits in lieu of such contribution.

Potential Legal Consequences

Pursuant to relevant Chinese laws and regulations, if we fail to pay the full amount of social insurance contributions as required, we may be ordered to pay the outstanding social insurance contributions within a prescribed period and may be subject to an overdue fine of 0.05% of the delayed payment per day from the date on which the payment is payable. If such payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times the overdue amount. Pursuant to relevant Chinese laws and regulations, if there is a failure to pay the full amount of housing provident fund as required, the housing provident fund management center may require payment of the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to Chinese courts for compulsory

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enforcement. The aggregate shortfall of social insurance contributions is estimated to be approximately RMB16.5 million, RMB18.5 million, RMB14.3 million, RMB11.4 million and RMB7.3 million in 2019, 2020, 2021 and the six months ended June 30, 2021 and 2022, respectively. As advised by our PRC Legal Advisors, pursuant to relevant Chinese laws and regulations, the maximum potential penalties would equal to three times of the shortfall of our social insurance contribution if we failed to make required payment within the prescribed period as required by the government. Our PRC Legal Advisors is of the view that, based on the confirmations from and interviews with relevant authorities, considering relevant regulatory policies and the facts stated above, in the absence of employees' complaints, the likelihood that we are subject to collection of historical arrears and any material penalties due to our failure to provide full social insurance and housing provident funds contributions for our employees is low.

Latest Status and Remedial Measures

As of the Latest Practicable Date, no administrative action or penalty had been imposed by the relevant regulatory authorities with respect to our social insurance and housing provident fund contributions, nor had we received any order or been informed to settle the deficit amount. Moreover, as of the Latest Practicable Date, we were not aware of any complaint filed by any of our employees regarding our social insurance and housing provident fund policy.

For social insurance, pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilization the Levy of Social Insurance Payment (《關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》) promulgated on September 21, 2018, it is prohibited for administrative enforcement authorities to organize and conduct centralized collection of enterprises' historical social insurance arrears.

We have taken the following internal control rectification measures to prevent future occurrences of such non-compliance:

- we have enhanced our human resources management policies, which explicitly require social insurance and housing provident fund contributions to be made in full in accordance with applicable local requirements;
- we are in the process of communicating with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base, which also requires additional contributions from our employees;
- we will keep abreast of latest developments in Chinese laws and regulations in relation to social insurance and housing provident funds; and
- we will consult our PRC legal advisors on a regular basis for advice on relevant Chinese laws and regulations to keep us abreast of relevant regulatory developments.

Having considered the foregoing, we believe that such non-compliance would not have a material adverse effect on our business, results of operations or financial condition, considering that: (i) we had not been subject to

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any administrative penalties during the Track Record Period and up to the Latest Practicable Date due to such non-compliance with respect to social insurance and housing provident funds, (ii) we were neither aware of any employee complaints filed against us nor involved in any labor disputes with our employees with respect to social insurance and housing provident funds during the Track Record Period and up to the Latest Practicable Date, (iii) as of the Latest Practicable Date, we had not received any notification from the relevant Chinese authorities requiring us to pay for the shortfalls or any overdue charges with respect to social insurance and housing provident funds, and (iv) as advised by our PRC Legal Advisors, based on the confirmations from and interviews with relevant authorities, considering relevant regulatory policies and the facts stated above, in the absence of employees’ complaints, the likelihood that we are subject to collection of historical arrears and any material penalties due to our failure to provide full social insurance and housing provident funds contributions for our employees is low; and (v) we have obtained an indemnity from our founders, Mr. LIU Weiping and Mr. LIU Fuping to indemnify us against any claims, fines, economic losses and other losses which may arise from such non-compliance.

Environmental Protection

We were not subject to any material penalties in relation to pollutant discharge, water and energy consumption or breaches of other environmental laws and regulations during the Track Record Period. We have endeavored to implement measures and targets for environmental protection. See “Business – Social Responsibility, Health, Safety and Environmentalu Matters – Environmental Protection”.