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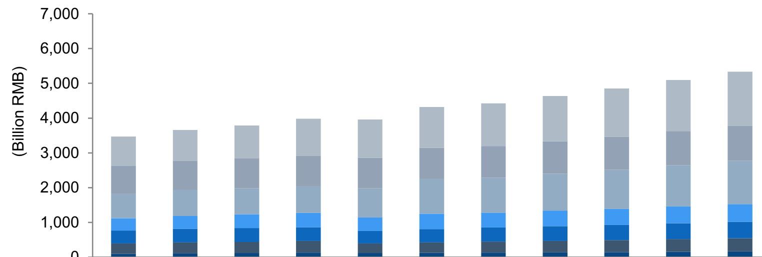
AGRICULTURAL FOOD PRODUCT PROCESSING INDUSTRY

Overview of China's Agricultural Food Product Processing Industry

Agricultural food product processing turns the products of agriculture, forestry, animal husbandry and fishery into the form of human food consumables. China's agricultural food product processing industry can be segmented into (i) processing of milled grain products, which involves cleaning, hulling and grinding grains into rice, wheat flour, corn flour and other finished products of grain; (ii) processing of vegetable oil, which involves manufacturing crude and refined vegetable oil; (iii) processing of sugar, which involves processing or refining of sugar and sugar substitutes from cane, beet and other raw materials, as well as the processing of refined sugar from raw sugar and granulated sugar; (iv) slaughtering, preparing and preserving of meat and meat products, which involves slaughtering, preparing and preserving of livestock, poultry, and processing of meat products and by-products from various livestock and poultry; (v) processing and preserving of aquatic products, which involves processing of frozen aquatic products, fish meal products and dry and preserved aquatic products, oils and fats from fish and marine mammal, and aquatic products from other aquatic animals and plants; (vi) processing of vegetables, fungus, fruits and nuts, which involves processing of vegetables, fungus, fruits and nuts through drying, freezing, salting, etc.; and (vii) processing of other agricultural food products, including starch and starch food, soy products, eggs, and other agricultural food products.

The market size in terms of the revenue of agricultural food product processing industry has increased from RMB3,472.1 billion in 2016 to RMB4,317.9 billion in 2021, representing a CAGR of approximately 4.5%. Along with the latest processing technology, expanding distribution channels and industrial consolidation, the market size in terms of the revenue of agricultural food product processing industry is expected to grow at a CAGR of approximately 4.3% from 2021 to 2026, reaching RMB5,340.1 billion in 2026.

Market Size of Agricultural Food Product Processing Industry in terms of Revenue by Major Categories (China), 2016 — 2026E



	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (16-21)	CAGR (21-26E)
Total	3,472.1	3,661.4	3,785.8	3,983.4	3,958.5	4,317.9	4,429.2	4,640.0	4,854.6	5,099.4	5,340.1	4.5%	4.3%
Meat and Meat Products	839.9	882.9	939.0	1,065.8	1,098.8	1,170.8	1,233.3	1,308.9	1,387.9	1,471.9	1,559.2	6.9%	5.9%
Milled Grain Products	812.3	844.0	868.5	885.9	878.8	900.2	910.2	930.6	957.0	984.9	1,003.4	2.1%	2.2%
Vegetable Oil	699.7	748.3	744.1	759.7	841.1	995.7	1,004.9	1,062.2	1,122.0	1,185.6	1,251.8	7.3%	4.7%
Other Agricultural Food Products	355.7	375.1	399.0	408.7	386.8	443.8	427.9	449.1	461.0	484.1	508.0	4.5%	2.7%
Vegetables, Fungus, Fruits And Nuts	372.5	389.5	399.5	400.8	362.3	386.5	406.4	422.0	437.9	454.7	471.8	0.7%	4.1%
Aquatic Products	295.2	313.5	320.6	333.1	274.1	295.0	315.3	330.8	347.0	364.3	382.2	0.0%	5.3%
Sugar	96.8	108.1	115.1	129.4	116.6	125.9	131.2	136.4	141.8	153.9	163.7	5.4%	5.4%

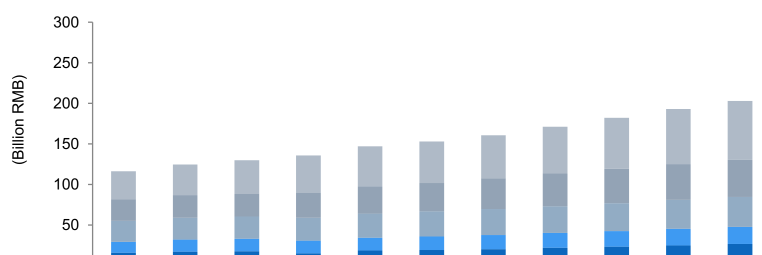
Source: Frost & Sullivan

Overview of Jiangxi Province's Agricultural Food Product Processing Industry

Jiangxi Province is one of China's richest agricultural provinces with diversified agricultural products, such as grain, oilseed crop, vegetables, pig, tangerine, navel orange and freshwater fish. The market size in terms of the revenue of agricultural food product processing industry in Jiangxi Province has increased from RMB116.4 billion in 2016 to RMB153.1 billion in 2021, representing a CAGR of approximately 5.6%.

Going forward, boosted by economy growth and growing income level, the market size in terms of the revenue of agricultural food products processing industry in Jiangxi Province is expected to grow at a CAGR of approximately 5.8% from 2021 to 2026, reaching RMB203.0 billion in 2026.

Market Size of Agricultural Food Products Processing Industry in terms of Revenue by Major Categories (Jiangxi Province), 2016 — 2026E



	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (16-21)	CAGR (21-26E)
Total	116.4	124.7	129.9	136.0	147.3	153.1	160.8	171.2	182.4	193.1	203.0	5.6%	5.8%
Meat and Meat Products	35.0	37.7	41.1	46.6	49.8	51.3	53.1	57.6	63.2	68.0	72.5	7.9%	7.2%
Vegetable Oil	26.3	28.2	28.4	30.5	33.4	35.0	37.9	40.6	42.3	44.1	45.9	5.9%	5.6%
Milled Grain Products	25.9	26.9	27.5	28.2	29.7	30.9	32.1	32.9	34.3	35.8	36.9	3.6%	3.6%
Vegetables, Fungus, Fruits And Nuts	13.5	14.8	15.2	15.7	15.8	16.8	17.5	18.2	19.3	20.3	21.0	4.5%	4.6%
Aquatic Products	10.9	12.2	12.7	13.5	14.0	14.5	15.4	16.8	17.9	19.1	20.3	5.9%	7.0%
Other Agricultural Food Products	4.8	4.9	5.0	1.5	4.6	4.6	4.8	5.1	5.4	5.8	6.4	-0.8%	6.8%
Sugar	0.01	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.02	0.02	0.03	16.3%	10.5%

Source: Frost & Sullivan

Market Drivers of China's Agricultural Food Product Processing Industry

Accelerating Urbanisation Process: Together with the continuous growth of macro economy, China's urbanisation rate maintained an upward trend together with an increasing number of urban population. Over the past five years from 2016 to 2021, the urbanisation rate increased by 7.4% from 57.3% to 64.7%. Going forward, the urbanisation rate is expected to accelerate and to further reach 74.2% by 2026. The increasing urbanisation rate has greatly improved the living standards and stimulated the consumption of processed agricultural food products. At the same time, continuous urbanisation can provide for more retail channels for consumers to purchase processed agricultural food products, which can help driven the sales growth of the market. Furthermore, with the accelerating urbanisation process, the agricultural food product processing market in Tier-3 and lower-tier cities is expected to witness a faster growth pace than Tier-1 and Tier-2 cities, and contribute more to the growth of the overall market.

Rising Purchasing Power of Chinese Consumers: Along with the steady growth of macro economy, the average income level of Chinese households has increased continuously in recent years. From 2016 to 2021, the per capita disposable income of Chinese residents in urban area has increased from RMB33,600 to RMB47,400, representing a CAGR of 7.1% from 2016 to 2021. Going forward, the per capita disposable income in urban area is expected to grow along with the growing macro economy in the following years, reaching RMB66,500 in 2026. The increasing disposable income of Chinese residents has resulted in a positive effect on the purchasing power of Chinese consumers. Consumers' purchasing power usually grows with the increase of income level. In addition, the increasing purchasing power also drives the growth of total retail sales of consumer goods including processed agricultural food products. Thus, the rising purchasing power of Chinese consumers is expected to be one of the key drivers for the agricultural food product processing industry in the coming years.

Upgrading Consumption Trend: Along with the increasing income level and purchasing power, the consumption structure of Chinese residents has been constantly improving in recent years. The consumption of processed agricultural food products is not only for satiety, but has gradually evolved for pleasure and enjoyment. As consumers pay an increasing attention on the quality of life, consumers are becoming less price-sensitive but more concerned about product quality, ingredients, packaging patterns and nutrition of products when purchasing processed agricultural food products. In the meantime, consumers' increasing awareness of health has been motivating agricultural food product processors to develop and launch new products with natural, healthy and nutritional ingredients which have enriched processed agricultural food products and stimulate the consumption in return.

Increasing Health Awareness: Along with the rapid growth of China's economy, people are seeking for higher living standards, thus paying more attention to food quality than quantity. Meanwhile, environmental pollution, food safety issue and unhealthy dietary patterns have affected people's well-being. With the desire for a healthier body condition, people in China are becoming more conscious to personal health problems and will prefer processed agricultural food products with natural ingredients. In doing so, customers are willing to spend more on healthy and quality processed agricultural food products; and as a result, China's agricultural food product processing industry is expected to benefit.

Opportunities, Threats and Challenges of China's Agricultural Food Product Processing Industry

Opportunities

Application of Advanced Processing Technology: Along with the rapid expansion of agricultural food product processing industry and the development of processing methods, more advanced technologies are being adopted in the processing of agricultural food products in China. According to the Notice on Certain Measures for Promoting Quality Economic Development of Refined and Deep Processing of Agricultural Products (《關於促進農產品精深加工高質量發展若干政策措施的通知》) promogulated in December 2018, the PRC Government has encouraged the upgrading and development of modern agricultural food product processing facilities and technologies. Various modern processing technologies, such as vacuum freeze drying, ultra-high pressure sterilisation, microwave drying and far-infrared heating technology have gradually been adopted to improve efficiency and increase production capacity, thus promoting the development of China's agricultural food product processing industry.

Growing Industrial Consolidation: With growing customer's concern of food safety, improved agricultural modernisation, and the rigid regulatory system for standardisation of production processes of agricultural food product processors, a growing industrial consolidation trend has emerged in the market. Small and mid-sized processors have gradually merged together or are acquired by each other. Meanwhile, leading companies with strong brand awareness, advanced processing technology, large distribution coverage and professional management team are expected to enjoy further development and achieve sufficient economies of scale in the consolidation trend.

Expanding Distribution Channel: Traditionally, agricultural food products are primarily sold in bulk through farmers' market, grocery stores and roadside stalls. With a rise in brand awareness and demand for product quality as well as changing customer habits, modern channels like branded chain stores, supermarket and convenience stores, as well as e-commerce channel like Tmall and JD.com. have witnessed rapid growth. Leading agricultural food product processers are striving to establish extensive distribution channels by establishing presences in supermarkets and convenience stores, as well as opening of self-operated online and offline branded stores across the country. Through expanding distribution channels, agricultural food product processers are able to expand customer coverage and enhance their brand awareness in China's agricultural food product processing industry.

Threats and Challenges

Increasing Labour Cost: As labour cost is one of the major costs for China's agricultural food product processing industry, the expected increasing trend of average annual salary of employees in manufacturing industry is likely to be a challenge.

Stricter Food Safety Requirement: Both consumers and governments' awareness of food safety have increased in past years. It is expected that higher food safety standards would be maintained in the future. Meanwhile customers have paid more attention to their health and have increased their demand for better quality in food. Agricultural food product processors are expected to be subject to stricter food safety regulatory controls and thus higher compliance costs may thereby be incurred.

SNACK FOOD INDUSTRY

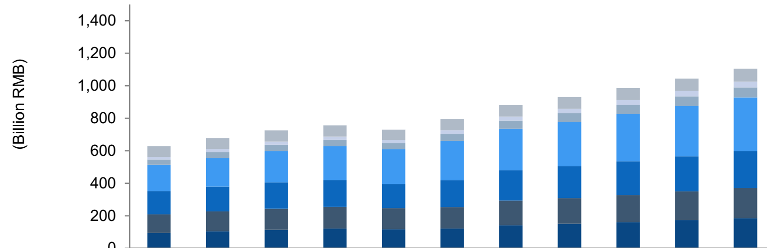
Overview of China's Snack Food Industry

Snack food refers to packaged food products that are usually consumed and eaten between meals, which mainly includes (i) bread, cakes and pastries; (ii) biscuits and other baked food; (iii) confectionery, chocolates and preserves; (iv) roasted seeds and nuts; (v) meat and aquatic animal snacks; (vi) vegetable snacks; and (vii) other snack food such as jelly and seasoned flour products, etc.

The consumption of snack food in China has experienced a steady increase in the past few years, with both online and offline retail channels sprouting up around the country. Due to rising per capital disposal income and diversification of consumer consumption preferences, the market size of snack food market in China has grown from RMB627.7 billion in 2016 to RMB796.1 billion in 2021, representing a CAGR of 4.9%. Among all categories, vegetable snacks, meat and aquatic animal snacks, as well as roasted seeds and nuts have shown high growth rates, with CAGRs of 6.3%, 5.7% and 8.5% from 2016 to 2021, respectively.

With emergence of innovative products and rising demands from young consumers, the snack food market in China is expected to grow further. It is estimated that the market size of snack food industry in China in terms of revenue will reach RMB1,105.9 billion in 2026, with a CAGR of 6.8% from 2021 to 2026.

Market Size of Snack Food Industry in terms of Revenue by Major Categories (China), 2016 — 2026E



	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (16-21)	CAGR (21-26E)
Total	627.7	677.5	725.5	756.1	730.4	796.1	881.1	930.6	985.9	1,044.8	1,105.9	4.9%	6.8%
Others	65.0	67.4	68.9	69.2	63.3	69.9	70.7	71.2	74.1	76.3	79.5	1.5%	2.6%
Vegetable Snacks	16.2	18.2	19.1	19.4	19.2	22.0	25.0	28.2	30.2	33.4	36.0	6.3%	10.4%
Meat and Aquatic Animal Snacks	32.3	35.7	38.6	39.3	38.8	42.6	49.7	53.2	56.4	59.5	62.5	5.7%	8.0%
Roasted Seeds and Nuts	161.8	177.5	193.5	207.8	212.7	243.2	256.7	273.6	291.2	310.0	329.5	8.5%	6.3%
Confectionery, Chocolates and Preserves	144.3	152.5	161.9	165.5	149.1	164.5	186.2	195.7	205.6	216.1	227.0	2.7%	6.7%
Biscuits and Other Baked Food	113.0	121.5	129.5	133.3	129.9	132.8	150.8	157.8	166.6	176.0	185.7	3.3%	6.9%
Bread, Cakes and Pastries	95.1	104.7	114.0	121.6	117.4	121.1	142.0	150.9	161.8	173.5	185.7	5.0%	8.9%

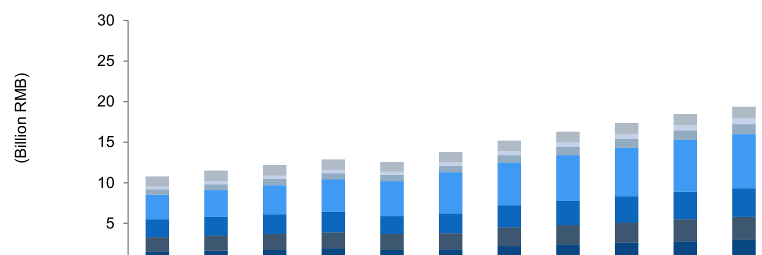
Source: Frost & Sullivan

Overview of Jiangxi Province's Snack Food Industry

Along with the development of snack food industry in China, the market size of snack food industry in Jiangxi Province has increased from RMB10.8 billion in 2016 to RMB13.8 billion in 2021, representing a CAGR of 5.0%. Among all categories, bread, cakes and pastries, vegetable snacks, and roasted seeds and nuts have shown high growth rates, with CAGRs of 3.7%, 3.7% and 11.2% from 2016 to 2021, respectively.

With rising purchasing power due to rising disposable income, as well as expansion of sales channels, especially retail channels, there is an increasing demand for snack food from customers. The market is projected to further expand to RMB19.4 billion by 2026, with a CAGR of 7.0% from 2021 to 2026.

Market Size of Snack Food Industry in terms of Revenue by Major Categories (Jiangxi Province), 2016 — 2026E



	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	CAGR (16-21)	CAGR (21-26E)
Total	10.8	11.5	12.2	12.9	12.6	13.8	15.2	16.3	17.4	18.5	19.4	5.0%	7.0%
Other	1.27	1.29	1.31	1.31	1.23	1.28	1.31	1.33	1.38	1.40	1.45	0.2%	2.5%
Vegetable Snacks	0.35	0.38	0.40	0.40	0.39	0.42	0.47	0.55	0.61	0.65	0.72	3.7%	11.4%
Meat and Aquatic Animal Snacks	0.68	0.73	0.79	0.79	0.78	0.80	0.92	1.02	1.11	1.15	1.23	3.3%	9.0%
Roasted Seeds and Nuts	3.0	3.3	3.6	4.0	4.3	5.1	5.3	5.6	6.0	6.4	6.7	11.2%	5.6%
Confectionery, Chocolates and Preserves	2.2	2.3	2.4	2.5	2.2	2.4	2.7	3.0	3.2	3.4	3.5	1.8%	7.8%
Biscuits and Other Baked Food	1.8	1.9	2.0	2.0	2.0	2.0	2.3	2.4	2.5	2.7	2.8	2.1%	7.0%
Bread, Cakes and Pastries	1.5	1.6	1.7	1.9	1.7	1.8	2.2	2.4	2.6	2.8	3.0	3.7%	10.8%

Source: Frost & Sullivan

Market Drivers of China's Snack Food Industry

Rising purchasing power due to rising disposable income: The demand for snack food correlates with the income level of consumers. As the per capita annual disposable income and per capita expenditure on food in China continue to increase, the snack food industry in China is expected to benefit from the rising income level.

Increasing focus on health and wellness: Increasing focus on health and wellness among customers in China has resulted in customer's preference from satisfying one's hunger to helping lift one's mood and relieve stress. Hence, there's an increased demand for snack food, and in particular, healthy snack food that contains rich natural nutrients with lower calories and less fat, sugar and additives. In addition, in line with the fast-paced modern lifestyle, snack food in small size which can be conveniently consumed is also increasingly popular.

Continuous product innovation and update: The current focus of leading snack food manufacturers is launching of new innovative products with new flavours, differentiated packaging and product upgrades to satisfy rapidly changing customer preferences and tastes in order to help build brand loyalty. Continuous product innovation and update of snack food can differentiate producers from their competitors and attract sophisticated consumers, which in turn drive sales growth.

Improving retail channels: The increasing penetration of modern retail channels such as shopping malls, supermarkets and chained convenience stores in top-tier cities and traditional retail channels such as small grocery stores, non-chained convenient stores in lower-tier cities has improved the retail coverage of snack food. In addition, the expansion of Internet users and the popularity of mobile Internet and e-commerce have made snack food purchase and consumption more convenient and affordable, which in turn drive the online consumption of snack food in China.

Opportunities, Threats and Challenges of China's Snack Food Industry

Opportunities

Increasing Diversity and Personalisation: Increasing diversity and personalisation of snack food is expected to be observed as a key opportunity in China's snack food market. Many snack food manufacturers have invested continuous efforts and resources for innovations and breakthroughs in product flavours and packaging. In addition to investment on research and development, they also increasingly highlight shaping personalised product images in marketing process. Cross-marketing has become popular, and some snack food manufacturers in China have begun to cooperate with businesses in e-sports, films, literature and other industries to co-release brands and cross-over products, or co-organise joint marketing campaigns, in order to promote each other's products and thereby achieving mutually beneficial and win-win results.

Sustained Brand Construction and Promotion: Brand building is a key to sustaining the growth of product sales in the competitive snack food market. The main competitors in the snack food market in China include many international brands with a long operating history. The images of these brands have been deeply rooted in customers' mind, while also facing the challenges such as brand aging. Many major snack food brands that are well-recognised in China tend to invest capital and resources into brand construction and promotion to avoid brand aging in order to meet with the needs of customers and to win the recognition of the younger generation.

Market Expansion with Wider Region Coverage: Non Tier-1 cities in China have experienced rapid economic growth in recent years and have high market potential as people's consumption power improves. An increasing number of snack food manufacturers are broadening their reach to these consumer groups by expanding traditional retail sales channels such as small scale non-chain stores and grocery stores, and establishing e-commerce channels facilitated by express delivery services, which have prospered in recent years in China. The market expansion is also considered as an opportunity of China's snack food market.

Threats and Challenges

More Intense Competition: The rapid development of e-commerce has impacted the snack food market in a comprehensive way. With benefits like expanded sales coverage and more brand online exposure for snack food manufacturers, there is also an increasing number of online snack food brands and imported snack food products entering China's snack food market. Such brands and products may cause the market competition to be more intense, which is considered as a challenge for China's snack food market.

Increasing Labour Cost: As labour cost is one of the major costs for China's snack food industry, the expected increasing trend of average annual salary of employees in manufacturing industry is likely to be a challenge for China's snack food industry.

COMPETITIVE LANDSCAPE

Competitive Landscape in China's Agricultural Food Product Processing Industry

In 2021, the agricultural food product processing market in China and Jiangxi Province was very fragmented. There were over 30,000 market players in the agricultural food product processing market in China and among which over 15,000 market players are enterprises with annual revenue over RMB20 million. In Jiangxi Province, there were over 2,000 market players in the agricultural food product processing market. Top ten competitors together constituted approximately 10.3% and 7.6% market share in terms of revenue in China and Jiangxi Province, respectively, for 2021. The Group recorded revenue of approximately RMB0.2 billion in 2021, accounting for approximately 0.003% and 0.1% of the market share in the agricultural food product processing market in China and Jiangxi Province, respectively.

The Group is a manufacturer of agricultural food products in Jiangxi Province. It principally engages in manufacturing and trading of dried food products and instant snacks. Its dried food products mainly include dried delicacies, dried aquatic products and grains, which can be broadly categorised into two sub-segments of the agricultural food product processing market, namely "vegetables, fungus, fruits and nuts" and "aquatic products" (collectively, the "**Selected Sub-market**").

In 2021, the Selected Sub-market in Jiangxi Province was also fragmented. There are thousands of market players that produce various kinds of food products in the Selected Sub-market in Jiangxi Province. Top five competitors together constituted approximately 3.8% market share in terms of revenue generated from the Selected Sub-market. The Group recorded revenue of approximately RMB146.4 million in 2021 from the Selected Sub-market, ranking 3rd place in the Selected Sub-market in Jiangxi Province.

Ranking and Market Share of Top Five Players in Jiangxi Province's Selected Sub-Market in Terms of Revenue, 2021

Rank	Company Name	Company Profile	Market Share (%)
1	Company A	An unlisted agricultural food product processing company with business in vegetables, fungus, fruits and nuts processing, which was established in 2000.	1.7%
2	Company B	An unlisted agricultural food product processing company with business in aquatic products processing, which was established in 2006.	0.9%
3	**The Company**		**0.5%**
4	Company C	An unlisted agricultural food manufacturer that relies on the deep processing of local special agricultural resources, which was established in 1999.	0.4%
5	Company D	An unlisted snack food manufacturer, which also engages in business of vegetables, fungus, fruits and nuts processing, and was established in 2014.	0.4%

Source: Frost & Sullivan

Competitive Landscape in China's Snack Food Industry

The snack food market in China is highly competitive and fragmented, with top ten competitors only constituting 8.0% of market share in terms of revenue in 2021. A majority of the manufacturers possess a comprehensive brand portfolio and provide a wide product offering, thereby achieving farther consumer reach. In contrast, the snack food market in Jiangxi Province is relatively scattered with hundreds of snack food manufacturers in the market. Top ten market players took up approximately 31.4% of the market share in Jiangxi Province's snack food market in terms of revenue in 2021. The Group generated revenue of approximately RMB171.1 million from instant snacks in 2021, accounting for approximately 0.02% and 1.2% of the market share in snack food market in China and Jiangxi Province, respectively.

Ranking and Market Share of Top Five Players in Jiangxi's Snack Food Market in terms of Revenue, 2021

Rank	Company Name	Company Profile	Market Share (%)
1	Company E	A listed snack food manufacturer on the Shenzhen Stock Exchange, which was established in 1999 and focuses on the processing of livestock and poultry meat products. It also runs a small agricultural food product processing business.	12.4%
2	Company F	A listed company on the Shenzhen Stock Exchange, which was established in 2006, with business in seeds, nuts and kernels, and cereal crisps.	9.4%
3	Company G	An unlisted snack food manufacturer, which was established in 2002, that undergoes agricultural food products processing in Jiangxi province.	1.9%
4	Company H	An unlisted snack food manufacturer, which was established in 2014, with business in vegetables, fungus, fruits and nuts processing.	1.8%
5	**The Company**		**1.2%**

Source: Frost & Sullivan

Consumers in the PRC select dried food products and instant snacks primarily based on price, brand recognition, and taste. Agricultural food product producers generally compete on the basis of product quality, the stability of their supplies, and the number and diversity of their products.

ENTRY BARRIERS OF CHINA'S AGRICULTURAL FOOD PRODUCT PROCESSING INDUSTRY AND SNACK FOOD MARKET

Distribution Channel: Distribution channel is extremely crucial for the new entrants in both agricultural food product processing market and snack food market. New entrants need to maintain long-term relationship with distributors like supermarkets and other retailers such as grocery stores and convenience stores, as well as other trading companies or corporate clients to ensure a stable customer base. The agricultural food product processing industry and snack food market are perfect competition markets and both have low industry concentration. Thus, it would take a long time to establish a stable distribution channel and to develop an efficient marketing team. For new entrants in the market, it is rather difficult to establish their own distribution channels within a short period of time.

Brand Awareness and Reputation: Agricultural food product processing industry and snack food market require high brand reputation for its market participants due to the concern for food quality and safety. Major brands in the market have built core competitiveness by accumulating goodwill for a long period of time through, for example, stringent quality controls and strong product research and development. Consumers are more likely to select products which are highly regarded in the market. Therefore, for those new entrants and small brands in the market, it is relatively hard for them to build their brand in a short period of time.

Capital Investment: New entrants in both agricultural food product processing industry and snack food market need a large amount of initial and operating investment to expand their scale of production. Large scale production can effectively reduce the production cost while guaranteeing high product quality at the same time. It is crucial for new entrants to have sufficient capital support to ensure procurement of production equipment and continuous expenditure on raw materials. In addition, substantial expenditures on product research and development and marketing also set a high barrier for those new entrants.

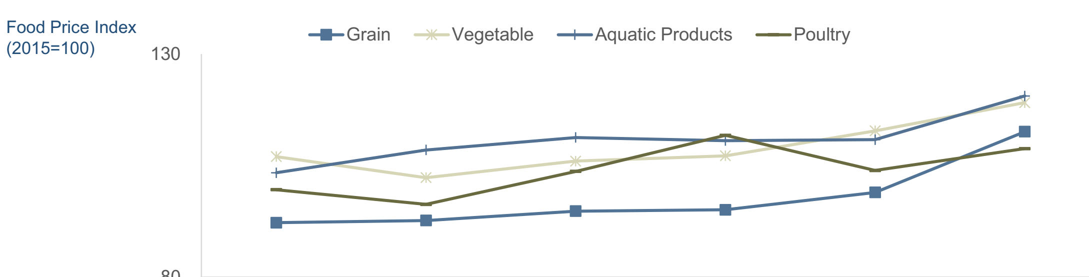
Management Capability: Most agricultural food product processors and snack food manufacturers aim to expand from a local or regional enterprise to a national enterprise to raise brand awareness and thereby to improve their market penetration across the country. In order to manage different wholesalers and regional teams, systematic management capability is indispensable. Effectively optimising the distribution channels and team structure through regular online or offline inspection, staff training and evaluation, and other methods of management operation is necessary to establish a foothold in the competitive agricultural food product processing industry and snack food market in China.

COST ANALYSIS

Major Raw Materials

The Group's major raw materials include grains, vegetables, aquatic products and poultry. Most 2015-based price indexes (year of 2015 = 100) of these raw materials have been increasing during the past several years.

Price Index of the Group's Major Raw Material (China), 2016-2021



	2016	2017	2018	2019	2020	2021
Grain	92.2	92.7	94.8	95.1	99.0	112.6
Vegetable	107.0	102.3	106.0	107.2	112.8	119.1
Aquatic Products	103.4	108.5	111.3	110.6	110.8	120.6
Poultry	99.6	96.3	103.7	111.8	103.9	108.8

Source: Frost & Sullivan

In the following years, in line with the growing economy and rising income level in China, the price index of grains, vegetables, aquatic products and poultry is likely to show an upward trend.

Labour Cost

Labour cost usually accounts for the largest part of total cost of agricultural food product processors. The average annual salary of employees in manufacturing industry in Jiangxi Province has increased from RMB37,500 per year in 2016 to RMB55,200 per year in 2021, representing a CAGR of 8.0%. Going forward, in line with the development of macro economy, the average annual salary of employees in the manufacturing industry in Jiangxi Province is expected to increase with a CAGR of 6.7% from 2021 to 2026.

SOURCE OF INFORMATION

In connection with the **[REDACTED]**, we have engaged Frost & Sullivan, an Independent Third Party, to conduct a study of China's (i) agricultural food product processing industry and (ii) snack food industry. Founded in 1961, Frost & Sullivan has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. We agreed to pay Frost & Sullivan a fee of RMB570,000 for the preparation of the Frost & Sullivan Report. Our Directors confirm to the best of their knowledge, and after making reasonable enquiries, that there have been no adverse changes in the industry since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information set out in this section.

During the preparation of the Frost & Sullivan Report, Frost & Sullivan conducted primary research that involved discussing the status of the industry with industry participants and industry experts, as well as secondary research that involved reviewing company reports, independent research reports and Frost & Sullivan's own database.

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; (iii) market drivers like accelerating urbanisation process, rising purchasing power of Chinese consumers, upgrading consumption trend, increasing health awareness are likely to drive the growth of China's agricultural food product processing market and snack food market; and (iv) the COVID-19 pandemics will be under effective control in the PRC along with government's quarantine and prevention measures and do not affect the long-term economy development of the PRC.