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*You should read this section in conjunction with our audited combined financial statements as at and for the years ended 31 December 2019, 2020 and 2021, which are set out in the Accountants’ Report in Appendix I to this document. You should read the whole of the Accountants’ Report in Appendix I to this document and not rely merely on the information in this section. The combined financial statements have been prepared in accordance with HKFRSs.*

*The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. You should review the section headed “Risk Factors” in this document for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.*

### OVERVIEW

We are an agricultural food products producer in the PRC and principally engage in manufacturing and, to a lesser extent, trading of instant snacks and dried food products. For an overview of our business, please refer to the paragraph headed “Business — Overview” in this document.

During the Track Record Period, our revenue slightly decreased from approximately RMB297.4 million for FY2019 to approximately RMB282.9 million for FY2020, and increased to approximately RMB342.0 million for FY2021. Our gross profit were approximately RMB96.3 million, RMB90.6 million and RMB108.5 million in FY2019, FY2020 and FY2021, respectively, representing a gross profit margin of approximately 32.4%, 32.0% and 31.7% for the same periods, respectively. Our net profit were approximately RMB40.9 million, RMB40.9 million and RMB48.3 million in FY2019, FY2020 and FY2021, respectively.

### BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully described in the section headed “History, Reorganisation and Corporate Structure” in this document and the section headed “Statutory and General Information” in Appendix IV to this document, our Company became the holding company of all the companies now comprising our Group on 8 June 2022. The companies now comprising our Group were under the common control of Mr. Yang and Ms. Lin immediately

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before and after the completion of the Reorganisation. The historical financial information has been prepared on a combined basis by applying the principles of merger method of accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Accordingly, the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of our Group for the Track Record Period have included the results, changes in equity and cash flows of the companies now comprising our Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position of our Group as at 31 December 2019, 2020 and 2021 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Our Directors confirmed that no significant HKFRSs adjustment was made on the PRC statutory accounts to reconcile to the underlying financial statements prepared in conformity with the HKFRSs.

### **SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS**

**We may not be able to maintain a stable supply of raw materials and the availability of our raw materials could be subject to weather conditions and global climate changes.**

Our business is dependent on maintaining a stable supply of raw materials. We source unprocessed raw materials such as fungi, grains, algae, dried aquatic products, chicken feet and duck necks from a number of suppliers, including farmers, agricultural cooperatives and corporate suppliers. During the Track Record Period, aggregate total purchases from our five largest suppliers accounted for approximately 28.9%, 34.8% and 39.9%, respectively, of our total purchase in FY2019, FY2020 and FY2021. Purchases from our largest supplier accounted for approximately 6.9%, 10.4% and 13.3%, respectively, of our total purchases in such years. If we are unable to maintain our relationship with any of our major suppliers or if any of them otherwise ceases to supply raw materials to us on the same or similar terms, or at all, such changes may impair our ability to meet our customer orders, which could have a material adverse effect on our business, results of operations and financial condition. Any shortage in raw materials or fluctuations in market prices could negatively affect our purchase price from suppliers. Risks such as social and political unrest, economic volatility and climate conditions in the regions where we source our raw materials could also negatively and materially affect our purchase price. If we are unable to obtain stable supply for our raw materials due to any of the above factors, our results of operations, profit

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margins and profitability could be adversely affected. In addition, replacing a supplier may require that we divert attention and resources away from our business. If we are unable to identify suitable replacement suppliers in a timely manner, or at all, our business and results of operations could be materially and adversely affected.

In addition, the harvesting and cultivation of agricultural products such as fungi, grains as well as aquatic products and algae are subject to natural conditions which are beyond our control. In the event of unfavourable weather conditions, the quantity or quality of raw materials available to us could be affected. For instance, any large scale flooding or other kind of natural disaster may significantly reduce the supply and increase the price of our raw materials in the market, which in turn affects our gross margin. In addition, global climate change and ocean acidification may also affect the supply of our raw materials. If we are unable to secure sufficient supplies of raw materials, our business, results of operations and financial position could be materially and adversely affected.

### **We are susceptible to fluctuations in raw materials prices.**

Our competitiveness, costs and profitability depend, in part, on our ability to source and maintain a stable and sufficient supply of raw materials at acceptable prices. Our major raw materials include fungi, grains, dried aquatic products, algae, chicken feet and duck necks and packaging materials. We procure all of our raw materials in the PRC. For FY2019, FY2020 and FY2021, our direct material costs amounted to approximately RMB186.4 million, RMB172.2 million and RMB209.6 million respectively, representing approximately 92.7%, 89.5% and 89.7% of our total cost of sales, respectively. If we are unable to obtain raw materials in the quantities and quality that we require, our volume and/or quality of production will decline, which in turn may have a material adverse effect on our results of operations.

Our raw materials are subject to price volatility caused by external factors beyond our control, such as climatic and environmental conditions, and commodity price fluctuations. An increase in the prices of our raw materials or any inability to secure alternative suppliers may increase our cost of sales and have a material adverse impact on our profit margins and hence our profitability. Our total costs of raw materials are expected to continue to increase in the foreseeable future, which is consistent with the general trend of rising commodity prices in the PRC. Fluctuations in our raw material prices may result in unexpected increases in production costs, and if we are unable to manage these costs or to pass on any such increase to our customers, our profitability will decrease. Hence, any significant increase in the price of our raw materials may materially and adversely affect our business, results of operations and financial position.

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**If our relationships with our major customers deteriorate, our ability to sell our products may be materially and adversely affected.**

Our customers are primarily retailers such as supermarkets and grocery stores, corporate customers and other individual customers. For FY2019, FY2020 and FY2021, sales to our five largest customers amounted to approximately RMB233.8 million, RMB242.7 million and RMB279.6 million, respectively, representing approximately 78.6%, 85.8% and 81.8% of our total revenue during the corresponding years; whilst sales to the largest customer amounted to approximately RMB115.8 million, RMB121.5 million and RMB149.3 million, respectively, representing approximately 38.9%, 42.9% and 43.7% of our total revenue during the corresponding years.

For details of our five largest customers, please refer to the paragraph headed “Business — Customers” in this document. We did not enter into long-term framework sales agreement with our customers, and our customers may cease purchasing products from us at any time. Any disruption in the relationships with our customers could affect our ability to effectively sell our products and would materially and adversely affect our business, results of operations and financial position.

In addition, our customers, including supermarkets and other retailers, may not be able to sell our products successfully or maintain their competitiveness as a result of various factors. If the sales volume of our products to the end consumers are reduced, our customers may cease placing orders for new products with us, reduce their order volume or demand lower prices. Any loss of our customers or reduction in customer orders could materially and adversely affect our revenue.

Furthermore, we rely on large-scale customers, such as supermarkets, to sell a significant portion of our products. If we do not successfully provide appropriate marketing, product packaging, pricing and other services to these customers, our product availability and sales could suffer. The loss of sales of any of our products to a major customer could have a material adverse effect on our business, results of operations and financial position.

## SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

We identified certain accounting policies that are significant to the preparation of our financial statements in accordance with the HKFRSs. Some of our accounting policies require us to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, nature of our business operations, relevant rules and regulations that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

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Actual results may differ from these estimates. We review the estimates and underlying assumptions regularly as they may have a significant impact on our operational results as reported in our historical financial information included elsewhere in this document. Our significant accounting policies and critical accounting estimates are summarised below and the full text is set out in note 4 and note 5 to the Accountants' Report contained in Appendix I to this document.

### **Revenue recognition**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as our Group performs; or
- does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to our Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period

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between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

### *Sale of instant snacks, dried delicacies, dried aquatic products, grains, seasonings and others*

Customers obtain control of the food products when they have been delivered to the agreed location and accepted by customers. Revenue is thus recognised upon when the customers accepted the products. Thus, there is generally only one performance obligation. Invoices are usually payable within 90 days.

Some contracts for the sales of food products provide customers with rights of return and discounts. The rights of return give rise to variable consideration and the revenue is recorded on the price specified in the sales contracts/invoices, net of the estimated discounts.

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

### *Contract liabilities*

A contract liability represents our Group's obligation to transfer services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

### *Contract costs*

Our Group recognises an asset from the costs incurred to fulfil a contract when those costs meet all of the following criteria:

- (a) the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify;
- (b) the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

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- (c) the costs are expected to be recovered.

The asset recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the cost relate. The asset is subject to impairment review.

### **Accounting judgements and estimates**

In addition to information disclosed in our historical financial information included elsewhere in this document, other key sources of estimation uncertainty that have significant risks or resulting material adjustments to the carrying amounts of assets and liabilities with next financial year for the Track Record Period are as follows:

*(i) Impairment of goodwill, right-of-use assets, property, plant and equipment and intangible assets*

Goodwill, right-of-use assets, property, plant and equipment are tested for impairment when indicators exist. Further, irrespective of whether there is any indication of impairment, goodwill is required to be tested annually for impairment. For the purpose of impairment testing, goodwill has been allocated to the cash generating unit (“CGU”) operating in the trading of food product.

Determining whether goodwill and other assets allocated to trading of food product CGU is impaired requires an estimation of the value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Further information on the impairment assessment on trading of food product CGU is provided in note 21 to the Accountants’ Report in Appendix I to this document.

*(ii) Fair value measurement*

A number of assets and liabilities included in our Group’s financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of our Group’s financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the “**fair value hierarchy**”):

Level 1: Quoted prices in active markets for identical items (unadjusted);

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Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

Our Group measures a number of items at fair value:

- Investment property; and
- Financial asset at fair value through other comprehensive income.

For more detailed information in relation to the fair value measurement of the items above, please refer to note 20 and note 23 to the Accountants' Report in Appendix I to this document, respectively.

***(iii) Estimated useful lives and residual value of property, plant and equipment and intangible assets***

Our Group's management determines the estimated useful lives and residual values for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic view could result in a change in depreciable or amortisable lives and residual values and therefore depreciation or amortisation expense in the future periods.

***(iv) Net realisable value of inventories***

Our Group's management reviews the inventory aging analysis periodically, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales.



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Our Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items through management’s estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest invoice prices and current market conditions. Additional write down of inventories might be necessary when the actual movement in inventories and selling prices is lower than anticipated.

***(v) Impairment of trade receivables, deposits and other receivables***

The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk since initial recognition. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, our Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. Our Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

***(vi) Income tax and deferred tax***

Determining income tax provisions requires our Group to make judgements on the future tax treatment of certain transactions. Our Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

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### SUMMARY OF RESULTS OF OPERATIONS

Set forth below is a summary of our combined statements of profit or loss and other comprehensive income during the Track Record Period, extracted from the Accountants’ Report included as Appendix I to this document. The financial information contained herein and in the Accountants’ Report in the Appendix I to this document is prepared in accordance with HKFRSs and is presented as if our current group structure had been in existence throughout the years presented.

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue . . . . .	297,398	282,889	341,998
Cost of sales . . . . .	<u>(201,147)</u>	<u>(192,301)</u>	<u>(233,518)</u>
Gross profit. . . . .	96,251	90,588	108,480
Other revenue . . . . .	4,500	5,153	4,181
Other gains and losses. . . . .	1,013	3,655	3,797
Distribution and selling expenses . . . . .	(21,877)	(20,314)	(28,224)
Administrative expenses . . . . .	(20,415)	(20,504)	(23,130)
Provision of impairment loss recognised on trade and other receivables and deposits, net. . . . .	58	580	893
Finance costs. . . . .	(7,530)	(7,760)	(6,150)
<b>[REDACTED]</b> . . . . .	<b>[REDACTED]</b>	<b>[REDACTED]</b>	<b>[REDACTED]</b>
Profit before income tax expense . . . . .	48,262	47,313	57,844
Income tax expense. . . . .	<u>(7,317)</u>	<u>(6,374)</u>	<u>(9,552)</u>
Profit for the year . . . . .	<u>40,945</u>	<u>40,939</u>	<u>48,292</u>
<b>Profit for the year attributable to:</b>			
Owners of the Company . . . . .	<u>40,945</u>	<u>40,939</u>	<u>48,292</u>

### DESCRIPTION OF SELECTED ITEMS IN COMBINED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

During the Track Record Period, our revenue mainly represents (i) the sales from manufacturing of instant snacks and dried food products; and (ii) the sales from trading of instant snacks and dried food products. During the Track Record Period, we recorded total revenue of approximately RMB297.4 million, RMB282.9 million and RMB342.0 million, respectively.

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*(a) Revenue by business models and by brands*

The table below sets out a breakdown of our revenue categorised by business models and by brands during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Manufacturing						
Shengyao (聲耀) . . . . .	205,826	69.2	208,308	73.6	221,060	64.6
Gangweifang (贛味坊) . . . . .	17,609	5.9	20,641	7.3	29,292	8.6
Subtotal . . . . .	223,435	75.1	228,949	80.9	250,352	73.2
Trading . . . . .	73,963	24.9	53,940	19.1	91,646	26.8
	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>

*Manufacturing*

During the Track Record Period, approximately 75.1%, 80.9% and 73.2% of our revenue were generated from our manufacturing business, which we generally source raw materials from our suppliers and process the raw materials and package products at our own production facilities, and sell the products under our own “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands. We mainly sold our packaged dried delicacies such as black fungi, dried mushroom, dried aquatic products such as dried cuttlefish and instant vegetable and meat snack products under our “Shengyao (聲耀)” brand and dried candied fruits such as raisins and dried dates as well as nuts under our “Gangweifang (贛味坊)” brand. The sales of our own-branded products contributed to a relatively larger share of our revenue, which represented approximately 75.1%, 80.9% and 73.2% for FY2019, FY2020 and FY2021, respectively. Our revenue generated from our own-branded products slightly increased by approximately RMB5.5 million or 2.5% from approximately RMB223.4 million for FY2019 to approximately RMB228.9 million for FY2020 mainly attributable to the net effect of (i) the increase in sale of instant snacks and dried aquatic products under our own brands by approximately RMB2.7 million and RMB28.6 million, respectively; and (ii) the decrease in sale of grains and dried delicacies under our own brands by approximately RMB14.3 million and RMB10.9 million, respectively. Our revenue generated from our own-branded products increased by approximately RMB21.4 million or 9.3% from approximately RMB228.9 million for FY2020 to approximately RMB250.4 million for FY2021, which was mainly due to the increase in sale of instant snacks under our own brand by approximately RMB22.5 million for FY2021.

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### *Shengyao (聲耀)*

The revenue generated from “Shengyao (聲耀)” brand products slightly increased by approximately RMB2.5 million or 1.2% for FY2020, which was mainly due to (i) the increase in sale of our dried cuttlefish by approximately RMB27.0 million, in particular the increase in sale of our medium cuttlefish by approximately RMB17.2 million; (ii) the increase in sale of our instant vegetable snacks spicy kelp series by approximately RMB15.7 million; (iii) the increase in sale of our instant vegetable snacks spicy enoki mushroom series by approximately RMB11.3 million; and (iv) the increase in sale of our instant vegetable snacks spicy bamboo shoots crisps series by approximately RMB7.3 million, partially offset by the decrease in sale of our instant vegetable snacks fragrant lotus seeds by approximately RMB47.1 million. Other than our instant vegetable snacks lotus seeds, our instant vegetable snacks under our own brands experienced a much higher growth rate than that of the market growth rate of vegetable snacks for FY2020, as stated in the Frost & Sullivan Report.

The revenue generated from “Shengyao (聲耀)” brand products increased by approximately RMB12.8 million or 6.1% for FY2021 from approximately RMB208.3 million for FY2020 to approximately RMB221.1 million for FY2021, which was mainly attributable to (i) the sale of our newly launched instant meat snacks of approximately RMB60.7 million, in particular the sale of our instant meat snacks marinated chicken wing tips series and roasted duck necks series of approximately RMB30.7 million; and (ii) the increase in sale of our dried mushroom by approximately RMB2.3 million; partially offset by the decrease in sale of our instant vegetable snacks fragrant lotus seeds by approximately RMB40.9 million as a result of our cessation of this production line due to the increase in cost of manufacturing and continuing consumption declines of this product. The decrease in sale of instant vegetable snacks was mainly due to our strategy to promote instant meat snacks where we allocated certain production resources for instant vegetable snacks to instant meat snacks.

### *Gangweifang (贛味坊)*

The revenue generated from “Gangweifang (贛味坊)” brand products increased by approximately RMB3.0 million or 17.2% from approximately RMB17.6 million for FY2019 to approximately RMB20.6 million for FY2020, which was mainly attributable to the increase in sale of pistachios by approximately RMB7.2 million, partially offset by the decrease in sale of pecans and raisins by approximately RMB3.2 million.

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The revenue generated from “Gangweifang (贛味坊)” brand products increased by approximately RMB8.7 million or 41.9% from approximately RMB20.6 million for FY2020 to approximately RMB29.3 million for FY2021, which was mainly attributable to (i) the increase in sale of macadamia by approximately RMB2.9 million; (ii) the increase in sale of watermelon seeds by approximately RMB1.4 million; and (iii) the increase in sale of pecans by approximately RMB0.9 million.

The following table sets out a breakdown of revenue of our instant snacks products under our own brands during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Vegetable . . . . .	116,752	100.00	119,495	100.00	81,305	57.3
Meat . . . . .	—	—	—	—	60,668	42.7
	116,752	100.0	119,495	100.0	141,973	100.0

The revenue generated from instant snacks under our own brands was on an increasing trend from approximately RMB116.8 million for FY2019 to approximately RMB119.5 million for FY2020, and further increased to approximately RMB142.0 million for FY2021. The revenue generated from our instant vegetable snacks increased by approximately RMB2.7 million or 2.3% for FY2020 mainly attributable to (i) the increase in sale of instant vegetable snacks spicy kelp series by approximately RMB15.7 million; (ii) the increase in sale of instant vegetable snacks spicy enoki mushroom series by approximately RMB11.3 million; (iii) the increase in sale of instant vegetable snacks spicy bamboo shoots crisp series by approximately RMB7.3 million; (iv) the increase in sale of pistachios by approximately RMB9.0 million; and (v) the increase in sale of instant vegetable snacks spicy lotus root slices by approximately RMB2.5 million, partially offset by the decrease in sale of instant vegetable snacks fragrant lotus seeds by approximately RMB47.1 million.

The revenue generated from our instant vegetable snacks decreased by approximately RMB38.2 million or 32.0% for FY2021 mainly attributable to (i) the decrease in sale of instant vegetable snacks fragrant lotus seeds by approximately RMB40.9 million, partially offset by the increase in sale of instant vegetable snacks spicy enoki mushroom series by approximately RMB2.9 million; (ii) the increase in sale of macadamia by approximately RMB2.8 million; (iii) the increase in sale of watermelon seeds by approximately RMB1.3 million; and (iv) the increase in sale of pecans by approximately RMB0.7 million.

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### *Trading*

During the Track Record Period, approximately 24.9%, 19.1% and 26.8% of our revenue were generated from our trading business, respectively. Trading products mainly represented the products we purchased from our suppliers and sold without further processing, including (i) instant snacks such as pistachios, biscuits and raisins; (ii) dried delicacies such as lotus seeds and dried mushroom; and (iii) dried aquatic products such as cuttlefish. Our revenue generated from trading business decreased by approximately RMB20.0 million or 27.1% from approximately RMB74.0 million for FY2019 to approximately RMB53.9 million for FY2020, such decrease was primarily due to the decrease in sale of dried aquatic products and dried delicacies by approximately RMB22.3 million and RMB5.5 million, respectively, partially offset by the increase in sale of instant snacks and grains by approximately RMB6.3 million and RMB3.4 million, respectively.

Our revenue generated from trading business increased by approximately RMB37.7 million or 70.0% for FY2021 mainly attributable to the increase in sale of dried delicacies products and instant snacks by approximately RMB24.9 million and RMB11.2 million, respectively. The increase in revenue generated from trading products for FY2021 was mainly attributable to the increase in sourcing of products from other suppliers to fulfil customer orders as our production facilities were operating at a level close to full capacity during FY2020 and FY2021.

### *(b) Revenue by product line*

The table below sets out a breakdown of our revenue categorised by product line during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Instant snacks . . . . .	128,419	43.2	137,426	48.6	171,059	50.0
Dried delicacies . . . . .	86,800	29.2	70,454	24.9	87,410	25.6
Dried aquatic products . . . .	46,716	15.7	52,965	18.7	59,002	17.3
Grains . . . . .	28,791	9.7	17,899	6.3	21,358	6.2
Seasonings and others . . . . .	6,672	2.2	4,145	1.5	3,169	0.9
Total . . . . .	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>

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The following table sets out a breakdown of the sales volume in tonne and average selling price per kg of our products during the Track Record Period:

	FY2019		FY2020		FY2021	
	Sales	Average	Sales	Average	Sales	Average
	volume	selling price	volume	selling price	volume	selling price
	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)
Instant snacks . . . . .	2,308	55.6	3,369	40.8	4,046	42.3
Dried delicacies . . . . .	1,281	67.8	1,127	62.5	1,098	79.6
Dried aquatic products . . . . .	392	119.2	379	139.7	426	138.5
Grains . . . . .	3,510	8.2	1,546	11.6	1,754	12.2
Seasonings and others . . . . .	514	13.0	343	12.1	314	10.1
Total . . . . .	<u>8,005</u>	N/A	<u>6,764</u>	N/A	<u>7,638</u>	N/A

### *Instant snacks*

During the Track Record Period, our sales of instant snacks represented the largest share of our revenue, which accounted for approximately 43.2%, 48.6% and 50.0%, respectively. The revenue generated from instant snacks increased by approximately RMB9.0 million or 7.0% from approximately RMB128.4 million for FY2019 to approximately RMB137.4 million for FY2020, while our average selling price of instant snacks decreased from approximately RMB55.6 per kg for FY2019 to RMB40.8 per kg for FY2020, which was mainly due to (i) the increase in sales volume of our instant vegetable snacks spicy kelp series, which was launched in late 2019, by approximately 616 tonnes for FY2020 with a relatively lower average selling price of approximately RMB25.6 per kg; (ii) the launch of our new instant vegetable snacks spicy enoki mushroom series in FY2020 which generated sales of approximately 283 tonnes for FY2020 with a relatively lower average selling price of approximately RMB39.8 per kg; and (iii) the decrease in sales volume of our instant vegetable snacks fragrant lotus seeds by approximately 481 tonnes with a relatively higher average selling price of approximately RMB77.1 per kg resulted from consumption declines in FY2020.

The revenue generated from instant snacks further increased by approximately RMB33.6 million or 24.5% from approximately RMB137.4 million for FY2020 to approximately RMB171.1 million for FY2021, while our average selling price of instant snacks increased from approximately RMB40.8 per kg for FY2020 to approximately RMB42.3 per kg for FY2021, which was the net effect of (i) the launch of our new instant meat snacks products, in particular the marinated chicken wing tips series and roasted duck necks series, which recorded sales volume of approximately 164 tonnes and 416 tonnes, respectively, with a relatively higher average selling price of approximately RMB66.0 per kg and RMB47.8 per kg, respectively, in FY2021; and (ii)



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the decrease in sales volume of our instant vegetable snacks fragrant lotus seeds by approximately 531 tonnes with a higher average selling price of approximately RMB77.1 per kg as we ceased to produce this product in FY2021 due to increase in cost of sales and continuing consumption declines of such product. We therefore decided to focus on more profitable products such as other instant vegetable snacks and instant meat snacks products going forward.

### *Dried delicacies*

Our sales of dried delicacies represented the second largest share of our revenue during the Track Record Period, which accounted for approximately 29.2%, 24.9% and 25.6%, respectively. Our revenue generated from dried delicacies decreased by approximately RMB16.3 million or 18.8% from approximately RMB86.8 million for FY2019 to approximately RMB70.5 million for FY2020, while our average selling price of dried delicacies decreased from approximately RMB67.8 per kg for FY2019 to approximately RMB62.5 per kg for FY2020, which was mainly due to (i) the decrease in sales volume of black fungi by approximately 213 tonne with a relatively higher average selling price of approximately RMB80.9 per kg; (ii) the decrease in sales volume of dried mushroom by approximately 57 tonnes, with a relatively higher average selling price of approximately RMB95.8 per kg; and (iii) the decrease in sales volume of dried agrocybe aegerita by approximately 25 tonnes, with a relatively higher average selling price of approximately RMB123.0 per kg, partially offset by the increase in sales volume of canned bamboo shoots by approximately 251 tonnes, with a relatively lower average selling price of approximately RMB21.3 per kg.

Our sales of dried delicacies increased by approximately RMB17.0 million or 24.1% from approximately RMB70.5 million for FY2020 to approximately RMB87.4 million for FY2021, while our average selling price of dried delicacies increased from approximately RMB62.5 per kg for FY2020 to approximately RMB79.6 per kg for FY2021, primarily because the sales volume of our lotus seeds, with a relatively higher average selling price of approximately RMB88.9 per kg, increased by approximately 252 tonnes; and (ii) we did not receive order for canned bamboo shoots in FY2021.

### *Dried aquatic products*

During the Track Record Period, our sales of dried aquatic products represented approximately 15.7%, 18.7% and 17.3% of our revenue, respectively. Our revenue generated from dried aquatic products increased by approximately RMB6.2 million or 13.4% from approximately RMB46.7 million for FY2019 to approximately RMB53.0 million for FY2020, and our average selling price of dried aquatic products also increased from approximately RMB119.2 per kg for FY2019 to RMB139.7 per kg for FY2020, which was mainly attributable to (i) the increase in sale



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volume of dried cuttlefish products by approximately 106 tonnes, with a relatively higher average selling price at RMB169.5 per kg; and (ii) the decrease in sales volume of kelp by approximately 86 tonnes, with a relatively lower average selling price at approximately RMB30.3 per kg.

Our sales of dried aquatic products increased by approximately RMB6.0 million or 11.4% from approximately RMB53.0 million for FY2020 to approximately RMB59.0 million for FY2021, while our average selling price of dried aquatic products slightly decreased from approximately RMB139.7 per kg for FY2020 to approximately RMB138.5 for FY2021. The increase in our sales volume and in the average selling price of dried aquatic products in FY2021 was mainly attributable to the net effect of (i) the increase in sales volume of our dried shrimp and dried squid by approximately 4 tonnes and 9 tonnes, respectively, for FY2021; (ii) the increase in sales volume of our dried cuttlefish by approximately 11 tonnes for FY2021; and (iii) the increase in sales volume of dried whitebait by approximately 10 tonnes for FY2021, which the relatively lower average selling price of dried shrimp and dried squid at approximately RMB62.6 per kg and RMB52.1 per kg, respectively, outweighed the relatively higher average selling price of dried cuttlefish and dried whitebait at approximately RMB173.0 per kg and RMB258.1 per kg, respectively, for FY2021, resulting in a slightly lower average selling price at approximately RMB138.5 per kg for FY2021.

### *Grains*

During the Track Record Period, our sales of grains represented approximately 9.7%, 6.3% and 6.2% of our revenue, respectively. Our sales of grains decreased by approximately RMB10.9 million or 37.8% from approximately RMB28.8 million for FY2019 to approximately RMB17.9 million for FY2020, while our average selling price of grains increased from approximately RMB8.2 per kg for FY2019 to RMB11.6 per kg for FY2020. Such increase in the average selling price was mainly due to the decrease in sales volume of rice by approximately 1,241 tonnes for FY2020, with a relatively lower average selling price at approximately RMB6.0 per kg; partially offset by the decrease in sales volume of green bean by approximately 433 tonnes, with a relatively higher average selling price at approximately RMB14.4 per kg for FY2020.

Our revenue generated from grains increased by approximately RMB3.5 million or 19.3% from approximately RMB17.9 million for FY2020 to approximately RMB21.4 million for FY2021, while our average selling price increased from approximately RMB11.6 per kg for FY2020 to approximately RMB12.2 per kg for FY2021. The increase in sales volume was mainly attributable to the recovery in our sales from green bean by approximately 166 tonnes for FY2021 with higher average selling price of approximately RMB14.2 per kg.

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### *Seasonings and others*

During the Track Record Period, our sales of seasonings and others represented approximately 2.2%, 1.5% and 0.9% of our revenue, respectively. Our revenue generated from seasonings and others decreased by approximately RMB2.5 million or 37.9% from approximately RMB6.7 million in FY2019 to approximately RMB4.1 million in FY2020 and further decreased to approximately RMB3.2 million in FY2021, while the average selling price decreased slightly from approximately RMB13.0 per kg for FY2019 to approximately RMB12.1 per kg for FY2020 to approximately RMB10.1 per kg in FY2021, respectively. The decreasing trend in both sales and average selling price of seasonings and others were mainly attributable to (i) the decrease in sales volume of sugar of approximately 188.4 tonnes for FY2020, which the average selling price of sugar remained relatively stable at RMB9.2 per kg for FY2019 and approximately RMB10.2 per kg for FY2020; and (ii) the average selling price of edible oil had been decreasing continuously from approximately RMB84.4 per kg for FY2019 to approximately RMB20.5 per kg for FY2020 and further to approximately RMB15.9 per kg for FY2021, and therefore we reduced our sales effort on promoting this product which resulted in a drop in the sales volume from approximately 16 tonnes for FY2019 to approximately three tonnes for FY2021.

### *(c) Revenue by sales channels*

The table below sets out a breakdown of our revenue categorised by sales channel during the Track Record Period:

	FY2019		FY2020		FY2021	
	RMB'000	%	RMB'000	%	RMB'000	%
Retailers						
Supermarkets . . . . .	208,097	70.0	196,040	69.3	230,751	67.5
Concessionary counters . .	29,198	9.8	38,697	13.7	50,559	14.8
Grocery stores . . . . .	1,588	0.5	1,935	0.7	6,604	1.9
Subtotal . . . . .	238,883	80.3	236,672	83.7	287,914	84.2
Corporate customers . . . . .	57,215	19.2	42,251	14.9	51,261	15.0
E-commerce . . . . .	841	0.3	3,944	1.4	2,728	0.8
Others ( <i>Note</i> ) . . . . .	459	0.2	22	0.0	95	0.0
Total . . . . .	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>

*Note:* Others mainly refer to direct sales to individual customers who, to the best knowledge of our Directors, purchase our products for their own consumption.

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### *Retailers*

During the Track Record Period, our sale to retailers represented the largest share of our revenue, accounted for approximately 80.3%, 83.7% and 84.2%, respectively.

### *Supermarkets*

Our sale to supermarkets decreased from approximately RMB208.1 million for FY2019 to approximately RMB196.0 million for FY2020. Such decrease is mainly due to (i) the decrease in sale to Customer Group C by approximately RMB5.0 million of which the sale was shifted to concessionary counters sale; (ii) the decrease in sale of grains products to Customer B by approximately RMB6.0 million; and (iii) the decrease in sale to a customer by approximately RMB1.9 million caused by COVID-19 pandemic.

During FY2021, our sale to supermarkets increased by approximately RMB34.7 million or 17.7%. Such increase was mainly attributable to increase in sale to Customer Group C by approximately RMB27.9 million in relation to our newly launched instant meat snacks.

### *Concessionary counters*

Our sale to concessionary counters increased from approximately RMB29.2 million for FY2019 to approximately RMB38.7 million for FY2020. Such increase was mainly due to (i) approximately RMB5.0 million sale shifted from direct sales to supermarkets in relation to Customer Group C as discussed above; and (ii) increase in revenue by approximately RMB4.5 million generated from Customer Group A because of the increase in number of concessionary counters.

During FY2021, our sale to concessionary counters increased by approximately RMB11.9 million, such increase is due to our strategy to focus our marketing resources on concessionary counters with heavy pedestrian flow and we have assigned more promoters to these concessionary counters.

Our Directors considered that sale over concessionary counters directly increase our brand exposure to the public. As at 31 December 2019, 2020 and 2021, we had 94, 119 and 120 concessionary counters, respectively. Despite the slowdown of the increase in number of concessionary counters in FY2021, our revenue for the corresponding period increased significantly, which is a result of our focused marketing resources on concessionary counters located at prominent commercial districts with heavy pedestrian flow while closing down concessionary counters that were less profitable.

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### Non-retailers

#### *Corporate customers*

Our sale to corporate customers decreased by approximately RMB15.0 million or 26.2% for FY2020, such decrease was mainly due to decrease in sales to small-scale corporate customers which, to the best knowledge of our Directors, could not survive in the economic downturn during the COVID-19 pandemic.

During FY2021, our sale to corporate customers increased by approximately RMB9.0 million or 21.3%, such increase was mainly due to the increase of sale in dried aquatic products, in particular the increase in sale of dried squid by approximately RMB5.7 million for FY2021.

#### *E-commerce*

Our sales from E-commerce increased from approximately RMB0.8 million for FY2019 to approximately RMB3.9 million for FY2020. Such increase was mainly due to the stronger demand resulted from online consumers under lockdown measures during the COVID-19 pandemic.

Our sales from E-commerce decreased from approximately RMB3.9 million for FY2020 to approximately RMB2.7 million for FY2021.

### Cost of sales

Our cost of sales mainly comprised of (i) direct materials costs, (ii) production costs; (iii) direct labour costs; and (iv) others. The following table sets out a breakdown of our cost of sales for the years indicated:

	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Direct materials costs . . . . .	186,391	172,187	209,577
Production costs . . . . .	7,343	9,467	12,001
Direct labour costs . . . . .	7,310	11,065	11,820
(Reversal of) provision			
for sales return, net . . . . .	1,197	209	(51)
(Reversal of) provision for obsolete			
inventories . . . . .	(1,094)	(627)	171
	<u>201,147</u>	<u>192,301</u>	<u>233,518</u>

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Direct materials costs was the largest component of our cost of sales and accounted for approximately 92.7%, 89.5%, and 89.7% of the total cost of sales for the Track Record Period, respectively. Direct materials costs included but not limited to purchase of dried aquatic products, lotus seeds, fungi, chicken wing tips and duck necks. The decrease in direct materials costs by approximately RMB14.2 million or 7.6% from approximately RMB186.4 million for FY2019 to approximately RMB172.2 million for FY2020 was generally in line with the decrease in our revenue. The direct materials costs increased by approximately RMB37.4 million or 21.7% from approximately RMB172.2 million for FY2020 to approximately RMB209.6 million for FY2021, which was generally in line with the increase in our revenue.

Production costs mainly comprised of depreciation, utilities and production consumables. Our production costs increased from approximately RMB7.3 million for FY2019 to approximately RMB9.5 million for FY2020 and further increased to approximately RMB12.0 million for FY2021. Such increase was mainly due to the increase in utilities expenses of the Guangchang Plant, which is dedicated for the production of instant snacks, as our instant meat production line commenced operation in FY2021 and our sale of instant snacks was on an increasing trend during the Track Record Period.

Direct labour costs increased from approximately RMB7.3 million for FY2019 to approximately RMB11.1 million for FY2020, which was mainly attributable to the increase in the number of production staff (including temporary workers) from 357 as at 31 December 2019 to 421 as at 31 December 2020. Direct labour costs increased from approximately RMB11.1 million for FY2020 to approximately RMB11.8 million for FY2021, which was mainly attributable to the increase in average salary of staff related to production in FY2021.

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Based on our best estimates, for illustrative purpose only, the table below shows the sensitivity of our profit before tax during the Track Record Period with regard to certain possible changes in the cost of direct materials during the same year, assuming all other variables remain constant:

<b>Hypothetical fluctuations</b> <i>(Note 1)</i>	<b>Change in direct materials costs</b> <i>(Note 2)</i>		
	<b>-/+ 5%</b>	<b>-/+ 10%</b>	<b>-/+ 15%</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Increase/(decrease) in profit before tax</b>			
FY2019 . . . . .	9,320/(9,320)	18,639/(18,639)	27,959/(27,959)
FY2020 . . . . .	8,609/(8,609)	17,219/(17,219)	25,828/(25,828)
FY2021 . . . . .	10,479/(10,479)	20,958/(20,958)	31,437/(31,437)

*Notes:*

- (1) Hypothetical fluctuations in direct materials costs are assumed to be 5%, 10% and 15% for illustrative purpose.
- (2) Save for hypothetical fluctuations in direct materials costs, all other factors are assumed to remain unchanged.

### **Gross profit and gross profit margin**

During the Track Record Period, we recorded (i) gross profit of approximately RMB96.3 million, RMB90.6 million and RMB108.5 million, respectively; and (ii) gross profit margin of approximately 32.4%, 32.0% and 31.7%, respectively.

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*(a) Gross profit and gross profit margin — by product line*

The following table sets forth a breakdown of gross profit and gross profit margin by product line during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>
Instant snacks . . . . .	32,757	25.5	43,551	31.7	59,189	34.6
Dried delicacies . . . . .	32,492	37.4	22,055	31.3	25,578	29.3
Dried aquatic products . . . . .	17,390	37.2	16,499	31.2	16,259	27.6
Grains . . . . .	11,509	40.0	7,114	39.7	6,416	30.0
Seasonings and others . . . . .	2,103	31.5	1,369	33.0	1,038	32.8
	<u>96,251</u>	<u>32.4</u>	<u>90,588</u>	<u>32.0</u>	<u>108,480</u>	<u>31.7</u>

*Instant snacks*

Our gross profit generated from sale of instant snacks increased by approximately RMB10.8 million or 33.0% from approximately RMB32.8 million in FY2019 to RMB43.6 million in FY2020 while gross profit margin increased from approximately 25.5% in FY2019 to 31.7% in FY2020. The increase in gross profit generated from instant snacks was mainly due to increase in revenue attributable to sale of instant snacks as discussed above. The increase in gross profit margin of instant snacks was mainly attributable to (i) revenue generated from our instant snacks in FY2020, including spicy kelp and spicy enoki mushroom series with relatively higher profit margin of approximately 30.4% and 42.0%, respectively; (ii) increase in revenue generated from pistachios with gross profit margin of approximately 35.0%; and (iii) decrease in revenue generated from fragrant lotus seeds with relatively lower profit margin of approximately 25.7%.

Our gross profit generated from sales of instant snacks further increased by approximately RMB15.6 million or 35.9% in FY2021 while gross profit margin steadily increased to approximately 34.6%. The increase in gross profit and gross profit margin generated from instant snacks was mainly attributable to (i) revenue of approximately RMB30.7 million contributed by our new instant meat snacks released in FY2021, including marinated chicken wings tips series and roasted duck necks series, with relatively higher gross profit margin of approximately 60.3% and 55.9%, respectively; and (ii) decrease in gross profit derived from instant vegetable snack products which generally have a lower gross profit margin as compared to instant meat snacks.

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### *Dried delicacies*

Our gross profit generated from sales of dried delicacies decreased by approximately RMB10.4 million or 32.1% from approximately RMB32.5 million in FY2019 to RMB22.1 million in FY2020 as a result of decrease of sales volume of dried delicacies products as discussed above. The decrease of gross profit margin from approximately 37.4% in FY2019 to 31.3% in FY2020 was mainly attributable to the drop of gross profit margin of dried mushrooms in FY2020 by approximately 10.2%. Dried mushroom is one of our best selling dried delicacies products that contributed approximately RMB14.4 million to our dried delicacies revenue in FY2020.

Our gross profit generated from sales of dried delicacies increased by approximately RMB3.5 million or approximately 16.0% in FY2021 while gross profit margin slightly decreased from 31.3% in FY2020 to 29.3% in FY2021. The increase in gross profit generated from dried delicacies was mainly due to the increase in average selling price of our dried delicacies products as discussed above. The slight decrease in gross profit margin was mainly attributable to increase in revenue generated from sales of black fungi with relatively lower gross profit margin of approximately 24.5%.

### *Dried aquatic products*

Our gross profit generated from sales of dried aquatic products decreased by approximately RMB0.9 million or 5.1% from approximately RMB17.4 million in FY2019 to RMB16.5 million in FY2020, while gross profit margin decreased from approximately 37.2% in FY2019 to 31.2% in FY2020. Such decrease in gross profit margin was mainly due to the increase in gross profit contributed by sales of dried cuttlefish products with a relatively lower profit margin of approximately 28.9% in FY2020.

Our gross profit generated from sales of dried aquatic products slightly decreased by approximately RMB0.2 million or approximately 1.5% in FY2021, while gross profit margin decreased from approximately 31.2% in FY2020 to approximately 27.6% in FY2021. Such decrease in gross profit margin was mainly attributable to the increase in gross profit contributed by sales of dried cuttlefish products with a relatively lower profit margin of approximately 28.0%.

### *Grains*

Our gross profit generated from sales of grains decreased by approximately RMB4.4 million or 38.2% from approximately RMB11.5 million in FY2019 to RMB7.1 million in FY2020, mainly attributable to the decrease in sales volume of grains products in FY2020 as discussed above. The gross profit margin of grains remained stable at approximately 40.0% in FY2019 and 39.7% in FY2020.



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Our gross profit generated from sales of grains further decreased by approximately RMB0.7 million or 9.8% in FY2021, while gross profit margin of our grains products decreased from approximately 39.7% in FY2020 to approximately 30.0% in FY2021. Such decrease in gross profit margin was mainly attributable to increase in revenue generated from green beans, which contributed approximately RMB4.0 million to our revenue from sale of grains in FY2021 with a relatively lower profit margin of approximately 28.7%.

### *Seasonings and others*

Our gross profit generated from sales of seasonings and others decreased by approximately RMB0.7 million or 34.9% from approximately RMB2.1 million in FY2019 to RMB1.4 million in FY2020, mainly attributable to decrease in sales volume and average selling price of seasonings and others as discussed above. The gross profit margin of seasonings and others slightly increased from approximately 31.5% in FY2019 to 33.0% in FY2020 as a result of a larger portion of revenue of seasonings and others in FY2020 derived from sales of white sugar with relatively higher profit margin of approximately 35.6%.

Our gross profit generated from sales of seasoning and others further decreased by approximately RMB0.3 million or 24.2% in FY2021 as a result of decrease of sales volume and average selling price of seasonings and others as discussed above. The gross profit margin of seasonings and others remained stable at approximately 33.0% in FY2020 and 32.8% in FY2021.

### **(b) Gross profit and gross profit margin — by brand**

The following table sets forth a breakdown of gross profit and gross profit margin by brand during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>
Own-branded products						
Shengyao (聲耀) . . . . .	66,304	32.2	67,457	32.4	77,909	35.2
Gangweifang (贛味坊) . . .	4,393	24.9	6,507	31.5	6,213	21.2
	70,697	31.6	73,964	32.3	84,122	33.6
Trading products . . . . .	25,554	34.5	16,624	30.8	24,358	26.6
	96,251	32.4	90,588	32.0	108,480	31.7

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### *Own-branded products*

#### *Shengyao (聲耀)*

Our gross profit for “Shengyao (聲耀)” products increased from approximately RMB66.3 million for FY2019 to approximately RMB67.5 million for FY2020, while the gross profit margin remained relatively stable at approximately 32.2% for FY2019 and approximately 32.4% for FY2020. Such increase in gross profit was mainly attributable to (i) the increase in gross profit from our dried cuttlefish by approximately RMB7.2 million; and (ii) the increase in sales of our instant vegetable snacks spicy bamboo shoots by approximately RMB3.3 million, partially offset by the decrease in gross profit from our fragrant lotus seeds by approximately RMB10.7 million.

Our gross profit for “Shengyao (聲耀)” products increased significantly from approximately RMB67.5 million for FY2020 to approximately RMB77.9 million for FY2021, while the gross profit margin increased from approximately 32.4% for FY2020 to approximately 35.2% for FY2021. Such increase in both gross profit and gross profit margin was mainly attributable to the launch of our instant meat snacks, which generated gross profit of approximately RMB29.1 million with relatively higher average gross profit margin of approximately 47.9%. In particular, such increase was mainly attributable to the increase in sales of our instant meat snacks marinated chicken wing tips series and roasted duck necks series, which generated gross profit of approximately RMB17.6 million with an even higher gross profit margin at approximately 60.3% and 55.9% for FY2021, respectively.

#### *Gangweifang (贛味坊)*

Our gross profit for “Gangweifang (贛味坊)” products increased from approximately RMB4.4 million for FY2019 to approximately RMB6.5 million for FY2020 and slightly decreased to approximately RMB6.2 million for FY2021, while the gross profit margin increased from approximately 24.9% for FY2019 to approximately 31.5% for FY2020 and decreased to approximately 21.2% for FY2021. Such increase in gross profit in FY2020 was mainly attributable to the increase in gross profit of pistachios by approximately RMB2.7 million in FY2020. The gross profit margin of “Gangweifang (贛味坊)” products was generally in line with the trend of the gross profit margin of pistachios, which accounted for the largest share of our “Gangweifang (贛味坊)” products in terms of revenue throughout the Track Record Period, which increased from approximately 28.3% for FY2019 to approximately 33.1% for FY2020 and decreased to approximately 22.2% for FY2021.

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### *Trading products*

Our gross profit for trading products decreased from approximately RMB25.6 million for FY2019 to approximately RMB16.6 million for FY2020, and the gross profit margin also decreased from approximately 34.5% for FY2019 to approximately 30.8% for FY2020. Such decrease in gross profit was mainly attributable to the decrease in gross profit generated by dried whitebait by approximately RMB4.8 million and the decrease in gross profit generated by dried mushroom by approximately RMB3.2 million. The decrease in gross profit margin in FY2020 was primarily because of the decrease in gross profit contribution by dried whitebait, a product with relatively higher gross profit margin at approximately 49.1% in FY2019.

Our gross profit for trading products increased from approximately RMB16.6 million for FY2020 to approximately RMB24.4 million for FY2021, while the gross profit margin further decreased from approximately 30.8% for FY2020 to approximately 26.6% for FY2021, which was mainly attributable to (i) the increase in gross profit of lotus seeds by approximately RMB6.6 million with a relatively lower gross profit margin of approximately 25.8%; and (ii) the increase in gross profit of almonds by approximately RMB1.0 million with a relatively lower gross profit margin of approximately 26.1%.

### *(c) Gross profit and gross profit margin — by own-branded instant snacks*

The following table sets forth a breakdown of gross profit and gross profit margin of our own-branded instant snacks products during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>
Vegetable . . . . .	28,886	24.7	37,946	31.8	22,477	27.6
Meat . . . . .	—	N/A	—	N/A	29,078	47.9
	28,886	24.7	37,946	31.8	51,555	36.3

The gross profit of our instant snacks products was on an increasing trend during the Track Record Period which increased from approximately RMB28.9 million for FY2019 to approximately RMB37.9 million for FY2020 and further to approximately RMB51.6 million for FY2021, while the gross profit margin increased from approximately 24.7% for FY2019 to approximately 31.8% for FY2020 and further to approximately 36.3% for FY2021. The increase in gross profit and gross profit margin of our instant snacks products for FY2020 was mainly attributable to (i) the increase in gross profit from our instant vegetable snacks spicy bamboo shoots series by approximately RMB3.3 million with relatively higher gross profit margin of approximately 35.1%;

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(ii) the increase in gross profit of our instant vegetable snacks spicy enoki mushroom series by approximately RMB4.7 million with relatively higher gross profit margin of approximately 42.0%; and (iii) the increase in gross profit of our instant vegetable snacks spicy kelp series by approximately RMB4.7 million with relatively higher gross profit margin of approximately 30.4%, partially offset by the decrease in gross profit of our fragrant lotus seeds by approximately RMB10.7 million with relatively lower gross profit margin of approximately 25.7%.

Our gross profit and gross profit margin increased to approximately RMB51.6 million and 36.3%, respectively in FY2021, mainly attributable to the increase in sales of our newly launched instant meat snacks as mentioned above.

The decrease in gross profit margin of our instant vegetable snack products for FY2021 was mainly attributable to the decreasing gross profit margin of our nuts products from approximately 32.6% for FY2020 to approximately 21.2% for FY2021. Our Directors would like to emphasise that, despite the aforesaid decreasing trend of the gross profit margin of our nuts products, we are able to maintain a relatively stable gross profit margin for other instant vegetable snacks products of approximately 31.5% for both FY2020 and FY2021.

### *(d) Gross profit and gross profit margin — by sales channels*

The following table sets forth a breakdown of gross profit and gross profit margin by sales channels during the Track Record Period:

	FY2019		FY2020		FY2021	
	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>	<i>RMB'000</i>	<i>Gross profit margin %</i>
Retailers						
Supermarkets . . . . .	62,569	30.1	56,819	29.0	72,990	31.6
Concessionary counters . .	13,190	45.2	16,697	43.1	18,599	36.8
Grocery stores . . . . .	804	50.6	913	47.2	1,393	21.1
Subtotal . . . . .	76,563	32.1	74,429	31.4	92,982	32.3
Corporate customers . . . . .	19,390	33.9	14,763	34.9	14,662	28.6
E-commerce . . . . .	147	17.5	1,394	35.3	811	29.7
Others . . . . .	151	32.9	2	9.1	25	26.3
Total . . . . .	<u>96,251</u>	32.4	<u>90,588</u>	32.0	<u>108,480</u>	31.7

*Note:* Others mainly refer to direct sales to individual customers who, to the best knowledge of our Directors, purchase our products for their own consumption.

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## FINANCIAL INFORMATION

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Our gross profit and gross profit margin for different sales channels largely depend on the mix of products sold under the respective sales channel, which in turn depend on the respective demand of our particular products during the period.

### *Retailers*

Our differences in gross profit margins for direct sales to supermarkets and sales over concessionary counters in supermarkets were the result of different sales model and recognition of revenue between (i) direct sales to supermarkets; and (ii) sales over concessionary counters in supermarkets. Please refer to the paragraph headed “Business — Retailers — Our relationship with supermarkets” in this document for details. Based on that (i) our revenue derived from direct sales to supermarkets are recognised net of the lump-sum fees charged by our supermarket customers, whereas no such deduction was made to our revenue derived from sales over concessionary counters; (ii) our promotional fees regarding sales over concessionary counters charged by supermarkets are recorded as our marketing and promotion expenses under distribution and selling expenses; (iii) we generally charged lower product prices against supermarkets under direct sales to them as we offered bulk purchase discount to supermarket customers with selling prices lower than that of the product prices (i.e. at retail prices) we charged under sales over concessionary sales model; and (iv) differences in product mix throughout the Track Record Period, our gross profit margin of sales over concessionary counters in supermarkets was generally higher than that of our gross profit margin of direct sales to supermarkets.

### *Supermarkets*

The gross profit for direct sales made to supermarkets decreased from approximately RMB62.6 million for FY2019 to approximately RMB56.8 million for FY2020, and the gross profit margin also slightly decreased from approximately 30.1% for FY2019 to approximately 29.0% for FY2020. The decrease in both gross profit and gross profit margin for direct sales made to supermarkets was mainly attributable to the decrease in gross profit generated from Customer B by approximately RMB6.1 million, in particular a decline in gross profit generated from dried whitebait by approximately RMB4.2 million with a gross profit margin of approximately 28.4%.

The gross profit for direct sales made to supermarkets increased from approximately RMB56.8 million for FY2020 to approximately RMB73.0 million for FY2021, while the gross profit margin slightly increased to approximately 31.6% for FY2021. The increase in both gross profit and gross profit margin was mainly due to the increase in sales of our newly launched instant meat snacks, which generally have a higher gross profit margin as discussed above.

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## FINANCIAL INFORMATION

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### *Concessionary counters*

Our gross profit for sales over concessionary counters increased from approximately RMB13.2 million for FY2019 to approximately RMB16.7 million for FY2020, while the gross profit margin remained relatively stable at approximately 45.2% for FY2019 to approximately 43.1% for FY2020. Such increase in gross profit was mainly attributable to the increase in gross profit generated from Customer Group A and Customer Group C by approximately RMB4.6 million for FY2020 as a result of the increase in number of concessionary counters in their stores.

Our gross profit for sales over concessionary counters further increased to approximately RMB18.6 million for FY2021, while the gross profit margin decreased to approximately 36.8% for FY2021. The increase in gross profit and decrease in gross profit margin was mainly attributable to the increase in sales of certain products with relatively lower gross profit margin, such as dried cuttlefish, biscuits and fungi, which outweighed the increase in sales of our instant meat snacks products with relatively higher gross profit margin. The gross profit margin of our dried cuttlefish, biscuits and fungi ranged from approximately 19.5% to 33.6% for FY2021.

### *Grocery stores*

Our gross profit for sales to grocery stores was on increasing trend during the Track Record Period, which increased from approximately RMB0.8 million for FY2019 to approximately RMB0.9 million for FY2020, and further to approximately RMB1.4 million for FY2021. The gross profit margin for sales to grocery stores was approximately 50.6%, 47.2% and 21.1% for FY2019, FY2020 and FY2021, respectively. For FY2021, our gross profit margin for sales to grocery stores decreased to approximately 21.1% as we adopted a relatively competitive pricing strategy for our grocery stores customers. Considering that (i) our grocery stores customers generally operate in a smaller scale than our supermarkets customers and corporate customers, and hence are less affordable in terms of purchasing power; and (ii) certain grocery stores customers are located outside of Jiangxi Province, such that we had sold our products to such grocery stores at relatively lower prices to align with our marketing strategy to promote and penetrate our brands and products across other provinces in the PRC.

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## FINANCIAL INFORMATION

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### *Non-retailers*

#### *Corporate customers*

Our gross profit for corporate customers decreased from approximately RMB19.4 million for FY2019 to approximately RMB14.8 million for FY2020, while the gross profit margin increased from approximately 33.9% for FY2019 to approximately 34.9% for FY2020, which was mainly due to (i) the decrease in gross profit of black fungi from approximately RMB3.5 million to approximately RMB0.5 million, while the gross profit margin of such product increased from approximately 43.3% to approximately 43.7%; and (ii) the decrease in gross profit of our dried mushroom products from approximately RMB2.1 million for FY2019 to approximately RMB1.5 million for FY2020, while the gross profit margin of such product increased from approximately 39.8% for FY2019 to approximately 50.1% for FY2020.

Our gross profit for corporate customers remained relatively stable at approximately RMB14.8 million for FY2020 and RMB14.7 million for FY2021, while our gross profit margin for corporate customers decreased from approximately 34.9% for FY2020 to approximately 28.6% for FY2021, which was mainly due to our competitive pricing strategy to offer our newly launched instant meat products to corporate customers at discounts to promote such products. Our Directors considered that, by offering competitive prices to our corporate customers, we will be able to better penetrate the instant snack market by leveraging the network of our corporate customers to raise awareness of our instant meat snacks.

#### *E-commerce*

Our gross profit for E-commerce increased from approximately RMB0.1 million for FY2019 to approximately RMB1.4 million for FY2020 but decreased to approximately RMB0.8 million for FY2021, while the gross profit margin increased from approximately 17.5% for FY2019 to approximately 35.3% for FY2020, which was mainly due to the increase of gross profit generated from pistachios and watermelon seeds with relatively higher gross profit margin. The gross profit margin decreased to approximately 29.7% for FY2021, which was mainly due to the decrease of gross profit generated from pistachios by RMB0.9 million with relatively higher gross profit margin.

## FINANCIAL INFORMATION

### Other revenue

The following table sets forth a breakdown of other revenue of our Group for the years indicated:

	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants . . . . .	4,122	4,620	3,690
Interest income from bank deposits . . . . .	125	273	307
Rental income . . . . .	110	220	184
Imputed interest on government grant receivable . . . . .	78	40	—
Others . . . . .	65	—	—
	<u>4,500</u>	<u>5,153</u>	<u>4,181</u>

Other revenue mainly comprised government grants, interest income from bank deposits and rental income. Government grants were one-off in nature and mainly represented grants received from the PRC local government authority as subsidies to our Group, including (i) incentive of agricultural development for FY2019, FY2020 and FY2021 which our Group was required to lease over 40 acres land in agricultural use for ten years; (ii) government grant related to successful listing on the NEEQ for FY2019 and FY2020 which does not have other unfulfilled obligations; and (iii) government grant for revenue growth for FY2020 which does not have other unfulfilled obligations.

Other revenue increased from approximately RMB4.5 million for FY2019 to approximately RMB5.2 million for FY2020, which was mainly due to the increase in government grants received of approximately RMB0.5 million. Other revenue decreased to approximately RMB4.2 million for FY2021, mainly attributable to the decrease in government grants received by approximately RMB0.9 million.



## FINANCIAL INFORMATION

### Other gain and losses

The following table sets forth a breakdown of other gain and losses of our Group for the years indicated:

	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Reversal for the provision of staff social insurance . . . . .	2,937	3,537	1,179
Gain on changes in fair value of investment property . . . . .	70	160	1,100
Gain from early termination of subleases . .	—	—	1,782
Exchange loss, net. . . . .	—	(29)	—
Losses on disposals of property, plant and equipment . . . . .	(74)	(13)	(264)
Loss from net investment in subleases . . . .	(1,920)	—	—
	<u>1,013</u>	<u>3,655</u>	<u>3,797</u>

Other gain and losses increased from approximately RMB1.0 million for FY2019 to approximately RMB3.7 million for FY2020, which was mainly attributable to (i) the decrease in loss from net investment in subleases by approximately RMB1.9 million; and (ii) the increase in reversal for the provision of staff social insurance by approximately RMB0.6 million. Other gain and losses increased to approximately RMB3.8 million for FY2021. Such increase was mainly attributable to (i) the increase in gain from early termination of subleases of approximately RMB1.8 million, (ii) the increase in gain on change in fair value of investment property of approximately RMB0.9 million, partially offset by the decrease in the reversal for the provision of staff social insurance of approximately RMB2.4 million.

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### Distribution and selling expenses

The following table sets forth a breakdown of our distribution and selling expenses for the years indicated:

	<b>FY2019</b>	<b>FY2020</b>	<b>FY2021</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs . . . . .	13,424	11,401	15,820
Delivery and inspection . . . . .	3,869	3,184	4,849
Marketing and promotion . . . . .	3,175	3,221	4,758
Office expenses and others . . . . .	1,409	2,508	2,797
	<u>21,877</u>	<u>20,314</u>	<u>28,224</u>

Distribution and selling expenses comprised of staff costs, delivery and inspection, marketing and promotion, and office expenses and others. Our distribution and selling expenses decreased from approximately RMB21.9 million for FY2019 to approximately RMB20.3 million for FY2020, which was mainly attributable to the decrease in staff costs by approximately RMB2.0 million as a result of the decrease in number of our sales representatives and promoters. Our distribution and selling expenses increased from approximately RMB20.3 million for FY2020 to approximately RMB28.2 million for FY2021, which was mainly due to (i) the increase in staff costs by approximately RMB4.4 million due to the increase in number of our sales representatives and promoters; and (ii) the increase in cost of delivery and inspection by approximately RMB1.7 million which was generally in line with the increase in our revenue.

## FINANCIAL INFORMATION

### Administrative expenses

Administrative expenses mainly comprised of research and development, staff cost, legal and professional expenses, depreciation and amortisation, other taxes, entertainment and transportation expenses, office expenses and others. The following table sets forth a breakdown of our administrative expenses for the years indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Staff costs . . . . .	3,210	3,600	4,787
Other taxes . . . . .	1,468	1,614	1,778
Entertainment and transportation expenses . . . . .	1,232	1,238	1,375
Depreciation and amortisation . . . . .	1,487	1,290	1,273
Research and development . . . . .	9,491	10,225	10,386
Utility expenses . . . . .	252	147	190
Legal and professional expenses . . . . .	1,936	544	465
Maintenance expenses . . . . .	370	992	1,508
Office expenses and others . . . . .	969	854	1,368
	<u>20,415</u>	<u>20,504</u>	<u>23,130</u>

Our administrative expenses slightly increased from approximately RMB20.4 million for FY2019 to approximately RMB20.5 million for FY2020, which was mainly due to (i) the increase in research and development cost by approximately RMB0.7 million as a result of the increase in number of staff related to research and development from approximately 44 as at 31 December 2019 to 45 as at 31 December 2020 and the increase in cost of product testing by approximately RMB0.4 million; (ii) the increase in staff costs by approximately RMB0.4 million as a result of the increase in number of administrative staff from approximately 44 as at 31 December 2019 to 45 as at 31 December 2020; and (iii) the increase in maintenance expenses by approximately RMB0.6 million in respect of machineries in Guangchang Plant; partially offset by the decrease in legal and professional expenses by approximately RMB0.9 million due to the one-off professional services fee incurred for delisting from NEEQ in FY2019.

Our administrative expenses increased from approximately RMB20.5 million for FY2020 to approximately RMB23.1 million for FY2021, which was mainly due to (i) the increase in staff costs of approximately RMB1.2 million as a result of the increase in number of administrative staff from approximately 40 in FY2020 to approximately 49 in FY2021; and (ii) the increase in maintenance expenses of approximately RMB0.5 million in respect of machineries in Guangchang Plant.

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## FINANCIAL INFORMATION

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### Finance costs

The following table sets forth a breakdown of our finance costs for the years indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank and other borrowings . . . . .	7,255	7,519	5,966
Guarantee fee . . . . .	110	68	22
Interest expenses on lease liabilities . . . . .	165	173	162
	<u>7,530</u>	<u>7,760</u>	<u>6,150</u>

Our finance costs mainly represented interest expenses on bank and other borrowings. During the Track Record Period, our finance costs were approximately RMB7.5 million, RMB7.8 million and RMB6.2 million, respectively. The increase in finance costs for FY2020 was generally in line with the increase in bank and other borrowings as at 31 December 2020. The decrease in finance costs for FY2021 was due to the decrease in average amount of bank and other borrowings for FY2021.

### Taxation

Our taxation comprised of (i) profit tax expenses of EIT; and (ii) deferred tax expenses. Our taxation decreased by approximately RMB0.9 million or 12.9% from approximately RMB7.3 million for FY2019 to approximately RMB6.4 million for FY2020. The decrease was primarily due to the decrease in profit before tax of approximately RMB1.0 million, and the decrease in deferred tax assets. Our taxation increased from approximately RMB6.4 million for FY2020 to approximately RMB9.6 million for FY2021, which was mainly due to the increase in profit before tax of approximately RMB10.5 million. Our effective tax rate was approximately 15.2%, 13.5% and 16.2% during the Track Record Period, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial resources

During the Track Record Period, our primary use of cash had been the payment for purchases of raw materials for manufacturing, staff costs and welfares, production costs and various operating expenses. Historically, we have financed our liquidity requirements through a combination of cash generated from our operating activities and bank borrowings.

## FINANCIAL INFORMATION

### Cash flows

	FY2019	FY2020	FY2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit before working capital change . . . . .	56,566	52,928	63,560
Change in working capital . . . . .	<u>(37,604)</u>	<u>39,201</u>	<u>(28,583)</u>
Net cash generated from operations . . . . .	18,962	92,129	34,977
Income tax paid . . . . .	<u>(8,374)</u>	<u>(5,570)</u>	<u>(7,905)</u>
Net cash generated from operating activities . . . . .	10,588	86,559	27,072
Net cash used in investing activities . . . . .	(2,629)	(3,105)	(7,187)
Net cash generated from/(used in) financing activities . . . . .	<u>32,507</u>	<u>17,748</u>	<u>(34,902)</u>
Net increase/(decrease) in cash and cash equivalents . . . . .	40,466	101,202	(15,017)
Cash and cash equivalents at the beginning of the year . . . . .	<u>670</u>	<u>41,136</u>	<u>142,338</u>
Cash and cash equivalents at the end of the year . . . . .	<u><u>41,136</u></u>	<u><u>142,338</u></u>	<u><u>127,321</u></u>

### Cash flows from operating activities

Net cash generated from operating activities for FY2019 was approximately RMB10.6 million. Operating cash flows before changes in working capital were approximately RMB56.6 million, primarily reflecting profit before income taxation of approximately RMB48.3 million, as positively adjusted by interest expenses of approximately RMB7.5 million, reversal of the provision of social insurance of approximately RMB2.9 million, depreciation of property, plant and equipment of approximately RMB2.4 million, and loss from net investment in subleases of approximately RMB1.9 million. Change in working capital contributed to a net cash outflow in the amount of approximately RMB37.6 million, consisting primarily of an increase in trade receivables of approximately RMB46.1 million, and partially mitigated by a decrease in inventories of approximately RMB8.8 million. Operating cash outflow also included payment of income tax of approximately RMB8.4 million. Explanations of fluctuations of the aforesaid items from the combined statements of financial position are set out in the paragraph headed “Selected Items of Combined Statements of Financial Position” in this section.

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Net cash generated from operating activities for FY2020 was approximately RMB86.6 million. Operating cash flows before changes in working capital were approximately RMB52.9 million, primarily reflecting profit before income taxation of approximately RMB47.3 million, as positively adjusted by interest expenses of approximately RMB7.8 million, reversal of the provision of social insurance of approximately RMB3.5 million, and depreciation of property, plant and equipment of approximately RMB2.4 million. Change in working capital contributed to a net cash inflow in the amount of approximately RMB39.2 million, consisting primarily of (i) an increase in trade payables of approximately RMB27.6 million; (ii) a decrease in prepayments, deposits and other receivables of approximately RMB24.3 million; and (iii) a decrease in trade receivables of approximately RMB22.5 million, and partially mitigated by an increase in inventories of approximately RMB35.2 million. Operating cash outflow also included payment of income tax of approximately RMB5.6 million. Explanations of fluctuations of the aforesaid items from the combined statements of financial position are set out in the paragraph headed “Selected Items of Combined Statements of Financial Position” in this section.

Net cash generated from operating activities for FY2021 was approximately RMB27.1 million. Operating cash flows before changes in working capital were approximately RMB63.6 million, primarily reflecting profit before income taxation of approximately RMB57.8 million, as positively adjusted by depreciation of property, plant and equipment of approximately RMB3.8 million, interest expenses of approximately RMB6.2 million, gain from early termination of subleases of approximately RMB1.8 million and reversal of the provision of social insurance of approximately RMB1.2 million. Change in working capital contributed to a net cash outflow in the amount of approximately RMB28.6 million, consisting primarily of (i) a decrease in trade payables of approximately RMB9.9 million; (ii) an increase in trade receivables of approximately RMB9.9 million; and (iii) an increase in inventories of approximately RMB8.4 million. Operating cash outflow also included payment of income tax of approximately RMB7.9 million. Explanations of fluctuations of the aforesaid items from the combined statements of financial position are set out in the paragraph headed “Selected Items of Combined Statements of Financial Position” in this section.

### **Cash flows from investing activities**

We recorded net cash used in investing activities of approximately RMB2.6 million for FY2019, primarily as a result of (i) the purchase of plant and machinery of approximately RMB1.5 million; and (ii) the purchases of intangible assets of approximately RMB1.3 million.

We recorded net cash used in investing activities of approximately RMB3.1 million for FY2020, primarily as a result of the purchase of plant, plant and equipment of approximately RMB3.4 million.

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We recorded net cash used in investing activities of approximately RMB7.2 million for FY2021, primarily as a result of the purchase of plant, plant and equipment of approximately RMB9.5 million, and partially offset by the net cash inflow from disposal of subsidiary of approximately RMB1.9 million.

### **Cash flows from financing activities**

We recorded net cash generated from financing activities of approximately RMB32.5 million for FY2019, primarily as a result of (i) proceeds from bank borrowings of approximately RMB117.6 million; (ii) the repayment of bank borrowings of approximately RMB93.5 million; (iii) the capital contributions from beneficial shareholders of a subsidiary (representing the [REDACTED] from Mr. Lei) of approximately RMB20.0 million; and (iv) the interest paid of approximately RMB6.3 million.

We recorded net cash generated from financing activities of approximately RMB17.7 million for FY2020, primarily as a result of (i) proceeds from bank borrowings of approximately RMB100.3 million; (ii) the repayment of bank borrowings of approximately RMB86.4 million; (iii) the capital contributions from beneficial shareholders of a subsidiary (representing the [REDACTED] from Mr. Su) of approximately RMB13.2 million; and (iv) the interest paid of approximately RMB7.7 million.

We recorded net cash used in financing activities of approximately RMB34.9 million for FY2021, primarily as a result of (i) the repayment of bank borrowings of approximately RMB111.6 million; (ii) proceeds from bank borrowings of approximately RMB83.7 million; and (iii) the interest paid of approximately RMB6.2 million.

### **Sufficiency of working capital**

Taking into account the financial resources available to us, including our available credit facilities, cash and cash equivalents on hand, cash flows generated from our operations and our estimated proceeds from the [REDACTED] and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this document.

## FINANCIAL INFORMATION

### Net current assets

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current assets</b>				
Inventories . . . . .	62,445	98,248	106,459	69,382
Trade receivables . . . . .	74,344	52,395	63,163	68,168
Prepayments, deposits and other receivables . . . . .	37,754	15,631	15,300	10,100
Right of return assets . . . . .	976	767	818	818
Amount due from a related party . . . .	58	58	—	—
Amount due from shareholders . . . . .	—	343	343	343
Cash and cash equivalents . . . . .	41,136	142,338	127,321	137,316
	<u>216,713</u>	<u>309,780</u>	<u>313,404</u>	<u>286,127</u>
<b>Current liabilities</b> . . . . .				
Trade payables . . . . .	24,774	52,390	42,511	19,859
Other payables and accruals . . . . .	17,459	14,046	14,380	15,451
Contract liabilities . . . . .	450	290	593	1,220
Borrowings . . . . .	80,972	98,586	87,033	64,200
Amount due to a shareholder . . . . .	—	9	9	9
Lease liabilities . . . . .	249	238	84	56
Income tax payable . . . . .	4,306	4,171	5,490	7,979
	<u>128,210</u>	<u>169,730</u>	<u>150,100</u>	<u>108,774</u>
<b>Net current assets</b> . . . . .	<u><u>88,503</u></u>	<u><u>140,050</u></u>	<u><u>163,304</u></u>	<u><u>177,353</u></u>

Our Group recorded net current assets of approximately RMB88.5 million as at 31 December 2019 and recorded an improvement of net current assets of approximately RMB140.0 million as at 31 December 2020, which was mainly attributable to (i) the increase in cash and cash equivalents of approximately RMB101.2 million; and (ii) the increase in inventories of approximately RMB35.8 million, and partially offset by (i) the increase in trade payables of approximately RMB27.6 million; and (ii) the decrease in trade receivables of approximately RMB21.9 million.

Our net current assets further improved by approximately RMB23.3 million from approximately RMB140.0 million as at 31 December 2020 to RMB163.3 million as at 31 December 2021, which was mainly attributable to (i) the increase in trade receivables of approximately RMB10.8 million; and (ii) the decrease in borrowings of approximately RMB11.6 million.



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Our net current assets increased to approximately RMB177.4 million as at 30 April 2022, which was mainly attributable to (i) the decrease in trade payables of approximately RMB22.7 million; (ii) the decrease in borrowings of approximately RMB22.8 million; (iii) the increase in trade receivables of approximately RMB5.0 million; and (iv) increase in cash and cash equivalents of approximately RMB10.0 million, and partially offset by (i) the decrease in inventories of approximately RMB37.1 million; and (ii) the decrease in prepayments, deposits and other receivables of approximately RMB5.2 million.

### SELECTED ITEMS OF COMBINED STATEMENTS OF FINANCIAL POSITION

#### Inventories

During the Track Record Period, our inventories primarily consisted of raw materials. The following table sets out a summary of our inventories balance as at the dates indicated.

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials . . . . .	46,739	62,495	59,598
Finished goods . . . . .	16,333	35,753	47,032
	63,072	98,248	106,630
Less: Provision for obsolete inventories loss . . . . .	(627)	—	(171)
	62,445	98,248	106,459

Our raw materials mainly consisted of lotus seeds, fungi, grains, dried aquatic products and algae and others. Our finished goods represent our products that have completed the manufacturing process but have not yet been sold or distributed to customers. As at 31 December 2019, 2020 and 2021, the balance of our inventories represented approximately 28.8%, 31.7%, and 34.0% of our total current assets, respectively. Pursuant to our inventory policy, the value of inventory shall be stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis and net realisable value means the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. During the Track Record Period, we made provision to the value of our inventories of approximately RMB0.6 million, nil and RMB0.2 million, respectively.

## FINANCIAL INFORMATION

Our inventories increased from approximately RMB62.4 million as at 31 December 2019 to approximately RMB98.2 million as at 31 December 2020, primarily due to the increase in our finished goods of instant snacks from approximately RMB5.0 million as at 31 December 2019 to approximately RMB18.9 million as at 31 December 2020, which was in line with the increase in our sale of instant snacks in FY2020.

Our inventories increased from approximately RMB98.2 million as at 31 December 2020 to approximately RMB106.5 million as of 31 December 2021. Such increase was mainly attributable to the increase in our finished goods of dried delicacies from approximately RMB6.0 million as at 31 December 2020 to approximately RMB14.4 million as at 31 December 2021, which was in line with our increase in sale of dried delicacies in FY2021, and partially offset by the decrease in raw materials due to the enhancement of our inventory control and procurement control in FY2021.

The following table sets out our average inventory turnover days for the years indicated:

	FY2019	FY2020	FY2021
Average inventory turnover day(s) ( <i>Note</i> ) . .	120.3	152.5	160.0

*Note:* Average inventory turnover days are calculated by averaging the inventories balance as at the beginning and as at the end of a particular period, dividing by cost of sales during the period and multiplying the number of days in the period.

Our average inventory turnover days increased from approximately 120.3 days for FY2019 to approximately 152.5 days for FY2020, and further increased to approximately 160.0 days for FY2021, which was primarily due to increase in our inventory balance as at 31 December 2020 and 31 December 2021, as discussed above.

The following table sets out our inventory ageing analysis as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days . . . . .	46,102	61,270	81,080
91-180 days . . . . .	3,650	18,070	18,449
181-365 days . . . . .	11,830	18,758	6,780
Over 365 days . . . . .	863	150	150
	62,445	98,248	106,459

As at the Latest Practicable Date, approximately RMB82.8 million or 77.8% of our inventories as at 31 December 2021 were subsequently utilised/sold.

## FINANCIAL INFORMATION

### Trade receivables

The following table sets forth a breakdown of our trade receivables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables . . . . .	76,143	53,640	63,507
Less: Impairment provision . . . . .	(1,799)	(1,245)	(344)
	74,344	52,395	63,163

Trade receivables mainly represented the outstanding amounts receivable by us from the sales of our products. Our trade receivables amounted to approximately RMB74.3 million, RMB52.4 million and RMB63.2 million as at 31 December 2019, 2020 and 2021, respectively. Our Group’s credit terms generally request payment from our customers of 30 to 90 days. The decrease in our trade receivables as at 31 December 2020 was generally in line with the decrease in our revenue in FY2020. The increase in our trade receivables as at 31 December 2021 was generally in line with the increase in our revenue in FY2021.

The following table sets out our average trade receivables turnover days for the years indicated:

	FY2019	FY2020	FY2021
Average trade receivables turnover day(s)			
<i>(Note)</i> . . . . .	63.0	81.8	61.7

*Note:* Average trade receivables turnover days are calculated by averaging the trade receivables balance after impairment as at the beginning and as at the end of a particular period, dividing such average by revenue during the period and multiplying the number of days in the period.

Our average trade receivables turnover days increased from approximately 63.0 days for FY2019 to approximately 81.8 days for FY2020, which was mainly because certain customers took a longer time to authorise or arrange the settlement as a result of temporary travel restrictions or other lockdown measures imposed by the PRC Government in response to the outbreak of the COVID-19. Our average trade receivables turnover days decreased from approximately 81.8 days for FY2020 to approximately 61.7 days for FY2021, primarily due to our enhanced collection efforts after the stabilisation of COVID-19 in FY2021. Our average trade receivables turnover days during the Track Record Period were in line with our credit period that we granted to our customers (i.e. 30 to 90 days).

## FINANCIAL INFORMATION

The ageing analysis of trade receivables, based on invoice dates, as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days . . . . .	53,185	41,315	37,657
31 to 60 days . . . . .	17,860	11,985	25,510
61 to 90 days . . . . .	4,453	—	—
Over 90 days . . . . .	645	340	340
	76,143	53,640	63,507

Our Group generally allows an average credit period of 30 to 90 days to our customers. Approximately 99.2%, 99.4% and 99.5% of our trade receivables as at 31 December 2019, 2020 and 2021 were aged within 90 days from the invoice dates. We seek to maintain strict control over our outstanding receivables to minimise the credit risk. We did not require any collateral as security.

As at the Latest Practicable Date, approximately RMB62.8 million or 98.9% of trade receivables as at 31 December 2021 were subsequently settled.

### Prepayments, deposits and other receivables

The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payment in advance to suppliers . . . . .	26,867	658	—
Other receivables . . . . .	8,901	11,279	10,040
Deferred [REDACTED] . . . . .	[REDACTED]	[REDACTED]	[REDACTED]
Deposit . . . . .	422	348	336
Prepayments . . . . .	373	656	521
Value added tax recoverable . . . . .	19	141	1,275
	37,828	15,679	15,356
Less: Impairment provision . . . . .	(74)	(48)	(56)
	37,754	15,631	15,300

## FINANCIAL INFORMATION

Our prepayments, deposits and other receivables decreased by approximately RMB22.1 million or approximately 58.6% from approximately RMB37.8 million as at 31 December 2019 to approximately RMB15.6 million as at 31 December 2020, primarily due to the decrease in payment in advance to our suppliers of approximately RMB26.2 million as most of our suppliers no longer required an advance payment for purchase of raw materials since we have built a long-term business relationship with them, and partially offset by the increase in deferred [REDACTED] of approximately RMB[REDACTED]. Our prepayments, deposits and other receivables remained relatively stable at approximately RMB15.6 million and RMB15.3 million as at 31 December 2020 and 2021, respectively.

### Trade payables

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables . . . . .	24,774	52,390	42,511

During the Track Record Period, trade payables mainly consisted of balance due to our suppliers for purchase of direct materials. Our trade payables mainly consisted of payables to our suppliers of raw materials and are recognised upon receipt of goods. Our Group was generally offered credit periods of 30 days by our suppliers.

Our trade payables increased by approximately RMB27.6 million, or 111.5%, from approximately RMB24.8 million as at 31 December 2019 to approximately RMB52.4 million as at 31 December 2020. Such increase was primarily due to our increased purchases of raw materials around the end of 2020 as we expected to launch new products around the Chinese New Year of FY2021. Our trade payables decreased from approximately RMB52.4 million as at 31 December 2020 to approximately RMB42.5 million as at 31 December 2021, which was mainly attributable to the enhancement of our inventory control and procurement control in FY2021.

## FINANCIAL INFORMATION

The following table sets out our trade payables turnover days for the years indicated:

	FY2019	FY2020	FY2021
Average trade payable turnover day(s)			
<i>(Note)</i> . . . . .	47.6	73.2	74.2

*Note:* Average trade payable turnover days are calculated by averaging the trade payable balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period.

The following table sets out our trade payables ageing analysis as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days . . . . .	9,600	41,398	33,918
31–60 days . . . . .	11,162	1,692	7,513
61–90 days . . . . .	3,009	1,863	1,080
91–180 days . . . . .	350	7,437	—
181 days to 365 days . . . . .	653	—	—
Over 365 days . . . . .	—	—	—
	<u>24,774</u>	<u>52,390</u>	<u>42,511</u>

During the Track Record Period, the average trade payables turnover days were approximately 47.6 days, 73.2 days, and 74.2 days, respectively. Our average trade payables turnover days increased in FY2020 due to the increase in trade payables as discussed above. Our average trade payables turnover days remained relatively stable for FY2021.

As at the Latest Practicable Date, approximately RMB42.5 million and 100% of trade payables as at 31 December 2021 were subsequently settled.

## FINANCIAL INFORMATION

### Accruals and other payables

The following table sets forth a breakdown of our accruals and other payables as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables . . . . .	3,491	2,816	1,855
Accruals . . . . .	13,717	10,979	12,525
Deferred revenue . . . . .	251	251	—
	17,459	14,046	14,380

Accruals and other payables primarily consist of accrued salaries and staff costs, accrued [REDACTED], and other tax payables.

Our accruals and other payables decreased by approximately RMB3.4 million or 19.5% from approximately RMB17.5 million as at 31 December 2019 to approximately RMB14.0 million as at 31 December 2020, primarily attributable to the decrease in accruals expenses as we have settled relatively large amount of the social security funds as at 31 December 2020.

Our accruals and other payables remained relatively stable at RMB14.0 million and RMB14.4 million as at 31 December 2020 and 2021, respectively.

### Property, plant and equipment

Our property, plant and equipment comprise buildings, leasehold improvement, furniture, electronic and other equipment, plant and machinery, motor vehicles and construction in progress.

Our property, plant and equipment remained relatively stable at approximately RMB30.4 million and RMB31.4 million as at 31 December 2019 and 2020, and further increased by approximately RMB11.5 million or 36.7% to approximately RMB43.0 million as at 31 December 2021. Such increase was mainly due to (i) the purchase of plant and machineries of approximately RMB7.0 million; and (ii) the transfer from investment property to buildings of approximately RMB6.1 million, as a result of the termination of the lease with the related party and such building was used by our Group for our own operation.

For details of our purchases and disposals of property, plant and equipment during the Track Record Period, please refer to note 18 to the Accountants’ Report in Appendix I to the document.

## FINANCIAL INFORMATION

### Right-of-use assets

Leases are initially recognised as right-of-use assets and corresponding liability at the date of which the leased asset is available for use by our Group (i.e. commencement date), which is depreciated on a straight-line basis over the asset’s estimated useful life and lease term as set out below. As at 31 December 2019, 2020 and 2021, we recorded right-of-use assets of approximately RMB6.0 million, RMB5.9 million and RMB6.3 million, respectively. The table below sets forth our right-of-use assets amount as at the dates indicated:

	As at 31 December		
	2019	2020	2021
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
Land use right, and warehouses. . . . .	6,007	5,860	6,310

During the Track Record Period, our right-of-use assets remained relatively stable. The interest of land use right in the PRC is prepaid upon acquisition with the lease term of 50 years. Our Group had also leased low temperature warehouses in the PRC till December 2022. The rental agreements are made for a fixed period from 12 months to 24 months which do not impose any restriction or covenant.

### INDEBTEDNESS

The following table sets forth our Group’s indebtedness as at 31 December 2019, 2020 and 2021 and 30 April 2022, being the most recent practicable date for the purpose of determining our indebtedness:

	As at 31 December			As at 30 April
	2019	2020	2021	2022
	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>	<i>RMB’000</i>
<b>Borrowings</b>				
— Secured. . . . .	83,723	97,640	69,740	67,163
— Unsecured. . . . .	20,000	20,000	20,000	—
— Provision of interest expenses. . .	922	946	919	—
Amount due to Mr. Yang. . . . .	—	9	9	9
Lease liabilities. . . . .	2,185	2,020	84	56
<b>Total. . . . .</b>	<b>106,830</b>	<b>120,615</b>	<b>90,752</b>	<b>67,228</b>



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## FINANCIAL INFORMATION

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### **Borrowings**

As at 31 December 2019, 2020 and 2021, our borrowings amounted to approximately RMB104.6 million, RMB118.6 million and RMB90.7 million, respectively. As at 31 December 2019, 2020 and 2021, secured borrowings were charged at fixed/floating effective interest rates ranging from approximately 5.22% to 11.00%, 3.25% to 9.72% and 4.35% to 8.5% per annum, respectively. As at 31 December 2019, 2020 and 2021, unsecured borrowings were charged at fixed effective interest rates of approximately 8.5%, 8.5% and 8.5% per annum, respectively. As at 30 April 2022, we had aggregate borrowings of approximately RMB67.2 million, of which all was utilised.

Our bank borrowings were primarily denominated in RMB. The secured portion of our borrowings were secured by (i) our Group’s certain buildings included in property, plant and equipment; (ii) our land use right under right-of-use assets; (iii) our then investment property; (iv) our then trade receivables; and (v) corporate or personal guarantees given by Mr. Yang, Ms. Lin, Mr. Li Hui (and his spouse), Mr. Lin Deqian (a director of Guangchang Zhenglian, and his spouse), and Nanchang Tongli LP (collectively, the “**Personal or Corporate Guarantors**”). For details of collaterals and guarantees of our secured borrowings, please refer to note 34 to the Accountants’ Report contained in Appendix I to this document.

The banks that granted the banking facilities to us have agreed in principal that the personal or corporate guarantees provided by the Personal or Corporate Guarantors will be released upon [REDACTED] and replaced by corporate guarantee given by the Company or its subsidiaries.

### **Amount due to Mr. Yang**

As at 30 April 2022, amount due to Mr. Yang of approximately RMB9,000 was non-trade in nature, unsecured, non-interest bearing and repayable on demand, which is expected to be repaid before [REDACTED].

## FINANCIAL INFORMATION

### Lease liabilities

Our lease liabilities represented land use right and low-temperature warehouses leased for the operation of our Group’s business during the Track Record Period. The lease terms range from 12 to 120 months. The table below sets forth the breakdown of our lease liabilities as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 April 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Minimum future lease payments</b>				
Within one year. . . . .	422	398	86	57
More than 1 year but not exceeding 2 years. . . . .	313	313	—	—
More than 2 years but not exceeding 5 years. . . . .	938	938	—	—
More than 5 years. . . . .	1,562	1,250	—	—
	<u>3,235</u>	<u>2,899</u>	<u>86</u>	<u>57</u>
Less: Future finance charge. . . . .	(1,050)	(879)	(2)	(1)
	<u>2,185</u>	<u>2,020</u>	<u>84</u>	<u>56</u>

### Contingent liabilities

During the Track Record Period and up to 30 April 2022, being the most recent practicable date for the purpose of determining our indebtedness, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on the information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

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## FINANCIAL INFORMATION

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Save as disclosed above, as at 30 April 2022, being the most recent practicable date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) our credit facilities were subject to the standard banking conditions and covenants, and there were no material covenants that impose a substantial limitation on our ability to obtain further banking facilities; (ii) we had no material default in repayments of our borrowings and with regard to covenants and/or breaches of the covenants under our credit facilities; and (iii) we did not have any material external debt financing plans.

### **Material indebtedness change**

Save as disclosed above, our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the indebtedness of our Group since 30 April 2022, being the latest practicable date for the preparation of the indebtedness statement in this document. Our Directors confirm that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after the [REDACTED].

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

During the Track Record Period and up to the Latest Practicable Date, we had not entered into any off-balance sheet commitment and arrangements.

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the years or as of the dates indicated:

	<i>Notes</i>	<b>As at/For the year ended 31 December</b>		
		<b>2019</b>	<b>2020</b>	<b>2021</b>
Current ratio . . . . .	<i>1</i>	1.7 times	1.8 times	2.1 times
Quick ratio . . . . .	<i>2</i>	1.2 times	1.2 times	1.4 times
Gearing ratio . . . . .	<i>3</i>	97.9%	73.9%	42.9%
Net debt-to-equity ratio . . . . .	<i>4</i>	60.2%	N/A	N/A
Interest coverage ratio . . . . .	<i>5</i>	7.4 times	7.1 times	10.4 times
Return on total assets . . . . .	<i>6</i>	15.5%	11.5%	13.2%
Return on equity . . . . .	<i>7</i>	37.5%	25.1%	22.8%
Net profit margin . . . . .	<i>8</i>	13.8%	14.5%	14.1%

*Notes:*

1. Current ratio is calculated based on total current assets divided by total current liabilities as of the end of the respective year.
2. Quick ratio is calculated based on total current assets less inventories (if any) in current assets, divided by total current liabilities as of the end of the respective year.
3. Gearing ratio is calculated based on the total debt (including borrowings and lease liabilities) divided by the total equity as at the respective year end and multiplied by 100%.
4. Net debt-to-equity ratio is calculated by the net debt (including borrowings and lease liabilities less cash and cash equivalents) divided by the total equity as at the respective year end and multiplied by 100%.
5. Interest coverage ratio is calculated by the profit before interest and income tax divided by the interest for the respective year.
6. Return on total assets is calculated by the profit for the year divided by the total assets as at the respective year end and multiplied by 100%.
7. Return on equity is calculated by the profit for the year divided by the total equity as at the respective year end and multiplied by 100%.
8. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year and multiplied by 100%.

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## FINANCIAL INFORMATION

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### **Current ratio**

Our current ratio remained relatively stable at approximately 1.7 times and 1.8 times as at 31 December 2019 and 2020, respectively. Our current ratio further increased to approximately 2.1 times as at 31 December 2021, which was mainly attributable to (i) the increase in trade receivables of approximately RMB10.8 million; and (ii) the decrease in current borrowings of approximately RMB11.6 million.

### **Quick ratio**

Our quick ratio remained relatively stable at approximately 1.2 times, 1.2 times and 1.4 times as at 31 December 2019, 2020 and 2021, respectively.

### **Gearing ratio**

Our gearing ratio was approximately 97.9% and 73.9% as at 31 December 2019 and 2020, respectively. The decrease was mainly due to increase in our total equity by approximately RMB54.0 million as a result of our net profit for FY2020.

Our gearing ratio further decreased from approximately 73.9% as at 31 December 2020 to approximately 42.9% as at December 2021, which was primarily due to (i) the increase in our total equity by approximately RMB48.5 million as a result of our net profit for FY2021; and (ii) the decrease in our borrowings of approximately RMB28.0 million.

### **Net debt-to-equity ratio**

As at 31 December 2019, our net debt-to-equity ratio was approximately 60.2%.

As at 31 December 2020 and 2021, our Group had net cash position, and therefore net debt-to-equity ratio was not applicable to our Group.

### **Interest coverage ratio**

Our interest coverage ratio remained relatively stable at approximately 7.4 times and 7.1 times for FY2019 and FY2020, respectively. Our interest coverage ratio increased from approximately 7.1 times for FY2020 to approximately 10.4 times for FY2021, which was mainly attributable to the increase in our profit before interest and tax of approximately RMB8.9 million.

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## FINANCIAL INFORMATION

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### Return on total assets

Our return on total assets decreased from approximately 15.5% for FY2019 to approximately 11.5% for FY2020, which was mainly due to the increase in our cash and cash equivalents of approximately RMB101.2 million. Our return on total assets increased to approximately 13.2% for FY2021, which was mainly due to the increase in our profit for the year of approximately RMB7.4 million.

### Return on equity

Our return on equity decreased from approximately 37.5% for FY2019 to approximately 25.1% for FY2020, which was mainly due to the increase in our cash and cash equivalents of approximately RMB101.2 million, and partially offset by (i) the decrease in trade receivables of approximately RMB21.9 million; (ii) the decrease in prepayments, deposits and other receivables of approximately RMB24.3 million; and (iii) the increase in trade payable of approximately RMB27.6 million.

Our return on equity further decreased to approximately 22.8% for FY2021, which was mainly due to (i) the increase in inventories of approximately RMB8.2 million; (ii) the increase in trade receivables of approximately RMB10.8 million; (iii) the decrease in trade payables of approximately RMB9.9 million; and (iv) the decrease in current borrowings of approximately RMB11.6 million.

### Net profit margin

Our net profit margin remained relatively stable at approximately 13.8%, 14.5% and 14.1%, respectively during the Track Record Period.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

We are, in the ordinary course of our business, exposed to a variety of financial risks, which include market risk (including currency risk and interest risk), credit risk and liquidity risk. We monitor and manage such financial risks through internal risks report which analyses exposure by degree and magnitude of risk.

Details of such risk are set out in note 41 to the Accountants’ Report in Appendix I to this document.

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## FINANCIAL INFORMATION

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### RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in note 40 to the Accountants' Report in Appendix I to this document. Our Directors are of the view that the related party transactions were conducted at arm's length and on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties which are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

### DIVIDEND

During the Track Record Period, no dividends have been paid by our Company.

The declaration of future dividend will be subject to the recommendation of our Board and approval of our Shareholders in general meetings or, in the case of interim dividends, subject to the approval of our Board in accordance with the Articles. The amount of any dividends to be declared by our Company in any given year in the future will depend on, among others, our Group's results of operations, available cashflows and financial conditions, operating and capital and regulations and any other factors that our Directors deem relevant. The payment of dividend may also be limited by legal restrictions and agreements that our Group may enter into in the future. Our Company does not currently have a fixed dividend policy nor any predetermined dividend payout ratio. No dividend was declared or paid by our Group to owners of our Company during the Track Record Period.

### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our Directors confirmed that after the Track Record Period, and up to the date of this document, there has been no material adverse change in our financial or trading position and prospects. For the recent developments and material adverse change of our business subsequent to the Track Record Period and up to the date of this document, please refer to the section headed "Summary" in this document.

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## FINANCIAL INFORMATION

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[REDACTED]

Our [REDACTED] mainly include [REDACTED], [REDACTED] and professional fees paid and payable to legal advisers and the Reporting Accountants for their services rendered in relation to the [REDACTED] and the [REDACTED]. The estimated total [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the [REDACTED] of the indicative [REDACTED], and assuming that the [REDACTED] is not exercised) for the [REDACTED] are approximately RMB[REDACTED] (approximately HK\$[REDACTED]), representing approximately [REDACTED]% of the gross proceeds from the [REDACTED], comprising of (i) fees paid and payable to legal advisers and the Reporting Accountants of approximately RMB[REDACTED] (approximately HK\$[REDACTED]); and (ii) others fees and expenses, including [REDACTED], of approximately RMB[REDACTED] (approximately HK\$[REDACTED]). The estimated total [REDACTED] consist of [REDACTED] of approximately RMB[REDACTED] (approximately HK\$[REDACTED]), and [REDACTED] of approximately RMB[REDACTED] million (approximately HK\$[REDACTED]). During the Track Record Period, we incurred [REDACTED] of approximately RMB[REDACTED], which have been charged to our combined statements of profit and loss and other comprehensive income. We expect to incur additional [REDACTED] of approximately RMB[REDACTED] which are expected to be charged to our combined statements of profit and loss and other comprehensive income subsequent to the Track Record Period and approximately RMB[REDACTED] will be accounted for as a deduction from equity upon the completion of the [REDACTED].

### DISTRIBUTABLE RESERVES

As at 31 December 2021, our Group had statutory reserve and retained earnings of approximately RMB160.2 million available for distribution to our Shareholders.

### UNAUDITED [REDACTED] OF ADJUSTED COMBINED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited [REDACTED] Financial Information” in Appendix II to this document for our unaudited [REDACTED] adjusted net tangible assets.

### DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.