
INDUSTRY OVERVIEW

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SNACK FOOD INDUSTRY

Overview of China’s Snack Food Industry

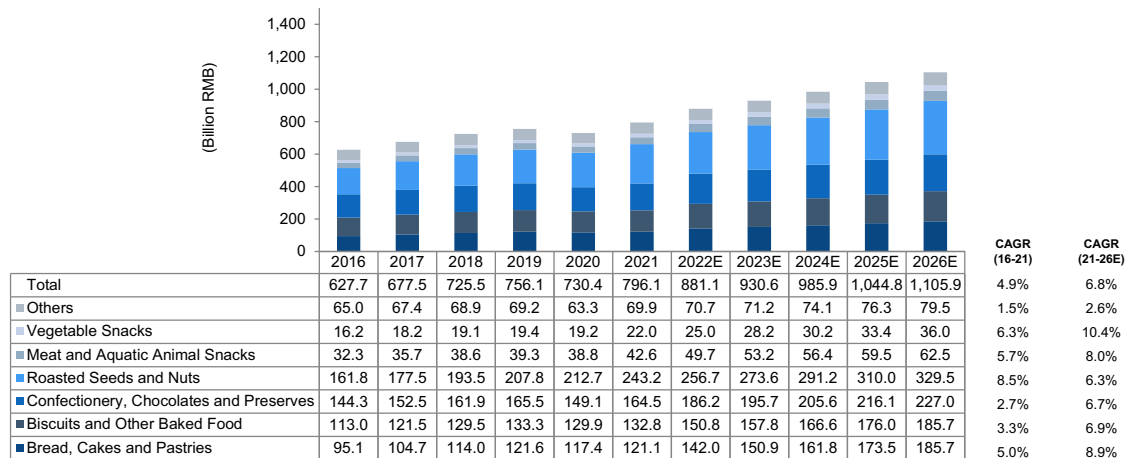
Snack food refers to packaged food products that are usually consumed and eaten between meals, which mainly includes (i) bread, cakes and pastries; (ii) biscuits and other baked food; (iii) confectionery, chocolates and preserves; (iv) roasted seeds and nuts; (v) meat and aquatic animal snacks; (vi)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

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

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

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



Source: Frost & Sullivan

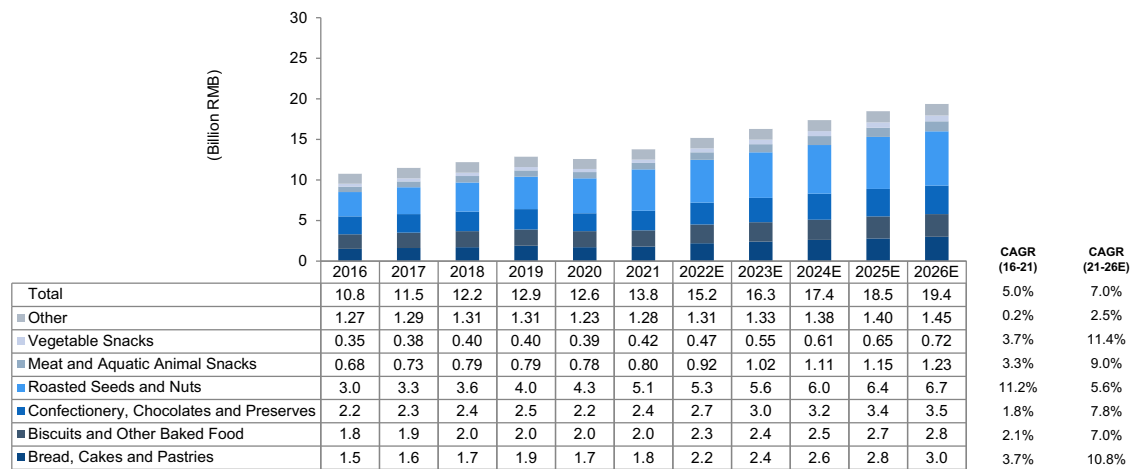
Overview of Jiangxi Province’s Snack Food Industry

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

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

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



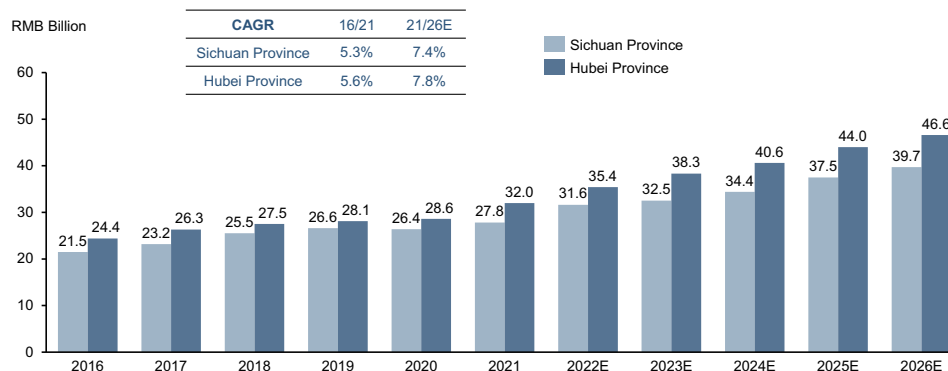
Source: Frost & Sullivan

Overview of Sichuan Province’s and Hubei Province’s Snack Food Industry

The market size of snack food industry in Sichuan Province and Hubei Province has increased from RMB21.5 billion and RMB24.4 billion in 2016 to RMB27.8 billion and RMB32.0 billion in 2021, respectively, representing a CAGR of approximately 5.3% and 5.6%, respectively.

Going forward, along with growing consumption power of Chinese residents, the market size of snack food industry in Sichuan Province and Hubei Province is expected to grow at a CAGR of approximately 7.4% and 7.8% from 2021 to 2026, respectively, reaching RMB39.7 billion and RMB46.6 billion in 2026, respectively.

Market Size of Snack Food Industry in terms of Revenue (Sichuan Province and Hubei Province), 2016 — 2026E



Source: Frost & Sullivan

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Market Drivers of China’s Snack Food Industry

Growing consumer base: The consumption of snack food provides consumers with a cheerful experience, bringing a sense of joy, satisfaction and comfort. As such, consumers across various age groups all enjoy snack food, cultivating a growing consumer base for snack food. In addition, interprovincial migration due to accelerating urbanisation, as well as improvement of logistics infrastructure, have enabled the expansion of regional delicacies. In particular, spicy snack food, which were primarily consumed in Jiangxi Province, Hunan Province, Hubei Province, Sichuan Province, Chongqing and Guizhou Province, is gradually becoming popular nationwide. The development of Internet, e-commerce and social media in China have also contributed to the prevalence of spicy snack food. For example, an increasing number of internet celebrities regard spicy snack food as an interesting element for their content. Events including food taste test on well-known social platforms, further accelerate the spread of spicy snack food among the public.

Rising purchasing power due to rising disposable income: The demand for snack food correlates with the income level of consumers. As the per capita annual disposable income and per capita expenditure on food in China continue to increase, the snack food industry in China is expected to benefit from the rising income level. People with booming disposable income are expected to be more willing to spend money for snacks, thus in turn benefiting the snack food manufacturers including our Group.

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

Continuous product innovation and update: The current focus of leading snack food manufacturers is launching of new innovative products with new flavours, differentiated packaging and product upgrades to satisfy rapidly changing customer preferences and tastes in order to help build brand loyalty. Continuous product innovation and update of snack food can differentiate producers from their competitors and attract sophisticated consumers, which in turn drive sales growth. For example, spicy snack food have expanded to new spicy flavors such as sweet spicy and sour spicy to meet the needs of a wider range of consumers, which in turn promotes the development of the industry. In addition, there are a number of potential segments emerging in the spicy snack food industry, such as kelp, konjac and other spicy vegetable snacks. Benefitting from their exquisite texture and continuous upgrade of existing products and introduction of new products, such products are highly appealing to consumers. Innovation in taste and product updates

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by snack food manufacturers make consumers more willing to try and enhance their repurchase rates, facilitating the manufacturers including our Group in the industry to continuously devote to product innovation and update.

Improving retail channels: The increasing penetration of modern retail channels such as shopping malls, supermarkets and chained convenience stores in top-tier cities and traditional retail channels such as small grocery stores, non-chained convenient stores in lower-tier cities has improved the retail coverage of snack food. The improvement of retail sales channels raises consumers’ consumption frequency, gradually releasing the market potential in lower-tier cities. In addition, the expansion of Internet users and the popularity of mobile Internet and e-commerce have made snack food purchase and consumption more convenient and affordable, which in turn drive the online consumption of snack food in China. There are increasing number of snack food manufacturers, including our Group, which set up online retail channels in large online shopping platforms, such as Tmall and JD.com. The popularity of online sales has provided an additional sales channel for selling snack food products and help boost sales for snack food manufacturers.

Opportunities of China’s Snack Food Industry

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

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

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

Threats and Challenges of China’s Snack Food Industry

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

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

DRIED FOOD PRODUCTS MARKET

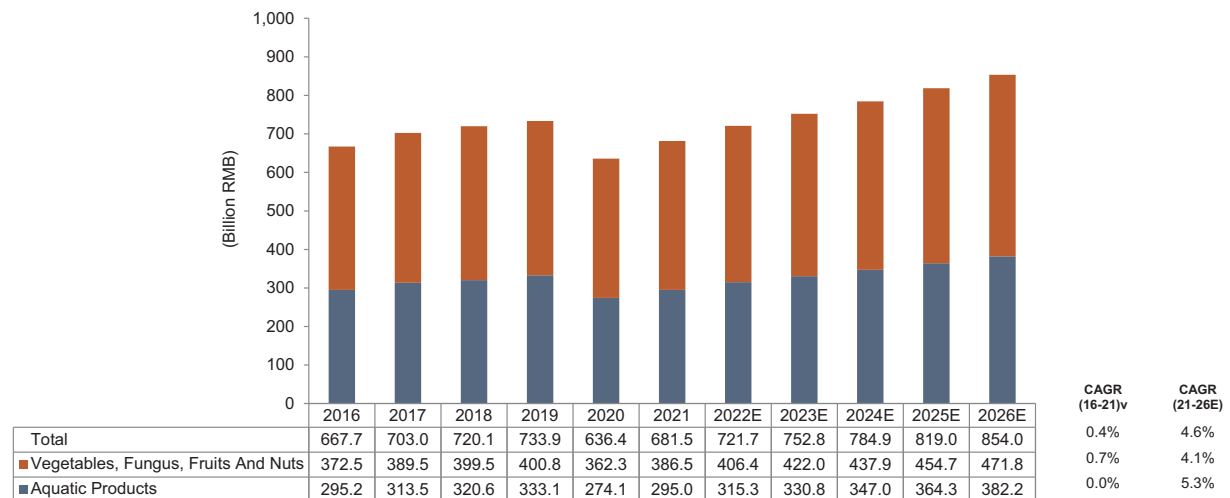
Overview of China’s Dried Food Product Market

The Group’s dried food products mainly include dried delicacies, dried aquatic products and grains, which can be broadly categorised into two sub-segments of the agricultural food product processing market, namely “vegetable, fungus, fruits and nuts” and “aquatic products” (collectively, the “**Selected Sub-market**”).

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The market size in terms of the revenue of China’s Selected Sub-market has increased from RMB667.7 billion in 2016 to RMB681.5 billion in 2021, representing a CAGR of approximately 0.4%. Along with the latest processing technology, expanding distribution channels and industrial consolidation, the market size in terms of the revenue of China’s Selected Sub-market is expected to grow at a CAGR of approximately 4.6% from 2021 to 2026, reaching RMB854 billion.

Market Size of Selected Sub-market in terms of Revenue (China), 2016 — 2026E



Source: Frost & Sullivan

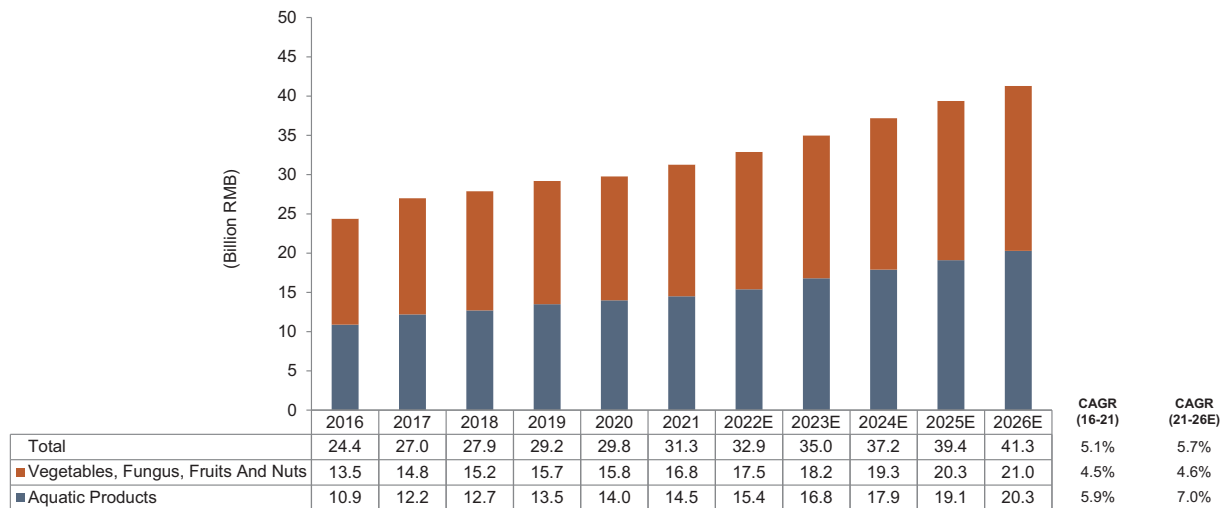
Overview of Jiangxi Province’s Selected Sub-market

The market size in terms of the revenue of Selected Sub-market in Jiangxi Province has increased from RMB24.4 billion in 2016 to RMB31.3 billion in 2021, representing a CAGR of approximately 5.1%.

Going forward, boosted by economy growth and growing income level, the market size in terms of the revenue of Selected Sub-market in Jiangxi Province is expected to grow at a CAGR of approximately 5.7% from 2021 to 2026, reaching RMB41.3 billion in 2026.

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Market Size of Selected Sub-market in terms of Revenue (Jiangxi Province), 2016 — 2026E



Source: Frost & Sullivan

Market Drivers of China’s Dried Food Products Market

Accelerating Urbanisation Process: China’s urbanisation rate increased by 7.4% from 57.3% to 64.7% from 2016 to 2021, and is expected to accelerate and reach 74.2% by 2026. The increasing urbanisation rate has greatly improved people’s living standards and therefore stimulated their consumption demand of dried food products. Continuous urbanisation also provides more retail channels for consumers to purchase dried food products, which help driven the sales growth of dried food products. Increase in consumption demand driven by accelerating urbanisation process and the increasing number of retail channels are favourable to market expansion for dried food products manufacturers, including the Group, as it would be easier for them to reach a wider consumer group across the country through multiple online and offline sales channels.

Rising Purchasing Power of Chinese Consumers: From 2016 to 2021, the per capita disposable income of Chinese residents in urban area has increased from RMB33,600 to RMB47,400, representing a CAGR of 7.1% from 2016 to 2021. Going forward, the per capita disposable income in urban area is expected to grow along with the growing macro economy and reach RMB66,500 in 2026. Consumers’ purchasing power usually grows with the increase of income level, which in turn drives their demand for dried food products, and provides growth potential for the dried food products market and therefore benefits the market participants including the Group.

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Upgrading Consumption Trend: Along with the increasing income level and purchasing power, the consumption structure of Chinese residents has been constantly improving in recent years. The consumption of dried food products is not only for satiety, but has gradually evolved for pleasure and enjoyment. As consumers pay an increasing attention on the quality of life, consumers are becoming less price-sensitive but more concerned about product quality, ingredients, packaging patterns and nutrition of products when purchasing dried food products. Dried food product producers, including the Group, are expected to continue to invest in product development and to constantly expand and enrich their product portfolio to remain competitive in the market.

Opportunities, Threats and Challenges of China’s Dried Food Products Market

Opportunities

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

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

Expanding Distribution Channel: Traditionally, dried food products are primarily sold in bulk through farmers’ market, grocery stores and roadside stalls. With a rise in brand awareness and demand for product quality as well as changing customer habits, modern channels like branded chain stores, supermarket and convenience stores, as well as e-commerce channel like Tmall and JD.com. have witnessed rapid growth. Leading dried food product processors are striving to establish extensive distribution channels by establishing presences in supermarkets and

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convenience stores, as well as opening of self-operated online and offline branded stores across the country. Through expanding distribution channels, dried food products processors are able to expand customer coverage and enhance their brand awareness in China’s dried food products processing industry.

Threats and Challenges of China’s Dried Food Products Market

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

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

COMPETITIVE LANDSCAPE

Competitive Landscape in China’s Snack Food Industry

The snack food market in China is highly competitive and fragmented, with top ten competitors only constituting 8.0% of market share in terms of revenue in 2021. A majority of the manufacturers possess a comprehensive brand portfolio and provide a wide product offering, thereby achieving farther consumer reach. In contrast, the snack food market in Jiangxi Province is relatively scattered with hundreds of snack food manufacturers in the market. Top ten market players took up approximately 29.4% of the market share in Jiangxi Province’s snack food market in terms of revenue in 2021. The Group generated revenue of approximately RMB171.1 million and RMB54.7 million from snacks in China and Jiangxi Province in 2021, respectively, accounting for approximately 0.01% and 0.4% of the market share in snack food market in China and Jiangxi Province, respectively.

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

Rank	Company Name	Market Share (%)
1	Jiangxi Huangshanghuang Group Food Co., Ltd.* (江西煌上煌集團食品股份有限公司) (“Huangshanghuang”)	12.4%
2	Ganyuan foods Co., Ltd.* (甘源食品股份有限公司) (“Ganyuan”)	9.4%
3	JiangXi Province LDY Supply Industrial Co., Ltd.* (江西省綠滋肴實業有限公司) (“LDY Supply”)	1.9%
4	Jiangxi Yifang Rural Technology Co., Ltd.* (江西奕方農業科技有限公司) (“Yifang”)	1.8%
5	The Company	0.4%

Company	Background	Registered Capital (RMB Million)	Product Category	Total Employees	Listed / Non-listed	Established Year	Headquarter
Huangshanghuang	The company is a listed snack food manufacturer on Shenzhen Stock Exchange. The company has eight modern food production and processing bases nationwide, developed six series, more than 100 products, nearly 5,000 chain stores distributed in 27 provinces and municipalities nationwide.	512.30	Livestock and poultry meat products, aquatic products processing	~900	Listed	1999	Jiangxi Province
Ganyuan	The company is a listed company on Shenzhen Stock Exchange, and a leading snack food manufacturer with two modern production bases in China.	93.22	Seeds, nuts and kernels, and cereal crisps	~1,600	Listed	2006	Jiangxi Province
LDY Supply	The company is an unlisted snack food manufacturer, focusing in agricultural and sideline products in Jiangxi Province	34.18	Agricultural and aquatic products processing	~100	Non-listed	2002	Jiangxi Province
Yifang	The company is an unlisted snack food manufacturer, which is a leading domestic fruit and vegetable ingredients processing enterprise. The company has an industrial layout in Shanghai, Haimm Province, Hubel Province and Jiangxi Province, with two fruit planting bases.	205.00	Snack food manufacturer, vegetables, fungus, fruits and nuts processing	~200	Non-listed	2014	Jiangxi Province

Source: Frost & Sullivan

Snack food product producers generally compete on the basis of product quality, the stability of their supplies, and the number and diversity of their products.

Competitive Landscape of Selected Sub-market in Jiangxi Province

In 2021, the Selected Sub-market in Jiangxi Province was also fragmented. There are thousands of market players that produce various kinds of food products in the Selected Sub-market in Jiangxi Province. Top five competitors together constituted approximately 3.7% market share in terms of revenue generated from the Selected Sub-market. The Group recorded revenue of approximately RMB112.1 million in 2021 from the Selected Sub-market, ranking 5th place in the Selected Sub-market in Jiangxi Province.

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

Rank	Company Name	Market Share (%)
1	Wanzai Qinyie Foodstuffs Co., Ltd.* (萬載縣青葉食品有限公司) (“Wanzai Qinyie”)	1.7%
2	Jiangxi Huayi Food Co., Ltd.* (江西華誼食品有限公司) (“Huayi”)	0.9%
3	Jiangxi Xinan Food Group Co., Ltd.* (江西省新安食品集團有限公司) (“Xinan”)	0.4%
4	Jiangxi Yifang RURAL Technology Co., Ltd.* (江西奕方農業科技有限公司) (“Yifang”)	0.4%
5	The Company	0.4%

Company	Background	Registered Capital (RMB Million)	Product Category	Total Employees	Listed / Non-listed	Established Year	Headquarter
Wanzai Qinyie	The company is an unlisted agricultural product processing company with business in both vegetables, fungus, fruits and nuts processing, and snack food processing.	25.00	Tangerine, buckwheat head, mushroom, bamboo shoot, ginger, bean, lily	Less than 50	Non-listed	2000	Jiangxi Province
Huayi	The company is mainly engaged in aquatic products trade, aquaculture, deep processing and other businesses. All products are exported to Hong Kong, Macau, Japan, South Korea and other Asian regions, Europe and the United States and other regions.	21.00	Aquatic products processing	Less than 50	Non-listed	2006	Jiangxi Province
Xinan	The company is an unlisted snack food manufacturer, which has developed more than 30 kinds of products. with eight green, seven organic, three famous brand agricultural products. It has three patents, and had been awarded Jiangxi famous trademarks and Jiangxi famous brand product certificate.	30.00	Deep processing of local special agricultural resources	Less than 50	Non-listed	1999	Jiangxi Province
Yifang	The company is an unlisted snack food manufacturer, which is a leading domestic fruit and vegetable ingredients processing enterprise. The company has an industrial layout in Shanghai, Hainan Province, Hubei Province and Jiangxi Province, with two fruit planting bases.	205.00	Snack food manufacturer, vegetables, fungus, fruits and nuts processing	~200	Non-listed	2014	Jiangxi Province

Source: Frost & Sullivan

Consumers in the PRC select dried food products and snacks primarily based on price, brand recognition, and taste.

ENTRY BARRIERS OF CHINA’S SNACK FOOD MARKET AND DRIED FOOD PRODUCTS MARKET

Distribution Channel: Distribution channel is extremely crucial for the new entrants in both snack food market and dried food products market. New entrants need to maintain long-term relationship with distributors like supermarkets and other retailers such as grocery stores and convenience stores, as well as other trading companies or corporate clients to ensure a stable customer base. The snack food market and dried food products market are perfect competition

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markets and both have low industry concentration. Thus, it would take a long time to establish a stable distribution channel and to develop an efficient marketing team. For new entrants in the market, it is rather difficult to establish their own distribution channels within a short period of time.

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

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

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

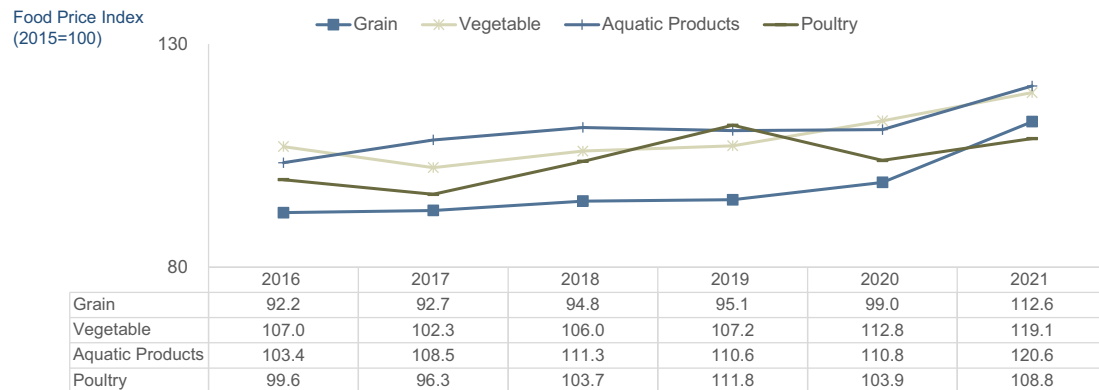
COST ANALYSIS

Major Raw Materials

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

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



Source: Frost & Sullivan

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

Labour Cost

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

SOURCE OF INFORMATION

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

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

The Frost & Sullivan Report was compiled based on the following assumptions: (i) China’s economy is likely to maintain steady growth in the next decade; (ii) China’s social, economic, and political environment is likely to remain stable in the forecast period; (iii) various market drivers set out above are likely to drive the growth of China’s dried food products and snack food market; and (iv) the COVID-19 pandemic will be under effective control in the PRC and do not affect the long-term economy development of the PRC.