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OVERVIEW

We mainly produce, and to a lesser extent trade, dried food products and snacks in Jiangxi Province, and to a lesser extent, Sichuan Province and Hubei Province. Established in 2002, we first developed our business from producing dried food products. Leveraging our experience and established brand name in dried food products production, we first expanded our business into snack production and introduced fragrant lotus seeds in early 2019. In view of the expected growth of the vegetable and meat snack market, we further launched our vegetable snacks in August 2019 and then our meat snacks in January 2021. Our Directors consider that vegetable and meat snacks have become increasingly popular in China with market potentials for our Group. In 2021, the market size of vegetable and meat snacks in China recorded a year-on-year growth of 14.6% and 9.8%, respectively. China’s and Jiangxi Province’s vegetable and meat snack market are both expected to further grow at a CAGR of (i) 10.4% and 8.0%, respectively, in China and (ii) 11.4% and 9.0%, respectively, in Jiangxi Province, from 2021 to 2026. For our manufacturing business, we produce and sell a variety of (i) snacks (including vegetable snacks and meat snacks) such as bamboo shoots crisps and roasted duck necks; and (ii) packaged dried food products such as fungi, dried aquatic products, algae, grains and seasonings in the PRC. We generally (i) source raw materials from our suppliers, (ii) process the raw materials and package products at our own production facilities, and (iii) sell the products under our own “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands. For our trading business, we purchase dried candied fruit, nuts and other products in bulk from suppliers and sell to retailers and corporate customers without further processing in the PRC. We believe the trading business model allows us to introduce selected products to enrich our product offerings and to fully utilise our sales channels and marketing resources to cater customers’ needs and preferences. We offer a large and evolving range of diverse product portfolio covering five types of products including (i) snacks; (ii) dried delicacies; (iii) dried aquatic products; (iv) grains; and (v) seasonings and others. As at 30 June 2022 and the Latest Practicable Date, our product portfolio included 564 and 583 types of snacks, and 625 and 630 types of dried food products, respectively. According to the Frost & Sullivan Report, we were ranked fifth with market share of approximately 0.4% of the snack food market in Jiangxi Province in terms of revenue in 2021. The market size of Jiangxi Province’s snack food industry accounted for approximately 1.7% of China’s snack food industry in 2021.

As at the Latest Practicable Date, we have two production facilities, namely Nanchang Plant and Guangchang Plant, in Jiangxi Province, the PRC. Nanchang Plant is specialised in the processing and packaging of dried food products and Guangchang Plant is equipped with cooking equipment which is dedicated for the production of snacks.

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We primarily sell our products to retailers such as supermarkets and grocery stores, corporate customers, e-commerce channel on Tmall.com, and other individual customers. We also sell our products such as snacks, dried aquatic products, nuts, cereals and mushrooms at concessionary counters in supermarkets, where our promoters will promote and interact face-to-face with end consumers to provide useful product information tailored to the interests and needs of individual consumers. The products sold at concessionary counters are generally not pre-packaged but sold according to weight.

We generally source raw materials such as cuttlefish, lotus seeds, black fungi, pistachios, bamboo shoots, chicken feet and duck necks from farmers and agricultural cooperatives and corporate suppliers. We secure raw materials in advance to maintain the stability of our supplies and control our procurement cost. We maintain a selected list of suppliers for raw materials. We evaluate materials, quality of the products and timeliness of product delivery of our suppliers. We have also established strong relationships with our five largest suppliers which help to reduce our exposure to price and supply fluctuations.

We believe our customers choose our products mainly based on (i) our high quality of products; (ii) our stable product supply, and (iii) our large and evolving range of diverse product offerings. During the Track Record Period, our products were mainly sold and delivered to our customers in Jiangxi Province, Hubei Province, Zhejiang Province and Sichuan Province. As at 30 June 2022, we had 26 sales representatives and over 160 promoters in the PRC. Our sales representatives are responsible to manage our relationships with customers and follow up with customer orders, whereas our promoters are stationed at concessionary counters in supermarkets to promote our products to end consumers. We believe our strong and diversified customer base and track record serve as a solid foundation for our future growth and development.

We believe that quality control and product development are crucial to our competitiveness and continued success. We have adopted and implemented the HACCP standard which is an internationally recognised management system addressing food safety. In recognition of our standards and efforts, we have also been accredited ISO9001:2015 in relation to our quality management and food safety. Our stringent quality control practices cover the sourcing of raw materials, production, packaging and inventory storage. We also put significant emphasis on product development and are committed to enhancing product quality to cater for changing consumer preference. Our product development team worked closely with our sales and marketing team, production team and quality control team to introduce new products and enhance our existing products and product packages from time to time for our business development and sustainable growth. For FY2019, FY2020, FY2021 and 6M2022, we introduced 114, 227, 310 and six new products, respectively, such as spicy bamboo shoot crisps, spicy enoki mushroom, spicy kelp, marinated chicken wing tips and roasted duck necks into the market. In line with our strategy to develop new product line of snacks, we introduced various vegetable snacks in FY2019 and FY2020 and meat snacks in FY2021. Considering that our product portfolio has become more

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diversified and matured based on our adjustment of product types and tastes according to consumer preferences over the years, our introduction of new products have slowed down for 6M2022 as compared to other financial years during the Track Record Period. We are committed to continue introducing new products to the market to further diversify our product portfolio and boost sales of the Group. As at the Latest Practicable Date, we have commenced trial production of boneless chicken feet series products, which include various flavours to cater different consumer tastes and preferences. We believe that the high quality of our products and their attractive packaging and design increased end consumers’ acceptance of our products.

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	Average selling price		Average selling price		Average selling price		Average selling price		Average selling price	
	Sales volume	per kg	Sales volume	per kg	Sales volume	per kg	Sales volume	per kg	Sales volume	per kg
	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)
Snacks	2,308	55.6	3,369	40.8	4,046	42.3	1,796	41.1	1,948	39.8
Dried delicacies	1,281	67.8	1,127	62.5	1,098	79.6	469	79.7	603	83.8
Dried aquatic products	392	119.2	379	139.7	426	138.5	186	122.1	210	139.5
Grains	3,510	8.2	1,546	11.6	1,754	12.2	891	11.8	646	12.7
Seasonings and others	514	13.0	343	12.1	314	10.1	125	10.2	146	10.5
Total	<u>8,005</u>	N/A	<u>6,764</u>	N/A	<u>7,638</u>	N/A	<u>3,467</u>	N/A	<u>3,553</u>	N/A

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Snacks	128,419	43.2	137,426	48.6	171,059	50.0	73,733	50.6	77,467	46.4
Dried delicacies	86,800	29.2	70,454	24.9	87,410	25.6	37,375	25.7	50,471	30.2
Dried aquatic products	46,716	15.7	52,965	18.7	59,002	17.3	22,712	15.6	29,299	17.6
Grains	28,791	9.7	17,899	6.3	21,358	6.2	10,501	7.2	8,188	4.9
Seasonings and others	6,672	2.2	4,145	1.5	3,169	0.9	1,274	0.9	1,531	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>	<u>145,595</u>	<u>100.0</u>	<u>166,956</u>	<u>100.0</u>

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Manufacturing										
Shengyao (聲耀)	205,826	69.2	208,308	73.6	221,060	64.6	88,339	60.7	132,601	79.4
Gangweifang (贛味坊)	17,609	5.9	20,641	7.3	29,292	8.6	15,467	10.6	12,236	7.3
Subtotal	<u>223,435</u>	<u>75.1</u>	<u>228,949</u>	<u>80.9</u>	<u>250,352</u>	<u>73.2</u>	<u>103,806</u>	<u>71.3</u>	<u>144,837</u>	<u>86.7</u>
Trading	73,963	24.9	53,940	19.1	91,646	26.8	41,789	28.7	22,119	13.3
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>	<u>145,595</u>	<u>100.0</u>	<u>166,956</u>	<u>100.0</u>

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Retailers										
Supermarkets	208,097	70.0	196,040	69.3	230,751	67.5	92,531	63.6	96,903	58.0
Grocery stores	1,588	0.5	1,935	0.7	6,604	1.9	2,537	1.7	4,134	2.5
Subtotal.	<u>209,685</u>	<u>70.5</u>	<u>197,975</u>	<u>70.0</u>	<u>237,355</u>	<u>69.4</u>	<u>95,068</u>	<u>65.3</u>	<u>101,037</u>	<u>60.5</u>
Corporate customers	57,215	19.2	42,251	14.9	51,261	15.0	22,376	15.4	34,964	21.0
Concessionary counters	29,198	9.8	38,697	13.7	50,559	14.8	25,865	17.8	30,918	18.5
E-commerce	841	0.3	3,944	1.4	2,728	0.8	2,190	1.5	37	0.0
Others (<i>Note</i>)	459	0.2	22	0.0	95	0.0	96	0.0	—	N/A
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>	<u>145,595</u>	<u>100.0</u>	<u>166,956</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.

For detailed discussion of the fluctuations of our revenue during the Track Record Period, please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue” in this document.

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OUR COMPETITIVE STRENGTHS

A track record of over 20 years in dried food production with established brand in the PRC

We have over 20 years of experience in dried food production in the PRC. Mr. Yang, who is our founder and also our executive Director, established Jiangxi Zhengwei in 2002 to engage in production of dried food products and further expanded our business into production of snacks in 2018. In 2011, our “Shengyao (聲耀)” brand was recognised as the “Well-known Trademark in Jiangxi Province” (江西省知名商標) by the Jiangxi Administration for Industry and Commerce. In 2014, we further developed our “Gangweifang (贛味坊)” brand. With our long-established “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands, we believe we have highly differentiated ourselves from our competitors. With our continuous efforts in marketing our products through word-of-mouth promotion among our customers, in-store displays in supermarkets, as well as other promotions and advertising campaigns, we believe that, over the years, we have established a brand image that is associated with money for value, high standards, premium taste, reasonable price and good quality products.

Solid customer base and long-term relationship with our major customers

Having over 20 years of history and experience in dried food production and our continuous commitment and effort in maintaining high quality product and our emphasis on food safety, we have established a solid customer base. Our customers include retailers such as supermarkets and grocery stores, corporate customers and other individual customers. We also sell our products directly to end consumers through e-commerce platform on Tmall.com. We believe that our pursuit of good quality and high standards have helped us retain our existing customers as well as develop new customers. Our five largest customers during the Track Record Period have established business relationship with us for over five years. We believe that recurring sales orders from our existing customers enabled us to maintain stable sales volume during the Track Record Period. We believe that we have established close business relationships with our major customers, and such business relationship will continue to contribute to our future growth and development. As at 30 June 2022, we had 26 sales representatives, who cooperate closely and maintain our relationship with our major customers such as supermarkets, grocery stores, and corporate customers. Out of our five largest customers during the Track Record Period, over half of them are scaled supermarket chains for each financial year. Supermarkets also promote our products to end consumers in their advertisements and promotional events. Our established relationships with them signify their trust and confidence to the quality of our products, which allowed us to cross sell our vegetable and meat snacks when we first launched them in 2018 and 2021, respectively. We believe such long-term and trusted relationship will continue to offer us valuable sales channel to introduce new products to the market in the future. Through extensive network of our customers’

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physical stores, we believe our retailer customers such as supermarkets and grocery stores will continue to play a significant role in promoting our products to our end consumers, which further drive demand for our products and improve our brand image among end consumers.

Strong devotion and commitment to standardised production and stringent quality standards and control

We are committed to maintaining high product quality and implementing stringent quality management procedures from sourcing of raw materials, production, packaging and inventory storage. We have established procurement procedures to ensure that the raw materials such as cuttlefish, lotus seeds, black fungi, pistachios, bamboo shoots, chicken feet and duck necks sourced from suppliers meet our production and quality requirements. To ensure high quality of products, we have also maintained quality management and assurance procedures across our production and packaging facilities. We have adopted a set of comprehensive hygiene and safety standards, which our production staff is required to comply with during the production and packaging process. We have established standard operating procedures with step-by-step instructions of our production and packaging procedures to ensure each of our production staff will consistently follow our protocol of safe and high-quality food production. We also provide trainings to our production staff on food safety and quality requirements from time-to-time to ensure our product quality. Our production staff acts as the frontline of our quality control process, while our quality control team, which works independently from our production team, would check our product quality at different stage of production. For details of our quality control on raw materials, production processes and finished products, please refer to the paragraph headed “Quality Control and Food Safety” in this section.

We have also adopted and implemented the HACCP standard which is an internationally recognised management system addressing food safety. We also apply the relevant industry standards in our production process, including ISO9001:2015 to ensure that our products are consistently produced in compliance with the applicable industry standards. In addition, we were recognised as the Jiangxi Provincial Agricultural Industrialisation Leading Enterprise (江西省農業產業化省級龍頭企業) by Department of Agricultural and Rural Affairs of Jiangxi Province (江西省農業農村廳) in 2020. We believe these certifications and awards signify our commitment to pursue standardised production and excellence in our quality control standards and food safety measures, which we believe is fundamental to our customers’ loyalty and confidence to our brand and products.

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Diversified product portfolio supported by innovative product development capabilities

Our comprehensive product portfolio offers a diversified choice of product offerings to meet the different requirements and tastes of our customers, which provides us the capability to respond to the change of preference of our end consumers and allow us to reach a broad customer base. As at 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022, we had 487, 604, 623 and 625 types of dried food products, respectively, and 159, 269, 560 and 564 types of snacks in our product portfolio, respectively. As at the Latest Practicable Date, our product portfolio comprised (i) 583 types of snacks such as bamboo shoots crisps and roasted duck necks; and (ii) 630 types of dried food products, which included dried delicacies such as fungi and mushrooms, grains such as beans, rice and millet, dried aquatic products such as dried cuttlefish, squid, whitebait, scallop and algae and seasonings such as sugar.

We continuously strive to innovate, diversify and improve the types of products we offer in variety of combinations of raw material, flavourings and packaging. Our product development team works closely with our sales and marketing team, production team and quality control team in enhancing our existing product portfolio and developing new products and packaging based on feedback from our customers and market research. As at 30 June 2022, we had 50 staff in our product development team dedicated to product development. We aim to improve our existing products and introduce new products to cater to changing consumer preferences, particularly product tastes and packaging, while maintaining our production costs at reasonable levels. For FY2019, FY2020, FY2021 and 6M2022, we introduced 114, 227, 310 and six new products, respectively, such as spicy bamboo shoot crisps, spicy enoki mushroom, spicy kelp, marinated chicken wing tips and roasted duck necks into the market. For further details of our product development, please refer to the paragraph headed “Product Development” in this section.

With the increasing income level and purchasing power, our Directors consider that consumption of food have been evolved from satiety to pleasure and enjoyment. Considering that our snack food products generally generate higher profit margin, going forward, we intend to focus our product development efforts on introducing new flavours to our existing snack food products, upgrading our design packaging and developing new snack food products such as quail eggs and quail meat snacks. For further details, please refer to the paragraph headed “Business Strategies — Expansion of our production capacity and enriching our product offerings” in this section.

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Stable supply of raw materials and established relationship with suppliers

We source raw materials such as cuttlefish, lotus seeds, black fungi, pistachios, bamboo shoots, chicken feet and duck necks through our stable network of suppliers, including farmers, agricultural cooperatives and corporate suppliers. We secure raw materials in advance to maintain the stability of our supplies and control our procurement cost. Most of our five largest suppliers during the Track Record Period have established business relationship with us ranging from three to five years. We believe that we have established strong business relationships with our major suppliers which help to reduce our exposure to price and supply fluctuations.

We select our suppliers from our selected suppliers’ list and evaluate them based on, among others, quality of products and timeliness of product delivery of our suppliers. We also maintain regular communications with our suppliers during the harvest period on readiness and quality of our raw materials and any material change in market supplies and market prices. We may visit our suppliers, if required, to ensure that the raw materials procured by us satisfy our product quality standards. As at 30 June 2022, we had a procurement team comprising five staff who are responsible for communicating with our suppliers and coordinating our procurement of raw materials for production. We have also adopted and maintained strict procedures for the selection of our suppliers to ensure that our raw materials meet our quality standards. We have the right to reject raw materials that do not meet our quality standards. Our raw materials are generally available from a number of suppliers, and we generally have at least two sources of supply for each type of raw materials to reduce the reliance on any single supplier. We did not experience any material shortage or quality issues with our raw materials during the Track Record Period that materially affected our operations.

Stable and experienced management team with a proven track record

We have a stable and experienced management team committed to achieving our goals. Our executive Directors have served our Group for an average of more than 17 years and are endeavoured to achieve excellence in execution in every aspect of our business. We believe that the vision and extensive experience of our executive Directors, coupled with in-depth industry knowledge and understanding of the market through our daily operations, are essential to our success. Mr. Yang, our founder and executive Director, has more than 30 years of experience in food and trading industry. Our other executive Directors, namely, Ms. Lin and Mr. Li Hui, also have abundant sales and marketing as well as business management experience. For biographical details of our executive Directors, please refer to the section headed “Directors and Senior Management” in this document. Under the leadership of our executive Directors, our employees have consistently driven product innovation and formulated effective sales and marketing strategy

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to continuously expand our product portfolios and improve our sales and growth. We believe that their extensive experience and knowledge in dried food and snack production, as well as foresight into market trends, have led us to grow our revenue and market share substantially over the years.

BUSINESS STRATEGIES

We intend to strengthen our market position and increase our market share by pursuing the following strategies:

Expansion of our production capacity and enriching our product offerings

In FY2019, FY2020, FY2021 and 6M2022, revenue generated from our manufacturing business represented approximately 75.1%, 80.9%, 73.2% and 86.7% of our total revenue for the same year or period, respectively. We believe that our future success, in part, depends on (i) our ability to enhance our production capabilities, which include increasing our production volume, upgrading our production technology and improving our production efficiency, as well as (ii) our ability to develop and introduce new products. Therefore, we plan to acquire new production lines for our vegetable snacks and meat snacks. We intend to increase production capacity of our popular meat snack products such as marinated chicken wing tips and roasted duck necks as well as vegetable snack products such as spicy enoki mushroom and spicy kelp. We also intend to research and develop new snack products such as quail eggs and quail meat snacks with our new production lines to enrich our product offerings.

Our actual production volume for vegetable snacks was approximately 1,589 tonnes, 2,469 tonnes, 1,629 tonnes and 659 tonnes in FY2019, FY2020, FY2021 and 6M2022, respectively. Our actual production volume for meat snacks was approximately 1,555 tonnes and 816 tonnes in FY2021 and 6M2022, respectively. For FY2019, FY2020, FY2021 and 6M2022, utilisation rate of our vegetable snack production line was approximately 102.3%, 147.8%, 91.1% and 73.7%, respectively, and utilisation rate of our meat snack production line was approximately 90.9% and 77.7% for FY2021 and 6M2022, respectively. Despite we ceased to produce fragrant lotus seeds since FY2021, the utilisation rate for our vegetable snack production line still maintained at high levels of approximately 91.1% for FY2021 and 73.7% for 6M2022. For 9M2022, our vegetable snack production line and meat snack production line recorded utilisation rate of 86.9% and 86.2%, respectively. For discussion on fluctuations of the utilisation rates of our production lines during the Track Record Period, please refer to the paragraph headed "Our Production — Designed production capacity, actual production volume and utilisation rate" in this section. Having considered that our utilisation rate for snacks production lines generally exceeded 90.0% on annual basis during the Track Record Period, and it is expected to take 18 months for our new production lines to commence commercial production, we plan to increase our production capacity of vegetable and meat snack products by expanding our Guangchang Plant upon [REDACTED]. The

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new production lines will be equipped with machines, among others, with defrosting, slicing, washing, sterilising, weighting, mixing and stirring, braising, dehydrating and packaging functions. Our Directors believe that the new production lines would, given its better specifications, increased automation and recency of the machine model, enable us to increase our production volume as well as production efficiency.

During the Track Record Period, to cope with production demand, we increased our production volume by recruiting temporary production workers to the production lines or extending work shifts of our full-time production workers. For example, in FY2020, we received more customer orders for our vegetable snacks such as spicy kelp, which was launched in late 2019, and spicy enoki mushroom, which was launched in 2020. However, the increase of manual input to our production lines resulted in increase of our cost of sales. Given the rise in average wages of production workers in the PRC, our direct labour costs increased from 3.6% in FY2019 to 5.8% in FY2020 as a portion to our cost of sales. Our Directors consider that it is not cost-efficient and impracticable in the long run to increase our production capacity by increasing manual input to our production lines, taking into account the increasing average wages, general unwillingness for production staff to work on night shifts, and lower productivity resulting from excessive overtime work. Our Directors are of the view that acquisition of new production lines with increased level of automation will reduce our cost of sales, boost our efficiency and productivity and improve our profitability and competitiveness in the long run.

In addition, in FY2019, FY2020, FY2021 and 6M2022, approximately 39.3%, 42.3%, 41.5% and 44.3% of our revenue was generated from the sales of our own-branded snacks, and our Directors expect that the demand of our own-branded snack products will continue to grow. In particular, although our own-branded meat snacks were only introduced in January 2021, it contributed revenue of approximately RMB60.7 million and RMB38.5 million in FY2021 and 6M2022, respectively, accounting for approximately 17.7% and 23.0% of our total revenue for FY2021 and 6M2022, respectively. On period-to-period basis, our revenue from the sales of our own-branded meat snacks increased from approximately RMB19.9 million or 93.5% for 6M2021 to approximately RMB38.5 million for 6M2022. As for our own-branded vegetable snacks, we generated revenue of approximately RMB10.9 million, RMB54.8 million, RMB50.8 million and RMB21.5 million in FY2019, FY2020, FY2021 and 6M2022, respectively, accounting for approximately 3.7%, 19.4%, 14.9% and 12.9% of our total revenue for the same year or period, respectively. Our revenue generated from own-branded vegetable snacks decreased in FY2021 as compared to FY2020, which was mainly due to our business strategy to pool our production capacity to produce and prioritise our marketing efforts to promote our newly launched meat snack products to develop new market in FY2021. Our Directors believe that our meat snacks have established a foothold in the market and are accepted by end consumers, therefore we have

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readjusted our marketing strategy to promote vegetable snacks and meat snacks at the same time. In 6M2022, our revenue from the sales of our vegetable snacks increased by approximately 13.8% to RMB21.5 million as compared to approximately RMB18.9 million in 6M2021.

Our vegetable and meat snacks are generally featured with hot and spicy flavours, which our Directors consider to be more popular among consumers from provinces favouring spicy taste such as Jiangxi Province, Hubei Province, Hunan Province and Sichuan Province, among which we particularly target the young generation who enjoy and are willing to spend on snacks.

To capture the market demand of snacks, we will further leverage our competitive advantage of multiple retail sales channels and good relationship with supermarket customers. We will seek to open more concessionary counters in supermarket stores in provinces where we currently operate and have strong brand presence, for example, Jiangxi Province, as well as the Southwestern China region, such as Sichuan Province. We intend to enhance our brand image and consumer loyalty to our snack products through direct interaction with consumers at our concessionary counters in the supermarket stores. We plan to standardise the concessionary counter layout, uniforms of our promoters, product displays and product prices with an aim to build a unified and unique brand profile of our snack products in order to differentiate us from other brands of snacks in the market. Our sales through concessionary counters recorded a higher year-to-year or period-to-period revenue growth of 32.5% in FY2020, 30.7% in FY2021 and 19.5% in 6M2022 as compared to our overall year-to-year revenue decrease of 4.9% in FY2020 and year-to-year or period-to-period revenue growth of 20.9% in FY2021 and 14.7% in 6M2022. Our Directors consider that concessionary counter had been proven a successful model based on its sales performance during the Track Record Period, and the continuous expansion of our concessionary counter network will increase our sales of snack products.

Moreover, we will also seek to increase sales of snack products through more frequent customer visits to our retailer customers including supermarkets and grocery stores with an aim to increase our direct sales to these retail sales channels. Our sales representatives will visit our existing customers or potential customers more frequently to promote our snack products and explore sales opportunities. As we have established long-term and stable business relationship with some renowned nation-wide supermarket chains such as Customer Group A and Customer Group C as well as famous local supermarket chains such as Customer B and Jiangxi Guoguang Group, we consider there is potential for us to make further sales to new stores opened by these supermarket customers in Jiangxi Province, Zhejiang Province, Hubei Province and other provinces where we have been making direct sales to, as well as their supermarket stores in provinces where we currently have yet to make sales to. In FY2020, we had successfully secured new orders from Customer Group A's supermarket stores in Sichuan Province, and we will continue to develop and grasp sales opportunities with other supermarket customers going forward. In this regard, we plan to increase our resources to organise marketing and promotional activities with supermarkets, for

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example, lucky draws, free gifts, free taste campaigns to shoppers. We believe these activities are win-win to us as well as our supermarket customers, which attract customer traffic to the supermarket stores on the one hand, and boost sales of our snack products on the other hand.

In order to effectively promote our brand and snack products to end consumers, which we believe will in turn drive the direct sales to our retailer customers, we intend to increase our marketing and advertising efforts. We plan to advertise our snack products through traditional media such as television commercials and radio broadcasts, as well as advertisement at high-traffic locations such as train stations, airports and bus stations. Moreover, we also intend to promote our snack products on social media such as WeChat, which is the most popular Chinese instant messaging platform, to reach a wide consumer group across China. As young generation is one of our key targeted consumer groups, we will organise promotion and sales events in high schools or tertiary education institutions to promote our snack products. We also plan to open short-term pop-up stores or organise short-term sales events in shopping malls to promote our brands and snack products with an aim to offer fun experience, as compared to traditional shopping in supermarkets and grocery stores, to vitalise our brands and build brand loyalty to our snack products. We will also explore opportunities of business cooperation with popular shops among young generation such as tea shops, coffee shops, karaoke stores and movie theatres to cross-sell our snack products.

For further details, please refer to the paragraph headed “Business Strategies — Increase our sales through enhancement of marketing efforts and expansion of sales channels” in this section.

Apart from increasing production of our popular snack products, we also consider to introduce new flavours to our existing snack products to attract customers who are keen to try and experiment with new flavours. We value the importance of product development and necessity to introduce new products to keep us competitive in the snack food industry. We believe consumers are constantly evolving with their tastes and preferences change with them. We will continuously develop new snack products to ensure we stay current on consumer trends. We intend to introduce new vegetable snacks such as mushrooms and new meat snacks such as boneless chicken feet, beef jerky, pork trotters, quail eggs and quail meat snacks. We have conducted our internal research on popularity of different snack products. We will also obtain feedback from our retailer customers on acceptance of new flavours and purchase pattern of end consumers in the market. Being front line sales channels reaching end consumers day-to-day, we believe our retailer customers such as supermarkets and grocery stores have sufficient expertise and direct knowledge of the preference of the end consumers. As a demonstration of their confidence in our products, five customers, out of which four are our top five customers in FY2021, had signed letters of intent with us confirming, generally, (i) their intention to increase their orders to us by 10% to 15% based on their purchase amount in FY2021, and (ii) their interests in ordering more vegetable and meat snack products, including new snack products to be launched, from us. With the long-term and

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established relationship with our retailer customers, our Directors consider that we already have stable sales channels to sell and market our new snack products readily, which is also supported by our growth in revenue generated from sales of our own-branded vegetable snacks and own-branded meat snacks in 6M2022 as compared to 6M2021.

Our Directors are of the view that, based on the utilisation rates during the Track Record Period, if our snacks become more and more popular, our production capacity would be unable to cope with the demand from our customers and would hinder the potential growth of our Group. As expected by Frost & Sullivan, the size of the snack food industry in the PRC will increase from approximately RMB796.1 billion in 2021 to RMB1,105.9 billion in 2026, with a CAGR of approximately 6.8%, and the market size of vegetable snacks and meat and aquatic animal snacks will increase from RMB22.0 billion and RMB42.6 billion, respectively, to RMB36.0 billion and RMB62.5 billion, respectively in the PRC from 2021 to 2026. Having considered (i) the size of the snack food industry, particularly vegetable snacks, and meat and aquatic animal snacks, in the PRC; and (ii) the high utilisation rates of our existing production lines in the Guangchang Plant during the Track Record Period, our Directors consider that it is crucial for our Group to expand our production capacity for snacks not only to maintain our competitiveness but also to capture business opportunities and increase our market share in the industry in the future.

In order to facilitate the introduction of new production lines and expansion of our production capacity for sustainable long-term growth, we plan to build a new factory building for housing the new production lines, which could not be fitted in our existing production buildings in the Guangchang Plant due to limited space. The new factory building will be located within the same land parcel of the existing Guangchang Plant. It is expected that the construction work of the new factory building will commence in or around January 2023, and will be completed in or around January 2024, subject to the receipt of necessary licence, permits and approvals from relevant authorities relating to the construction work. We expect to commence installation and testing of equipment and machines in or around October 2023 when construction work of the new factory building is largely completed. We expect that inspection of our new production lines will be completed in or around June 2024, and thereafter our new production lines will be ready for commercial production. The construction and installation work progress is provided on the current estimates of our Directors, which is subject to factors beyond our control, for example, the future development of the outbreak of COVID-19 in Jiangxi Province and any incidental governmental lockdown or business suspension measures.

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It is expected that upon completion of the construction of new factory building and installation of the new production lines as mentioned above, our Group will have two production lines for vegetable snacks with designed annual production capacity of approximately 3,000 tonnes and two production lines for meat snacks with designed annual production capacity of approximately 3,700 tonnes, representing an increase in approximately 1,200 tonnes and 2,000 tonnes, respectively, or an increase of approximately 67.7% and 116.2%, respectively, from that before introduction of the new production lines.

During the Track Record Period, the gross profit margin of our dried food products generally declined. For example, the gross profit margin of our dried delicacies, dried aquatic products and grains decreased from approximately 37.4% to 30.4%, 37.2% to 28.6% and 40.0% to 33.9%, respectively, from FY2019 to 6M2022. In contrast, our gross profit margin for own-branded vegetable snacks continuously improved from approximately 28.6% for FY2019 to 40.1% for 6M2022. Despite the gross profit margin of our own-branded meat snacks decreased from approximately 47.9% for FY2021 to approximately 34.4% for 6M2022, it still had a better gross profit margin than our other product lines. Therefore, considering that our own-branded snacks generally generate higher gross profit margin than dried food products, we also plan to continuously expand our product offerings of own-branded snacks, by developing new snack products with different flavours and ingredients and upgrading our product packaging to meet evolving customer preferences and consumption trends. We intend to establish a small scale production line for product development and production of prototypes or samples of snacks. We consider that a separate production line specialising in product development could minimise disruption to the production of our vegetable snacks and meat snacks production lines. This new production line will be dedicated to our product development requirements and to fulfill our needs of small-scale production of product prototypes and samples. Such production line is expected to be installed in the new factory building aforementioned in or around October 2023. In the event that we receive urgent customer orders or our other production lines encounter unexpected failure, this small scale production line can be used to temporarily supplement production requirements to fulfill customer orders.

As advised by our PRC Legal Advisers, under PRC laws, construction projects are subject to government supervision and approval procedures, including but not limited to project filings, project planning approvals, environment protection approvals, the pollution discharge permits, work safety approvals, fire protection approvals, and the completion of inspection and acceptance by relevant authorities. These procedures are routine in nature. Considering that the new factory buildings will be located within the same land parcel of the existing Guangchang Plant and in line with the planning of the Guangchang Industrial Zone, we together with our PRC Legal Advisers do not foresee any impediment for us to obtain such approvals or complete the relevant procedures.

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Currently, we are exploring to develop quail eggs and quail meat snacks to expand our product portfolio. We have been actively negotiating with the Management Committee of Nanchang Xiaolan Economic and Technological Development Zone (南昌小藍經濟技術開發區管委會) (the “**Management Committee**”), which had confirmed to us that they, as a support to our project and further development, intend to grant us a land parcel in Nanchang in favourable terms below the market price for production purpose. As at the Latest Practicable Date, based on our negotiation with the Management Committee, the Management Committee was in process of finalising the land grant arrangement and it expected to grant us the land parcel by June 2023. The size of land parcel is capable of constructing a factory building with production lines of maximum annual production volume of approximately 13,300 tonnes of quail eggs and quail meat snacks. Further, we have engaged independent market researcher to research on the market size, potential growth and competitive landscape of quail egg snack products. We have also commenced internal research on tastes, recipe and package design of quail egg and quail meat snack products in the market. Assuming we have obtained the land parcel by June 2023, we expect to complete construction preparation work such as selecting construction contractors and confirming construction plans by March 2024, commence construction works in April 2024, install the production lines for testing in August 2025 and complete inspection check and begin commercial production by end of 2025. We currently expect to incur capital expenditure of approximately RMB139.6 million, including land costs of approximately RMB7.2 million, construction costs of approximately RMB55.7 million, costs for purchase and installation of production lines of approximately RMB69.8 million and miscellaneous expenses of approximately RMB6.9 million. However, the aforesaid plan is still at a preliminary stage and subject to our further research and studies and further negotiation with the Management Committee. We plan to fund this project, if materialised, using our operating cash inflows and, if required, bank loans.

As advised by our PRC Legal Advisers, the Company shall perform relevant procedures for obtaining the land parcel for planned new factory in Nanchang, including but not limited to the procedures for land auction or quotation, signing the land transfer contract, paying the land transfer fee, and obtaining the certificate of land. As these procedures are routine in nature, as advised by our PRC Legal Advisers, we do not foresee any impediment for us to obtain such approvals or complete the relevant procedures.

It is expected that the total investment costs for our expansion of Guangchang Plant would be approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]). The total investment costs include construction costs of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and purchase cost of production lines of approximately RMB [REDACTED] (equivalent to approximately HK\$[REDACTED]). We intend to finance investment in relation to expansion of our production capacity in Guangchang Plant by the [REDACTED] from the [REDACTED], representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED].

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For illustration purpose only, we will be able to achieve (i) profit breakeven (i.e. the income contributed by the new production lines equals to the operating expenses (including depreciation of the production lines) incurred by them) within one month upon commencement of operation for both of our new vegetable snack production line and new meat snack production line as we do not expect to sell our snack products at loss; and (ii) investment payback (i.e. the amount of time that it takes for the income contributed by the new production lines to equal to its total investment cost and operating expenses) for our new vegetable snack production line and new meat snack production line in approximately seven years and six years, respectively. The estimated profit breakeven and investment payback period are calculated on the following assumptions: (i) an annual sales growth of 12% for both of our vegetable snacks and meat snacks, with reference to (a) the historical growth rate in our revenue generated from our vegetable snacks during the Track Record Period; (b) the projected growth in market size at a CAGR of 11.4% for vegetable snacks and 9.0% of meat and aquatic animal snacks in China for 2021 to 2026; and (c) our key customers' intention to increase their orders to us by 10% to 15% based on their purchase amount in FY2021 as stated in the letters of intent; (ii) estimated operating costs, which mainly consisted of the cost of sales, with reference to the historical operating costs during the Track Record Period; and (iii) our vegetable and meat snack products will continue to be sold to our customers at positive gross profit margin as we did during the Track Record Period. Profit breakeven and investment payback analysis of the small scale production line specialising in product development is not applicable because there is no identifiable income stream for such production line with product development as its major intended use.

For our existing vegetable and meat snack production lines in Guangchang Plant, we also achieved profit breakeven within one month upon commencement of operation as we did not and do not sell our snack products (including fragrant lotus seeds which we no longer sell since FY2021) at loss. In addition, we had already achieved investment payback for our existing vegetable and meat snack production lines, which have investment payback periods of approximately 2.5 years and 4 years, respectively. Our historical investment payback periods for the existing production lines were shorter than the expected investment payback periods for the new production lines because (i) we acquired Guangchang Plant with existing factory buildings in late 2017, therefore we saved the construction time of approximately 16 months (i.e. the expected construction time of the new factory building for our new production lines); (ii) for purpose of calculation, we assumed an annual sales growth of 12% for both of our vegetable snacks and meat snacks as aforesaid, which is lower than the historical sales growth rate of our vegetable snacks and meat snacks during the Track Record Period; and (iii) when we first expanded into snack production, we prudently installed smaller scale production lines with relatively low-end machinery and equipment to test market acceptance of our snack products. For our new vegetable and meat snack production lines, we intend to build a new factory building and install machinery and equipment with more advanced and automated functions to further expand our snack

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production business. We believe the increasing automation and gradual reduction of the manual element in our production process will improve our production efficiency and help to maintain our consistent product quality in the long run.

Increase our sales through enhancement of marketing efforts and expansion of sales channels

We intend to continue to enhance our marketing efforts and expand our sales channels to maximise the exposure of our brand and the accessibility of our products to end consumers across the PRC. In particular, our planned initiatives include the following:

Expand our sales network and concessionary counter network in Southwestern China

We plan to consolidate our relationship with existing customers in provinces where we have established presence while continue to identify and look for new customers in provinces where we currently have limited presence. In FY2020, leveraging our established relationship with Customer Group A and track record in supplying dried food products and snacks to its supermarket outlets in Jiangxi Province, Hunan Province, Hubei Province, Shaanxi Province and Fujian Province, we successfully secured orders of snack products such as nuts and biscuits for its outlets in Sichuan Province. In FY2021, Customer Group A further ordered our own-branded vegetable and meat snacks for its supermarket outlets in Sichuan Province, which our Directors believe that the spicy flavours of our own-branded snacks suit the local consumers’ tastes and preferences. Accordingly, our revenue from Sichuan Province (including Chongqing) in FY2021 significantly increased by approximately RMB65.9 million as compared to FY2020. For further details, please refer to the paragraph headed “Sales Network — Geographical presence” in this section. Our Directors believe that we successfully introduced our products and raised awareness to our “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands to end consumers in Sichuan Province and Chongqing, which provided us opportunities to further market and promote our products to other retailer customers and corporate customers in Southwestern China. Going forward, we intend to further increase our marketing resources to promote our products and establish business relationship with retailers and corporate customers in Southwestern China. To this end, we plan to recruit additional five sales representatives in the next two years to visit operators of local supermarket chains and grocery stores and develop relationships with local corporate companies to look for potential business opportunities.

Leveraging our experience in face-to-face product and brand promotion at concessionary counters in Jiangxi Province and Hubei Province, we intend to strategically replicate our successful concessionary counter model into Southwestern China, particularly Sichuan Province, by expanding our concessionary counter network in supermarkets. In general, we will particularly focus on leading or well-known supermarket chains with physical stores in cities or counties with high population densities and strategic locations that can provide a potential customer base for our

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dried food products and snacks products. We believe “experience-based” retail model across our concessionary counters in supermarkets allow our promoters to highlight our product features and promote our brand directly to end consumers, which leading up to purchase and enhancement of our brand from enjoyable shopping experiences. We intend to open concessionary counters in 14 supermarket stores in the next two years, and station one promoter in each concessionary counter.

We intend to apply approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], to finance our expansion of sales network and concessionary counter network in Southwestern China.

Promotional activities with supermarket chain customers

Supermarket chains had been, and will continue to be, our key sales channels. For FY2019, FY2020, FY2021 and 6M2022, revenue generated from supermarkets amounted to approximately RMB208.1 million, RMB196.0 million, RMB230.8 million and RMB96.9 million, accounting for approximately 70.0%, 69.3%, 67.5% and 58.0% of our revenue, respectively. Considering our long term relationship with these supermarket chains and their familiarity and receptiveness to our products, we believe there is still room for our sales to them to grow further. In order to attract end consumers to purchase our products, we plan to strengthen our marketing and promotional efforts in cooperation with our supermarket chain customers. In particular, we plan to organise promotional activities together with supermarket stores outside or at their store entrance by setting up promotional booths which our promoters as well as supermarket staff will display our products, offer our products for pedestrians to try and taste, offer free gifts to or organise lucky draws for end consumers who purchase over a minimum amount. We believe such promotional activities can attract customer traffic to the supermarket stores while boosting the sales of our products and raising our brand awareness, creating a win-win situation for both our supermarket chain customers and us. We have entered into framework purchase agreements with certain supermarket chains to expand our promotional and marketing activities in the next two years. We intend to apply approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], to finance our promotional activities with supermarket chain customers.

Expand our marketing and advertising efforts

We intend to promote our brands by expanding our marketing efforts across a wide variety of media channels, such as placing advertisements on public transports, television commercials, radio broadcast, high-traffic locations such as train stations, airports and bus stations, as well as social media such as WeChat. Furthermore, we intend to launch promo packs of vegetable snacks and meat snacks printed with on-pack codes where end consumers may scratch to win prizes or free

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products, or organise lucky draws for those who purchase a minimum spending amount of our snack products. We plan to organise promotional activities in high schools or tertiary education institutions to promote our products to youngsters, whom our Directors consider to be one of our key targeted consumer groups with considerable consumption power for snacks. In addition, we plan to penetrate into provinces where we currently have limited presence by opening short-term pop-up stores or organising short-term sales events at locations with high traffic, such as major shopping malls in city centre, to enhance the awareness of our brands and products. In addition to generating revenue and profits, our Directors consider short-term promotional activities in school campuses and pop-up stores or sales events in shopping malls also serve as pilots for our expansion and product development strategies, as the sales performance and market feedback, including customer traffic, spending patterns, preference on product types and flavours, generated by our direct interaction with end consumers, would provide valuable data insight, which we will be able to leverage when formulating our subsequent product development plan. For promotional activities or pop-up stores in locations with sales performance continuously below our expectation, we are able to quickly move to other locations without incurring significant costs. We intend to apply approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED], to finance our marketing and advertising expenses in these regards.

BUSINESS MODEL

Our business model principally comprises

- (i) manufacturing of (i) snacks such as bamboo shoots crisps and roasted duck necks; and (ii) packaged dried food products such as fungi, dried aquatic products, algae, grains and seasonings in the PRC, where we generally (a) source raw materials from our suppliers, (b) process the raw materials and package products at our own production facilities, and (c) sell the products under our own “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands to customers including retailers such as supermarkets and grocery stores, corporate customers and other individual customers in the PRC as well as e-commerce channel on Tmall.com; and
- (ii) trading of snacks and dried food products, where we purchase dried candied fruit, nuts and other products in bulk from suppliers and sell to retailers and corporate customers without further processing in the PRC.

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Manufacturing										
Supermarkets	173,058	58.2	176,082	62.2	175,202	51.2	69,375	47.6	81,123	48.6
Concessionary counters	11,580	3.9	13,220	4.7	20,050	5.9	9,724	6.7	29,057	17.4
Grocery stores.	1,588	0.5	1,891	0.6	6,603	1.9	2,537	1.7	4,134	2.5
Corporate customers	36,152	12.2	33,867	12.0	46,814	13.7	20,662	14.2	30,486	18.2
E-commerce	641	0.2	3,889	1.4	1,588	0.5	1,412	1.0	37	0.0
Others (<i>Note</i>)	416	0.1	—	N/A	95	0.0	96	0.1	—	N/A
Subtotal	<u>223,435</u>	<u>75.1</u>	<u>228,949</u>	<u>80.9</u>	<u>250,352</u>	<u>73.2</u>	<u>103,806</u>	<u>71.3</u>	<u>144,837</u>	<u>86.7</u>
Trading										
Supermarkets	35,039	11.8	19,958	7.1	55,549	16.2	23,156	15.9	15,780	9.5
Concessionary counters	17,618	5.9	25,477	9.0	30,509	8.9	16,141	11.1	1,861	1.1
Grocery stores.	—	N/A	44	0.0	1	0.0	—	N/A	—	N/A
Corporate customers	21,063	7.1	8,384	3.0	4,447	1.3	1,714	1.2	4,478	2.7
E-commerce	200	0.1	55	0.0	1,140	0.4	778	0.5	—	N/A
Others (<i>Note</i>)	43	0.0	22	0.0	—	N/A	—	N/A	—	N/A
Subtotal	<u>73,963</u>	<u>24.9</u>	<u>53,940</u>	<u>19.1</u>	<u>91,646</u>	<u>26.8</u>	<u>41,789</u>	<u>28.7</u>	<u>22,119</u>	<u>13.3</u>
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>	<u>145,595</u>	<u>100.0</u>	<u>166,956</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.

We sell our own-branded products under the manufacturing business and products of other brands under the trading business model. Our manufacturing business and trading business share the same customer base and sales channels. Our trading business supplements our manufacturing business by diversifying our product and brand portfolios to better cater our customers' requirements. Under the trading business model, we source food products which we do not produce, for example, biscuits, jelly and turtle jelly, from third-party suppliers and resell them to our customers. We also sell similar or same products such as cuttlefish and dried mushrooms in our own brands as well as third-party brands or without brands. Such arrangement was in place during the Track Record Period because (i) we had to source food products from external suppliers occasionally where our production capacity or production schedule could not meet our customers' orders, and (ii) we strategically maximised the use of our sales channels to carry a mixture of

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own-branded products and products of other brands or without brands to offer more product and brand choices to our customers in order to boost our Group’s sales. To the best knowledge of our Directors, our supermarket customers generally offer the same product in multiple brands on their shelves to offer sufficient product and brand choices to their consumers. Therefore, we also received orders from them for products of third-party brands along with our own-branded products. These third-party-branded products may be entirely the same as our own-branded products or vary with us in terms of packaging size, product origin or product quality. Our Directors consider that accepting such orders as an “all-in-one supplier” are crucial to maintain our good relationship with supermarket customers in a highly competitive market, and such orders also generate revenue to our Group and contribute to our profitability. Going forward, we have a strategy to prioritise the promotion and sales of our own-branded products, which we believe will enhance our overall brand image and contribute to our future growth, and gradually reduce the sales of products of third-party brands or without brands. In 6M2022, our revenue generated from trading business decreased to 13.3% as a percentage to our total revenue, as compared to 26.8% for FY2021.

During the Track Record Period, supermarkets and concessionary counters remained our major sales channels under both of our manufacturing business model and trading business model.

Our direct sales to supermarkets slightly decreased from approximately RMB208.1 million for FY2019 to approximately RMB196.0 million for FY2020, which was primarily due to the shift of sales from direct sales made to Customer Group C to sales made at concessionary counters in Customer Group C’s supermarket stores, and the decrease in direct sales of grains products to Customer B. Our Directors consider that the gradual stabilisation of the outbreak of COVID-19 and our introduction of meat snack series had led to an increase of our direct sales to supermarkets in FY2021. We recorded a period-to-period increase in direct sales to supermarkets for 6M2022, which was primarily attributable to our sales of snack products to Customer Group A’s supermarket stores in Sichuan Province. Among which, the sales of our own-branded products (i.e. the sales under our manufacturing operation) remained relatively stable, while the sales of third-party branded or unbranded products under our trading operation fluctuated significantly during the Track Record Period, which our Directors believe to be a reflection of the consumers’ taste and preference at the relevant time. As we strategically prioritise promotion and sales of our own-branded products for our long-term business development, and position our trading business as supplementary to our manufacturing business, our sales of third-party branded or unbranded products to supermarket customers under trading operation significantly decreased from approximately RMB23.2 million for 6M2021 to approximately RMB15.8 million for 6M2022.

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Our sales through concessionary counters demonstrated an increasing trend during the Track Record Period, amounting to approximately RMB29.2 million, RMB38.7 million, RMB50.6 million, RMB25.9 million and RMB30.9 million for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively. Among which, the sales of our own-branded products (i.e. the sales under our manufacturing operation) increased significantly from approximately RMB11.6 million for FY2019 to approximately RMB13.2 million for FY2020 and to approximately RMB20.1 million for FY2021, and from approximately RMB9.7 million for 6M2021 to approximately RMB29.1 million for 6M2022. Our Directors consider that such increase was mainly attributable to our enhanced brand awareness resulted from our effective brand promotion at our concessionary counters and the introduction of own-branded meat snack series.

Please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue” in this document for further discussion.

BRAND

Our origin can be traced back to 2002 when Mr. Yang, our founder and executive Director, established Jiangxi Zhengwei and our “Shengyao (聲耀)” brand being his first name. In 2014, we further developed our “Gangweifang (贛味坊)” brand. Each of our “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brand carries a variety of products. While “Shengyao (聲耀)” brand is generally used for our dried delicacies, dried aquatic products and vegetable and meat snack products, our “Gangweifang (贛味坊)” brand is generally used for our dried candied fruits and nuts products.

PRODUCTS

We have a large and diverse product portfolio, comprising the following five product lines:

- Snacks, which include pistachios, marinated chicken wing tips, spicy enoki mushroom, spicy bamboo shoots crisps, roasted duck necks and spicy kelp
- Dried delicacies, which include dried bamboo shoots, black fungi, autumn fungi and dried mushroom
- Dried aquatic products, which include dried medium cuttlefish, dried large cuttlefish, dried whitebait, dried shrimp and algae
- Grains, which include green beans, rice, millet, yellow millet, and peanuts
- Seasonings and others, which include rock sugar, white sugar and crystalised sugar




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




	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Snacks	128,419	43.2	137,426	48.6	171,059	50.0	73,733	50.6	77,467	46.4
Dried delicacies	86,800	29.2	70,454	24.9	87,410	25.6	37,375	25.7	50,471	30.2
Dried aquatic products	46,716	15.7	52,965	18.7	59,002	17.3	22,712	15.6	29,299	17.6
Grains	28,791	9.7	17,899	6.3	21,358	6.2	10,501	7.2	8,188	4.9
Seasonings and others	6,672	2.2	4,145	1.5	3,169	0.9	1,274	0.9	1,531	0.9
Total	297,398	100.0	282,889	100.0	341,998	100.0	145,595	100.0	166,956	100.0

The tables below set forth the sample product pictures, typical selling price as at 30 June 2022 and typical shelf life of our key products under our five product lines:



Snacks

Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Pistachios		Loose package: RMB110.6/kilogram Per can (220 grams): RMB30.97 Per packet (500 grams): RMB66.37	18
Marinated chicken wing tips		Loose package: RMB57.5/kilogram Per packet (90 grams): RMB9.8	12
Spicy enoki mushroom		Loose package: RMB38.2/kilogram Per box (400 grams): RMB19.3	12


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<u>Key Product</u>	<u>Sample Product Picture</u>	<u>Typical Selling Price</u>	<u>Typical Shelf Life</u>
		<i>Approximately</i>	<i>Months</i>
Spicy bamboo shoot crisps		Loose package: RMB34.7/kilogram Per box (520 grams): RMB21.7	12
Roasted duck necks . .		Loose package: RMB57.5/kilogram Per packet (90 grams): RMB9.8	12
Spicy kelp		Loose package: RMB28.0/kilogram Per box (720 grams): RMB21.8	12



Dried Delicacies

<u>Key Product</u>	<u>Sample Product Picture</u>	<u>Typical Selling Price</u>	<u>Typical Shelf Life</u>
		<i>Approximately</i>	<i>Months</i>
Dried bamboo shoots .		Loose package: RMB81.1/kilogram	12
Black fungi		Loose package: RMB77.5/kilogram Per packet (500 grams): RMB38.8	18


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Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Dried mushroom		Loose package: RMB89.2/kilogram Per packet (80 grams): RMB13.8 Per packet (500 grams): RMB41.1	18

Dried aquatic products

Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Dried medium cuttlefish		Loose package: RMB117.5/kilogram Per packet (408 grams): RMB55.05	12
Dried large cuttlefish .		Loose package: RMB151.8/kilogram Per packet (250 grams): RMB42.8 Per packet (500 grams): RMB69.7	12
Dried whitebait		Loose package: RMB256.9/kilogram	12
Dried shrimp.		Loose package: RMB78.4/kilogram Per packet (100 grams): RMB10.5	12


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Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Algae		Loose package: RMB75.5/kilogram Per packet (50 grams): RMB5.05 Per packet (100 grams): RMB10.55	12

Grains

Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Green beans		Loose package: RMB13.4/kilogram Per packet (400 grams): RMB4.9 Per packet (2.5 kilograms): RMB35.8	12
Rice		Loose package: RMB5.3/kilogram Per packet (500 grams): RMB4.4	8
Millet		Loose package: RMB12.8/kilogram Per packet (400 grams): RMB5.5 Per packet (one kilogram): RMB14.2	8
Yellow millet		Loose package: RMB19.0/kilogram Per packet (380 grams): RMB8.2	12

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Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Peanuts		Loose package: RMB23.1/kilogram Per packet (400 grams): RMB8.7	12

Seasonings and others

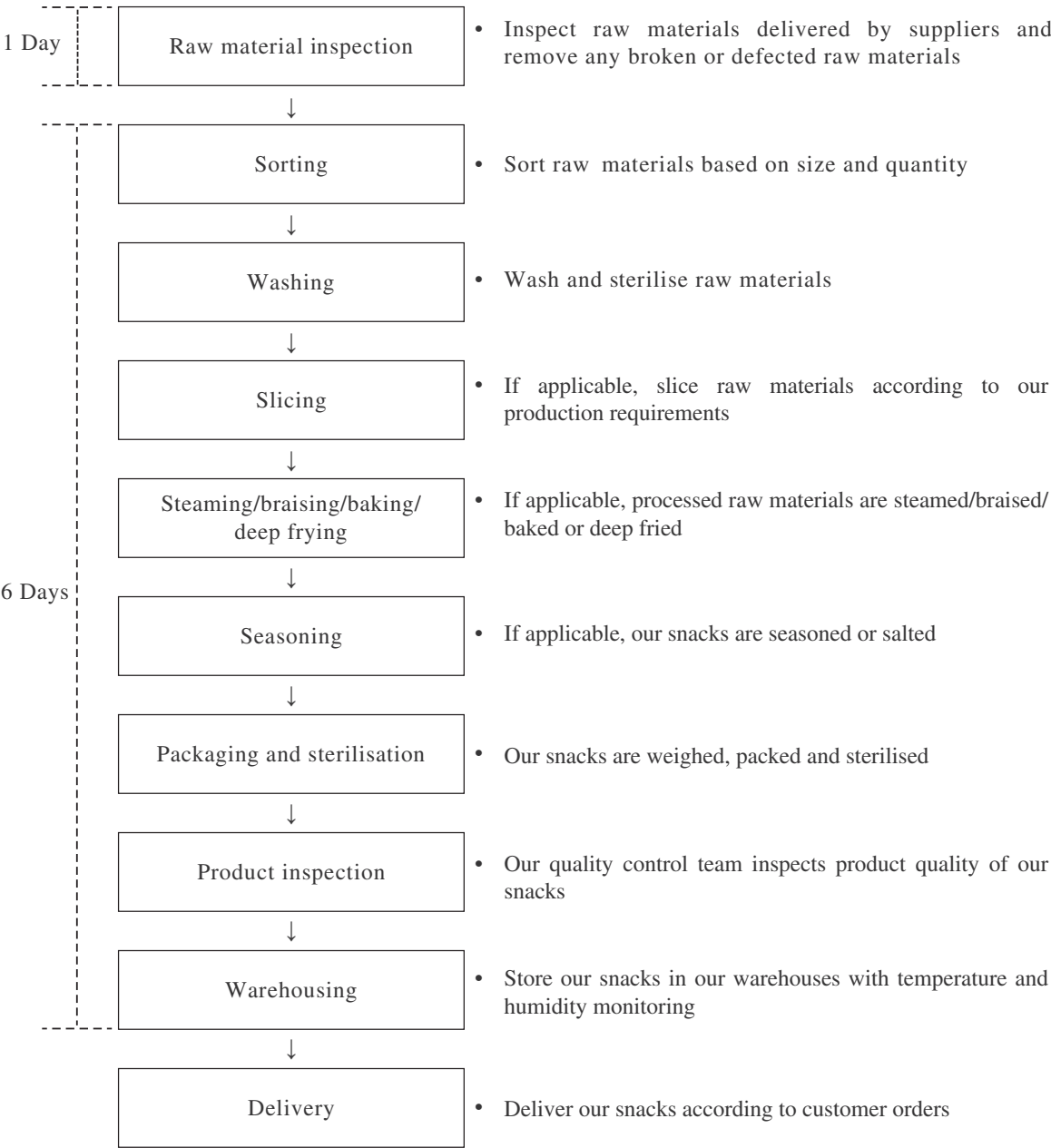
Key Product	Sample Product Picture	Typical Selling Price	Typical Shelf Life
		<i>Approximately</i>	<i>Months</i>
Rock sugar		Loose package: RMB10.9/kilogram Per packet (458 grams): RMB5.6 Per packet (2.5 kilograms): RMB33.6	18
White sugar.		Loose package: RMB9.5/kilogram Per packet (500 grams): RMB6.0	18
Crystallised sugar.		Loose package: RMB15.8/kilogram Per packet (458 grams): RMB6.9 Per packet (2.5 kilograms): RMB27.3	18

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OUR PRODUCTION

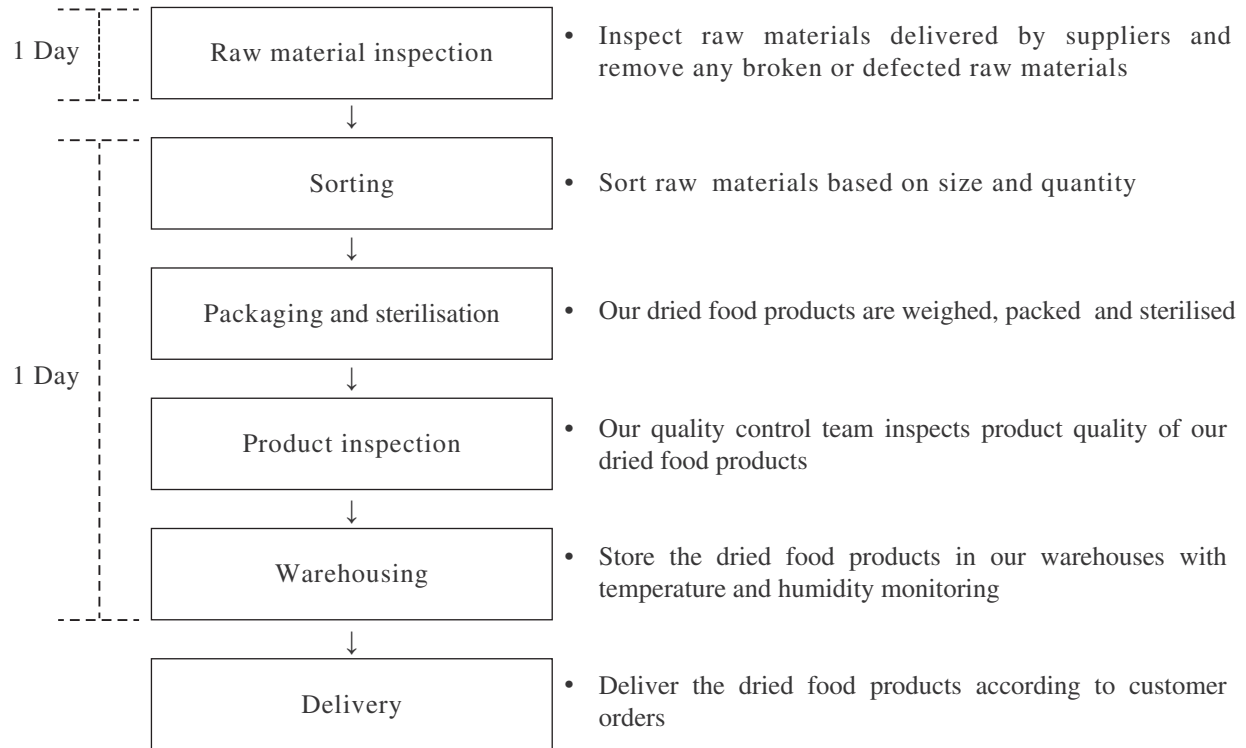
Production process

The following chart illustrates the general production process of our snacks:



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The following chart illustrates the general production process of our dried food products:



Production planning

We typically make our production plans based on our historical sales statistics, existing production schedules and annual sales forecast, subject to adjustments based on market conditions. To effectively control our risk exposure to excess production and inventory, our production, procurement, inventory control and sales representatives attend regular meetings to review our production plans and make adjustments to production volume, production schedule and procurement where necessary.

Production facilities

As at 30 June 2022, we operated two production facilities in Jiangxi province, the PRC, namely Nanchang Plant and Guangchang Plant. Please refer to the paragraph headed “Properties” in this section for details of our Nanchang Plant and Guangchang Plant.

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Nanchang Plant consists of packaging lines and warehouses, and primarily processes and packages our dried food products. Our equipment in Nanchang Plant mainly includes weighting machines, dehydrating machines and packaging machines to process and pack our dried delicacies, dried aquatic products, grains, nuts (other than fragrant lotus seeds) and sugar products. Guangchang Plant consists of production lines and warehouses, and primarily produces our snacks (including fragrant lotus seeds before we ceased to produce such products in FY2021). Our food processing and cooking equipment in Guangchang Plant, for example, slicing machines, washing machines, braising and steaming machines, weighting machines, sterilising machines, dehydrating machines and packaging machines are installed to wash, cut, cook and season the food ingredients and pack our snack products. Our production lines in Guangchang Plant and Nanchang Plant are not designed for and cannot be used interchangeably because our vegetable and meat snack products require cooking and seasoning which can only be processed by our cooking equipment installed in Guangchang Plant. In addition, our production lines for vegetable snacks and meat snacks in Guangchang Plant are not designed for interchangeable use because the processing procedures (i.e. for example, only meat ingredients are required to be defrosted and marinated), cooking methods (i.e. for example, vegetable snacks generally require braising only while meat snacks generally requires steaming, braising and deep-frying) and packaging specifications (i.e. for example, vegetable snacks only require low-temperature sterilisation while meat snacks require high-temperature sterilisation) are different, such that extra costs and time will be incurred in adjusting and testing the production lines in case we switch our vegetable snack production lines to produce meat snacks and vice versa.

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Designed production capacity, actual production volume and utilisation rate

The following table sets out the designed production capacity, actual production volume and utilisation rate of our production and packaging facilities for the years indicated:

Production facilities	Production Lines	Key Products	Revenue lines by products	FY2019			FY2020			FY2021			6M2022					
				Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Actual production volume	Utilisation rate ⁽²⁾			
Guangchang Plant	Vegetable snack production line	Fragrant lotus seeds ⁽³⁾ and vegetable snacks	Own-branded vegetable snacks and nuts (i.e. fragrant lotus seeds only)	1,553 ⁽³⁾	1,580 ⁽³⁾	102.3 ⁽³⁾	1,671 ⁽³⁾	2,469 ⁽³⁾	147.8 ⁽³⁾	1,789 ⁽³⁾	1,629 ⁽³⁾	91.1 ⁽³⁾	894 ⁽³⁾	895 ⁽³⁾	100.1 ⁽³⁾	894 ⁽³⁾	659 ⁽³⁾	73.7 ⁽³⁾
	Meat snack production line	Meat snacks	Own-branded meat snacks	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	N/A ⁽⁴⁾	1,711	1,555	90.9	707	753	106.5	1,050	816	77.7
	Subtotal			1,553	1,589	102.3	1,671	2,469	147.8	3,500	3,184	91.0	1,601	1,648	102.9	1,944	1,475	75.9
Nanchang Plant	Dried food product production line	Dried delicacies, dried aquatic products, grains, nuts (other than fragrant lotus seeds) and sugar products	Own-branded dried delicacies, dried aquatic products, grains, nuts (other than fragrant lotus seeds) and seasoning and other products	4,420	5,423	122.7	4,420	3,517	79.6	4,420	4,174	94.4	2,210	2,220	100.5	2,210	1,535	69.5

Notes:

- (1) Designed production capacity means the estimated maximum output of the relevant products that each facility can produce in the relevant year. It is calculated on the assumption that our production lines operate eight hours per day in two shifts and 260 days (52 weeks per year times five working days in a week) per year, taking into account the downtime for inspection, repairs and maintenance, and shutdown for commercial production due to public holiday in the PRC.
- (2) The utilisation rate is derived from dividing the actual production volume by the designed production capacity.
- (3) In FY2019 and FY2020, 1,345 tonnes of fragrant lotus seeds were included in the calculation of actual production volume and utilisation rate of our vegetable snack production line. Since FY2021, we ceased to produce fragrant lotus seeds in anticipation of increasing cost of lotus seeds and declining market demand based on the decreasing sales of such products in FY2020 as compared to FY2019.
- (4) Our production line for meat snacks only commenced operation in January 2021.
- (5) In 9M2022, the utilisation rate of our production lines in Guangchang Plant and Nanchang Plant was 86.5% and 68.7%, respectively. For our Guangchang Plant, our vegetable snack production line and meat snack production line recorded utilisation rate of 86.9% and 86.2%, respectively.

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In respect of our vegetable snack production line in the Guangchang Plant, our designed annual production capacity increased from approximately 1,553 tonnes in FY2019 to approximately 1,671 tonnes in FY2020 and further to approximately 1,789 tonnes in FY2021 because we acquired additional equipment and machines such as slicer, mixer, steamer and packing machines to expand our production capacity in FY2020 and FY2021. When we first established our vegetable snack production line in 2018, we took a prudent approach by installing a smaller scale production line to test market acceptance of our vegetable snack products. In view that the utilisation rate of our vegetable snack production line reached over 100% in FY2019, we decided to expand our production capacity to cope with increased product order by installing additional equipment and machines to the original production line, therefore resulting in increased annual production capacity in FY2020 and FY2021. In FY2020, despite we installed additional equipment and machine to increase our production capacity, our utilisation rate increased to 147.8% as we received more customer orders for spicy kelp, which was launched in late 2019, and spicy enoki mushroom, which was launched in 2020. In FY2021, our utilisation rate decreased to 91.1% as a combined result of (i) the increased designed production capacity due to installation of new machines and equipment; (ii) the decreased actual production volume, which was primarily attributable to our decision to cease producing fragrant lotus seeds in anticipation of the increasing cost of lotus seeds and declining market demand based on the decreasing sales of such products in FY2020 as compared to FY2019; and (iii) our strategy to promote our newly launched meat snacks in FY2021. For details, please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — (b) Revenue by product lines — Snacks” in this document. Taking into account our meat snack production line introduced in FY2021, our production volume of snacks increased as a whole with utilisation rates of both production lines exceeding 90.0% in FY2021.

The utilisation rates of our snacks production lines for 6M2022 were lower than that for FY2021 because (i) we accumulated higher level of inventories by year end of FY2021 to prepare for the orders in the first quarter of FY2022 for the preparation of the Chinese New Year holiday; (ii) our production lines were closed during the Chinese New Year holiday in February 2022; and (iii) we installed additional equipment and machines to our meat snack production line in August 2021, resulting in increased annual production capacity for four months only for FY2021 but six months for 6M2022 for the purpose of calculation of the designed production capacity.

Our utilisation rate of vegetable snack production line and meat snack production line decreased from 100.1% and 106.5% in 6M2021, respectively, to 73.7% and 77.7% in 6M2022, respectively. For 6M2022, as we have accumulated a higher level of inventories of vegetable snacks at the end FY2021 than we did at the end of FY2020, we therefore adjusted the production volume of vegetable snacks to avoid excessive inventories and resulted in a lower period-to-period utilisation rate of the vegetable snack production line. For our meat snack production line, the designed production capacity in 6M2022 increased as compared to 6M2021 for calculation

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purposes because we installed additional equipment and machines in August 2021, therefore resulting in lower period-to-period utilisation rates for 6M2022 despite there was period-to-period increase in actual production volume of our meat snack products. For 9M2022, our utilisation rate of vegetable snack production line and meat snack production line increased as compared to that for 6M2022 because we generally start to increase our production volume in the third quarter to prepare for orders for the Golden Week holiday and the Chinese New Year holiday.

In respect of our dried food product production line in the Nanchang Plant, our utilisation rate decreased from 122.7% in FY2019 to 79.6% in FY2020 because the demand of our own-branded dried food products, particularly dried delicacies and grains, decreased. Due to the outbreak of COVID-19 during Chinese New Year in 2020, which was supposed to be the peak consumption season of dried food products, a number of offline retails shops were closed temporarily with suspension of operation of shopping malls and supermarkets in different provinces. Therefore, sales of dried food products from offline sales channels significantly decreased, resulting in the market size of dried food products in Jiangxi Province decreased by 2.1% from 2019 to 2020. Our Directors believe that our dried delicacies such as dried mushroom and dried bamboo shoots are popular ingredients for festival dishes as well as festival gifts to families and friends in Chinese New Year, therefore, the outbreak of COVID-19 during Chinese New Year in 2020 had negatively impacted our sales of dried delicacies in the period. Our production volume of grains also substantially decreased due to the decrease in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C of rice under our own brand by approximately 1,484 tonnes. Due to the increase in raw material price of rice, the selling price of our own-branded rice also increased in FY2020. Although we tried to pass on rising costs to our customers, our customers were price sensitive. As a result, Customer Group C reduced its order of our own-branded rice. Moreover, we also reduced our production of dried delicacies due to declining gross profit margins as a result of increasing prices of raw materials such as dried mushroom and black fungi during the period.

In FY2021, our utilisation rate resumed to 94.4% due to the increase in customer orders for our own-branded grains and dried aquatic products. Since the outbreak became stabilised in March 2020, according to Frost & Sullivan, Jiangxi Province’s dried food products market rebounded with a growth rate of 5.0% from 2020 to 2021. Our sales and hence production of our own-branded grains and dried aquatic products also increased in line with the market recovery. In addition, our Directors believe that the customer traffic of supermarkets gradually increased in FY2021 following the relaxation of pandemic prevention and control measures, which contributed to the growth in sales generated from our direct sales to supermarket customers and concessionary counters at supermarkets, resulting in our increased production of dried food products. For details, please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — (b) Revenue by product lines” in this document.

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The utilisation rate of our dried food product production line decreased from 100.5% in 6M2021 to 69.5% in 6M2022 because (i) our supermarket customers did not organise promotion for our nuts products which resulted in a lower period-to-period production volume on our nuts products; and (ii) we strategically reduced production of rice and millet as the average selling price of rice is relatively low as compared to its average transportation cost due to its heavy weight, and the costs of millet increased in FY2022, which resulted in reducing gross profit margin on millet. In 9M2022, utilisation rate of our dried food product production line remained relatively stable at 68.7%.

During the Track Record Period, we coped with increased customer orders by recruiting temporary production workers or extending work shifts of our full-time production workers to increase our production volume. As a result, our utilisation rates of the vegetable snack production line and the dried food product production line exceeded 100% in particular financial years. In FY2019, FY2020, FY2021 and 6M2022, we employed 1,451, 2,646, 1,048 and 254 temporary production workers, respectively, to work in aggregate of 246,416 hours, 518,473 hours, 218,578 hours and 52,201 hours, respectively. We recruited all temporary production workers by ourselves during the Track Record Period, and did not involve any recruitment agencies or labour despatch arrangement. In FY2019, FY2020, FY2021 and 6M2022, we paid our temporary production workers in aggregate of approximately RMB2.8 million, RMB6.0 million, RMB2.7 million and RMB0.6 million, respectively. According to the Labor Contract Law, the Group is required to pay work-related injury insurance, for the temporary workers based on 0.2% of their wages, but payment of social insurance and housing provident fund is not required. The Group estimates that the unpaid work-related injury insurance amounted to approximately RMB5,600 for FY2019, RMB5,400 for FY2021 and RMB1,200 for 6M2022. For FY2020, payment of work-related injury insurance was waived as a relief measures in response to the pandemic. Although the Group did not pay work-related injury insurance for the temporary workers due to their high mobility, the Labor Contract Law or other relevant labour laws and regulations do not specify any penalty for failure to pay work-related injury insurance for temporary workers. Based on the written confirmations from Nanchang Human Resources and Social Security Bureau (南昌縣人力資源和社會保障局) and Guangchang Human Resources and Social Security Bureau (廣昌縣人力資源和社會保障局), which are the relevant competent regulatory authorities for Nanchang Plant and Guangchang Plant, respectively, and had been fully informed of the details of the Group's use of temporary production workers during the Track Record Period and reckoned the fact that these temporary workers were usually recruited on impromptus basis and without a pre-determined employment period, which rendered it to be impracticable to take out work-related injury insurance for them, the Group had not violated the requirements of the Labor Contract Law regarding the use of temporary workers, and no administrative penalty will be imposed against the Group regarding the use of temporary workers. On the basis that (i) the Labor Contract Law or other relevant labour laws and regulations do not specify any penalty for failure to pay work-related injury insurance for temporary workers; and (ii) the relevant competent regulatory authorities for

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Nanchang Plant and Guangchang Plant acknowledged that the Group did not pay work-related injury insurance for temporary workers during the Track Record Period but confirmed that the Group had not violated the requirements of the Labor Contract Law and no administrative penalty will be imposed against the Group, our PRC Legal Advisers are of the view that there was no material non-compliance of the applicable PRC laws and regulations in relation to the Group’s use of temporary production workers. The Company has signed full time contracts with all temporary production workers and paid social insurance and housing provident fund for them since September 2022. The Company neither has any temporary production workers since then nor has plan to hire temporary production workers any more in the future. Taking into account (i) the increase in customer orders and hence production needs together with our expansion plan with regard to our Guangchang Plant; (ii) the difficulties and uncertainties to successfully recruit sufficient temporary workers in peak seasons as our competitors might also require and recruit temporary workers in the market at the same time; (iii) full-time work offer is more appealing and attractive to production workers as compared to temporary work offer; and (iv) a stable supply of experienced production workers who are familiar with our product requirements, production procedures and quality standards could smooth our production operation, enhance our efficiency and reduce our costs and time incurred to provide introductory training to new workers at production lines, our Directors consider that the use of full-time production workers are commercially beneficial and better suit our production and operation needs as well as maintain our product quality. Our Directors do not expect the extra social insurance and housing provident contribution resulting from the change to use of full-time workers would have any material financial impact on the Group’s financial performance.

However, considering that the increasing average wages, general unwillingness for production staff to work on night shifts, and lower productivity resulting from excessive overtime work, our Directors consider that it is not cost-efficient and impracticable to increase manual input to our production lines to cope with increasing production demand in the long run. Therefore, we intend to expand our Guangchang Plant to acquire additional production lines for vegetable snacks and meat snacks. For details, please refer to the paragraph headed “Business Strategies — Expansion of our production capacity and enriching our product offerings” in this section.

Production equipment

Our production facilities are installed with production equipment selected by us and sourced from multiple suppliers in the PRC. As at the Latest Practicable Date, save as the cold storage facilities which we leased, we owned all the production equipment used in our production process. We have the experience and expertise to support on-site installation and maintenance of our production facilities. We consider various key factors in selecting our equipment suppliers which include bidding price, industry experience, reputation and after-sale service of such equipment

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suppliers. Our product development team has also been continuously collaborating with our production team and equipment suppliers in designing and enhancing our production lines in order to increase our production and operational capabilities and efficiency.

Our production equipment generally has useful lives of approximately 5 to 10 years. Based on our experience, such useful lives may be extended for longer period with proper repair and maintenance. We believe that our production facilities are well maintained and are in good operating condition, and none of these production facilities, or the production technology involved, is obsolete or outdated. We have implemented standardised procedures and guidelines for the operation, management, and maintenance of our production equipment. We carry out regular inspections and assessments of the condition of our production facilities and conduct regular repair and maintenance. We estimate that the average remaining useful lives of our production facilities are in the range between 2 to 9 years. The estimation of the useful life of production equipment is generally based on our experience with similar production equipment that are used and maintained in a similar way.

The following table sets forth the estimated remaining useful life of our key production equipment as at the Latest Practicable Date:

Guangchang Plant

<u>Production equipment</u>	<u>Key Functions</u>	<u>Average length of time in use (years)</u>	<u>Average remaining useful life (years)</u>
Multi-functional vegetable cutting machine	Cleaning and slicing of vegetables	10	6
High-speed slitting machine	Chopping and cutting	10	9
Steamer	Steaming	10	9
Oven	Baking	10	9
Vacuum packaging machine	Vacuum packaging	10	7
Sterilizer	Sterilising	6	2

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Nanchang Plant

Production equipment	Key Functions	Average length of time in use (years)	Average remaining useful life (years)
Dryer	Drying	10	4
Roasting machine	Roasting	10	7
Mixer	Mixing	10	8
Semi-automatic round bottle labelling machine	Labelling brand logo	10	7
Vacuum packaging machine	Vacuum packaging	10	5
Packaging machine	Packaging	10	7

Repair and maintenance

We schedule downtimes for regular inspections, maintenance and repairs of production machineries in accordance with our internal policies. Such internal standards are formulated by taking into account the technical and other specific requirements and procedures set out in the operation manual of the relevant production machines and equipment, the ISO standards and the actual workflow in our production. We allocate regular downtimes to avoid occasional stalling in order to maximise our production efficiency. We conduct regular and annual maintenance on our major production machines and equipment in accordance with the manufacturers’ guidelines or from our operational experience over the years. As at 30 June 2022, we had in-house electrician and mechanic who are responsible for routine inspection and maintenance of our production machineries. On an as need basis, we will engage external service providers to repair our production machineries and equipment. To maximise our production capacity, we also aim to schedule major maintenance works during weekend and public holidays. We did not experience any material or extended interruptions to our production process due to production machines and equipment failures during the Track Record Period.

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EXPANSION PLAN

We plan to acquire new production lines in our Guangchang Plant to increase our production capacity of vegetable snacks and meat snacks. For details, please refer to the paragraph headed “Business Strategies — Expansion of our production capacity and enriching our product offerings” in this section.

SALES NETWORK

We have an extensive sales network, which encompasses the following online and offline sales channels:

- *Retailers.* We sell our products to retailers such as supermarkets and grocery stores, which in turn sell our products to end consumers.
- *Corporate customers.* We sell our products to (i) trading companies which, to the best knowledge of our Directors, generally purchase our dried food products or snacks and then sell to their customers, which may comprise corporates and individuals, for their business uses or self-consumption; and (ii) other corporate companies which, to the best knowledge of our Directors, give out our products as gifts or souvenirs to their clients and contacts and as staff benefit.
- *Concessionary counters.* We deploy promoters to promote our products face-to-face to end consumers in concessionary counters in supermarkets, and end consumers pay for our products at cashier counters of the supermarkets.
- *E-commerce.* We sell our products on Tmall.com.
- *Others.* We sell our products to individuals who, to the best knowledge of our Directors, purchase our products for their own consumption.

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

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Retailers										
Supermarkets	208,097	70.0	196,040	69.3	230,751	67.5	92,531	63.6	96,903	58.0
Grocery stores	1,588	0.5	1,935	0.7	6,604	1.9	2,537	1.7	4,134	2.5
Subtotal.	<u>209,685</u>	<u>70.5</u>	<u>197,975</u>	<u>70.0</u>	<u>237,355</u>	<u>69.4</u>	<u>95,068</u>	<u>65.3</u>	<u>101,037</u>	<u>60.5</u>
Corporate customers	57,215	19.2	42,251	14.9	51,261	15.0	22,376	15.4	34,964	21.0
Concessionary counters	29,198	9.8	38,697	13.7	50,559	14.8	25,865	17.8	30,918	18.5
E-commerce	841	0.3	3,944	1.4	2,728	0.8	2,190	1.5	37	0.0
Others (<i>Note</i>)	459	0.2	22	0.0	95	0.0	96	0.0	—	N/A
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>	<u>145,595</u>	<u>100.0</u>	<u>166,956</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.

The following table sets forth the movement of our sales channels during the Track Record Period:

	FY2019	FY2020	FY2021	6M2022
As at the beginning of the year/period				
Supermarkets	21	27	24	22
Concessionary counters (<i>Note 1</i>)	8	9	11	8
Grocery stores	6	6	3	52
Corporate customers	92	173	213	317
E-commerce	2	3	1	2
Others (<i>Note 2</i>)	16	27	6	5
	<u>145</u>	<u>245</u>	<u>258</u>	<u>406</u>

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	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2022</u>
Add: new customers who purchased from us during the year/period				
Supermarkets	6	5	2	—
Concessionary counters (<i>Note 1</i>) . . .	1	2	—	—
Grocery stores	—	—	49	16
Corporate customers	81	143	165	28
E-commerce	1	—	1	—
Others (<i>Note 2</i>)	11	3	5	—
	<u>100</u>	<u>153</u>	<u>222</u>	<u>44</u>
Less: prior year/period customers who did not purchase from us during the year/period				
Supermarkets	—	(8)	(4)	(11)
Concessionary counters (<i>Note 1</i>) . . .	—	—	(3)	—
Grocery stores	—	(3)	—	(35)
Corporate customers	—	(103)	(61)	(183)
E-commerce	—	(2)	—	(1)
Others (<i>Note 2</i>)	—	(24)	(6)	(5)
	<u>—</u>	<u>(140)</u>	<u>(74)</u>	<u>(235)</u>
As at the end of the year/period				
Supermarkets	27	24	22	11
Concessionary counters (<i>Note 1</i>) . . .	9	11	8	8
Grocery stores	6	3	52	33
Corporate customers	173	213	317	162
E-commerce	3	1	2	1
Others (<i>Note 2</i>)	27	6	5	0
	<u>245</u>	<u>258</u>	<u>406</u>	<u>215</u>

Notes:

- (1) Refers to the number of supermarket customers which we have operated concessionary counters at their supermarket stores.
- (2) 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

Retailer customers primarily include supermarkets and grocery stores. For FY2019, FY2020, FY2021 and 6M2022, sales to our retailer customers accounted for approximately 70.5%, 70.0%, 69.4% and 60.5% of our total revenue for the same year or period, respectively. We generally enter into sales agreement directly with the headquarters of our supermarket customers and deliver our products to their respective branches and/or retail stores as requested. For smaller orders with other retailers customers such as grocery stores, requests for our products are generally made through purchase orders. To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our direct sales retailer customers during the Track Record Period.

Our sales representatives visit our retailer customers regularly to collect information about their retail sales volumes and inventory levels of our products. We regularly evaluate the performance of our retailers based primarily on a number of factors, including timeliness of payment, participation in marketing events and overall sales performance of our products. We do not suggest any retail price to our retailer customers, and our retailer customers may price our products for sale to end consumers at their own discretion.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material sales returns or exchanges from our retailers.

Key terms of sales agreement with retailer customers

Save for purchase orders for smaller orders, we generally enter into sales agreement with our retailer customers on an annual basis. These agreements specify a variety of terms, including the payment method, credit terms and delivery arrangements. During the Track Record Period, we did not experience any material breach by our retailers customers.

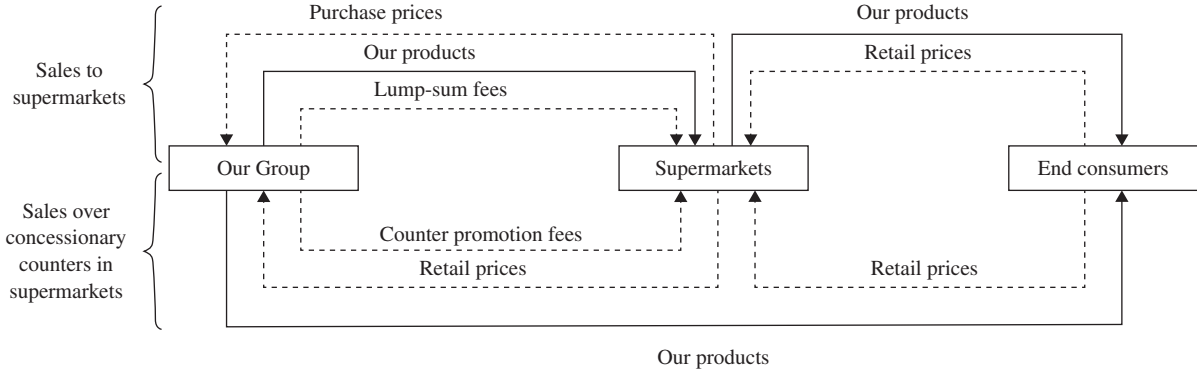
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Set out below are the key terms of our sales agreement with retailer customers:

- Payment and credit terms: Ranging from 30–90 days upon issuance of invoice or as otherwise agreed by the parties
- Delivery of products: Delivery arranged at location(s) within the time limit as requested by customer; we may be liable to charges for late delivery
- Product returns/exchanges: Products may generally be returned or exchanged due to quality issues; for certain customers, products may be returned if remain unsold for prolonged period subject to negotiation between the parties. For details of our sales return, please refer to the paragraph headed "Sales Returns and Recall Policies" in this section
- Minimum purchase amount: Nil
- Termination: Subject to negotiation by the parties and/or force majeure events

Our relationship with supermarkets

The following diagram illustrates our cooperation with supermarkets under two models, namely (i) direct sales to supermarkets, where supermarkets purchase our products and sell to end consumers in their physical stores; and (ii) sales over concessionary counters in supermarkets, where we set up concessionary counters in supermarket stores and deploy our promoters to directly promote our products and brands to end consumers, and end consumers pay for our products at cashier counters of the supermarket stores:



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Regarding direct sales to supermarkets, supermarkets generally charge us lump-sum fees in order to have our products placed on their shelves in stores. Supermarkets enter into sales agreement with us for the supply of snacks products and dried food products by us to them on an annual basis. For details of the key terms of our sales agreement with supermarkets, please refer to the paragraph headed “Sales Network — Retailers — Key terms of sales agreement with retailer customers” in this section. We deliver our products pursuant to orders placed by supermarkets. Generally, taking into account our established relationship with key supermarket customers and the large quantities they purchase, we offer discounted prices to supermarkets. Once the products are delivered and accepted by the supermarkets, the control of such products are transferred to the supermarkets, and we are entitled to recognise revenue accordingly. Our revenue under direct sales to supermarkets are recognised net of the lump-sum fees charged by our supermarket customers. For details of our accounting policies on revenue recognition, please refer to Note 4 to the Accountants’ Report in Appendix I to this document.

Pursuant to concessionary counter arrangements between supermarkets and us, we set up concessionary counters in supermarket stores and deploy our promoters to directly promote our products and brands to end consumers, and end consumers pay for our products at cashier counters of the supermarket stores. We retain control of our products, which are counted towards our inventory, until they are sold to the end consumers. Supermarkets shall pay us the sales proceeds, representing the retail prices, of our products sold to end consumers under concessionary counter arrangements on a monthly basis. Supermarkets generally charge us counter promotional fees for operating concessionary counters in their stores, and such fees are generally charged with reference to the costs of promotional events or festival events organised by such supermarkets subject to the negotiation of the parties. The counter promotional fees charged by supermarkets in relation to concessionary counters are recorded as our marketing and promotion expenses under our distribution and selling expenses. For details, please refer to “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Distribution and selling expenses” in this document.

Concessionary counters in supermarkets

During the Track Record Period, we also deploy promoters to promote our products to end consumers in our concessionary counters set up at supermarkets, and end consumers pay for the products at the cashier counters at supermarkets. For FY2019, FY2020, FY2021 and 6M2022, sales over concessionary counters accounted for approximately 9.8%, 13.7%, 14.8% and 18.5% of our total revenue for the same year or period, respectively. The concessionary counters at the supermarkets as well as the supermarkets themselves are not our distributors. The concessionary counters serve as an additional platform for us to market our products to end consumers directly, and we deploy our promoters to be stationed in those concessionary counters.

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The following table sets forth the movement of the number of our concessionary counters operated in supermarkets during the Track Record Period:

	FY2019	FY2020	FY2021	6M2022
Customer Group A <i>(Note 1)</i>				
As at the beginning of the year/period				
— Jiangxi Province	13	13	12	12
— Hubei Province	6	6	7	11
— Hunan Province	8	8	8	9
— Shaanxi Province	2	2	2	2
— Fujian Province	4	5	5	6
	<u>33</u>	<u>34</u>	<u>34</u>	<u>40</u>
Add: concessionary counter opened during the year/period				
— Jiangxi Province	—	—	—	1
— Hubei Province	—	1	4	—
— Hunan Province	—	—	1	—
— Shaanxi Province	—	—	—	—
— Fujian Province	1	—	1	—
	<u>1</u>	<u>1</u>	<u>6</u>	<u>1</u>
Less: concessionary counter closed during the year/period				
— Jiangxi Province	—	(1)	—	(1)
— Hubei Province	—	—	—	(1)
— Hunan Province	—	—	—	—
— Shaanxi Province	—	—	—	—
— Fujian Province	—	—	—	—
	<u>—</u>	<u>(1)</u>	<u>—</u>	<u>(2)</u>
As at the end of the year/period				
— Jiangxi Province	13	12	12	12
— Hubei Province	6	7	11	10
— Hunan Province	8	8	9	9
— Shaanxi Province	2	2	2	2
— Fujian Province	5	5	6	6
	<u>34</u>	<u>34</u>	<u>40</u>	<u>39</u>

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	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2022</u>
Customer Group C <i>(Note 2)</i>				
As at the beginning of the year/period				
— Jiangxi province	30	30	44	54
— Zhejiang province	7	7	8	—
— Jiangsu province	8	8	9	—
	<u>45</u>	<u>45</u>	<u>61</u>	<u>54</u>
Add: concessionary counter opened during the year/period				
— Jiangxi province	—	14	11	5
— Zhejiang province	—	1	—	—
— Jiangsu province	—	1	—	—
	<u>—</u>	<u>16</u>	<u>11</u>	<u>5</u>
Less: concessionary counter closed during the year/period				
— Jiangxi province	—	—	(1)	(2)
— Zhejiang province	—	—	(8)	—
— Jiangsu province	—	—	(9)	—
	<u>—</u>	<u>—</u>	<u>(18)</u>	<u>(2)</u>
As at the end of the year/period				
— Jiangxi province	30	44	54	57
— Zhejiang province	7	8	—	—
— Jiangsu province	8	9	—	—
	<u>45</u>	<u>61</u>	<u>54</u>	<u>57</u>
Jiangxi Guoguang Group <i>(Note 3)</i>				
As at the beginning of the year/period				
— Jiangxi Province	11	11	15	17
Add: concessionary counter opened during the year/period				
— Jiangxi Province	—	4	2	—
Less: concessionary counter closed during the year/period				
— Jiangxi Province	—	—	—	(1)
As at the end of the year/period				
— Jiangxi Province	<u>11</u>	<u>15</u>	<u>17</u>	<u>16</u>

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	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2022</u>
Customer L <i>(Note 4)</i>				
As at the beginning of the year/period				
— Jiangxi Province	—	—	5	6
Add: concessionary counter opened during the year/period				
— Jiangxi Province	—	5	1	—
Less: concessionary counter closed during the year/period				
— Jiangxi Province	—	—	—	—
As at the end of the year/period				
— Jiangxi Province	<u>—</u>	<u>5</u>	<u>6</u>	<u>6</u>
Customer M <i>(Note 5)</i>				
As at the beginning of the year/period				
— Jiangxi Province	—	—	2	2
Add: concessionary counter opened during the year/period				
—Jiangxi Province.	—	2	—	—
Less: concessionary counter closed during the year/period				
—Jiangxi Province.	—	—	—	—
As at the end of the year/period				
—Jiangxi Province.	<u>—</u>	<u>2</u>	<u>2</u>	<u>2</u>
Customer Group N <i>(Note 6)</i>				
As at the beginning of the year/period				
— Jiangxi Province	3	3	2	1
Add: concessionary counter opened during the year/period				
— Jiangxi Province	—	—	—	—
Less: concessionary counter closed during the year/period				
— Jiangxi Province	—	(1)	(1)	—
As at the end of the year/period				
— Jiangxi Province	<u>3</u>	<u>2</u>	<u>1</u>	<u>1</u>

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	FY2019	FY2020	FY2021	6M2022
Customer O <i>(Note 7)</i>				
As at the beginning of the year/period				
— Jiangxi Province	1	1	1	—
Add: concessionary counter opened during the year/period				
— Jiangxi Province	—	—	—	—
Less: concessionary counter closed during the year/period				
— Jiangxi Province	—	—	(1)	—
As at the end of the year/period				
— Jiangxi Province	<u>1</u>	<u>1</u>	<u>—</u>	<u>—</u>

Notes:

- (1) For details of Customer Group A’s background information, please refer to the paragraph headed “Customers — Our five largest customers” in this section. In FY2020, we closed one concessionary counter in Jiangxi Province as the sales performance did not meet our expectation, which was subsequently re-opened in 6M2022. In 6M2022, we further closed one concessionary counter in Jiangxi province as Customer Group A closed such supermarket outlet and one concessionary counter in Hubei province as the sales performance did not meet our expectation.
- (2) For details of Customer Group C’s background information, please refer to the paragraph headed “Customers — Our five largest customers” in this section. In FY2021, we closed all concessionary counters in Zhejiang Province and Jiangsu Province because the sales performance of such concessionary counters did not meet our Group’s expectations. Our Directors consider that was due to the difference in consumer tastes and dietary habits in Zhejiang Province and Jiangsu Province as compared to Jiangxi Province, whereby local residents in Zhejiang Province and Jiangsu Province generally prefer fresh food products rather than dried food products. In addition, our popular dried delicacies such as dried mushrooms and black fungi in Jiangxi Province were less popular in Zhejiang Province and Jiangsu Province, which our Directors believe to their best knowledge that these dried delicacies are generally used as major ingredients in Jiangxi Province, whereas local people in Zhejiang Province and Jiangsu Province generally use these dried delicacies for side dishes. Accordingly, our Directors decided to close the concessionary counters in Zhejiang Province and Jiangsu Province. In Jiangxi Province, we closed one concessionary counter in FY2021 because Customer Group C closed such supermarket outlet, and further closed two concessionary counters in 6M2022 because Customer Group C closed one of such supermarket outlets and the sales performance of the other concessionary counters did not meet our expectation.
- (3) For details of Jiangxi Guoguang Group’s background information, please refer to the paragraph headed “Customers — Our five largest customers” in this section. We closed one concessionary counter in 6M2022 because the sales performance did not meet our expectation.
- (4) Customer L is a limited liability company established in Jiangxi Province with registered capital of RMB50 million and its principal business is operation of supermarket business in Jiangxi Province.
- (5) Customer M is a limited liability company established in Jiangxi Province with registered capital of RMB70 million and its principal business is operation of supermarket business in Jiangxi Province.

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- (6) Customer Group N comprises a company established in Jiangxi Province with registered capital of RMB54.6 million and its wholly-owned subsidiary established in Jiangxi Province with registered capital of RMB6 million, which principally operate supermarket business in Jiangxi Province. We closed one concessionary counter in FY2020 and one concessionary counter in 6M2022 because Customer Group N closed the relevant supermarket outlets.
- (7) Customer O is a limited liability company established in Jiangxi Province with registered capital of RMB5 million and its principal business is operation of supermarket business in Jiangxi Province. We closed one concessionary counter in FY2021 because Customer O closed such supermarket outlet.

The following table sets forth the revenue generated from our concessionary counters operated in supermarkets during the Track Record Period:

	FY2019		FY2020		FY2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Customer Group A ^(Note)								
— Jiangxi Province	1,941	25.3	4,397	34.7	7,052	33.6	3,076	24.5
— Hubei Province	249	3.2	666	5.3	2,182	10.4	2,169	17.2
— Hunan Province	579	7.5	1,743	13.7	3,619	17.2	4,348	34.5
— Shaanxi Province	385	5.0	848	6.7	1,146	5.5	468	3.7
— Fujian Province	4,533	59.0	5,028	39.6	7,019	33.4	2,529	20.1
	<u>7,687</u>	<u>100.0</u>	<u>12,682</u>	<u>100.0</u>	<u>21,018</u>	<u>100.0</u>	<u>12,590</u>	<u>100.0</u>
Customer Group C ^(Note)								
— Jiangxi Province	16,937	93.7	21,456	93.1	25,513	100.0	17,198	100.0
— Jiangsu Province	821	4.2	884	3.9	—	—	—	—
— Zhejiang Province	317	2.1	705	3.0	—	—	—	—
	<u>18,075</u>	<u>100.0</u>	<u>23,045</u>	<u>100.0</u>	<u>25,513</u>	<u>100.0</u>	<u>17,198</u>	<u>100.0</u>
Jiangxi Guoguang Group ^(Note)								
— Jiangxi Province	<u>1,943</u>	<u>100.0</u>	<u>2,065</u>	<u>100.0</u>	<u>2,622</u>	<u>100.0</u>	<u>477</u>	<u>100.0</u>
Customer L ^(Note)								
— Jiangxi Province	<u>—</u>	<u>N/A</u>	<u>79</u>	<u>100.0</u>	<u>284</u>	<u>100.0</u>	<u>62</u>	<u>100.0</u>
Customer M ^(Note)								
— Jiangxi Province	<u>—</u>	<u>N/A</u>	<u>268</u>	<u>100.0</u>	<u>537</u>	<u>100.0</u>	<u>287</u>	<u>100.0</u>
Customer Group N ^(Note)								
— Jiangxi Province	<u>1,076</u>	<u>100.0</u>	<u>462</u>	<u>100.0</u>	<u>585</u>	<u>100.0</u>	<u>305</u>	<u>100.0</u>
Customer O ^(Note)								
— Jiangxi Province	<u>418</u>	<u>100.0</u>	<u>96</u>	<u>100.0</u>	<u>—</u>	<u>N/A</u>	<u>—</u>	<u>N/A</u>

Note: See notes in respect of the relevant supermarket customers in the table above.

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We believe that the retail experience at the concessionary counters in supermarkets contributes significantly to purchase decisions of the end consumers and the brand image of our products. We believe these supermarkets that allow us to have our concessionary counters provide us with significant brand exposure and allow us to leverage their marketing campaigns and promotional activities. Accordingly, we have dedicated resources in the implementation of brand management policies to implement concessionary counters in supermarkets. At our concessionary counters, consumers can try our products before purchasing, and understand more useful and practical information of our products through face-to-face exchanges and dialogues with our promoters. As our products at our concessionary counters are not pre-packaged but sold according to weight, consumers can also acquire our products in any quantity they desire. During the Track Record Period, all of the supermarkets where we operated concessionary counters were Independent Third Parties.

Counter promotional fees

The supermarkets charge us counter promotional fees in two models, namely, (i) by product category at pre-determined rates after commercial and arm’s length negotiation (the “**Product Category Model**”); and (ii) based on allocation of their costs incurred for promotional events or festival events, for example, costs of consumables used in promotional events and handling fees for loading and unloading products, among their suppliers, including our Group, based on the portion of concessionary counter revenue of the suppliers whose products were promoted by such supermarkets in the same events (the “**Cost Allocation Model**”). The counter promotional fees charged by supermarkets for a particular year or period under the Cost Allocation Model and the fee rate for each product category charged under the Product Category Model are subject to various factors or circumstances at the relevant time, including but not limited to the prevailing market condition, the market demand to and consumer preferences on different kinds of products, the consumers’ propensity to consume, the scale and budget of the promotional or festival events and the product portfolio of the supermarket customers, which are beyond our control. During the Track Record Period, Customer Group C charged us counter promotional fees under the Product Category Model, while the other supermarkets charged us counter promotional fees under the Cost Allocation Model.

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Under the Product Category Model, the counter promotional fees ranged from approximately 12.7% to 17.0% as a percentage to the concessionary counter revenue during the Track Record Period. Customer Group C charged us counter promotional fees at pre-determined rates between 10% to 20% on grains, dried delicacies, dried aquatic products and snacks, and not more than 4% on seasonings and others. In FY2020, due to the outbreak of COVID-19 pandemic, Customer Group C agreed to reduce the fee rate by 4.5% on all product categories, thereby resulting in lower fees charged as a percentage to the concessionary counter revenue generated from such supermarket in FY2020 as compared to FY2019. Such concession did not continue in FY2021 and 6M2022, and therefore the fees charged as a percentage to the corresponding concessionary counter revenue for FY2021 and 6M2022 returned to similar level as for FY2019. In addition to the commission fees charged according to product category, Customer Group C also charged us fees for consumables used in promotional events and handling fees for loading and unloading products. The counter promotional fees as a percentage to the concessionary counter revenue charged by Customer Group C were higher than those charged by other supermarket customers under the Cost Allocation Model during the Track Record Period. Our Directors consider the counter promotional fees charged by Customer Group C is commercially acceptable because (i) it is a well-known supermarket chain and therefore an effective offline channel for us to promote and sell our products; (ii) it has a dense network of supermarket stores spread over different cities and counties in Jiangxi Province, which is a key revenue generating province for our Group; (iii) revenue generated from concessionary counters at Customer Group C's supermarket stores accounted for over 50% of our total concessionary counter revenue during the Track Record Period; and (iv) our cooperation with Customer Group C helps promoting our brand and products and give confidence to smaller-scale supermarkets to cooperate with our Group to operate concessionary counters or purchase our products.

Under the Cost Allocation Model, the counter promotional fees ranged from 0.3% to 25.0% as a percentage to the corresponding concessionary counter revenue generated from these supermarket customers during the Track Record Period. Such percentage fluctuated during the Track Record Period which depended on, to the best knowledge of the Directors, (i) the promotion costs incurred by the relevant supermarkets; and (ii) the amount of our Group's concessionary counter revenue as a percentage to the amount of total concessionary counter revenue, including those of the other relevant suppliers whose products were promoted by such supermarkets, in the same individual events. For example, the counter promotional fees as a percentage to concessionary counter revenue charged by Customer Group A was 0.3% for FY2019, 1.5% for FY2020, 1.1% for FY2021 and 0.3% for 6M2022. Our Directors believe that the counter promotional fees as a percentage to concessionary counter revenue for FY2020 and FY2021 were higher than that of FY2019 and 6M2022 was mainly due to Customer Group A charged us higher concessionary counter fees in FY2020 and FY2021 under the Cost Allocation Model as it more frequently held large-scale promotional activities, therefore resulting in higher promotion costs incurred by Customer Group A. Supermarket customers charging counter promotional fees under

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the Cost Allocation Model did not provide breakdown and details on actual costs incurred for promotional events or festival events and our Group's concessionary counter revenue as a percentage to the total concessionary counter revenue of relevant suppliers whose products were promoted by such supermarkets in the same events, of which the Directors consider to be commercially confidential from the supermarkets' perspectives, to substantiate the counter promotional fees charged for a particular year or period. As a whole, counter promotional fees charged under the Cost Allocation Model as a percentage to the corresponding concessionary counter revenue generated from relevant supermarkets on an aggregate basis was approximately 0.9%, 1.9%, 1.7% and 0.5% for FY2019, FY2020, FY2021 and 6M2022, respectively.

Upon receiving request of counter promotional fees from supermarket customers, we compare the fees charged as a percentage to the concessionary counter revenue generated from such customer over historical periods, and consider whether the frequency and scale of promotional activities or festival events in the relevant period justify the counter promotional fees charged by such supermarket. In addition, we also set a maximum percentage acceptable to our Group in order to ensure our profitability. We negotiate with the relevant supermarket customers if we consider the counter promotional fees proposed are not reasonable. During the Track Record Period, leveraging our trusted relationship with our supermarket customers, we did not experience any disputes or disagreements on counter promotional fees with our supermarket customers which had materially and adversely affected our business.

Our Directors consider that, regardless the amount of counter promotional fee charged by the supermarket customers, our Group's concessionary counters sales channel had been proven to be a success as supported by the increasing revenue generated from concessionary counters during the Track Record Period, in particular, the sale to concessionary counters increased from (i) approximately RMB29.2 million for FY2019 to approximately RMB38.7 million for FY2020, representing a growth rate of approximately 32.5%; (ii) approximately RMB38.7 million for FY2020 to approximately RMB50.6 million for FY2021, representing a growth rate of approximately 31.5%; and (iii) approximately RMB25.9 million for 6M2021 to approximately RMB30.9 million for 6M2022, representing a growth rate of approximately 19.3%. The revenue growth rate of concessionary counters was also higher than the overall growth rate of our Group's revenue during the Track Record Period. Moreover, through concessionary counters, our Group can leverage the supermarket customers' broad customer base to increase our sales, promote brand awareness, launch new products and gain access to end consumer feedback more efficiently. Our Directors consider that these brand development and brand promotion cannot be quantified by the counter promotional fees charged by the supermarket customers. Accordingly, our Directors are of the view that the operation of concessionary counters in supermarkets as a whole is commercially reasonable and beneficial to our Group's business and development.

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Promoters

Generally, we station one to two promoters at our concessionary counters. As at 31 December 2019, 2020 and 2021 and 30 June 2022, we had 270, 201, 216 and 170 promoters, respectively. We also had 52 temporary promoters as at 31 December 2019. In FY2019, our Guangchang Plant was completed and put into production, therefore we introduced snack products under our own brands, including fragrant lotus seeds, spicy bamboo shoot crisps series and spicy kelp series. As snack products were new products at that time and we considered that it would be important to devote more marketing resources to develop and promote this new product category for our Group’s long term development, we recruited more full-time promoters as well as certain temporary promoters to promote our snack products and our brand at concessionary counters to consumers. In FY2020, as consumers became more familiar with our brand and snack products, we gradually reduced the number of full-time promoters and no longer required temporary promoters. As our sales promoters play an essential role in promoting our brand image and products, and collecting customer’s feedback, we conduct regular training on topics such as product and brand knowledge to ensure they are equipped with sufficient skills to serve the consumers in a consistent manner. Furthermore, we have developed standard procedures for our promoters to follow on various in-store promotion aspects, including, without limitation, product storage, in-store inspection of products and how to respond to customer enquiries and complaints.

We believe that the use of promoters effectively stimulates our in-store product sales, promotes our “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands and delivers product information to end consumers which ultimately drives up consumer demand. Since local supermarkets have the knowledge and experience on how to best promote products in their locality (including when and where to set up sign boards, the launching of themed promotion campaigns and the location of the designated sales counters in stores) based on local consumers’ preference, promoters are dispatched by us to work on-site to leverage on the local sales and promotion strategy and practice of the supermarkets. The duties and work schedules of the promoters are managed by us but such are subject to the operational restraints such as opening time of the supermarkets that the promoters are working at.

Our promoters receive commission from us on top of their basic salary as part of their remuneration. During the Track Record Period, we paid our promoters at commission rate of 0.5% for fragrant lotus seeds and 1.0% for other products based on the gross sales (inclusive of VAT) made at the concessionary counter. In addition, our promoters also receive commission for the direct sales to supermarket stores where they operate concessionary counters at commission rate of 0.5% for fragrant lotus seeds and 1.0% for other products based on gross sales (inclusive of VAT). Our Directors consider that the more attentive the promoters are to promote our brand and products at concessionary counters, the more end consumers will be willing to purchase our products, and therefore the supermarket stores will be more willing to purchase products from us

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under the direct sales model to them. Therefore, we also award our promoters commission for the direct sales amount made to supermarket stores where our promoters operate concessionary counters. In FY2019, FY2020, FY2021 and 6M2022, we paid our promoters a total commission of approximately RMB1.3 million, RMB1.0 million, RMB1.4 million and RMB0.8 million, respectively, of which approximately RMB0.3 million, RMB0.4 million, RMB0.5 million, and RMB0.3 million, respectively, were paid in respect of concessionary counter sales and approximately RMB1.0 million, RMB0.6 million, RMB0.9 million, and RMB0.5 million, respectively, were paid in respect of direct sales to supermarket stores.

During the Track Record Period, our commission paid to promoters in respect of concessionary counter sales maintained at approximately 1.0% as a percentage to the corresponding counter revenue from the relevant supermarkets, and our commission paid to promoters in respect of direct sales to supermarket stores ranged from approximately 0.6% to 1.0% as a percentage to the gross direct sales (inclusive of VAT) made to the relevant supermarket stores where our promoters operate concessionary counters.

Our Directors believe providing commission on top of a basic salary provides sufficient incentives to promoters to promote the “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands, introduce products and stimulate sales to supermarket customers. Our promoters are responsible for in-store sales promotion and marketing activities at designated concessionary counters in supermarkets to end consumers, such as product demonstration and promotion, and collection of customers’ feedbacks of our products and market information.

Certain supermarkets require us to pay deposits for warranty purposes before we are allowed to operate concessionary counters to promote our products. Generally, we shall bear all expenses in relation to the setting up of and operation of the concessionary counters. Promotion-related expenses and other expenses incurred by us for stationing our promoters in the concessionary counters in supermarkets generally include the cost for setting up of concessionary counters and acquiring cookware and other tools and consumables for in-store demonstration and promotion.

Payments from the sales of our products at our concessionary counters are typically collected by supermarkets. If end consumers decide to purchase our products, they pay for our products at cashier counters of the supermarkets, and the supermarkets will pay us based on the actual volume of products sold. Under our concessionary arrangement, titles to our products and risk of loss remain with us and do not transfer until they are sold to end consumers. Supermarkets are required to transfer the monthly sales proceeds to us within one month after we issue invoices for the sales to end consumers conducted at the concessionary counters. We actively monitor and manage the inventory at our concessionary counters, and we shall discard and destroy the stock once their shelf-lives expire.

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Corporate customers

Corporate customers mainly comprise (i) trading companies which, to the best knowledge of our Directors, generally purchase our dried food products or snacks and then sell to their customer, which may comprise corporates and individuals, for their business uses or self-consumption; and (ii) other corporate companies which, to the best knowledge of our Directors, give out our products as gifts or souvenirs to their clients and contacts and as staff benefit. For FY2019, FY2020, FY2021 and 6M2022, sales to our corporate customers accounted for approximately 19.2%, 14.9%, 15.0% and 21.0% of our total revenue for the same year or period, respectively.

We have a seller-buyer relationship with our corporate customers. We do not retain ownership over the products which we sell to them. The risks and rewards of the products pass to them and they are not entitled to recourse from us if they fail to sell our products to their customers. We do not accept product returns or provide refunds for our products except for defective products. Accordingly, we do not monitor the inventory level of our corporate customers. Our Directors believe that our corporate customers are better suited to monitor and control their inventory levels according to their judgment on the market trends and sentiments based on their expertise, knowledge and experience of their customers. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, we have neither been made aware of any difficulties that our corporate customers were unable to subsequently sell our products to their customers or otherwise give them out as gifts or souvenirs, nor received request from our corporate customers for return or refund of unsold or unused inventory held by them.

In FY2019, FY2020, FY2021 and 6M2022, we generated revenue of approximately RMB70,000, RMB840,000, RMB578,000 and RMB254,000, respectively, from Mr. Lei's associates, namely Nanchang Leishi School* (南昌市雷式學校), Nanchang Leishi Extracurricular Training School Co., Ltd.* (南昌雷式課外培訓學校有限公司) and Nanchang Leishi Training School* (南昌雷式培訓學校), in aggregate. For details, please refer to Note 40 to the Accountants' Report in Appendix I to this document. To the best knowledge of our Directors, Mr. Lei's associates purchased our food products for use in their school canteens. During the Track Record Period and up to the Latest Practicable Date, we had not entered into any long term supply agreement with Mr. Lei or Mr. Lei's associates. To the best knowledge and belief of our Directors after making all reasonable enquiries, except for Mr. Lei's associates as aforesaid, none of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) were our corporate customers during the Track Record Period.

BUSINESS

Key terms of sales agreement with corporate customers

We generally enter into sales agreement with our corporate customers on a one-off basis. During the Track Record Period, we did not experience any material breach by our corporate customers.

Set out below are the key terms of our sales agreement with corporate customers:

Payment and credit terms:	45 days upon issuance of invoice
Delivery of products:	We shall arrange delivery at location(s) as requested by customer within 20 days after execution of sales agreement; delivery costs to be borne by us
Product returns/exchanges:	Customer to inspect quality onsite upon receipt; customer to raise issues on quality within three days
Minimal purchase amount:	Nil
Termination:	Subject to negotiation between the parties

E-commerce

As at the Latest Practicable Date, we operated a flagship e-store “Shengyao Zhenglian Store (聲耀正蓮專賣店)” in Tmall.com. For FY2019, FY2020, FY2021 and 6M2022, our sales through e-commerce accounted for approximately 0.3%, 1.4%, 0.8% and 0.0% of our total revenue for the same year or period, respectively. According to our PRC Legal Advisers, no licence, registration and/or approval is required for our sales through Tmall.com pursuant to the applicable PRC laws and regulations.

Others

Throughout the Track Record Period, we made direct sales to individual customers, to the best knowledge of our Directors, for their own consumption. For FY2019, FY2020, FY2021 and 6M2022, such sales accounted for approximately 0.2%, 0.0%, 0.0% and nil of our total revenue for the same year or period, respectively. To the best knowledge and belief of our Directors after making all reasonable enquiries, except for the related party transaction as disclosed in Note 40 to the Accountants’ Report in Appendix I to this document, none of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) were our individual customers during the Track Record Period.

BUSINESS

Key terms of sales agreement with individual customers

We generally enter into sales agreement with our individual customers on a one-off basis. During the Track Record Period, we did not experience any material breach by our individual customers.

Set out below are the key terms of our sales agreement with individual customers:

Payment and credit terms:	45 days upon issuance of invoice
Delivery of products:	We shall arrange delivery at location(s) as requested by customer within an agreed date after execution of sales agreement; delivery costs to be borne by us
Product returns/exchanges:	Customer to inspect quality onsite upon receipt; customer to raise issues on quality within three days
Minimum purchase amount:	Nil
Termination:	Subject to negotiation between the parties

Management of sales network

Our extensive sales network is managed by our sales and marketing team. We review and evaluate our business relationships with our customers based on a combination of factors including their past relationship with us and timeliness of their payment.

With respect to our retailer customers, in particular supermarket customers, we maintain close communication to advise product offerings which are, in our opinion, suitable for their targeted consumers, with an aim to minimise unsold products and avoid overstocking, thereby helping ensure our sales to our retailer customers reflect the genuine market demand and mitigate the risk of inventory accumulation in such sales channels. We are not aware of any material accumulation of stock by our retailer customers during the Track Record Period.

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Geographical presence

Since our inception in Jiangxi Province in 2002, we have expanded our geographic presence for our product offerings to 26 provinces or autonomous regions and three municipalities across the PRC as at 30 June 2022. The table below sets forth an analysis of our revenue by delivery destinations during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Jiangxi Province	191,407	64.4	166,996	59.0	184,791	54.0	78,897	54.2	85,575	51.3
Hubei Province	32,341	10.9	74,884	26.5	32,434	9.5	15,725	10.8	8,204	4.9
Zhejiang Province	13,649	4.6	6,998	2.5	12,822	3.7	7,603	5.2	14,036	8.4
Sichuan Province (including Chongqing)	28	0.0	8,143	2.9	74,071	21.7	25,309	17.4	39,430	23.6
Hunan Province	31,542	10.6	11,922	4.2	12,150	3.6	6,291	4.3	9,041	5.4
Fujian Province	7,516	2.5	5,815	2.1	10,709	3.1	5,518	3.8	4,620	2.8
Shaanxi Province	5,128	1.7	3,629	1.3	4,324	1.3	1,922	1.3	1,375	0.8
Anhui Province	1,277	0.4	463	0.2	1,024	0.3	355	0.2	411	0.2
Shandong Province	—	—	130	0.0	1,119	0.3	400	0.3	663	0.4
Guangdong Province	1	0.0	86	0.0	1,699	0.5	444	0.3	1,094	0.7
Jiangsu Province	3,825	1.3	2,172	0.8	341	0.1	253	0.2	121	0.1
Other provinces, autonomous regions and municipalities (Note)	10,684	3.6	1,651	0.5	6,514	1.9	2,878	2.0	2,386	1.4
Total	297,398	100.0	282,889	100.0	341,998	100.0	145,595	100.0	166,956	100.0

Note: Other provinces, autonomous regions and municipalities comprise Hebei Province, Inner Mongolia Autonomous Region, Shanxi Province, Liaoning Province, Henan Province, Ningxia Hui Autonomous Region, Gansu Province, Jilin Province, Qinghai Province, Heilongjiang Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Xinjiang Uygur Autonomous Region, Yunnan Province, Hainan Province, Beijing and Shanghai.

During the Track Record Period, our sales primarily concentrated in Jiangxi Province, Hubei Province, Zhejiang Province, Sichuan Province and Hunan Province. Despite some of our supermarket customers such as Customer Group A and Customer Group C operate supermarket chains all over China, to the best knowledge of our Directors, they generally adopt regional procurement strategy according to their internal geographic segmentation rather than centralised procurement throughout the entire country, which allows them to select suitable products to sell in their supermarket outlets according to the consumption pattern, tastes and preferences of the local consumers. Our sales in Hubei Province, Zhejiang Province, Sichuan Province, Hunan Province, Fujian Province and Shaanxi Province during the Track Record Period were primarily made to

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Customer Group A. To the best knowledge of our Directors, Customer Group A divides its operations in six geographical regions, namely, Central China, Eastern China, Southern China, Western China, Northeastern China and Northern China. We established business relationship with Customer Group A’s regional procurement functions in (i) Central China, which, among others, covers Hunan Province, Hubei Province and Jiangxi Province; (ii) Western China, which covers, among others, Sichuan Province, Chongqing and Shaanxi Province; and (iii) Southern China, which covers, among others, Fujian Province. As we have long operating history in Jiangxi Province, we generally had stronger brand recognition in Jiangxi Province and adjacent provinces such as Hubei Province, Hunan Province, Zhejiang Province and Fujian Province. Therefore, our Directors believe that, from marketing perspectives of our supermarket customers, our products are more appealing to local consumers in the aforesaid provinces, such that they are more inclined to procure our products to sell in their supermarket outlets in Jiangxi Province, Hubei Province, Hunan Province, Zhejiang Province and Fujian Province. Leveraging our long business relationship with Customer Group A, we had the opportunity to introduce our spicy snacks, which our Directors believe suit the local consumers’ tastes, to its outlets in Sichuan Province in FY2021. To the best knowledge of our Directors, Customer Group C also operates separately according to different geographic regions and we made sales to its outlets in Jiangxi Province only. Our other major supermarket customers, such as Customer B, Jiangxi Guoguang Group, Customer L, Customer M, Customer Group N and Customer O, to the best knowledge of our Directors, operate supermarket chains in Jiangxi Province only. In addition, being a dried food product and snack producer in Jiangxi Province with long operating history, we believe we have stronger brand recognition and our products are more appealing to local consumers in Jiangxi Province and adjacent areas. Accordingly, the majority of our corporate customers during the Track Record Period were also based in Jiangxi Province.

During the Track Record Period, we also sell our products on e-store “Shengyao Zhenglian Store (聲耀正蓮專賣店)” in Tmall.com. As e-commerce is highly competitive and requires specialised marketing and customer acquisition strategies, we treat e-commerce as a supplemental means to enhance consumer awareness to our “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands and our products across China, with an aim to boost sales in our offline sales to supermarket customers and corporate customers. Going forward, we intend to continue leveraging our experience and establish relationship with our supermarket and corporate customers, and e-commerce will remain as a complementary marketing means to raise our brand awareness and improve offline sales to supermarket customers and corporate customers.

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Fluctuation of our revenue by delivery destinations during the Track Record Period was mainly driven by the change of delivery destinations in accordance to instructions of our supermarket customers based on, to the best knowledge of our Directors, their procurement strategies, sales performance of particular outlets, supply chain and logistics arrangement in particular province and at particular point of time as well as their product promotion plans and sales events. We strive to maintain good relationship with our supermarket customers and obtain more orders from them to improve our profitability, and our Directors consider that the expansion of our delivery destinations to our supermarket customers help introducing our products and raising our awareness to our “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands to end consumers in provinces where we currently have limited market access. Our Directors believe that our supermarket customers will monitor and control the inventory levels of outlets in different provinces according to their judgment on the local market trends and sentiments based on their expertise, knowledge and experience of their customers.

In FY2020, as a large number of farmers’ markets, grocery shops and convenience stores were closed due to the outbreak of COVID-19 in Wuhan, Hubei Province, Customer Group A, being a large-scale supermarket chain, acted as one of the major grocery suppliers to supply food and daily necessities to the local residents during the lockdown period. In addition, supplies from local suppliers in Hubei Province to Customer Group A were interrupted due to pandemic prevention and control measures, therefore, it increased purchases from our Group to support its grocery supplies to local residents in Hubei Province. To ensure sufficient supplies to Hubei Province, Customer Group A also requested our Group to increase deliveries to Hubei Province while reducing deliveries to their supermarket outlets in Jiangxi Province and Hunan Province. As such, our Group’s revenue derived from Jiangxi Province and Hunan Province decreased in FY2020 while there was a surge in revenue derived from Hubei Province. In the meanwhile, leveraging our established relationship with Customer Group A, we successfully secured orders of snack products such as nuts and biscuits for its outlets in Sichuan Province, and accordingly our sales generated from Sichuan Province increased in FY2020.

In FY2021, the Group’s deliveries made to Customer Group A’s supermarket outlets in Hubei Province significantly decreased once the outbreak in Hubei Province became stabilised, while deliveries made to its supermarket outlets in Jiangxi Province and Shaanxi Province increased. In addition to nuts and biscuits, Customer Group A further ordered our spicy vegetable and meat snacks for its supermarket outlets in Sichuan Province, which our Directors believe that the spicy flavours of our snacks suit the local consumers’ tastes and preferences.

For further discussion, please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — (c) Revenue by delivery destinations” in this document.

BUSINESS

PROMOTION AND MARKETING

Our sales and marketing team plays a significant role in the expansion of our business as well as exploring potential markets and promoting our products. Our sales representatives are front-line staff responsible for identifying new customers, securing sales orders, managing order fulfilment and maintaining customer relationship. As at 31 December 2019, 2020 and 2021 and 30 June 2022, we had 13, 21, 28 and 26 sales representatives, respectively.

While we mainly take advantage of the extensive sales and promotion network of our retailer customers, we also regard our sales to corporate and individual customers as an effective way to promote our products and brands given such corporate and individual customers may give away our products as gifts to their clients, contacts and staff, thereby exposing our brand and products to potential new customers and creating future growth for our product demand. We also promote our products to end consumers face-to-face through our concessionary counters in supermarkets where our promoters get in touch with end consumers directly by (i) explaining the different tastes, features, ingredients and nutritional value of our products; (ii) demonstrating different methods for cooking our products; and (iii) offering samples of our products for end consumers to touch, smell or taste.

Going forward, we plan to increase our marketing and advertising efforts through multiple channels and platforms to promote our products. For details, please refer to the paragraph headed “Business Strategies — Increase our sales through enhancement of marketing efforts and expansion of sales channels” in this section.

CUSTOMERS

Our customers are primarily retailers such as supermarkets and grocery stores, corporate customers and other individual consumers in the PRC. Please refer to the paragraph headed “Sales Network” in this section for details of our sales arrangement with our customers. For FY2019, FY2020, FY2021 and 6M2022, sales to our five largest customers in each year/period for the Track Record Period amounted to approximately RMB208.0 million, RMB207.0 million, RMB230.4 million and RMB108.2 million, representing approximately 70.0%, 73.2%, 67.4% and 64.8% of our revenue, respectively. For the same periods, sales to our largest customer in each year/period for the Track Record Period amounted to approximately RMB108.1 million, RMB108.8 million, RMB128.3 million and RMB57.3 million, representing approximately 36.4%, 38.4%, 37.6% and 34.3% of our revenue, respectively. To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors, their respective associates or Shareholders (who or which, to the best knowledge of our Directors, owns 5% or more of the total issued share capital of our Company as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period.

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We have established a stable and long-term relationship with our customers. Our five largest customers during the Track Record Period have established business relationship with us for over five years. We generally enter into sales agreement with our retailer customers on an annual basis and other corporate and individual customers on a one-off basis. For FY2019, FY2020, FY2021 and 6M2022, approximately RMB250.8 million, RMB225.8 million, RMB270.4 million and RMB133.1 million, representing approximately 84.3%, 79.8%, 79.1% and 79.7% of the total revenue (excluding our revenue generated from sales over concessionary counters in supermarkets for this purpose) in each year/period for the Track Record Period, was derived from our recurring customers, which refer to customers which engaged us for two times or more for purchase of our products during the Track Record Period. We believe the consistently significant revenue contribution from our recurring customers is mainly attributable to the quality of our products as well as our sales and marketing efforts in maintaining relationships with our existing customers.

Our five largest customers

The following tables set out the profile of our five largest customers and sales derived from them during the Track Record Period:

FY2019

Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters) (RMB'000)	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer (RMB'000)
Customer Group A ^(Note 1)	Three companies established in Hubei Province with registered capital of US\$8 million, Guangdong Province with registered capital of US\$20 million and Shanghai with registered capital of US\$370.3 million, respectively, which are subsidiaries of a company listed on the Main Board of the Stock Exchange, and its principal businesses are operation of supermarket chains and e-commerce platforms in China. During the Track Record Period, the Group delivered the products to the outlets operated by Customer Group A in Jiangxi Province, Hubei Province, Hunan Province, Shaanxi Province, Sichuan Province and Fujian Province.	2014	Snacks, dried delicacies, grains and dried aquatic products	41	45-75 days, bank transfer	108,079	36.4	7,687

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Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters)	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer
						(RMB'000)		(RMB'000)
Customer B	A limited liability company established in Jiangxi Province with registered capital of RMB50 million and its principal business is operation of supermarket chains in China. During the Track Record Period, the Group delivered the products to the outlets operated by Customer B in Jiangxi Province.	2016	Snacks, dried delicacies, grains and dried aquatic products	13	45 days, bank transfer	55,108	18.5	N/A
Customer Group C ^(Note 2)	Two companies established in Jiangxi Province with registered capital of RMB90 million and Zhejiang Province with registered capital of RMB128 million, respectively, and their principal business are operation of supermarket chains in China. During the Track Record Period, the Group delivered the products to the outlets operated by Customer Group C in Jiangxi Province.	2016	Snacks, dried delicacies, grains, and dried aquatic products	45	30–90 days, bank transfer	33,951	11.4	18,074
Shanghai Dongqian Trading Co., Ltd.* (上海東謙貿易有限公司)	A limited liability company established in Shanghai with registered capital of RMB0.5 million, and its principal business is sales of foodstuff and daily necessities	2017	Dried delicacies and dried aquatic products	N/A	45 days, bank transfer	7,182	2.4	N/A
Nanchang Qinxin Food Co., Ltd.* (南昌市親新食品有限公司)	A limited liability company established in Jiangxi Province with registered capital of RMB5 million, and its principal business is sales of foodstuff	2017	Snacks, dried delicacies and dried aquatic products	N/A	45 days, bank transfer	3,723	1.3	N/A
Total						208,043	70.0	25,761

Notes:

- (1) Customer Group A comprises three companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis.
- (2) Customer Group C comprises two companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis.

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FY2020

Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters)	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer
						(RMB'000)		(RMB'000)
Customer Group A ^(Note 1)	As disclosed in the FY2019 table above	2014	Snacks, dried delicacies, grains and dried aquatic products	37	45-75 days, bank transfer	108,792	38.4	12,682
Customer B	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains and dried aquatic products	13	45 days, bank transfer	53,148	18.8	N/A
Customer Group C ^(Note 2)	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains and dried aquatic products	63	30-45 days, bank transfer	28,470	10.1	23,045
China Post Group ^(Note 3)	A group of companies, comprising of China Postal Express & Logistics Co., Ltd. Jiangxi Branch* (中國郵政遞物流股份有限公司江西省分公司) and China Post Express Logistics Co., Ltd.* (中國郵政集團有限公司江西省分公司) which are branch or branch of a subsidiary of a state-owned enterprise in Jiangxi Province and their principal businesses are, among others, provision of domestic and international postal and courier services	2016	Snacks, dried delicacies, grains and dried aquatic products, and to the best knowledge of our Directors, for gifts and souvenir packs	N/A	45 days, bank transfer	12,171	4.3	N/A
Nanchang Kebaoen Industry Co., Ltd.* (南昌科寶恩實業有限公司)	A limited liability company established in Jiangxi Province with registered capital of RMB5 million and its principal business is domestic trading and provision of electronic products related services	2016	Snacks, dried delicacies, grains and dried aquatic products	N/A	45 days, bank transfer	4,387	1.6	N/A
Total						206,968	73.2	35,727

Notes:

- (1) Customer Group A comprises three companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis.

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- (2) Customer Group C comprises two companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis.
- (3) China Post Group comprises two branches of companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with China Post Group is presented on common controlling party group basis.

FY2021

Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters) (RMB'000)	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer (RMB'000)
Customer Group A ^(Note 1)	As disclosed in the FY2019 table above	2014	Snacks, dried delicacies, grains and dried aquatic products	61	45–60 days, bank transfer	128,331	37.6	21,018
Customer B	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains and dried aquatic products	13	60 days, bank transfer	54,349	15.9	N/A
Customer Group C ^(Note 2)	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains and dried aquatic products	55	60 days, bank transfer	41,013	12.0	25,513
Nanchang Qinze Trade Co., Ltd.* (南昌欽澤貿易有限公司)	A limited liability company established in Jiangxi Province with registered capital of RMB0.5 million and its principal business is mainly domestic trading of foodstuff	2017	Snacks, dried delicacies, grains and dried aquatic products	N/A	30 days, bank transfer	4,922	1.4	N/A

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Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters)	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer
						(RMB'000)		(RMB'000)
Jiangxi Guoguang Group ^(Note 3)	A group of companies which include Jiangxi Guoguang Commercial Chains Co., Ltd.* (江西國光商業連鎖股份有限公司) (605188.SH), an A-share listed company listed on the Shanghai Stock Exchange, together with its two subsidiaries, Ganzhou Guoguang Industrial Co., Ltd.* (贛州國光實業有限公司) established in Jiangxi Province with registered capital of RMB110 million, Yichun Guoguang Industrial Co., Ltd.* (宜春市國光實業有限公司) established in Jiangxi Province with registered capital of RMB6 million, and Xinyu Guoguang Commercial Co., Ltd.* (新余國光商業有限公司) (which was deregistered as at the Latest Practicable Date). Their principal businesses are operation of supermarket chains and general stores in China. During the Track Record Period, the Group generally delivered the products to the outlets operated by Jiangxi Guoguang Group in Jiangxi Province. As at the Latest Practicable Date, Jiangxi Guoguang Commercial Chains Co., Ltd.* (江西國光商業連鎖股份有限公司) has a market capitalisation of approximately RMB4.9 billion	2006	Snacks, dried delicacies, grains and dried aquatic products	23	30 days, bank transfer	1,820	0.5	2,622
Total						230,435	67.4	49,153

Notes:

- (1) Customer Group A comprises three companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis.
- (2) Customer Group C comprises two companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis.
- (3) Jiangxi Guoguang Group comprises four companies established in the PRC, all of which are under control of the same ultimate controlling party. Transactions with Jiangxi Guoguang Group is presented on common controlling party group basis.

BUSINESS

6M2022

Customer	Background	Year of commencement of relationship with us	Major products sold by our Group	Number of outlets the Group made delivery to during the year/period	Credit terms and payment method	Revenue (exclusive of revenue attributable to concessionary counters) <i>(RMB'000)</i>	Approximate % of our total revenue	Revenue generated from concessionary counters operated with this customer <i>(RMB'000)</i>
Customer Group A ^(Note 1)	As disclosed in the FY2019 table above	2014	Snacks, dried delicacies, grains, dried aquatic products and seasonings and others	60	45–60 days, bank transfer	57,337	34.3	12,590
Customer B	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains, dried aquatic products and seasonings and others	15	60 days, bank transfer	23,732	14.2	N/A
Customer Group C ^(Note 2)	As disclosed in the FY2019 table above	2016	Snacks, dried delicacies, grains, dried aquatic products and seasonings and others	58	60 days, bank transfer	12,641	7.6	17,198
Ningbo Haishu	A limited liability company established in Zhejiang Province with registered capital of RMB60 million and its principal business is mainly domestic trading of foodstuff	2021	Snacks and dried delicacies	N/A	45 days, bank transfer	11,106	6.7	N/A
Nanchang Qinze Trade Co., Ltd.* (南昌欽澤貿易有限公司)	As disclosed in the FY2021 table above	2017	Snacks, dried delicacies, grains, dried aquatic products and seasonings and others	N/A	30 days, bank transfer	3,347	2.0	N/A
Total						108,163	64.8	29,788

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Notes:

- (1) Customer Group A comprises three companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group A is presented on common controlling party group basis.
- (2) Customer Group C comprises two companies established in the PRC all of which are under control of the same ultimate controlling party. Transactions with Customer Group C is presented on common controlling party group basis.

We have not experienced any major disruption of business due to material delay or default of payment by our customers due to their financial difficulties during the Track Record Period. Our Directors further confirmed that they are not aware that any of our customers have experienced material financial difficulties that may materially affect our Group’s business.

DELIVERY AND LOGISTICS

Except for delivery to customers located in Nanchang, Jiangxi Province, close to our headquarters and production facilities by our employees and vehicle fleets, we generally engage third-party logistics service providers to deliver our products. We usually enter into service agreements with our third-party logistics service providers for a period of one year and to renew thereafter. During the Track Record Period and as at the Latest Practicable Date, we did not experience any significant delay in delivery that materially affected our business operations.

For the purchase of raw materials from our corporate suppliers, the raw materials are delivered directly to us by the relevant suppliers after we place our orders.

PRICING POLICY

The price of our products is generally determined on a “cost-plus” basis. In determining our pricing strategies, we primarily take into account the prevailing market conditions, our production costs, purchase volume, and prices of competing brands’ products. We conduct market research on a regular basis in order to compete more effectively with our competitors. Regarding our sales to retailer customers, we may also take into account our relationship with such retailer, the order quantities and our strategy to leverage such retailer as a point-of-sale to promote our new products or to penetrate into new market.

All the price quotes and sales orders have to be reviewed by our sales manager before final approval by general manager. We assess the information collected and engage in discussions with the parties involved in our sales network and update our pricing and sales policies as necessary.

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PAYMENT TERMS AND CREDIT CONTROL

All the products sold by us are settled in Renminbi. Our customers settle their purchases through bank transfers. Please refer to the paragraphs headed “Key terms of sales agreement with retailer customers”, “Key terms of sales agreement with corporate customers” and “Key terms of sales agreement with individual customers” in this section for details of the payment terms.

Staff in our finance team is responsible for monitoring the collection and, with the assistance of our sales representatives, following up with the customers when payment is due. In addition, our management periodically monitors all outstanding receivables and re-assesses the creditworthiness of the customers. During the Track Record Period, we did not experience any material bad debts, nor experience any significant difficulties in collecting our trade receivables from our customers.

SALES RETURNS AND RECALL POLICIES

We allow for product returns or exchanges for defective products or damaged products based on our examination and approval. We will refund the relevant purchase amount to our customers for any defective or damaged products returned to us. With respect to certain retailer customers, in particular supermarket chains with relatively stronger bargaining power, the sales agreement allows for return of products which remain unsold for prolonged period subject to negotiation between the parties. For FY2019, FY2020, FY2021 and 6M2022, the product returns from our customers amounted to approximately RMB2.8 million, RMB0.7 million, RMB0.2 million and RMB0.1 million, respectively, representing approximately 1.0%, 0.2%, 0.1% and 0.0% of our total revenue for the same year or period, out of which only RMB0.8 million, RMB0.2 million, RMB0.2 million and RMB0.1 million, respectively, was related to return of unsold products as agreed between us and our retailer customers. In addition, we generally do not provide warranties on our products. During the Track Record Period and up to the Latest Practicable Date, there were no product recalls or returns, product liability claims, or customer complaints that materially and adversely affected our business.

Save as disclosed in this document, during the Track Record Period and up to the Latest Practicable Date, we did not receive (i) material fines, product recall orders or other penalties from the PRC Government or other regulatory bodies, (ii) any material products return requests from our customers or (iii) any material complaints from our customers and we were not subject to any material product liability claims.

BUSINESS

Seasonality

Our sales are subject to seasonality fluctuations. We generally experience higher sales for products such as dried delicacies and dried aquatic products during or ahead of holiday seasons, such as the Mid-Autumn Festival, the Golden Week and the Chinese New Year. Historically, we generally experienced higher sales of our products in the fourth quarter of our financial year.

SUPPLIERS

We source different raw materials from different suppliers in the PRC which mainly include (i) suppliers of unprocessed and processed aquatic products, meats and plant products from farmers or agricultural cooperatives; and (ii) suppliers of packaging materials such as plastic wraps and cardboard boxes. We established business relationship of three to five years with most of our five largest suppliers during the Track Record Period, and maintained our network with reliable suppliers of stable supply for raw materials.

Our raw materials are generally available from a number of suppliers. Our stable access to high quality suppliers helps assure our customers of our ability to meet their orders. We believe our customers would be less willing to consider purchasing products from competitors without stable supply chains.

We procure raw materials from our approved suppliers in order to ensure the quality and stable supply of raw materials. Our list of approved suppliers is determined and reviewed annually by our procurement team with reference to, amongst others, production management, quality control processes, delivery and other after-sales services. We generally have several approved suppliers for each type of our major raw materials. In any event, the major raw materials procured by us are readily available in the PRC market and our Directors confirm that we do not rely on any particular supplier.

Although we did not enter into any procurement framework agreement with our suppliers during the Track Record Period, we maintained long-term relationships with our approved suppliers. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material shortages or delays in the supply of raw materials or quality issues with our raw materials that materially affected our operations, and we do not foresee any material shortages or delays in our procurement of raw materials in the future.

BUSINESS

For FY2019, FY2020, FY2021 and 6M2022, our direct materials costs in each year/period for the Track Record Period amounted to approximately RMB186.4 million, RMB172.2 million, RMB209.6 million and RMB102.6 million, representing approximately 92.7%, 89.5%, 89.8% and 90.8% of our total cost of sales, respectively. As most of our direct materials are commodities, our Directors believe that the price fluctuation of our raw materials used in the production of our food products are dependent on a number of factors, including supply and demand, weather, processing costs and government regulations and policies. During the Track Record Period, fluctuation of market prices of our raw materials had not caused material impact on our costs of raw materials. Further, in general, we intend to pass on increases in cost of raw materials to our customers if such increases affect our business operation and profit margin.

We conduct sample check on each batch of raw materials directly delivered to our production facility to ensure our suppliers comply with our quality control standards and specifications. If the raw materials supplied do not meet the quality standards stipulated under the supply contracts or purchase orders, we will reject and return the defective raw materials. We also carry on-site inspections on our major suppliers periodically. For details of our quality control over raw materials and products, please refer to the paragraph headed “Quality Control and Food Safety” in this section.

Our five largest suppliers

All of our major suppliers are located in the PRC. For FY2019, FY2020, FY2021 and 6M2022, the aggregate total purchases from our five largest suppliers in each year/period for the Track Record Period amounted to approximately RMB53.2 million, RMB74.6 million, RMB90.1 million and RMB50.9 million, representing approximately 28.9%, 34.8%, 39.9% and 52.0% of our total purchases, respectively. For the same periods, the total purchases made by us to our largest supplier in each year/period for the Track Record Period amounted to approximately RMB12.7 million, RMB22.3 million, RMB29.9 million and RMB18.7 million, representing approximately 6.9%, 10.4%, 13.3% and 19.1% of our total purchases, respectively. In general, our suppliers grant us credit terms with respect to the supply of raw materials around 30 days from the date of billing. The payments are generally settled by bank transfers.

BUSINESS

The following tables set out the profile of our five largest suppliers and amount purchased by us during the Track Record Period:

FY2019

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Xiuyan Manchu Autonomous County Muniu Town Yilin Edible Mushroom Plantation Farmer Cooperative* (岫岩滿族自治縣牧牛鄉益林食用菌種植專業合作社)	An agricultural cooperative established in Liaoning Province, with registered capital of RMB2.0 million, and its principal business is mainly cultivation and sales of edible fungi	2018	Dried mushroom and fungi	One month, bank transfer	12,653	6.9
Wenling Shanlihuang Dry Aquatic Products Professional Cooperative* (溫嶺市山里皇乾製水產品專業合作社)	An agricultural cooperative established in Zhejiang Province, with registered capital of RMB0.6 million, and its principal business is mainly production and sales of dried aquatic products	2018	Dried cuttlefish	One month, bank transfer	12,318	6.7
Heshan Lifengtai Trading Co., Ltd.* (鶴山市利豐泰貿易有限公司).	A limited liability company established in the PRC, with registered capital of RMB0.5 million, and its principal business is mainly sales and trading of agricultural food products	2017	Pistachios	One month, bank transfer	10,128	5.5
Gutian Huating Edible Mushroom Professional Cooperative* (古田縣華庭食用菌專業合作社)	An agricultural cooperative established in Fujian Province, with registered capital of approximately RMB2.9 million, and its principal business is mainly cultivation and sales of edible fungi	2019	Black fungus	One month, bank transfer	9,567	5.2

BUSINESS

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Wenling Songcang Dried Fish Professional Cooperative* (溫嶺市松蒼魚鯊專業合作社) . . .	An agricultural cooperative established in Zhejiang Province, with registered capital of RMB90,000, and its principal business is mainly production and sales of dried aquatic products	2018	Dried cuttlefish and dried whitebait	One month, bank transfer	8,521	4.6
Total					53,187	28.9

FY2020

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Heshan Lifengtai Trading Co., Ltd.* (鶴山市利豐泰貿易有限公司).	As disclosed in the FY2019 table above	2017	Pistachios	One month, bank transfer	22,286	10.4
Wenling Liqi Aquatic Products Co., Ltd.* (溫嶺市利祈水產有限公司)	A limited liability company established in the PRC, with registered capital of RMB1.0 million, and its principal business is mainly processing and sales of aquatic products	2019	Dried cuttlefish	One month, bank transfer	22,015	10.3
Xiuyan Manchu Autonomous County Muniu Town Yilin Edible Mushroom Plantation Farmer Cooperative* (岫岩滿族自治縣牧牛鄉益林食用菌種植專業合作社)	As disclosed in the FY2019 table above	2018	Dried mushroom	One month, bank transfer	13,719	6.4

BUSINESS

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Guangchang Yihe Food Co., Ltd.* (廣昌縣義荷食品有限公司) . . .	A limited liability company established in the PRC, with registered capital of RMB1.0 million, and its principal business is mainly processing and sales of agricultural products	2019	Lotus seeds	One month, bank transfer	10,289	4.8
Gutian Huating Edible Mushroom Professional Cooperative* (古田縣華庭食用菌專業合作社) . . .	As disclosed in the FY2019 table above	2019	Autumn black fungus and enoki mushroom	One month, bank transfer	6,301	2.9
Total					74,610	34.8

FY2021

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Wenling Liqi Aquatic Products Co., Ltd.* (溫嶺市利祈水產有限公司)	As disclosed in the FY2020 table above	2019	Dried cuttlefish	One month, bank transfer	29,942	13.3
Heshan Lifengtai Trading Co., Ltd.* (鶴山市利豐泰貿易有限公司)	As disclosed in the FY2019 table above	2017	Pistachios	One month, bank transfer	21,949	9.7
Guangchang Yihe Food Co., Ltd.* (廣昌縣義荷食品有限公司) . . .	As disclosed in the FY2020 table above	2019	Lotus seeds	One month, bank transfer	15,163	6.7

BUSINESS

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Quanzhou Yihao Trading Co., Ltd.* (泉州溢豪商貿有限公司)	A limited liability company established in the PRC, with registered capital of RMB1.0 million, and its principal business is mainly sales and trading of packaged foods and agricultural products	2019	Snow fungus and autumn black fungus	One month, bank transfer	11,595	5.1
Supplier A	An agricultural cooperative established in Fujian Province, with registered capital of RMB1.4 million and its principal business is cultivation and sales of agricultural products	2019	Dried mushroom and black fungus	One month, bank transfer	11,417	5.1
Total					<u>90,066</u>	<u>39.9</u>

6M2022

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Wenling Liqi Aquatic Products Co., Ltd.* (溫嶺市利祈水產有限公司)	As disclosed in the FY2020 table above	2019	Dried cuttlefish	One month, bank transfer	18,675	19.1
Guangchang Yihe Food Co., Ltd.* (廣昌縣義荷食品有限公司)	As disclosed in the FY2020 table above	2019	Lotus seeds	One month, bank transfer	12,048	12.3
Supplier A	As disclosed in the FY2021 table above	2019	Dried mushroom and black fungus	One month, bank transfer	8,838	9.0

BUSINESS

Supplier	Background	Year of commencement of relationship with us	Major products provided to our Group	Credit terms and payment method	Purchase amount	Approximate % of our total purchases
					<i>(RMB'000)</i>	
Nanchang Changmei Colour Printing Co., Ltd* (南昌市昌美彩印有限公司). . .	A limited liability company established in the PRC, with registered capital of RMB2.0 million, and its principal business is mainly sales and trading of packing products	2016	Packing box	One month, bank transfer	5,681	5.8
Shandong Xinxue Food Co., Ltd.* (山東鑫雪食品有限公司). . . .	A limited liability company established in the PRC, with registered capital of RMB5.0 million, and its principal business is mainly sales and trading of frozen meat products and instant food	2020	Frozen meat products	One month, bank transfer	5,673	5.8
Total					<u>50,915</u>	<u>52.0</u>

Although we generally did not enter into any long-term procurement framework agreements with our suppliers during the Track Record Period, we procured raw materials during the Track Record Period from recurring suppliers.

The table below sets forth the key terms of sales agreement we generally enter into with our suppliers:

Quality:	Compliance with national, industry and enterprise standards and environmental protection and food safety laws and regulations
Payment and credit terms:	Bank transfer, 30 days
Delivery of products:	Supplier to arrange delivery at location(s) as requested by us
Inspection and product returns/exchanges:	Products with quality not meeting our requested standard may be exchanged; losses caused by late delivery as a result shall be borne by the supplier

BUSINESS

Our procurement team is primarily responsible for monitoring the market prices of our key raw materials, negotiating and determining the purchase prices of raw materials with our suppliers, identifying new qualified suppliers and managing existing suppliers. As at 30 June 2022, we had five staff members in our procurement team.

To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors, their close associates or any Shareholder (who or which, to the best knowledge of our Directors owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date) has any interest in any of our five largest suppliers during the Track Record Period.

INVENTORY CONTROL AND MANAGEMENT

We store our raw materials and finished products in warehouses and cold storage facilities at our Guangchang Plant and Nanchang Plant. The cold storage facilities are equipped with temperature and humidity control to minimise the risk of food deterioration and to ensure that the materials are stored in good conditions. We closely monitor our inventory level. In general, we do not need to maintain a high level of inventory because the production cycle of our products generally ranges from one to six days. The time taken from acceptance of orders confirmation to despatch of our products from our warehouses generally ranges from five to 10 days.

We procure raw materials and plan our production based on our sales schedule. We also take into consideration of our historical sales and future projections when we monitor our inventory level. We generally maintain a reasonable level of raw materials, and all of our raw materials and finished products at our production plants are respectively consumed and sold on a first-in-first-out basis. Once our products are packaged, we endeavour to deliver them to our customers at the earliest possible time. We also use an information system to track inventory levels as well as to ensure that we have reasonable levels of raw materials and finished products. Through close monitoring of our inventory level, we believe we have managed to minimise the costs for storage and transportation and enhance working capital efficiency and reduce the risk of deterioration of products while in storage.

Our inventories of finished goods comprised own-branded products under our manufacturing operation and third-party branded or unbranded products under our trading operation. We consider an effective and sound inventory management is of vital importance for avoiding obsolescence or overstocking of our inventory, while maintaining the variety and quality of our products.

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In order to maintain accurate inventory records, we conduct sample inventory counts monthly together with our finance department and address any discrepancies immediately. We also conduct full inventory counts once every year and assess the effectiveness of our historical inventory levels on a regular basis.

We take a first-in-first-out approach to handle our stocks. Those products which are delivered to our warehouses earlier in time will be sold to customers first. Such approach minimises the chance of deterioration and obsolescence of products. We assign staff to conduct manual sample checks on an on-going basis to ensure our inventory have sufficient shelf life before we distribute to our customers. We designate specific storage area in our warehouses for short-dated products which will expire within 30 to 60 days, and we seek to prioritise distributing the short-dated products to our customers. We may offer price reduction for products which will expire shortly. We dispose of unsold products that are expired.

As at 31 December 2019, 2020 and 2021 and 30 June 2022, our closing balance of inventories amounted to approximately RMB62.4 million, RMB98.2 million, RMB106.5 million and RMB97.2 million, respectively, which represented approximately 28.8%, 31.7%, 34.0% and 30.5% of our total current assets, respectively. Our average inventory turnover days were approximately 120.3, 152.5, 160.0 days and 163.1 days for FY2019, FY2020, FY2021 and 6M2022, respectively. For more details of our average inventory turnover days, please refer to the paragraph headed “Financial Information — Selected Items of Consolidated Statements of Financial Position — Inventories” in this document.

QUALITY CONTROL AND FOOD SAFETY

Quality control management

We are committed to providing safe and high quality products to the consumers. We have adopted and implemented the HACCP standard which is an internationally recognised management system addressing food safety. We adhere to stringent quality control guidelines and conduct quality check at various points of the entire production process, from sourcing of raw materials to processing, packaging and inventory storage. We have established standard operating procedures with step-by-step instructions of our production and packaging procedures to ensure each of our production staff will consistently follow our protocols of safe food production. Our dedicated quality control team is responsible for ensuring that we adhere to our internal quality control procedures.

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We have maintained all relevant and required certifications and licences in relation to our product quality and safety control systems for our production facilities. Our quality control system covers different stages of the production process from raw material procurement, food processing, packaging, to finished products and storage.

Quality standards and certifications

Our operations are in compliance with applicable PRC laws and regulations in relation to food processing and production, as well as the quality control requirements imposed by China Food and Drug Administration (國家食品藥品監督管理總局). We have obtained the Food Production Licences (食品生產許可證) for repackaging of dried aquatic products, dried edible fungi and aquatic snacks at our production facilities in both Guangchang Plant and Nanchang Plant in Jiangxi.

Quality control over raw materials

We have adopted and maintained strict procedures for the selection of our suppliers to ensure that the raw materials we use are of high quality. We maintain an approved supplier list and typically work with trustworthy suppliers that we have established long-term relationship with to secure key raw materials we sourced for our operation. We use standardised criteria for the selection and qualification of our suppliers on the basis of product price, product quality, years of relationship with us and delivery period. We require raw materials provided by our suppliers to meet our high quality standards and PRC national standards. If the raw materials supplied to us do not meet the quality standards stipulated under the contracts with our suppliers, we are entitled to reject them and be compensated for any related costs.

In addition, we have implemented quality control measures for our raw materials, primarily including:

- conducting inspections regarding each purchase order for raw materials delivered to our warehouse before acceptance and examining whether the raw materials meet the quality standards stipulated in the contracts with our suppliers;
- performing sample testing on our raw materials in accordance with the standards stipulated by the PRC Government, such as colour, smell, visual appearance and hygiene standards. Raw materials that fail these tests are marked and returned to our suppliers; and
- requiring our suppliers to provide inspection reports from independent laboratories for the raw materials they deliver at times.

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Quality control over finished products

Our finished products are stored at our warehouses before they are delivered to our customers. These finished products are stored in designated zones within our warehouses according to their manufacturing dates and product categories. To maintain their freshness, our finished products are stored in temperature and humidity controlled warehouses. We also take safety measures to minimise fire hazards, water damage and other similar risks to our finished products.

We ensure that all customers' feedback and complaints concerning our products is resolved promptly upon receipt. All customers' feedback and complaints are directed to and handled by our sales representatives and quality control staff. We believe that this process helps us reinforce our high quality control standards to consumers and their confidence in our products. Our quality control team retains records of all feedback and complaints.

During the Track Record Period and as at the Latest Practicable Date, we did not experience any customer complaints or administrative penalties in relation to our product quality or safety which had a material adverse effect on our business or results of operations, nor were there any voluntary product recalls.

Internal control in relation to food safety

In order to enhance the Group's performance and prevent recurrence of any food safety related incidents, the Group has adopted various food quality and safety management measures, which include but not limited to the following:

- (i) the Group has developed a food hygiene management system to assign specific staff to oversee and manage hygiene responsibilities, and all sanitation facilities have been improved on its production plants;
- (ii) all staff relating to food production must attend training on food safety-related knowledge and regulations before they are allowed to engage and continue in engaging in food production and distribution work;
- (iii) the Group has established relevant food safety standards and will carry out regular supervision to ensure the Group is in compliance with The Food Safety Law of the PRC;
- (iv) the Group has established a robust supplier selection and management measures to ensure the quality and capability of the suppliers adhere to the required standards;

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- (v) the Group has developed procedures to control the procurement and production process to ensure that the quality of raw materials purchased can fulfil the specified requirements;
- (vi) all packaging materials shall be provided by qualified suppliers in accordance with national health standards and shall not contain any toxic substances. The Group will ensure all label, logo and production date are complete and accurate on the packing before proceeding with food packaging;
- (vii) responsible staff are required to closely monitor the storage environment to ensure suitable temperature and humidity levels and that it does not contain any toxic, harmful or corrosive substances. In addition, the Group will make sure fire and flood prevention facilities are set up in the warehouses to comply with the relevant safety regulations;
- (viii) when necessary, the non-conforming products will be recorded, evaluated and recalled;
- (ix) the Group has developed procedures to properly record the status of materials and products related to production which help to trace the products with defects, and identify the cause and source of the problem;
- (x) when necessary, the Group will take corrective and preventive procedures to handle customers' complaints to eliminate the causes of non-conformity, prevent recurrence of the food safety related incidents and improve quality management;
- (xi) the quality inspection department of the Group is responsible for collecting information involving product quality-related and non-conformity issues to prevent its recurrence; and
- (xii) the Group has developed product protection rules which specify the requirements and method for handling, packaging, storage, and delivery of products to prevent damage, deterioration or misuse.

Our Internal Control Consultant performed a follow-up review of our internal control measures related to food safety in March 2022. Based on the results of such review, our Internal Control Consultant is of the view, and the Sole Sponsor concurs, that our Group's enhanced internal control measures, if implemented continuously, are adequate and effective to reasonably prevent re-occurrence of food safety related incidents.

BUSINESS

EFFECTS OF THE COVID-19 OUTBREAK

Since the beginning of 2020, the outbreak of COVID-19 has materially and adversely affected the global economy. In response to the COVID-19 outbreak, the PRC Government implemented strict measures to control the outbreak in the PRC, including schools and businesses closures, transport suspension and city lockdowns. The COVID-19 outbreak has affected our business operations in the following aspects:

- our Nanchang Plant suspended production for 13 days in February 2020 and three days in April 2022, and our Guangchang Plant suspended production for 15 days in February 2020;
- our revenue slightly decreased in FY2020, as COVID-19 negatively affected the trading sales to our customers. For details, please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue” in this document; and
- we incurred additional administrative expenses to purchase personal protection equipment and put in place other precautionary measures to ensure the health and safety of our employees.

Despite the COVID-19 pandemic, our manufacturing business recorded growth in revenue from approximately RMB223.4 million in FY2019 to approximately RMB228.9 million and further to approximately RMB250.4 million in FY2021 due to our introduction of new snacks such as spicy kelp series around end of FY2019 and spicy enoki mushroom series in FY2020, and our meat snacks in FY2021. In addition, our Directors believe that the sales of our own-branded packaged dried goods such as dried cuttlefish increased during the COVID-19 pandemic because consumers shopped through online platforms or mobile applications more often, and were more inclined to buy packaged and branded products with reliable quality, which are easier to be delivered to their doorsteps and stored at home during the lockdown period as compared to loose-package or products without brands. Furthermore, as trading business is strategically positioned as supplementary to our manufacturing business, our Group prioritised our resources and efforts to maintain our manufacturing business to safeguard our staff’s employment and sustain our business through the COVID-19 pandemic.

As the outbreak of COVID-19 became relatively contained and stabilised in the PRC in 2021, our revenue has rebounded in FY2021 and reached approximately RMB342.0 million. Please refer to the paragraph headed “Financial Information — Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue” in this document for further details of the financial impact caused by COVID-19 on our Group.

BUSINESS

More recently, there have been regional outbreaks of COVID-19 variants including the highly transmissible Delta and Omicron. In response, local governments in the affected areas imposed various restrictions on business and social activities, including city lockdowns, work-from-home requirements, restrictions on travel and other emergency quarantines. As at the Latest Practicable Date, we do not plan to, nor are we aware of any government policy to, permanently shut down any of our production facilities. Our Directors believe that the resurgence of COVID-19 since 1 January 2022 and up to the Latest Practicable Date did not and is not expected to result in a material disruption to our business operations or have any material impact on our business operations and financial performance, considering that (i) the governmental authorities have put into significant resources and efforts to contain the regional COVID-19 outbreaks; (ii) our production plants were not ordered for prolonged suspension save as the temporary suspension for approximately two to three weeks as mentioned above up to the Latest Practicable Date; (iii) we have only experienced slight decrease in revenue in FY2020 in the peak of the outbreak and our sales performance and revenue had gradually improved with the introduction of our meat snack series in FY2021; (iv) although we experienced increase in costs of certain raw materials due to tightened supply or increased transportation costs in FY2020, the costs of those raw materials had either come down or slowed down in cost growth, and our overall gross profit margin was maintained at similar levels around 32% during the pandemic in FY2020; and (v) we have stable business relationship with our supermarket customers with supermarket stores in various provinces which we believe would enable our Group to flexibly adjust our sales and delivery of products across different provinces, if necessary, and therefore we would be able to maintain an overall stable sales to our supermarket customers.

Even though our business operation and financial performance were not materially affected by COVID-19 during the Track Record Period and up to the Latest Practicable Date, we cannot predict whether the resurgence of COVID-19 will deteriorate. Meanwhile, we will continue to assess the impacts of COVID-19 on our business operations and financial performance and closely monitor the risks and uncertainties arising thereof. For risks relating to the potential impact to our business due to COVID-19 outbreak, please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business — The outbreak of COVID-19 adversely affected, and may continue to affect, the demand for our products, our business operations and financial conditions” in this document.

BUSINESS

PRODUCT DEVELOPMENT

Product development team

We have successfully expanded our product offerings through continuous research and product development efforts. We undertake our product development activities in-house by our product development team. As at 30 June 2022, our product development team comprised 50 personnel possessing related experience in, among others, food manufacturing industries. Our product development team is primarily responsible for (i) the research and development of products and quality standard, in particular the development of new products in response to customer demands and quality enhancement such as introduction of new food items, new flavours and textures for existing food items, as well as the development of new and improvement of existing production techniques; and (ii) the research and development of product packaging technologies, where we develop different packaging and appearance to meet consumer demands, tastes and preference as well as new packaging technologies that may prolong shelf life without compromising the taste of our products. Our research and development efforts are primarily focused on studying and analysing customer preference in order to capture the maximum potential market. We have been continuously releasing new products on the market throughout the Track Record Period which have been well received by our customers such as fragrant lotus seeds in FY2019, spicy enoki mushroom in FY2020 and marinated chicken wing tips in FY2021. We seek feedback from the market through our customer surveys regularly. Such feedback provides us with first-hand information on consumer’s satisfaction level and expectation in relation to our products.

For FY2019, FY2020, FY2021 and 6M2022, our research and development expenses were approximately RMB9.5 million, RMB10.2 million, RMB10.4 million and RMB6.1 million, respectively. Our research and development expenses are primarily attributable to staff costs and product testing costs.

Product development process

Each of our product development projects primarily consists of the following key steps:

- *Market research.* At the first stage of our product development process, we obtain market information, including consumer preferences and demand and market trend, to determine the overall direction of product development.

BUSINESS

- *Market analysis and project approval.* We run a feasibility analysis based on (i) information obtained at the market research step and (ii) production technology and production capacity to determine whether the project is approved for development.
- *Research and development.* Research and development mainly includes product research and development, packaging research and development and production process and technology study.
- *Product testing.* Product tests generally include food safety tests, taste tests and product storage tests.
- *Market feedback collection.* After the new product meets all product testing requirements, we will conduct market surveys to collect initial feedback from potential consumers. We will adjust our new products with the aim to meet the average and broader consumers' preferences where necessary.
- *Packaging design.* We will design, study and confirm the packaging design for our new product. We pay attention to both functionality and attractiveness of our packaging. We aim to choose packaging materials that keep our products hygienic and in good quality during their shelf life, and design the packaging of our products in attractive colors and fonts to distinguish our brands and products from competitors.
- *Mass production.* Mass production of the new product will commence after the previous stages are completed to our satisfaction. We will liaise with the raw materials suppliers for favourable sales terms and secure sufficient supplies prior to mass production.
- *Release to market.* We will promote and market our new products to the market through various means including our concessionary counters in supermarkets and other advertising campaigns.
- *Constant improvement.* We conduct customer survey from time to time after our initial mass production and market release to collect the latest feedback from consumers.

BUSINESS

Past product development highlights

With the efforts of our product development team, we have successfully developed and launched a number of snacks products. In particular, we have launched the following key snacks products during the Track Record Period which:

Key product

Sample product picture

Year of release: 2019

Fragrant lotus seeds



Spicy bamboo shoot crisps series



BUSINESS

Key product

Sample product picture

Spicy kelp series



Year of release: 2020

Spicy enoki mushroom series



BUSINESS

Key product

Sample product picture

Year of release: 2021

Marinated chicken wing tips series



Roasted duck necks series



Year of release: 2022

Marinated chicken feet



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Future product development roadmaps

We believe it is favourable to our business to develop new product offerings to cater to changing consumer preferences and consumption patterns. We are committed to continue introducing new products to the market to further diversify our product portfolio and boost sales of the Group. As at the Latest Practicable Date, we have commenced trial production of boneless chicken feet series products, which include various flavours to cater different consumer taste and preference. We plan to introduce new flavours to our popular products and develop new snack products such as quail eggs and quail meat snacks. Please refer to the paragraph headed “Business Strategies — Expansion of our production capacity and enriching our product offerings” in this section for further details.

HEALTH, SAFETY AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are subject to PRC laws in relation to labour, safety and environment protection matters. For details of the regulatory requirements, please refer to the section headed “Regulatory Overview” in this document.

We are committed to environmental protection and promoting corporate social responsibility and best corporate governance practices for the sustainable development and take up responsibilities as a corporate citizen. We have established ESG policies in line with the subject aspects as set out in Appendix 27 to the Listing Rules. Our ESG policies set forth our environmental protection measures, social responsibility principles and internal governance and provide guidelines for the management of our environmental, social and climate-related issues.

Occupational health and safety

We are committed to a safe working environment, particularly for the daily operations at our production facility. In addition, we provide safety training to promote occupational health and safety and to ensure compliance with the applicable laws and regulations in the PRC. Our internal policies are generally documented in writing and supplemented with instructions, trainings and demonstrations. Our staff are required to follow the policies strictly. We will continue to put adequate resources and effort to maintain and improve our safety management in order to reduce any associated risks.

We provide regular product quality, production safety and other technical training to our employees, including production personnel, quality control personnel, as well as our management, to inform them of the latest safety and hygiene requirements. During the Track Record Period, and as at the Latest Practicable Date, (i) we did not experience any material accidents in the course of

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our operations nor were there any material claims for personal or property damages or compensation from our employees; and (ii) our PRC Legal Advisers advised that we had complied with PRC laws in relation to workplace safety in all material respects.

We put occupational health and safety of our employees as top priority. In response to COVID-19, we have implemented precautionary measures, including but not limited to the following measures to maintain a hygienic working environment:

- (i) disposable masks, shoe coverings and gloves are provided and must be worn inside production facilities;
- (ii) staff must wash their hands before entering into the production facilities and hand sanitizers are provided at the production facilities;
- (iii) we would record the health conditions of our employees including measuring body temperatures before they enter into the production facilities;
- (iv) we require our employees to have green code of the health tracking apps adopted by the PRC Government before they are allowed to enter into the production facilities;
- (v) if any of our employees have any symptom of a respiratory infection, that employee shall not enter into the production facilities and shall report to our senior management;
- (vi) we sanitise our production facilities and office daily; and
- (vii) all vehicles entering into our premises shall be sanitised.

Employment, development and training

Our Group maintains policies on compensation, dismissal, equal opportunities, diversity and antidiscrimination. We give each job applicant an equal job opportunity and hire employees based on their merits. It is our corporate policy to offer equal opportunities to our employees regardless of gender, age, race, ethnicity, religion or any other social or personal characteristics. Decisions relating to human resource management such as career promotion, salary increment and dismissal within our Group would be made solely depending on the employee’s performance, experience and capability. We provide our employees with on-the-job training and education on a regular basis to familiarise themselves with the requirements of their job and to enhance their knowledge in the latest trends and techniques. We also comply with the PRC laws and regulations to pay social insurance and housing provident fund contributions for our employees. For details, please refer to the paragraph headed “Employees” in this section.

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Supply chain management and product responsibility

We are committed to providing safe and high quality products to the consumers. We have adopted and implemented the Hazard Analysis Critical Control Point (“**HACCP**”) standard which is an internationally recognised management system addressing food safety. We adhere to stringent quality control guidelines and conduct quality check at various points of the entire production process, from sourcing of raw materials to processing, packaging and inventory storage.

We procure raw materials from our approved suppliers in order to ensure the quality and stable supply of raw materials. We evaluate our suppliers based on production management, quality control processes, delivery and other after-sales services. We conduct sample check on each batch of raw materials directly delivered to our production facility to ensure our suppliers comply with our quality control standards and specifications. We also carry on-site inspections on our major suppliers periodically.

We store the finished products at our temperature and humidity controlled warehouses before they are delivered to our customers. These finished products are stored in designated zones within our warehouses according to their manufacturing dates and product categories. All customers’ feedback and complaints are directed to and handled by our sales representatives and quality control staff. We retain records of all feedback and complaints. We will refund the relevant purchase amount to our customers for any defective or damaged products returned to us.

For details, please refer to the paragraph headed “Sales Returns and Recall Policies”, “Suppliers” and “Quality Control and Food Safety” in this section.

Anti-corruption

We have in place an anti-bribery and corruption policy to safeguard against any corruption within our Company. The policy explains potential bribery and corruption conduct and our anti-bribery and corruption measures. We make our internal reporting channel open and available for our staff to report any bribery and corruption acts.

Social responsibility

We strive to contribute to the wellbeing of the communities where we operate. For example, we made donations to governmental and charitable organisations for charitable causes in Guangchang County, Jiangxi Province, the PRC in FY2020 and FY2021. During the outbreak of COVID-19, we also actively responded to and coped with local government’s calls on anti-pandemic efforts.

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Environmental protection

We consider the protection of the environment to be important and have implemented measures in the operation of our businesses to ensure our compliance with all applicable requirements. Our production generates sewage and food and solid wastes at different stages of production process. All of our production facilities have completed the requisite environmental impact assessments at the initial construction stage and have established the relevant environmental protection equipment and passed the completion inspections by the government authority before commercial production. Our Guangchang Plant has been accredited with ISO9001:2015 certification.

To ensure our production to be compliant with applicable environmental protection laws and regulations, we closely monitor the change of local environmental laws and regulations and update our internal production requirements accordingly, conduct regular environmental inspections to monitor the pollutants emission and resources consumptions and keep track of environmental risks and impacts during the production process and enhance our employees’ environmental protection sensitivity by education and training.

Our Directors consider that our operations are not the major sources of environmental pollution as they do not involve any significant direct air emissions and noise emissions. We collect and dispose waste discharged from our packaging and production processes timely. We have also established internal procedures on safe disposal of organic waste. Hence, we are not aware of any risks arising from potential violations of the relevant environmental laws and regulations in respect of air and greenhouse gas emissions, discharge into water or land, and generations of hazardous and non-hazardous waste that would cause a significant impact on our business operations and our future strategy and financial planning.

During the Track Record Period and up to the Latest Practicable Date, our PRC Legal Advisers advised that we had complied with PRC laws in relation to environment protection in all material respects.

For further details of our ESG policies, please refer to the paragraph headed “ESG-related risks identified and corresponding policies and measures — (ii) Evaluation and assessment conducted and corresponding policies and measures addressing each of the risks” in this section.

ESG risks and opportunities

Our Board has the collective and overall responsibility for establishing, adopting and reviewing the environmental, social and governance (“ESG”) vision and target of our Group, identifying the key performance indicators and the relevant measurements and evaluating,

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determining and addressing our ESG-related risks in accordance with Appendix 27 to the Listing Rules. Our Board will assess and evaluate the ESG risks, and review our existing strategy, target and internal controls. Necessary improvement will then be implemented to mitigate the risks.

In particular, we expect to establish ESG policies following the [REDACTED] which set out, among others, (i) ESG strategy formation procedures, (ii) ESG risk management and monitoring, and (iii) the identification of key performance indicators (“KPI(s)”) and the relevant measurements. The ESG policies will be established in accordance with the standards of Appendix 27 to the Listing Rules. When setting targets for each KPI, we will take into account the need to maintain a balance between business growth and ESG considerations in achieving sustainable development. We will review the key KPIs regularly to ensure that they remain appropriate to the needs of our Group.

After the [REDACTED], we will publish an ESG report each year pursuant to the reporting requirements under the Listing Rules which will analyse and disclose important ESG matters, risk management and accomplishment of performance and objectives.

ESG-related risks identified and corresponding policies and measures

To facilitate an effective and independent evaluation of ESG-related risk, the Group has engaged the services of a third-party professional (the “**ESG Consultant**”) for assisting in evaluating ESG-related risk, reviewing existing strategy, targets and policies, and conducting the materiality assessment.

(i) Key ESG-related risks identified

With assistance of the ESG Consultant, the Group has identified the material environmental, social and climate-related issues highly relevant to the Group’s business through various channels, including the judgment from the Group’s management, analysis from materiality maps provided by well-known external institutions including the ESG Industry Materiality Map by Morgan Stanley Capital International and SASB Materiality Map by Sustainability Accounting Standards Board. Such environmental, social, and climate-related issues may lead to various risks and opportunities to the Group, potentially impacting the Group in different ways.

Environmental-related risks

Energy and water are essential for food processing. Ineffective energy management may potentially lead to excessive energy usage which leads to increased operational costs. Under the mounting geopolitical tensions, the Group also faces the risk posed by volatile fossil fuel energy costs, which may increase the production cost. On the other hand, the Group may face an increase in operational costs due to the water stress in the areas of operation.

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For packaging material management, the over-packaging of products can increase the production cost and be affected by the requirements related to packaging such as the national standard “Requirements of Restricting Excessive Package — Foods and Cosmetic” (GB23350-2009) of the PRC.

Social-related risks

The business operations of the Group are subject to the product-related laws and regulations promulgated by the government of the PRC. Defective or substandard products may damage the Group’s reputation, result in delivery delays, and product returns, or require replacement of defective or substandard products, which may affect the business, financial condition, and operating results. In addition, the Group may be subject to product liability claims and may be held liable to pay compensation and damages to any end consumers affected by its products. Furthermore, the regulations on product labeling and marketing, including but not limited to the Food Safety Law and Advertising Law of the PRC, introduce short-term costs and bring risk of penalties or litigation to the Group. Untruthful or misleading information of product labelling and marketing can also damage the goodwill of the Group and increase its operating cost to rebuild the product labeling system.

Supply chain is the core element in the production process. The Group may face challenges from shortages of raw materials and substandard materials due to a failure of supply chain management. This may lower the efficiency of the Group’s manufacturing processes and the quality of the products, as well as increase its long-term operational costs.

Climate-related risks

The Group predicts that a rise in the frequency and severity of extreme weather events (such as super typhoons and heavy rainstorms), changes in precipitation patterns, and extreme variability in weather patterns will have an impact on its business operation in the short and medium term. Potential financial impacts are identified such as the increase in operating costs due to the increase in difficulty in the transportation of products during extreme weather events, implementation of new practices and processes on extreme weather events management, and increase in maintenance and repair budgets. Any supply chain interruption due to extreme weather events may affect the Group’s ability to source sufficient raw materials at suitable prices, resulting in a decrease in production capacity.

Transitional risks such as shifts in customer preference and enhanced emissions-reporting obligations may arise during the transformation to a sustainable business. As a result, the Group may face a change in revenue mix and source and an increase in capital investment in technology development. These transitional risks will lead to an increase in cost including the operational

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cost, and expenditure on the research and development of alternative technology with lower greenhouse gas emissions as well as a potential reduction in revenue from the change in customer preference.

(ii) Evaluation and assessment conducted and corresponding policies and measures addressing each of the risks

The Board is well informed regarding the results of the evaluation on ESG-related risk, the results of the review of the existing strategy, targets, and policies, and the materiality assessment. Supervised by the Board, the Group actively identifies and monitors the environmental, social and climate-related risks and opportunities over the short, medium and long term and it seeks to incorporate such issues into its businesses, strategy and financial planning. For example, the Group continuously strive to reduce energy consumption and reduce greenhouse gas emissions through energy-saving transformation.

The Group will continuously monitor environmental, social and climate-related matters and governmental developments and act to minimise the impact on its operations. An independent consultant will be mandated after the [REDACTED] to assist the Group in preparing ESG data disclosure to the public, including but not limited to the consumption data on energy, water, and package material, through the annual ESG report. The transparent disclosure of the Group’s performance to stakeholders helps the Group monitor its environmental commitments quantitatively and improves its brand image.

Management of environmental-related risks

The Group has implemented energy management measures to mitigate the related potential risk. The Group prioritises and selects electrical appliances that are more energy efficient like T5 fluorescent lamps and LED, and split-type air conditioners with energy efficiency labels. The Group applies renewable energy through the installation of solar panels. To maintain high energy efficiency, the Group makes the most use of natural light and periodically cleans all the light fixtures and air conditioners regularly. The Group also installs motion sensors and sets the minimum temperature of the air-conditioning at about 26°C to reduce energy use. To enhance energy efficiency, the Group has replaced a certain amount of the fuel of the boiler from natural gas to industrial carbon ten crude aromatic hydrocarbon since FY2021.

To manage the risks related to water stress by reducing water consumption, the Group has implemented a number of measures. The Group prioritises and selects water-saving appliances like products with water efficiency labels and dual-flush toilets. To prevent water leakage, the Group

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strengthens the maintenance of water equipment and regularly inspects and replaces aging faucets. The Group has placed signs in washrooms to remind its employees to turn off the faucets after usage and conserve water.

The Group minimises the impacts of its packaging materials through material sourcing, usage reduction and design change to minimise single-use packaging waste. The Group’s packaging materials include plastic (plastic bags and blister packaging), paper (carton), metal and fiber fabric. Taking into consideration that plastic is extremely resilient and difficult to be decomposed naturally, the Group considers shifting to a higher ratio of the use of cardboard or other recyclable materials where appropriate when selecting the type of packaging materials. For 6M2022, approximately 0.7% of the packaging materials of the Group were recyclable (i.e. calculated based on the piece of packaging materials used). The Group aims to further enhance the ratio from approximately 0.7% to approximately 1.5% by 2025. Our Directors consider, and Frost & Sullivan concurs, that the level of the Group’s usage of recyclable packaging materials is in line with the industry practice and target because (i) dried food and snack food manufacturers in China substantially use plastic as individual packages and outer packages, and use cartons as transporting containers, and generally adopt a gradual approach to reduce emissions and manage waste responsibly by reducing the individual packages and replacing the outer package from plastic to paper, (ii) biodegradable packaging materials have not been widely adopted for dried food and snack packaging due to the high cost of such materials, which will affect the profitability of the dried food and snack food manufacturers, and (iii) there is no specific reduction or recycling targets of packaging materials according to The Notice on Further Strengthening the Control of Commodity Overpackaging (《關於進一步加強商品過度包裝治理的通知》) published by the General Office of the State Council on 15 September 2022. To balance profitability at the same time as achieving sustainable development, the Group targets to gradually replace the use of plastic bags with cartons that are recyclable and easy to decompose in nature. In addition, the Group is looking to replace its plastic package with biodegradable plastic and reduce packaging materials by increasing the amount of product per package or reducing the plastic thickness for some of its product packages. The Group will constantly look out for the latest development in the industry of environmentally friendly packaging materials and plan to switch to biodegradable alternatives for its plastic packaging materials two to three years after the technology of biodegradable materials matures. The Group will continue to explore opportunities for adoption of sustainable packaging during the manufacturing process. The Group will closely monitor the consumption of the packaging materials, aiming to reduce the total usage of plastic packaging material as far as practicable. To minimise the use of packaging materials and lower the carbon footprint during transportation, the Group also reviews the way of packaging to improve packing efficiency.

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Management of social-related risks

To mitigate the risk related to product safety and quality, the Group has adopted and implemented the internationally recognised HACCP addressing food safety and ISO 9001:2015 Quality Management System to ensure consistency of the production. The Group operates in compliance with the applicable laws and regulations related to food processing and production and has obtained the food production licences for all of the production facilities. To ensure that all production staff consistently follows the protocols and packaging procedures, the Group has established standard operating procedures that include detailed instructions for the production and packaging processes. The Group’s dedicated quality control team is responsible for ensuring the adherence to internal quality control procedures. In addition to the internal product quality checking, the Group also engaged certified third-party assessment institutions for product quality inspection.

To mitigate the risk related to the product labelling and marketing, the Group’s product labels include the necessary information, including but not limited to the name, specifications, net content and date of production; list of ingredients or components; producer’s name, address and contact details; shelf life; product standard code; storage conditions; the general name of the food additives uses in the national standards; serial number of food production licences; and other items that must be indicated according to laws, regulations or food safety standards. The Group’s dedicated quality control team is responsible to ensure the quality of the production process, including the product label.

To ensure the quality and steady supply of raw materials, the Group procures raw materials from approved suppliers. The list of approved suppliers is determined and reviewed annually by our procurement team based on the production management, quality control processes, delivery, and other after-sales services. Each of the major raw material types typically has a number of suppliers. The Group conducts sample checks on each batch of raw materials to ensure that the suppliers adhere to its quality control standards and specifications. The Group will reject and return the defective raw materials that do not fulfill the quality standards stipulated under the supply contracts or purchase orders. In addition, the Group carries on-site inspections on its major suppliers periodically.

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Management of climate-related risks

The Group assesses the climate-related risks by determining the appropriate levels of climate-related tolerance. To prevent disruption to the supply chain due to the increased severity of extreme weather events and changes in precipitation patterns and extreme variability in weather patterns, the Group has required its suppliers to have climate-related risks prevention practices in place, such as the work arrangement under the extreme weather events. To remediate the climate-related risks, the Group would issue safety warnings to its employees about the special work and safety arrangements under unusual weather conditions.

Board oversight on ESG-related issues

The Group has not constituted an ESG sub-committee of the Board while the Board directly shoulders the responsibility for the supervision and overseeing of the Group’s execution of ESG and climate-related matters, and ESG performance. The Board is also responsible for assessing, identifying, and managing ESG and climate-related risks and opportunities. The chairman of the Board is responsible to review and approve the ESG policies.

To formulate and execute ESG policies, the authority has been effectively distributed to the management and relevant departments of the Group. Additionally, the Board will evaluate the overall ESG-related performance at least once a year through the ESG report.

Management roles on ESG-related issues

The Board is responsible to assess the risk associated with ESG and climate change. The management is in charge of developing and reviewing ESG strategies and policies to manage ESG and climate-related risks and opportunities under the direction of the Board. The management also urges the departments to seek for improvements in ESG strategy to reduce the possible negative impacts on the business. The Group has established policies that assign ESG-related tasks and responsibilities to various departments while also setting goals and targets including reducing carbon emissions, enhancing resource conservation, and promoting environmental protection. The goals and targets are in place to maximise each department’s expertise and yield the best results from various measures.

The management will assess the effectiveness of the ESG-related tasks using updates from various departments. In addition, the management regularly communicates with the Board such information and developments through Board meetings, investor meetings, monthly meetings, dedicated reports, social media platforms, etc.

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Metrics and targets used to assess and manage ESG policies

The Group is aware of the packaging material-related environmental impacts that its operation may induce and is committed to enhancing packaging material conservation. The Group has taken into quantitative information that reflects the Group’s management of packaging materials. The Group consumed the following amount of packaging material during the Track Record Period:

	FY2019	FY2020	FY2021	6M2022
Plastic bag (piece)	54,972,727	98,409,483	111,755,214	51,349,091
Intensity (piece/tonnes of product) . . .	1,959.99	4,110.07	3,796.63	4,264.89
Blister packaging (kg)	22,023	42,837	37,734	24,739
Intensity (kg/tonnes of product)	0.79	1.79	1.28	2.05
Carton (piece)	399,081	1,225,629	1,762,131	646,215
Intensity (piece/tonnes of product) . . .	14.23	51.19	59.86	53.67
Metal (piece)	67,042	112,962	62,000	0
Intensity (piece/tonnes of product) . . .	2.39	4.72	2.11	0.00
Fiber fabric (piece)	0	0	0	16,950
Intensity (piece/tonnes of product) . . .	0.00	0.00	0.00	1.41

The Group’s key product in FY2019 is fragrant lotus seeds which were packed in bulk and therefore used relatively few packaging materials. With the development and introduction of new products such as snacks which were packed in small packets, the amount of packaging materials used has increased. However, the increase in the piece of packaging materials does not necessarily entail an increase in the amount of packaging material used as the size of packaging material for each product type varies, which means small-size products may use more pieces of packaging materials without increasing the amount of packaging material used. Measurement of the packaging material in terms of weight, instead of piece would be considered for data collection and calculation in the future.

The Group expects the total consumption of packaging materials will increase alongside the construction of new snack production lines in Guangchang Plant and business expansion. The Group is aware of the environmental impacts that it may induce and the resources that are required for the business operation. Therefore, the Group has set directional environmental targets, committing the Group to:

- enhance energy and water conservation;
- fully comply with the national discharge standard; and
- zero environmental pollution accident.

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The Group has considered the quantitative data that reflects the Group’s management of risks associated to the environment, society, and climate, including resource consumption, water consumption and greenhouse gas emissions.

The Group examines energy consumption data on a regular basis and looks for opportunities to optimise energy utilisation to maximise energy efficiency wherever possible. The Group’s energy consumption is classified into direct and indirect energy consumption, with direct energy consumption from the fuel consumption of boiler and vehicles, and indirect energy consumption from the consumption of purchased electricity. The Group consumed the following amount of energy during the Track Record Period:

	FY2019	FY2020	FY2021	6M2022
Total energy consumption (MWh)	9,612	15,705	10,947	4,819
Direct energy consumption (MWh) . . .	8,622	14,342	8,457	3,712
Indirect energy consumption (MWh) . .	990	1,363	2,490	1,107
Intensity (MWh/million RMB of revenue).	32.32	55.52	32.01	28.86

The municipal water supply network in the area provides the water utilized by the Group. Since the Group does not independently extract nearby water sources, there is no significant impact on surrounding water supplies. The Group consumed the following amount of water during the Track Record Period:

	FY2019	FY2020	FY2021	6M2022
Water consumption (m ³)	32,804	63,804	129,586	56,228
Intensity (m ³ /million RMB of revenue).	110.30	225.54	378.91	336.78

The Group’s greenhouse gas emissions are classified into scope 1 and scope 2, with scope 1 including direct emissions from stationary combustion sources, emissions from mobile combustion sources and emission reductions from tree planting, and scope 2 including energy indirect emissions from purchased electricity. The Group’s suppliers are generally responsible to arrange delivery of raw materials to the Group’s production facilities and the Group also engages third-party logistics service providers to deliver products to customers, which results in greenhouse gas emission. However, as the Group has no access to the emission data of these suppliers and third-party logistics service providers, measurement on scope 3 greenhouse gas emissions, which includes other indirect emissions from upstream and downstream activities as well as logistics and packing activities conducted by these external suppliers and service providers, is not available. Taking into consideration of price, quality and supply capacity, the Group will prioritise to source from local suppliers in Jiangxi province or adjacent provinces to shorten the transportation distance and in turn greenhouse gas emission. The Group also continuously monitors its stock level

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and purchase raw materials in bulk to minimise the numbers of delivery required. To the extent practicable, the Group seeks to request its suppliers to package the raw materials in bulk and reduce the packaging of the raw materials. Similarly, the Group communicates with customers to arrange bulk delivery of products in a single order to reduce numbers of delivery made. In addition, the Group will continuously to optimise its packing methods of cartons to reduce the amount of tap and wrapping film used.

	FY2019	FY2020	FY2021	6M2022
Total greenhouse gas emissions (tonnes CO ₂ equivalent).	2,253	3,598	3,436	1,531
Scope 1 direct emission (tonnes CO ₂ equivalent).	1,732	2,882	2,127	949
Scope 2 energy indirect emission (tonnes CO ₂ equivalent).	521	716	1,309	582
Intensity (tonnes CO ₂ equivalent/million RMB of revenue).	7.57	12.72	10.05	9.17

The energy consumption intensity and the greenhouse gas intensity demonstrated a reducing trend from FY2020 to 6M2022, indicating the Group’s efforts to minimise energy consumption and greenhouse gas emissions using different measures. The reduction in energy consumption intensity resulted in climate-related opportunities, such as lower production costs due to the reduction in input prices and reduced exposure to future fossil fuel price increases. The reduction in greenhouse gas intensity brought climate-related opportunities, such as the reduction of possible future compliance costs, and reduced exposure to greenhouse gas emissions, therefore the Group is expected to be less sensitive to changes in possible future cost of carbon. The aforesaid measurement does not include the greenhouse gas emissions in relation to the Group’s operation of concessionary counters in supermarkets, as the Group has no access to the greenhouse gas emissions data of the relevant supermarket customers. In order to reduce impact on the environment, the Group puts effort to reduce packaging or decoration materials or use recyclable materials such as paper instead of plastics at its concessionary counters in supermarkets. The Group also closely monitors its inventory level at concessionary counters and coordinates with the supermarket customers to optimise the product replenishment schedule and reduce the numbers of delivery made in order to reduce greenhouse gas emission.

The Group launched the meat snack products in FY2021 and the Group’s key snack products during the Track Record Period have been shifted from vegetable products to meat products. The increase in the production of meat products resulted in an increase in water consumption intensity from FY2019 to FY2021. The increase in water consumption intensity would lead to climate-related risks, including the increase in production costs due to the changing input prices and output requirements for water treatment. The Group strives to implement water conservation

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measures to enhance efficiency, which resulted in a decrease in water consumption intensity in 6M2022. Operating costs relevant to water usage were reduced as a result of decreased water use and consumption.

The Group expects the total consumption of energy and water as well as greenhouse gas emission will inevitably increase alongside the construction of new snack production lines in Guangchang Plant and business expansion. The Group also expects the intensity of energy, water and greenhouse gas emissions will increase along its business expansion given that the Group is expected to use similar types of fuel for the new snack production lines and does not expect drastic change to its product types and production methods. Going forward, the Group will continuously strive to enhance our energy and water consumption efficiency and minimise greenhouse gas emissions gradually.

In the foreseeable future, the Directors expect there will be possible charges on greenhouse gas emissions, enhanced emission-reporting obligations and other emission compliance requirements. The Group may face higher compliance costs and fines in case the Group fails to comply with the reporting or compliance requirements. The Group will need to spend more research and development expenditures and capital investment in new and alternative technology. It is expected costs in relation to transition to lower emissions, water and energy consumption technology, and costs for adopting new practices and processes will be incurred. The Group will continuously monitor and assess its climate risk exposure and act to minimise the impact on its operations.

During the Track Record Period, the cost of mitigating environmental impact includes but is not limited to the fee for environmental projects and environmental impact assessment consulting, renovation projects on sewage and exhaust gas treatment, treatment agent, and equipment disinfection. The expenditure within the Track Record Period was shown as below:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2022</u>
Cost of mitigating environmental impact (RMB'000)	19	103	1,230	1,330

The expected annual budget for future expenditure is no less than RMB1.2 million per year for environmental-related compliance costs to efficiently manage material ESG issues and to meet the Group’s prospective targets in environmental, social and climate-related issues.

LICENCES AND PERMITS

For the laws and regulations governing the licences, permits and approvals of our Group, please refer to the section headed “Regulatory Overview” in this document for details. As advised by our PRC Legal Advisers, we have obtained all requisite licences, permits and approvals necessary to conduct our business operations in the PRC as at the Latest Practicable Date in all material respects.

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As at the Latest Practicable Date, we held the following major licences, permits and approvals for our business operation in the PRC:

	Permit/Licence	Group company	Issuing Authority	Issue Date	Expiry Date	Reference number
1.	Food Production Licence (食品生產許可證)	Jiangxi Zhengwei	Nanchang Administrative Examination and Approval Bureau (南昌縣行政審批局)	12 April 2021	11 April 2026	SC10336012110961
2.	Food Production Licence (食品生產許可證)	Jiangxi Zhengwei	Nanchang Administration for Market Regulation (南昌縣市場監督管理局)	21 July 2022	11 April 2026	SC10336012110961
3.	Food Production Licence (食品生產許可證)	Guangchang Zhenglian	Fuzhou Administration for Market Regulation (撫州市市場監督管理局)	14 December 2020	7 October 2023	SC12236103010166
4.	Food Distribution Permit (食品經營許可證)	Jiangxi Zhengwei	Nanchang Administration for Market Regulation (南昌縣市場監督管理局)	12 November 2019	11 November 2024	JY13601210014028
5.	Food Distribution Permit (食品經營許可證)	Jiangxi Zhengwei	Nanchang Administration for Market Regulation (南昌縣市場監督管理局)	9 March 2020	8 March 2025	JY33601210084910
6.	Food Distribution Permit (食品經營許可證)	Nanchang Kaixing	Nanchang Administration for Market Regulation (南昌縣市場監督管理局)	23 November 2021	22 November 2026	JY13601210014036
7.	Food Distribution Permit (食品經營許可證)	Guangchang Zhenglian	Guangchang Administration for Market Regulation (廣昌縣市場監督管理局)	16 April 2020	16 September 2023	JY13610300023226
8.	Food Distribution Permit (食品經營許可證)	Guangchang Zhenglian	Guangchang Administration for Market Regulation (廣昌縣市場監督管理局)	27 March 2020	26 March 2025	JY13610300032593
9.	Food Distribution Permit (食品經營許可證)	Guangchang Zhenglian	Guangchang Administration for Market Regulation (廣昌縣市場監督管理局)	6 November 2020	5 November 2025	JY33610300037107

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During the Track Record Period, we have not encountered any difficulty or rejection in obtaining or renewing the requisite licences, permits and approvals necessary to conduct our business operations. Our Directors and our PRC Legal Advisers are of the view that, provided we comply with the then applicable laws and regulations and submit all the documentation required in a timely manner and have taken all proper administrative steps, there will be no substantial legal impediment for us to renew all such licences, permits and approvals in the future for our business operations in the PRC.

Our administration department is responsible for monitoring the validity status of our permits, licences and certifications, as well as preparing timely applications for renewal of the relevant permits, licences and certifications. The renewal procedures for the above key permits, licences and certifications are to be carried out within six months prior to their respective expiration dates. Our Directors are not aware of any reason that would cause or lead to non-renewal of our permits, licences and certifications.

AWARDS AND RECOGNITION

Over the years, we have received the following key awards and recognitions relating to our business operation:

<u>Award/Certification/Ranking</u>	<u>Year of Grant</u>	<u>Group company</u>	<u>Issuing Authority</u>
High and New Technology Enterprise Certificate (高新技術企業證書)	2017	Jiangxi Zhengwei	Science and Technology Department of Jiangxi Province (江西省科學技術廳), Department of Finance of Jiangxi Province (江西省財政廳), Jiangxi Provincial State Taxation Administration (江西省國家稅務局) and Jiangxi Local Taxation Bureau (江西省地方稅務局)
	2019	Guangchang Zhenglian	Science and Technology Department of Jiangxi Province (江西省科學技術廳), Department of Finance of Jiangxi Province (江西省財政廳) and Jiangxi Provincial Tax Service of State Taxation Administration (國家稅務總局江西省稅務局)

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Award/Certification/Ranking	Year of Grant	Group company	Issuing Authority
	2020	Jiangxi Zhengwei	Science and Technology Department of Jiangxi Province (江西省科學技術廳), Department of Finance of Jiangxi Province (江西省財政廳) and Jiangxi Provincial Tax Service of State Tax Administration (國家稅務總局江西省稅務局)
Jiangxi Provincial Agricultural Industrialisation Leading Enterprises (江西省農業產業化省級龍頭企業)	2018	Jiangxi Zhengwei	Department of Agricultural and Rural Affairs of Jiangxi Province (江西省農業農村廳)

We have implemented quality control and assurance systems that meet the international and industry standards for our business operation. As at the Latest Practicable Date, we have obtained the following certificate:

Certification	Specifications/Scope	Issuing Authority	Relevant Period
HACCP	HACCP certification for repackaging lotus seed, mushroom and black mushroom	China Quality Certification Centre (中國質量認證中心)	14 June 2022 to 25 July 2025 (date of first issue: 10 November 2016)

INTELLECTUAL PROPERTY

We have marketed our business in the PRC using “Shengyao (聲耀)” and “Gangweifang (贛味坊)” as our brand names. As at the Latest Practicable Date, we had registered 16 trademarks, five software copyrights and 20 patents in the PRC, and one trademark in Hong Kong which are material to our business. We have registered the domain “www.zhengwei100.com”. Detailed information of our material intellectual property rights is set out in the paragraph headed “Statutory and General Information — 6. Further Information about our Business — B. Our Intellectual Property Rights” in Appendix IV to this document.

As at the Latest Practicable Date, we were not aware of any material infringement, nor any pending or threatened claims in relation thereto, (i) by us of any intellectual property rights owned by third parties, or (ii) by any third parties of any intellectual property rights owned by us. Our Directors believe that we have taken all reasonable measures to prevent any infringement of our own intellectual property rights.

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EMPLOYEES

As at 30 June 2022, we had 583 full-time employees in the PRC. The table below sets forth our full-time employees by functions:

Business functions	Number of employees
Sales and marketing	227
Production	258
Quality control	3
Administration	27
Procurement	5
Product development	50
Finance	13
Total	583

We endeavour to hire the quality employees in the market by offering competitive wages, benefits, systematic training opportunities and internal upward mobility. We recruit our personnel from the labour market and we enter into employment contracts with them. During our recruiting process, we seek talent that is best suited to our vacancy by sourcing through a broad range of channels, including online advertisements. Our screening and selection process primarily include (i) review of resumes and face-to-face interviews by the human resources department; (ii) screening of candidates by the human resources department; and (iii) second round face-to-face interview with relevant recruiting department. Once qualified candidates are selected, we send offer letter to the candidate after final internal approval.

In order to promote overall efficiency, employee loyalty and retention, we provide our employees with on-the-job training and education. Our staff receive training on a regular basis to familiarise themselves with the requirements of their job and to enhance their knowledge in the latest trends and techniques. A specialised training programme is provided to all our new recruits for cultural integration and to promote our quality standards. A probation period may be imposed on our new recruits depending on their relevant industry experience. At the end of their probation period, they will be confirmed as full-time employees if their respective supervisors are satisfied with their performance during the probation period.

We offer attractive remuneration packages to our employees. We pay in respect of our employees in the PRC social security funds including, pension insurance, medical insurance, unemployment insurance, occupational injury insurance, insurance for maternity leave and housing provident fund contributions as required under the PRC laws and regulations.

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During the Track Record Period and up to the Latest Practicable Date, our employees did not negotiate their terms of employment through any labour union or by way of collective bargaining agreements nor did we experience any material labour disputes or shortages or labour strike that may have a material adverse effect on our business, financial position and results of operations.

INSURANCE

During the Track Record Period and up to the Latest Practicable Date, we had maintained motor vehicle insurance in the PRC. Our employee-related insurance consists of employee pension insurance, employees’ compensation, medical insurance, and housing funds as required by the PRC laws and regulations. We rely on our stringent quality control to limit our product liability risks. During the Track Record Period, we did not encounter any material product liability claim by our customers.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had not made or had been the subject of any material insurance claim. Our Directors consider that our insurance coverage is sufficient and in line with normal commercial practices in the PRC. However, there is no assurance that our insurance coverage is adequate to cover all potential risks in relation to our business operation. For details, please refer to the paragraph headed “Risk Factors — Risks Relating to Our Business — Our insurance coverage may not be adequate to cover all the risks” in this document.

MARKET COMPETITION

We compete with other dried food product and snack producers in the PRC. Our Directors consider that consumers in the PRC select dried food products and snacks primarily based on price, brand recognition and taste, and we compete with our competitors on the basis of product quality, stability of supplies and the number and diversity of products. We consider competitors with access to abundant financial resources, strong ability and rich experience in product development and innovation a particular challenge to our Group. We believe, however, that we are able to remain competitive as we have (i) established brand repute to customers; (ii) high quality and diversified product portfolio; and (iii) an experienced team from product development, production, quality control to sales and marketing.

PROPERTIES

We occupy certain properties in the PRC in connection with our business operations. These properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules.

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Owned properties

As at the Latest Practicable Date, save as disclosed below, we own the land use right and buildings of Guangchang Plant and Nanchang Plant. The table below sets forth details of our Nanchang Plant and Guangchang Plant:

Facility name	Address	Major use of property	Expiry of land use rights	Approximate total site area (sq.m.)	Approximate gross floor area (sq.m.)
Guangchang Plant	Guangchang Industrial Park, Guangchang County, Jiangxi Province, the PRC (廣昌縣工業園區)	Warehouse, production workshop and office	December 2062	36,096.98	19,436.8 (excluding the Guangchang Structures (as defined below))
Nanchang Plant	487 Yuhu Road, Xiaolan Economic and Technological Development Zone, Nanchang County, Jiangxi Province, the PRC (南昌縣小藍經濟技術開發區玉湖路487號)	Warehouse, production workshop and office	June 2055	20,065.00	13,722.4 (excluding the Nanchang Structures (as defined below))

Title defects of certain building structures in our Guangchang Plant and Nanchang Plant

As at the Latest Practicable Date, we had not obtained the building ownership certificates of (i) an aggregate gross floor area of approximately 700 sq.m., comprising a boiler room of 400 sq.m., lavatory of 200 sq.m. and entrance guard house of 100 sq.m. in our Guangchang Plant (the “**Guangchang Structures**”) and (ii) an office area with an aggregate gross floor area of approximately 355.5 sq.m. in our Nanchang Plant (the “**Nanchang Structures**”). We constructed these building structures in our production facilities as we expanded our operations over the years, and our Directors confirm that there would be no difference in land cost to be paid by us if there was no defective title with respect to the Guangchang Structures and the Nanchang Structures. Such non-compliance was mainly caused by our employees being not familiar with the relevant regulatory requirements. Except for the boiler room where our boiler machine is housed, these building structures are generally used for administration purposes or as ancillary facilities, instead of for our principal production purposes. We had obtained construction project planning permits (建設工程規劃許可證) for the Guangchang Structures and the Nanchang Structures, in June 2022 and April 2022, respectively, which required us to complete construction, completion inspection and building ownership registration procedures within two years of such permit. In September 2022, Jiangxi Zhengwei and Guangchang Zhenglian had submitted application materials for registration of building ownership regarding the Nanchang Structures and the Guangchang

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Structures, respectively. It is expected that building ownership registration will be completed within six months by March 2023. Our PRC Legal Advisers confirmed that there will not be any legal impediments to complete registration of building ownership regarding the Nanchang Structures and the Guangchang Structures.

To the best knowledge of our Directors, the Guangchang Structures and the Nanchang Structures were in safe conditions as at the Latest Practicable Date. As advised by our PRC Legal Advisers, prior to completion of building ownership registration procedures, the Guangchang Structures and the Nanchang Structures will not be transferable or are unlikely to be accepted by banks as security for mortgages.

With respect to the Guangchang Structures, pursuant to a confirmation issued on 26 April 2022, Guangchang Real Estate Administration (廣昌縣房產管理局), which is the relevant competent regulatory authority as confirmed by our PRC Legal Advisers, confirmed that Guangchang Zhenglian had not involved in violation of property laws and regulations, nor had it been subject to any administration penalties or investigations due to violation of property laws and regulations. Pursuant to confirmations issued on 27 April 2022 and 22 June 2022, Guangchang Housing and Urban-Rural Development Administration (廣昌縣住房和城鄉建設局), which is the relevant competent regulatory authority as confirmed by our PRC Legal Advisers, confirmed that (i) Guangchang Zhenglian had complied with the laws and regulations in relation to supervision of construction, and it had not violated any laws and regulations on construction projects nor had it been subject to any administration penalties or investigations in relation to any construction projects; and (ii) Guangchang Zhenglian is allowed to use the Guangchang Structures in their current conditions, and Guangchang Zhenglian will not be required to demolish, relocate from or cease to use the Guangchang Structures prior to completion of building ownership registration. There will not be any obstacles for Guangchang Zhenglian to obtain building ownership certificate in respect of the Guangchang Structures. No punishment will be imposed on Guangchang Zhenglian for its failure to complete building ownership registration procedures in respect of the Guangchang Structures. As advised by our PRC Legal Advisers, Guangchang Real Estate Administration (廣昌縣房產管理局) and Guangchang Housing and Urban-Rural Development Administration (廣昌縣住房和城鄉建設局) were consulted respectively because they are two different relevant competent regulatory authorities for Guangchang Plant, which are responsible for the management of the completed properties and projects under construction, respectively.

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On 18 April 2022, the Environmental Planning and Technology Department of the Management Committee of Nanchang Xiaolan Economic and Technological Development Zone (南昌縣小藍經濟開發區經濟技術開發區管理委員會環保規劃技術部), which is the relevant competent regulatory authority as advised by our PRC Legal Advisers, confirmed in writing that it will not require the demolition of the Nanchang Structures prior to completion of building ownership registration. Pursuant to a confirmation issued on 27 April 2022, Nanchang Housing Security Center (南昌縣住房保障中心), which is the relevant competent regulatory authority as confirmed by our PRC Legal Advisers, confirmed that Jiangxi Zhengwei had not violated any property laws and regulations, nor had it been subject to any administration penalties or investigations due to violation of property laws and regulations. As advised by our PRC Legal Advisers, the Environmental Planning and Technology Department of the Management Committee of Nanchang Xiaolan Economic and Technological Development Zone (南昌縣小藍經濟開發區經濟技術開發區管理委員會環保規劃技術部) and Nanchang Housing Security Center (南昌縣住房保障中心) were consulted respectively because they are two different relevant competent regulatory authorities for Nanchang Plant which are responsible for the management of projects under construction and the completed properties, respectively.

On the basis that (i) the aforementioned confirmations were issued by relevant competent PRC regulatory authorities, pursuant to which had confirmed that the Guangchang Structures and the Nanchang Structures can be used in their current status prior to completion of building ownership registration, no punishment will be imposed with respect to our failure to complete building ownership registration procedures or we were not subject to any administration penalties or investigations due to violation of property laws and regulations; and (ii) construction project planning permits (建設工程規劃許可證) were obtained for the Guangchang Structures and the Nanchang Structures, our PRC Legal Advisers are of the view that the risk of Guangchang Zhenglian or Jiangxi Zhengwei being penalised for failure to complete building ownership registration procedures is remote.

Considering that the Guangchang Structures and the Nanchang Structures are largely used for administration purposes or as ancillary facilities only, and it would not be difficult to arrange our employees to use other buildings or existing facilities in our Guangchang Plant and Nanchang Plant as an alternative, save for the boiler room of the Guangchang Structures, our Directors are of the view that the Guangchang Structures and the Nanchang Structures with title defects are collectively not crucial to our operation. If required, the relevant administrative staff could be relocated to other office area in the Nanchang Plant. In the event that we are required to demolish or otherwise relocate the boiler room in our Guangchang Plant, our Directors believe we could either move the boiler to or, alternatively, acquire and install a new boiler in another building in our Guangchang Plant. We expect we may only be required to suspend the affected production lines for a maximum period of two days, and incur additional costs on relocation or acquisition of new boiler of approximately RMB1.0 million in this regard. In such event, where required, we will

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recruit additional temporary production workers or arrange overtime for our production staff to fulfil customer orders. Our Directors believe such disruption to our operation, if any, and additional costs associated with this would not have any material adverse impact on our financial performance. As we had obtained confirmations from relevant competent PRC regulatory authorities which confirmed that the Guangchang Structures and the Nanchang Structures can be used in their current status prior to completion of building ownership registration, no provision has been made in our consolidated financial statements.

Leased properties

As at the Latest Practicable Date, our Group leased the following properties in the PRC:

Description	Address	Use of Property	Tenure	Landlord	Tenant	Approximate	Monthly
						gross floor area	rental
						(sq. m.)	(RMB)
Low temperature warehouse	East of Jinsha Road, South of Yinhu Road, Xiaolan Economic and Technological Development Zone (小藍開發區以東銀湖 路以南)	Warehouse for cold storage	1 January 2022 to 31 December 2022	Nanchang Dazhong Ice Production Co., Ltd. (南昌大衆 製冰有限公司), an Independent Third Party	Jiangxi Zhengwei	78	3,790.8
Low temperature warehouse	East of Jinsha Road, South of Yinhu Road, Xiaolan Economic and Technological Development Zone (小藍開發區以東銀湖 路以南)	Warehouse for cold storage	1 January 2022 to 31 December 2022	Nanchang Dazhong Ice Production Co., Ltd. (南昌大衆 製冰有限公司), an Independent Third Party	Nanchang Kaixing	78	3,790.8

As at the Latest Practicable Date, we had not registered the leases of the two warehouses aforementioned. For details, please refer to the paragraph headed “ Litigation and Non-Compliance — Unregistered Leases” in this section.

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As at the Latest Practicable Date, we had no single property with a carrying amount of 15% or more of our total assets, and on this basis, we are not required by Rule 5.01A of the Listing Rules to include in this document any valuation reports. Pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

LITIGATION AND NON-COMPLIANCE

Legal Proceedings

We may from time to time be involved in legal, arbitration or administrative proceedings in the ordinary course of our business. As of the Latest Practicable Date, there were no legal, arbitration or administrative proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our financial condition or results of operations.

Litigation in respect of a procurement agreement entered into in May 2022

On 18 July 2022, Nanchang Gongkong Supply Chain Finance Co., Ltd.* (南昌工控供應鏈金融有限公司), an Independent Third Party (the “**Introducer**”), filed a lawsuit against (i) Ms. Wan Weihong, an independent supplier (the “**Supplier**”); (ii) Guangchang Zhenglian, as purchaser; (iii) Jiangxi Zhengwei; (iv) Nanchang Kaixing; (v) Mr. Yang; (vi) Ms. Lin; (vii) Mr. Li Hui; (viii) Ms. Zhang Rui (who is spouse of Mr. Li Hui); and (ix) Mr. Lan Hui, each as guarantor, in respect of a procurement agreement in relation to the purchase of 420 tonnes of frozen chicken feet (the “**Products**”) at the purchase price of RMB8,190,000, to recover the advance payment of RMB4,095,000 (the “**Advance Payment**”) and the capital occupancy costs accrued at an annualised interest rate of 15%.

The Introducer is established by state-owned enterprises as major shareholders to facilitate the development of small and medium enterprises located in Nanchang City, Jiangxi Province with its network of suppliers and resources. It took the initiative to approach Guangchang Zhenglian and introduced food production suppliers to Guangchang Zhenglian for its frozen food business. As the purchase price offered by the Supplier was very competitive and at the low-end, Guangchang Zhenglian entered into such procurement agreement with the Supplier as introduced by the Introducer. As confirmed by the Directors, the transaction with the Introducer and the Supplier was one-off in nature. Our Directors consider that it is not uncommon for dried food or snack producers to engage suppliers through introducers.

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Pursuant to the procurement agreement, the Introducer paid the Advance Payment, being 50% of the total purchase price, to the Supplier. Subsequently, Guangchang Zhenglian inspected the Products and found that they were of a relatively bigger size than the raw materials normally procured by Guangchang Zhenglian. Therefore, Guangchang Zhenglian declined to accept and take delivery of the Products. The Introducer then requested for a refund of the Advance Payment from the Supplier, but the Supplier refused.

Pursuant to a civil mediation letter issued by the People’s Court of Honggutan District, Nanchang City, Jiangxi Province (the “**Honggutan Court**”), the parties voluntarily reached an agreement, whereby amongst others, the Supplier agreed to return the Advance Payment to the Introducer by 31 August 2022 and the Introducer agreed to waive the capital occupancy costs. After the Supplier returned the Advance Payment to the Introducer, the Honggutan Court issued a case closure notice on 13 September 2022, confirming that the relevant dispute case has been duly completed.

Views of our Directors, the PRC Legal Advisers and the Sole Sponsor

Our Directors consider that such litigation did not and will not have any material operational or financial impact on our operations based on the advice from our PRC Legal Advisers, which confirmed that (i) the procurement arrangement entered into among Guangchang Zhenglian, the Introducer and the Supplier did not violate any PRC laws and regulations; and (ii) the litigation was fully settled, and each of Jiangxi Zhengwei, Guangchang Zhenglian, Nanchang Kaixing, Mr. Yang, Ms. Lin, Mr. Li Hui, Ms. Zhang Rui and Mr. Lan Hui will no longer be liable for any amount or has any further liability in relation to such litigation.

Based on the Sole Sponsor’s review on relevant documents in relation to the aforesaid litigation, the PRC Legal Adviser’s view and other independent due diligence work conducted by the Sole Sponsor including but not limited to discussions with the relevant parties, nothing has come to the Sole Sponsor’s attention that would reasonably cause the Sole Sponsor to disagree with the Directors’ view above and the Sole Sponsor is of the view that the aforesaid disclosure is accurate and complete in all material respects.

Historical Non-compliance Incidents Regarding Social Insurance and Housing Provident Funds

The summary below describes our historical non-compliance with applicable laws and regulations with respect to social insurance and housing provident fund contributions during the Track Record Period. Our Directors believe that such non-compliance will not have any material operational or financial impact on us.

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Background

According to the relevant PRC laws and regulations, we are required to make contributions to social insurance fund (including pension fund, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance) and housing provident fund for the benefit of our employees in China. During the Track Record Period, all of our PRC subsidiaries namely, Jiangxi Zhengwei, Nanchang Kaixing and Guangchang Zhengliao did not make full contribution to the social insurance and housing provident funds for some of our employees as required under PRC laws and regulations.

Reasons for the non-compliance

As confirmed by our Directors, we did not make full social insurance and housing provident fund contributions during the Track Record Period, primarily because some of our employees were reluctant to participate in the social insurance fund and housing provident fund contribution plans during the Track Record Period.

Potential maximum penalties and legal consequences

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations in respect of social insurance contributions, if we do not pay the full amount of social insurance contributions as required, the relevant authorities may demand us to pay the outstanding social insurance contributions within the deadline stipulated by them and we may be liable to a late payment fee equal to 0.05% of the outstanding amount for each day of delay. We may be liable to a fine from one to three times the amount of the outstanding contributions if we fail to make such payments. In respect of outstanding housing provident fund contributions, we may be ordered to pay the outstanding housing provident fund contributions within the time period stipulated by relevant authorities. If payment is not made within such stipulated time period, relevant employees may apply to PRC courts for compulsory enforcement.

Our Directors have considered the following in assessing our exposures relating to social insurance and housing provident fund contributions: (i) as at the Latest Practicable Date, we had not received any notification from relevant government authorities requiring us to pay shortfalls or the penalties with respect to social insurance and housing provident funds; (ii) during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any administrative penalties, material litigations and legal proceedings, nor were we aware of any material employee complaints nor involved in any material labor disputes with our employees with respect to social insurance and housing provident funds; (iii) all of our PRC subsidiaries namely, Jiangxi Zhengwei and Nanchang Kaixing have obtained written confirmations from Nanchang County Human Resources and Social Security Bureau (南昌縣人力資源和社會保障局), and Guangchang

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Zhenglian has obtained written confirmation from Guangchang County Human Resources and Social Security Bureau (廣昌縣人力資源和社會保障局), which are competent local government authorities as confirmed by our PRC Legal Advisers, which confirmed that there is no need to pay any additional social insurance premiums (including late payment fees and other forms of economic penalties); (iv) all of our PRC subsidiaries namely, Jiangxi Zhengwei and Nanchang Kaixing have obtained written confirmations from Nanchang City Housing Provident Fund Management Center (南昌市住房公積金管理中心), which are competent local government authorities as confirmed by our PRC Legal Advisers, which confirmed that each of Jiangxi Zhengwei and Nanchang Kaixing has not violated laws and regulations in relation to housing provident fund, nor has it been subject to relevant administrative penalties or under relevant investigation, and Guangchang Zhenglian has obtained written confirmation from Guangchang County Housing Provident Fund Management Center (廣昌縣住房公積金管理中心), which are competent local government authorities as confirmed by our PRC Legal Advisers, which confirmed that there is no need to make any additional housing provident fund contributions (including late payment fees and other forms of economic penalties); (v) as advised by our PRC Legal Advisers, the risk of being penalised by the relevant authorities is remote; (vi) we made provisions for social insurance and housing provident fund contributions of RMB4.7 million, RMB1.7 million and RMB1.8 million for FY2019, FY2020 and FY2021; and (vii) we will make full contributions or pay any shortfall within a prescribed time period if demanded by the relevant government authorities. We believe that the provisions for social insurance and housing provident fund contributions are sufficient, having considered the above-mentioned reasons.

Based on the foregoing, our PRC Legal Advisers are of the view that the risk that we would be subject to material administrative penalties by relevant authorities is remote. In light of the above, our Directors believe that our failure to fully contribute to social insurance and housing provident funds during the Track Record Period would not have any material adverse effect on our business operations or results of operations.

Rectification measures

We have made provisions for our failure to make adequate social insurance and housing provident fund contributions in the amount of RMB4.7 million, RMB1.7 million and RMB1.8 million for FY2019, FY2020 and FY2021, respectively. Since 2022, we have been fully compliant with the requirements regarding social insurance and housing provident fund contribution. We have implemented the following internal policies and procedures: (i) regularly communicating with government agencies to ensure that our calculation and payment methods are in compliance with the relevant laws and regulations; (ii) consulting external counsel, if necessary, to understand whether we are at risk of non-compliance with the relevant laws and regulations; (iii) regularly

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preparing reports regarding our contribution amounts for review by our Board; and (iv) conducting internal trainings for our Directors, members of senior management and employees on the relevant laws and regulations.

As at the Latest Practicable Date, the Group has not received any orders from the relevant authorities to settle the outstanding amount of social insurance contributions and housing provident fund contributions. Since the Group has already made provisions for settling the outstanding social insurance and housing provident fund contributions during the Track Record Period, we will make full contributions or pay any shortfall within a prescribed time period if demanded by the relevant government authorities.

Unregistered Leases

As at the Latest Practicable Date, our PRC subsidiaries namely, Jiangxi Zhengwei and Nanchang Kaixing, had not registered the lease for two warehouses with the local housing administration authorities as required under PRC laws.

These non-compliance incidents were primarily caused by lack of cooperation from the landlords in registering lease agreements, including submitting their identity documentations and building title certificates to the relevant authorities, which was beyond our control.

We were advised by our PRC Legal Advisers that the non-registration of these lease agreements would not affect the validity of such leases, but we might be ordered to rectify this non-compliance by competent authorities and if we do not rectify within a prescribed period, a penalty of RMB1,000 to RMB10,000 per agreement may be imposed on us as a result of such non-filing. The estimated total amount of penalty for our failure to register these leases is approximately RMB2,000 to RMB20,000.

As at the Latest Practicable Date, our Directors confirm that we had not received any notice from any regulatory authority with respect to potential administrative penalties or enforcement actions as a result of our failure to register the lease agreements described above.

In the event that we are required by competent authorities to rectify the non-compliance with lease registration requirement and we are not able to rectify due to lack of cooperation from the landlords, we intend to terminate the non-compliant leases, find alternative locations nearby and relocate without causing any material disturbances. We do not believe that any relocation would result in material disruptions to our business. Although we may incur additional relocation costs, our Directors are of the view that this would not have any material impact on our business,

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financial position and results of operations. The landlord of the above two leases have undertaken to indemnify us for any penalty or other monetary damages incurred as a result of the failure to register the lease agreements.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Directors are responsible for formulating and overseeing the on-going implementation of the internal control measures and effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. With a view to manage our business and operational risks, to ensure our smooth operation and to avoid future recurrence of historical non-compliance incidents, we have engaged the Internal Control Consultant to assist us in reviewing and providing recommendations on improving our internal control system, including corporate governance, enterprise risk assessment, internal audit, compliance consultancy and relevant business processes including revenue, procurement, expenses and cost management, raw materials and inventory management, fixed assets management, production safety and quality control, human resources, financial management and information technology. As part of the engagement, we have consulted with our Internal Control Consultant to identify factors relevant to enhancing our internal control system and the steps to be taken. The Internal Control Consultant provided a number of findings and recommendations and we have subsequently taken remedial actions in response to such findings and recommendations. Highlights of our internal control measures include but are not limited to the following:

- our Directors have attended training sessions conducted by Hong Kong legal advisers on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- we will comply with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Our Directors will review our corporate governance measures and our compliance with the Corporate Governance Code each financial year and comply with the “comply or explain” principle in our corporate governance reports to be included in our annual reports after the [REDACTED];
- when necessary, we will engage external professionals, including auditors, internal control consultants, external legal adviser(s) and other advisers to render professional advice with respect to our compliance with statutory and regulatory requirements, as applicable to our Group from time to time;
- we have appointed Grand Moore Capital as our compliance adviser which will advise and assist our Board on compliance matters in relation to the Listing Rules; and

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- we have established an audit committee to review and supervise our financial reporting process and internal control system,

In addition, our Group has adopted the below enhanced internal control measures in relation to the provision of guarantees by the Group:-

- at all times, all Group companies are strictly prohibited to provide guarantees in respect of any loans or indebtedness undertaken by any Directors, senior management or substantial shareholders (or their respective close associates);
- prior to [REDACTED], the provision of guarantees to any entities (except the Group companies) or individuals shall be approved by (a) each independent Director (except the Director (or his/her associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies); and (b) each independent Shareholder (except the Shareholder (or his/her/its associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies); and
- upon [REDACTED], the provision of guarantees to any entities (except the Group companies) or individuals shall be approved by (a) each independent non-executive Directors of the Company (except the independent non-executive Director (or his/her associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies); and (b) the Shareholders in accordance with the Listing Rules.

Based on the recommendations of the Internal Control Consultant and the follow-up review procedures conducted, our Directors have confirmed that our Group had adopted all major internal control measures and policies suggested by the Internal Control Consultant and did not have any significant or material deficiencies in its internal control system as at the Latest Practicable Date.

We are exposed to various risks during our operations. For more details about these risks, please refer to the section headed “Risk Factors” in this document. In addition to the abovementioned internal control measures, we have implemented various policies and procedures to ensure effective risk management at each aspect of our operations, including the production and sales of products, administration of daily operations, financial reporting and recording, compliance procedures with applicable laws and regulations on environmental protection, production and food safety. Our Board oversees and manages the overall risks associated with our operations.