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OUR PHILOSOPHY

We harness the nourishing power of nature to bring people beauty and wellness. (源於天然,美麗健康。)

We curate a variety of edible bird’s nest products to foster a valued sense of self-care and hospitality, catering to consumers’ aspiration for quality lifestyle and social engagement. (我們通過提供豐富多樣的燕窩產品,傳遞悅己愉人的價值觀,滿足消費者對品質生活和社會禮儀的追求。)

OVERVIEW

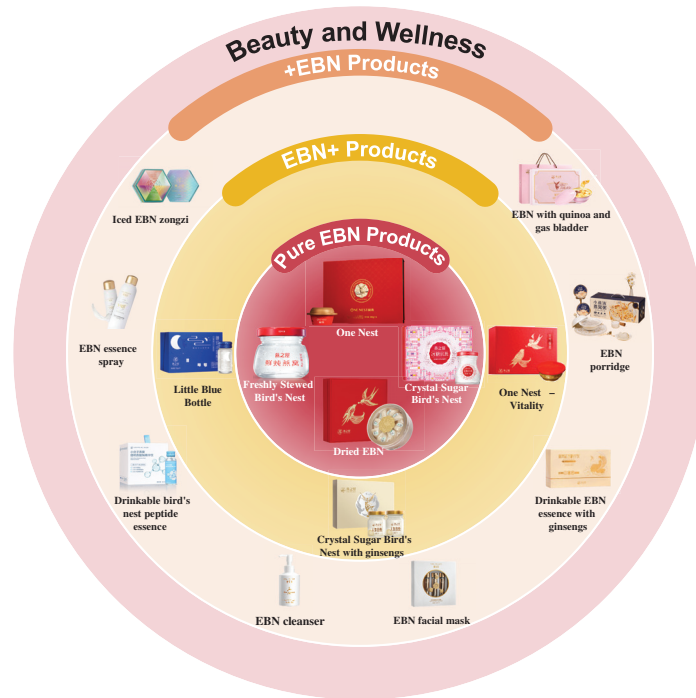
We are a leading brand in China’s edible bird’s nest (“EBN”) product market, dedicated to the development, production and marketing of high-quality modern EBN products. We are the largest EBN product company in the traceable EBN market in China with a market share of 14.0% in terms of retail value in 2022, according to the F&S Report. We also ranked No.1 by the number of EBN specialty storefronts and the volume of CAIQ-certified imports in the EBN product market in China in 2022, according to the same source. We have developed an advanced and sophisticated product research and development capability, a diversified product portfolio, a robust quality assurance scheme, and an established sales network, which has allowed us to prevail in the market competition.

For over 400 years, the Chinese people have considered EBN as a premium natural health delicacy with various perceived health benefits and nutritional value. Modern scientific studies from domestic and overseas academic institutions in recent years have also supported the Chinese traditional wisdom on perceived health benefits of EBN with scientific testing and experimentation. Numerous authoritative scientific studies have shown from multiple aspects that EBN offers various health benefits in internal and external use. See “Industry Overview” for details. With the broad and venerable cultural foundations and history of consumptions, China has been the preeminent market and home to the largest consumer base for EBN products. Driven by the raising living standard and the growing health awareness among Chinese consumers, EBN has been perceived as healthy food products with various functional benefits among many Chinese consumers. As an industry leader, we have outperformed industry average, with a revenue growth from RMB1,301.2 million in 2020 to RMB1,729.9 million in 2022, at a CAGR of 15.3%. Our total retail value in the market also increased at a high CAGR of 12.3% from 2020 to 2022, which was 8.6 percentage points higher than the industry average and was the highest among the top five EBN brands during the same years, according to the F&S Report. According to the same source, China’s EBN market, in terms of retail value, is expected to grow from RMB43.0 billion in 2022 to RMB92.1 billion in 2027, at a CAGR of 16.5%. We believe we are well-positioned to capture the substantial market opportunity, leveraging our market share and revenue growth.

Consumer experience is our top priority. We leverage modern technology to continually drive product innovation that elevates consumer experience. Our product portfolio primarily consists of three product categories, i.e., pure EBN products, “EBN+” products and “+EBN” products, to meet the differentiated consumer needs for experience in different life scenarios. In 2022, we had 250 SKUs, among which 194 were pure EBN SKUs under four major product series, including *One Nest* (碗燕), Freshly Stewed Bird’s Nest (鮮燉燕窩), Crystal Sugar Bird’s Nest (冰糖官燕), and dried EBN (乾燕窩). *One Nest*, launched in 2012, was among the earliest mass-produced, ready-to-serve EBN products in China with a standardized manufacturing process. This manufacturing process has allowed us to preserve the EBN’s original taste and, at the same time, ensure consistent product quality. After over a decade of development, *One Nest* has expanded in variety and become our signature product series beloved by our customers. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our revenue generated from *One Nest* (pure EBN) was RMB559.3 million, RMB661.4 million, RMB672.6 million, RMB288.0 million and RMB283.4 million, respectively. In addition, leveraging our extensive research of active ingredients extraction from EBN, we have expanded the value chain of the EBN industry by developing other EBN products, including “EBN+” products (which are ready-to-serve EBN products enhanced with other

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ingredients and/or nutrients), such as *One Nest — Vitality* (碗燕—元氣款) and Crystal Sugar Bird’s Nest with Ginseng (人參冰糖官燕), and “+EBN” products (which are products that feature EBN as an enhancement for elevated nutrition or other benefits), such as EBN porridge and EBN skincare products which use bird’s nest peptides as an enhancement. The following diagram is a simplified illustration of our product matrix.



We have developed a geographically diverse brick-and-mortar sales network, consisting of both self-operated stores and distributor-operated stores. As of May 31, 2023, we had a nationwide offline sales network consisting of 91 self-operated stores and 214 offline distributors covering 614 distributor-operated stores in China. The number of our offline distributors increased from 136 as of January 1, 2020 to 214 as of May 31, 2023. Among the 136 distributors as of January 1, 2020, 111, or 81.6%, of them had remained with us as of May 31, 2023. To capture the rapid growth of e-commerce in recent years, we have also expanded our online presence on major e-commerce or social media platforms, such as Tmall, JD.com, Douyin and Xiaohongshu. In addition, we have launched products specifically designed for online channels, such as Freshly Stewed Bird’s Nest, which has quickly gained popularity among younger consumers. Our revenue generated from sales of Freshly Stewed Bird’s Nests increased from RMB321.1 million in 2020 to RMB485.4 million in 2022, at a CAGR of 22.9%, and increased by 14.0% from RMB188.7 million in the five months ended May 31, 2022 to RMB215.2 million in the five months ended May 31, 2023.

We stay close to our customers. Through the Yan Palace (燕之屋) membership mini program, our Golden Yan Club (金燕薈) membership program, and other membership programs on major e-commerce platforms, we have cultivated a loyal membership network of customers with a tiered membership system to drive customer stickiness and repeated purchase. As of the Latest Practicable Date, we had over 1.8 million customers registered in our membership programs. Through this membership network, we organize various interactive events to maintain direct engagement with our customers. We have gained considerable insight from our interaction with customers, which allows us to continually optimize our product offerings and customer services. In 2020, 2021 and 2022, we had approximately 143,700, 168,200 and 204,800 paying customers registered in our membership programs, respectively, accounting for 25.0%, 22.1% and 23.5% of our total registered customers as of December 31, 2020, 2021 and 2022, respectively. In the five months ended May 31, 2023, we had approximately 117,600 paying customers registered in our

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membership programs, accounting for 7.2% of our total registered customers as of May 31, 2023. In 2020, 2021, 2022 and the five months ended May 31, 2023, purchases from such paying customers registered in our membership programs was RMB616.0 million, RMB806.6 million, RMB1,057.0 million and RMB499.7 million, respectively, representing an average purchase amount per registered paying customer of approximately RMB4,280, RMB4,790, RMB5,150 and RMB4,240, respectively.

Our philosophy and primary focus are bringing people beauty and wellness, quality and heritage of EBN products. We collaborate with upstream suppliers to ensure strict control over raw material procurement, implement stringent supplier selection process, and source natural, high-quality and cruelty-free EBN from Southeast Asia. We relentlessly bring EBN to consumers in their natural and pure form.

We achieved robust growth and profitability during the Track Record Period. Our revenue increased from RMB1,301.2 million in 2020 to RMB1,729.9 million in 2022, at a CAGR of 15.3%, and increased by 12.3% from RMB696.9 million in the five months ended May 31, 2022 to RMB782.6 million in the five months ended May 31, 2023. Our net profit increased from RMB123.4 million in 2020 to RMB205.9 million in 2022, at a CAGR of 29.2%, and increased by 20.0% from RMB83.8 million in the five months ended May 31, 2022 to RMB100.5 million in the five months ended May 31, 2023. Our net profit margin was 9.5%, 11.4%, 11.9%, 12.0% and 12.8% for 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. Our adjusted net profit (non-IFRS measure) increased from RMB123.9 million in 2020 to RMB211.1 million in 2022, at a CAGR of 30.5%, and increased by 32.4% from RMB85.9 million in the five months ended May 31, 2022 to RMB113.7 million in the five months ended May 31, 2023. According to the F&S Report, our profitability during the Track Record Period was higher than the industry average, which was estimated to be 5.0% to 9.0% during the same periods. See “Financial Information” for more information.

We believe that our strong brand reputation, continuous research and innovation in quality EBN products, established sales network and loyal consumer base will enable us to maintain our industry leadership. We are committed to advancing the sustainable development of our Company and the industry and strive to fulfill our economic, social and environmental responsibilities. As such, we believe we are able to continue to deliver benefits to our Shareholders, employees, suppliers, business partners, customers and other stakeholders.

COMPETITIVE STRENGTHS

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

A leading brand in China’s EBN product market with sustained growth

We are a leading brand in China’s EBN product market, dedicated to the development, production and marketing of high-quality modern EBN products. According to the F&S Report, we are the largest EBN product company in China for three consecutive years in terms of retail value from 2020 to 2022, with a market share of 5.8% in China in 2022, and ranked No.1 by the number of EBN specialty storefronts and the volume of CAIQ-certified imports in the EBN product market in China in 2022. We imported 26.3 tonnes, 57.2 tonnes, 50.4 tonnes and 52.2 tonnes of CAIQ certified EBN from Indonesia in 2019, 2020, 2021 and 2022, respectively, accounting for 14.4%, 17.0%, 15.2% and 11.6% of the total volume of imported traceable EBN to China in respective years, and 20.1%, 21.4%, 22.1% and 17.9% of the total volume of imported traceable EBN from Indonesia to China in respective years, according to the F&S Report. Moreover, we also ranked No.1 in the scale of EBN manufacturing bases in China in 2022, according to the same source.

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Benefiting from our industry leadership, our growth has far exceeded the industry average. Our revenue increased from RMB1,301.2 million in 2020 to RMB1,507.0 million in 2021 and further to RMB1,729.9 million in 2022, at a CAGR of 15.3% from 2020 to 2022. Our total retail value in the market also increased at a high CAGR of 12.3% from 2020 to 2022, which was 8.6 percentage points higher than the industry average and was the highest among the top five EBN brands during the same years, according to the F&S Report. Our outperformance against the industry average from 2020 to 2022 was primarily due to the industry-wide lower growth rate in terms of retail value during the same years except for a few leading market participants. Specifically, according to the F&S Report, while offline sales of EBN products accounted for over 69% of China’s EBN market in terms of retail value from 2020 to 2022, the overwhelming majority of EBN companies, not among the industry leaders, were more susceptible to the negative impact of the pandemic on their offline sales, resulting in a low CAGR of 1.5% for the retail value of EBN products sold through offline channels in China during the period. However, as a leading brand in the industry, we had successfully navigated challenges posed by the pandemic by leveraging our established market position, brand awareness and well-established online sales channels. Moreover, our imported volume of EBN increased from 0.2 tonnes in 2015 to 52.2 tonnes in 2022 at a CAGR of 128.6%, as compared to the total imported volume of EBN to China, which increased from 22.5 tonnes in 2015 to 451.6 tonnes in 2022 at a CAGR of 53.5%, according to data published by the CAIQ. Leveraging our favorable industry position, advantage in scale and growth potential, we believe we are well positioned to capture the market opportunity in the EBN industry.

We have established ourselves as a widely recognized brand among consumers in the beauty and wellness industry. Our brand has consistently ranked No.1 by the China Brand Power Index in the EBN category since 2019 and was elected for Xinhua News Agency’s Ethnic Brand Project in 2021 and a consumer product brand with national influence by People’s Daily Online in 2022. Moreover, in 2021, we established an official partnership with the Chinese national fencing team and become their designated EBN product brand. We believe our advantage in brand awareness will further solidify our industry leadership and give us a head start in expanding our presence in the beauty and wellness industry.

A track record of continued product innovation and success underpinned by our research and development capabilities

We have proven our ability to innovate and develop products that re-define the industry and expand customer reach. Our signature product series, *One Nest*, was among the earliest mass-produced, ready-to-serve EBN products in China with a standardized manufacturing process, enabling us to preserve the original taste of EBN and, at the same time, ensure consistent quality. We launched *One Nest* in 2012, which quickly gained popularity among consumers for its original taste and convenience. We have continued to innovate and introduced new products under *One Nest* series tailored to different consumer groups, significantly enriching the variety of this product series and contributing to our growth. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our revenue generated from *One Nest* (pure EBN) was RMB559.3 million, RMB661.4 million, RMB672.6 million, RMB288.0 million and RMB283.4 million, respectively.

Our product development capabilities enable us to timely respond to evolving consumer demands and continue to strengthen our market leadership by blazing new trails in the industry. For instance, to capture the rapid growth of e-commerce in recent years, we launched Freshly Stewed Bird’s Nest, which was specifically designed for online channels and quickly gained popularity among younger consumers. In addition, as individual servings of ready-to-serve EBN products can be heavy and inconvenient to carry around in the soup form, we applied supercritical fluid drying technology and developed EBN for hand-brewed delicacies, which are more portable, quick to prepare and easier to absorb. Moreover, leveraging our extensive research of EBN extracts, we have expanded the value chain of the EBN industry to develop other innovative EBN products, including EBN+ products, such as *One Nest — Vitality* (碗燕—元氣款) and Crystal Sugar Bird’s Nest with Ginseng (人參冰糖官燕), and +EBN products, such as EBN porridge and EBN skincare products which use EBN peptides as an enhancement.

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In 2022, we had 250 SKUs, among which 194 were pure EBN SKUs under four major product series, including *One Nest*, Freshly Stewed Bird’s Nest, Crystal Sugar Bird’s Nest, and dried EBN, to meet the differentiated consumer needs for experience in different life scenarios. Highly recognized among the general public for social occasions, our products have become a symbol of high quality, safety and high brand awareness.

Our success in product innovation is built on our research and development capabilities. We have established an industry-leading research and development platform, which consists of the EBN Research Institute, EBN Peptide Research Center, EBN Skincare Research Center, and the Peking University-Yan Palace Joint Lab. As of the Latest Practicable Date, we had a strong in-house research and development team of 49 personnel, and more than 30% of them hold a master’s degree or above. We have also established extensive collaborations with industry leading experts such as academicians from the Chinese Academy of Sciences and the Chinese Academy of Engineering, as well as various well-known academic institutions, such as South China University of Technology, Jiangnan University, and Xiamen University. Benefiting from the research and development platform, our research and development capabilities have positioned us at the forefront of our industry, evidenced by a total of 132 patents granted to us as of the Latest Practicable Date, which ranks No.1 in the industry and significantly surpasses the second place, according to the F&S Report. Many of the patents have tremendously improved customers’ experience with our products and solidified our industry leadership. For instance, our high-temperature adhesive-free sealing technology allows for room temperature storage and on-the-go consumption and, at the same time, avoids the use of potentially toxic adhesive agents. Our sterilization equipment features temperature control with a controlled precision of within ± 0.2 degrees Celsius, ensuring standardized taste.

Leveraging our in-depth research on EBN extracts, we were among the first in the industry to research EBN peptides and develop products utilizing its skin-whitening, anti-skin-inflammatory, anti-oxidant and cell repair properties. Through our patented EBN peptide production method, we have successfully hydrolyzed the high molecular weight protein found in EBN into smaller, more easily digestible and absorbable peptides, which we have incorporated as a key ingredient in our skincare products. We were also the first company in China to complete the filing of EBN peptides as new cosmetic raw materials, according to the F&S Report, which allows us to enjoy a three-year protection period in the skincare field from 2022. In addition, we were the first enterprise to obtain production qualification for EBN peptides, according to the same source. We believe that our first-mover advantage will allow us to maintain a leading position in the development and marketing of EBN skincare products.

High-quality and scientifically validated EBN products in their natural and pure form which have become a cultural symbol of self-care and hospitality in modern society

Upholding our philosophy of harnessing the nourishing power of nature, we remain committed to using only fine quality raw materials and providing consumers with quality natural EBN products. To this end, we have established stringent quality control measures covering raw material procurement, full-chain traceability program, quality assurance scheme, and advanced manufacturing facilities to ensure the purity, natural origin and fine quality of our EBN products, which forms the foundation and safeguards of our success.

Raw material procurement. We have adopted strict grading criteria for imported EBN, based on factors such as shape, color, moisture content, and sialic acid content, and select high-quality swiftlet nests from Indonesia as our raw materials. During the Track Record Period, substantially all of raw nests used in our production process were sourced from suppliers in Indonesia, the largest raw nest production country in the world. In 2020 and 2021, we also sourced a total of RMB1.9 million of raw nests from suppliers in China, which, to the best knowledge of our Directors, imported these raw nests from Malaysia and Thailand. We have implemented strict supplier admission policies and thoroughly review and assess the capabilities and background of all supplier candidates through qualification checks, on-site inspections and sample testing. We only choose the best suppliers who possess complete qualifications, offer the highest quality raw nests, and have the strongest supply capacity.

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Full-chain traceability program. We have established a full-chain traceability program to ensure that we only import compliant and traceable raw nests for our products. Moreover, our traceability program extends beyond the raw materials to cover the entire production process and enables transparency and accountability at every stage of the supply chain. According to the CAIQ, we are the only enterprise that has integrated CAIQ traceability data to its ERP system and achieved full-chain traceability of raw materials.

Quality assurance scheme. We have formulated a stringent quality assurance scheme to ensure the quality of our products. According to the F&S Report, we are the first EBN product company in China that has been certified by the BRC Global Standard for Food Safety and International Food Standard. We have also received major quality accreditations, including the certifications of ISO 9001 Quality Management System, ISO 22000 Food Safety Management System, Hazard Analysis and Critical Control Points, Integrity Management System, and ISO 14001 Environmental Management System.

Advanced manufacturing facilities. We have built our own production bases with a total floor area of approximately 39,300 square meters to house our experienced technical specialists, cutting-edge research and development equipment, and integrated EBN processing production line to focus on the quality and safety of our products and the sustainability of the production process. We adhere to the principle of digitalized manufacturing to present EBN to consumers in their natural and pure form. For ready-to-serve pure EBN products, we strictly follow the principles of “Four Zeros” in manufacturing, i.e., zero-additive, zero-preservative, zero-fat and zero-nitrite. In particular, leveraging our standardized production processes which incorporate low-temperature air energy drying and antibacterial technology, high-temperature glue-free sealing technology and steam stewing technology, our automatic production lines in our GMP-compliant facilities could produce EBN products with a shelf life of up to 24 months without preservatives, presenting our products to consumers in their natural and pure form.

Established sales network with differentiated product offerings

We have established a national sales network covering online and offline channels. We have rapidly expanded our brick-and-mortar sales network through a combination of self-operated stores and distributor-operated stores. As of May 31, 2023, we had established a nationwide offline sales network consisting of 91 self-operated stores and 214 offline distributors covering 614 distributor-operated stores in China. According to the F&S Report, we ranked No.1 as measured by the number of EBN specialty storefronts in 2022 and surpasses the runner-up by over 100%. Our offline sales network has covered all direct-administered municipalities and provincial capitals in China. Our stores are located at prime locations in these cities, as we recognize the vital role storefronts serve for maintaining our brand image, engaging our customers, enhancing customer coverage and loyalty, and promoting the concept of beauty and wellness. We are also expanding into the mass markets to maintain our first-mover advantage in distribution channels. Our strong brand reputation and exceptional product quality have led distributors to foster long-term partnerships with us. The number of our offline distributors increased from 136 as of January 1, 2020 to 214 as of May 31, 2023. Among the 136 distributors as of January 1, 2020, 111, or 81.6%, of them had remained with us as of May 31, 2023.

In addition to the traditional offline channels, we have also expanded our online presence by attracting online distributors, engaging e-commerce platform customers, and establishing online stores on all major e-commerce or social media platforms, such as Tmall, JD.com, Douyin and Xiaohongshu. We adopt a differentiated product and service offering strategy for different channels. For instance, Freshly Stewed Bird’s Nest was launched specifically for online channels with a subscription model, catering to demands from the younger generations.

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Capitalizing on our online and offline presence, we have cultivated a robust pool of private domain traffic through the Yan Palace membership mini program, our Golden Yan Club membership program, and other membership programs on major e-commerce platforms, enabling us to maintain direct contact with our consumers and strengthen our engagement with them. As of the Latest Practicable Date, there were over 1.8 million customers registered in our membership programs. We frequently organize various interactive events for our valued members. For instance, we regularly invite selected members to join a tour in Xiamen, where members not only visit popular tourist sites and enjoy local food, but also have an immersive factory tour, which allows them to further understand our products and connect to our brand. We have also established the Yan Palace Golf Club and organized the National Women’s Golf Tour around the country to promote the sport of golf among women as well as the concept of beauty and wellness. Our membership program and interactive events have resulted in elevated customer loyalty.

A leader in formulating industry standards and an active contributor to public welfare

We have continually spearheaded the formulation of nationwide industry standards. In 2014, we joined forces with China National Institute of Standardization in drafting the first industry standard for dried EBN in China, GH/T 1092-2014, which was a milestone in the industry’s development as it ended the long standing lack of industry standards for dried EBN in China, set guidelines for the quality grading of imported dried EBN and related professional terminology, and provided quantitative and qualitative specifications for sensory and physicochemical quality inspection methods of dried EBN, including specific requirements for nitrite content testing. In 2019, we were invited as an industry leader to participate in the formulation of the national food safety standard for EBN and its products, led by the Xiamen Customs Technology Center and entrusted by National Health Commission, which stipulates the sensory requirements, physicochemical indicators, and pollutant limits for EBN and its products, marking the beginning of the highest level of inspection and testing standard for the EBN industry. In 2019, we participated in the formulation of the first nationwide industry standard for EBN products, Bird’s Nest Products for Light Industry, working alongside with the China National Research Institute of Food Fermentation Industry. This standard classifies EBN products based on their production process and EBN feed ratios and stipulates the sensory and physicochemical quality indicators for the corresponding products, marking the future industry regulation of EBN products produced by different processes. We believe our extensive experience and long-term dedicated research, distilled into these industry standards, will benefit and promote the industry development in the long run, as we are committed to using our expertise to promote the growth and sustainability of the industry.

We work closely with our suppliers in Indonesia to ensure that we only use harvested bird’s nests abandoned by swiftlets. The artificial birdhouses protect swiftlets from their enemies and predators and create a safe breeding environment for them, thereby promoting the healthy growth of the swiftlet population and enabling a sustainable and environmentally friendly manufacturing process. In addition, we continuously invest in the application of green technology to our manufacturing processes to reduce energy consumption and emissions. Taking the example of our Freshly Stewed Bird’s Nest (Eco-Friendly Packaging) in 45g×7 size, it produces approximately 54.1% less carbon emissions compared to the same size of refrigerated delivery packaging. In other words, the carbon emission reduction from 1000 boxes of this EBN product is equivalent to the carbon sequestration of approximately 166 trees in one year. We believe that it is our responsibility to protect the environment and promote sustainable practices in the industry, and we are committed to doing our part to achieve this goal.

We honor our social responsibility and are committed to giving back to the society. We have been recognized for our commitment to social responsibility, and we were named the Pioneer Group in Poverty Alleviation (脫貧攻堅先進集體) in Fujian Province in 2021 and the Annual Role Model for Social Responsibility in the 2021 Beautiful Charity Conference (2021美好公益大會年度責任典範). Mr. Huang, founder and chairman of our Company, was awarded the Pioneer Individual in Poverty Alleviation (脫貧攻堅先進個人) in Gansu Province in 2021.

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Dedicated, visionary and experienced management team leading a group of elite talents in the industry

Our dedicated, visionary and experienced management team has been essential in driving the growth of our business. In particular, Mr. Huang, founder and chairman of our Company, has been engaged in the EBN industry since 1997, amassing extensive industrial experience. Mr. Huang has been recognized with various awards and honors, including, to name a few, the Outstanding Private Sector Entrepreneur in Fujian Province (福建省優秀民營企業家), the New Consumer Annual Focus Figure in 2020 (2020新消費年度關注人物), and the Outstanding Contribution Award at the 2020 Global Bird’s Nest Golden Swallow Awards (2020年度全球燕窩金燕獎卓越貢獻人物獎). In addition, Mr. Wenbin Zheng, our vice chairman, and Mr. Youquan Li, our general manager, both of whom are our Controlling Shareholders, have brought in a wealth of resources and experience in marketing and distribution to our Company since their founding of our Company along with Mr. Huang in 2014, and have significantly contributed to our rapid growth.

Our management place great emphasis on talent. We attract new talents in the industry and maintain our existing employees with fair compensation for their contributions. Additionally, we are committed to continuously nurturing our employees’ growth by establishing the Yan Palace Academy, which is supported by a team of professional trainers and a comprehensive training system. Through these initiatives, we aim to foster an environment that encourages our employees to learn and grow along with our Company, building a strong and dedicated team that is capable of achieving our goals.

GROWTH STRATEGIES

We intend to pursue the following strategies to further grow our business.

Continue to solidify our industry leadership by expanding our product portfolio and strengthening our research and development capabilities

We believe that a high-quality and diversified product portfolio is key to sustaining our competitive edge, enabling sustainable long-term growth and success. We plan to further enrich our product matrix to meet differentiated consumer needs. More specifically, we plan to further improve and upgrade our existing product series by (1) enhancing their taste and introducing new flavors, (2) improving production and sealing processes to ensure product safety and quality, and (3) upgrade our product packaging to target different consumer groups and promotional seasons, while adhering to our low-carbon and environmentally friendly packaging principles. We also plan to explore and develop new EBN products that cater to different consumer groups and life scenarios. For instance, we plan to expand the application of EBN peptides in skincare products to diversify the product portfolio of our sub-brand, *Yan Palace — Yan Bao Shi* (燕寶詩). Leveraging our research into the medicinal properties of EBN and its extracts, we also plan to launch more EBN+ products that meet the specific functional needs of different consumer groups. Moreover, we plan to explore new application scenarios for EBN products through collaborations with leaders from other industries.

To support the expansion of our product portfolio, we plan to increase investment in our research and development capabilities to consolidate our leadership in industry innovation. More specifically, we plan to set up new research and testing laboratories, establish fully-equipped pilot workshops for all product categories, purchase advanced research and development equipment, and recruit professional research and development talents to provide technical support for product development and upgrades. In addition, we plan to establish research institutions devoted to the research and development of EBN products, including (1) Yan Palace Indonesia Joint Laboratory, in collaboration with the National Research and Innovation Agency of Indonesia (印度尼西亞國家研究創新署), to conduct research into various aspects of raw nests, such as raw nest characteristics, EBN product processing techniques and ecological environment protection for swiftlets; (2) Yan Palace Japan Joint Laboratory, in collaboration with Kyoto University and

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Japan Kyushu University, to conduct research and development of EBN and EBN peptides for use in skincare and health food products; and (3) Edible Bird’s Nest Special Food Research Center, dedicated to exploring the application of EBN in specialized foods for medical purposes and targeted diets. As of the Latest Practicable Date, we had launched a joint study program on the absorption and action mechanism of bird’s nest peptides with Kyoto University, and we were at a preliminary stage for the establishment of these research institutions. Furthermore, we will continue to strengthen our collaborations with renowned domestic and international universities and research institutions to conduct specialized research in areas, such as EBN pharmacology, product development, manufacturing automation and intelligent upgrading, to promote the overall development of the EBN industry in China.

Further fortify our sales network to deepen our consumer reach

We will continue to expand and deepen our sales network to increase market penetration and enhance consumer stickiness.

We plan to further penetrate our existing markets by (1) establishing integrated experience stores primarily in tier-1 cities; (2) opening more flagship stores primarily in tier-2 and tier-3 cities; (3) setting up signature stores at major airport hubs and railway stations in Beijing, Shanghai, Xiamen and Shenzhen, among others; (4) introducing various types of stores customized to each storefront location, such as EBN dessert stores and EBN afternoon tea stores, in busy areas such as central business districts and high-end shopping malls, to cover more consumption scenarios; and (5) upgrading the design of existing stores in Beijing, Harbin, Hangzhou and Xiamen, among others, and expanding their area to establish more flagship stores to enhance our premium brand image. With respect to customized stores to cover more consumption scenarios, we plan to fund such strategy with funds generated from our operations.

We plan to further diversify our sales channels. We recognize the high-frequency consumption pattern and the strong market potential of channels such as supermarkets and convenience stores, which are ideal for modern consumers’ fast-paced lifestyles. As such, we plan to enter boutique supermarkets, membership supermarkets and convenience stores to reach a wider range of consumers and introduce both existing and new products tailored to the characteristics of these channels.

We also plan to further expand our online presence. We will continuously analyze online sales data and develop targeted promotion strategies and product combinations that differentiate us from our competitors. We will also focus on growing our membership base and increasing member loyalty and repurchase rates by refining our member community operations and providing personalized services that enhance consumer experience. In addition, we plan to strengthen our presence on emerging e-commerce platforms, such as Douyin and Kuaishou, and collaborate with influencers to enhance brand awareness and increase sales through word-of-mouth marketing activities.

Moreover, we plan to tap into new markets for growth opportunities. We plan to expand our coverage of domestic cities by replicating successful offline sales models in new markets with high population density and growth potential. We also see great potential in markets such as Hong Kong and Macau, where there is already a well-established culture of EBN consumption. Additionally, we plan to gradually establish our distribution network overseas in developed countries with an existing market for EBN consumption and use as well as countries with a large Chinese expatriates.

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Continue to invest in branding building and foster strong and lasting customer relationships

As a well-known brand in China’s beauty and wellness industry, we will continue to invest in brand building to increase our brand recognition and foster strong and lasting customer relationships to increase their loyalty.

We plan to continue to leverage marketing channels proven to be effective, including traditional media channels like television, radio and e-commerce platforms to enhance our brand awareness. In addition, we will reinforce the premium and high-quality brand image of Yan Palace through selected event sponsorships.

We plan to further refine our member community operations to strengthen our relationships with our members, foster a greater sense of trust and loyalty, and build up our own private domain traffic. We will organize offline member events with different themes and formats to create diverse and engaging experiences for our members.

Furthermore, we will increase our marketing and promotion activities in new media and social platforms to enhance our brand exposure in emerging channels and increase engagement with our customers on these platforms.

Strengthening operational capacities in supply chain, expanding production capacities and investing in intelligent manufacturing

We will continue to strengthen our supply chain management capabilities to ensure a robust and efficient supply chain. We plan to establish another production base in Xiamen to house our new production lines. We also plan to increase our warehousing space to meet the increasing demand from a growing sales network by upgrading our existing warehouses and establishing an intelligent logistics warehousing center within our second production base in Xiamen. We will introduce advanced equipment and intelligent management systems to enhance the automation and intelligence of our operations, leading to increased production and supply efficiency, reduced costs and the ability to quickly adapt to changes in market demand.

Moreover, we plan to selectively establish strategic partnerships or seek strategic investment opportunities along the EBN industry value chain, particularly suppliers of high quality raw nests to ensure sufficient and stable supply of key raw materials and maintain control over the quality of our raw material supply. When assessing the investment or acquisition opportunities, we will primarily consider targets that are complementary to our business and are in line with our corporate philosophy and growth strategies. As of the Latest Practicable Date, we had not identified any specific investment or acquisition targets, nor had we negotiated with any specific investment or acquisition targets.

Investing in corporate digitalization to improve operational efficiency

To further enhance our digital capabilities, we are committed to strengthening the digitalization of our business processes through various measures.

We plan to continue to develop our business collaboration platform to achieve cross-functional digital integration of our business, finance, supply chain management, and customer management systems. This will improve our management and operational efficiency and enable us to respond quickly to changes in the market. We will also invest in the construction of a full-channel data platform that supports the digitalization of our business processes. This platform will enable us to integrate our online and offline sales data, analyze consumer preferences and market trend, and optimize our product portfolio and sales strategies using data analytics technology.

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In addition, we will enhance our digital capabilities over membership management by integrating our online and offline member pools and constructing member profiles through data analysis, which we believe will enable us to better understand consumer behavior and provide precise marketing to our members. We will also continue to optimize the system and mini program for membership management by (1) improving online order management system functions to improve system response efficiency and enhance the online customer shopping experience; (2) upgrading our Golden Yan Club membership system and optimizing features in the mini program, such as payment, member center and reward points; and (3) adding new features such as periodic delivery and shopping guide components, provide members with a better service experience.

Moreover, we will continue to invest in our information technology infrastructure to support the digital operation of our business processes. We plan to consolidate the reliability, stability and security of our systems by purchasing advanced software and hardware and strengthening cooperation with cloud service and data service providers.

Continue to invest in our employees

We believe experienced and well-trained employees at all levels are instrumental to our success and future development. Following our tradition of valuing, respecting, inspiring, and cultivating talents, we will continue to make investment to attract, retain and motivate outstanding employees. We will continue to provide our employees with competitive compensation packages and develop a healthy promotion mechanism within our Company to attract and retain talents.

We will also continue to provide employees with guidance and training tailored to their career development paths to improve their professional skills and overall capabilities. More specifically, we will further upgrade the training courses under the Yan Palace Academy to provide more in-depth training in various aspects. We will continue to provide employees with opportunities to achieve their career aspirations, such as job rotation opportunities, to develop comprehensive skills in the edible bird’s nest industry and support our sustainable development and long-term success.

OUR PRODUCTS

We currently have primarily three major product categories, i.e., pure EBN products, EBN+ products and +EBN products. During the Track Record Period, our pure EBN products (with an EBN feed rate of over 1% and up to 6% for ready-to-serve products) consisted primarily of (1) *One Nest* (碗燕), our bowl-shape-canned EBN product series which promotes the lifestyle of beauty and wellness, (2) Freshly Stewed Bird’s Nest (鲜嫩燕窝), our bottle-canned EBN product series primarily targeting e-commerce consumers, (3) Crystal Sugar Bird’s Nest (冰糖官燕), our primary bottle-canned crystal sugar flavored EBN product series, and (4) dried EBN, our traditional EBN product series for customers to prepare their own serving of delicacy. In addition to pure EBN products, we have also developed (i) EBN+ products, primarily including EBN-based products with additional ingredients added to create enhanced flavors and cater to different consumption scenarios, and (ii) +EBN products, primarily including food products using EBN or EBN extracts to enhance flavors and functions such as EBN porridge, and EBN skincare products that use bird’s nest peptides as an enhancement. We will continue to iterate and diversify our product portfolio in response to the evolving consumer demand.

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

	Year ended December 31,						Five months ended May 31,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
	(Unaudited)									
	(RMB in thousands except for percentages)									
Pure EBN products	1,253,900	96.4	1,442,951	95.8	1,638,127	94.7	665,161	95.4	738,613	94.3
— One Nest	559,288	43.0	661,412	44.0	672,640	38.9	287,958	41.3	283,406	36.2
— Freshly Stewed Bird’s Nest	321,144	24.7	423,264	28.1	485,372	28.1	188,664	27.1	215,168	27.5
— Other bottle-canned bird’s nest ⁽¹⁾	201,298	15.5	193,318	12.8	305,105	17.6	122,816	17.6	169,259	21.6
— Dried EBN	172,170	13.2	164,957	10.9	175,010	10.1	65,723	9.4	70,780	9.0
EBN+ and +EBN products	43,051	3.3	56,115	3.7	73,103	4.2	28,619	4.1	37,237	4.8
Others ⁽²⁾	4,206	0.3	7,931	0.5	18,715	1.1	3,096	0.5	6,726	0.9
Total revenue	<u>1,301,157</u>	<u>100.0</u>	<u>1,506,997</u>	<u>100.0</u>	<u>1,729,945</u>	<u>100.0</u>	<u>696,876</u>	<u>100.0</u>	<u>782,576</u>	<u>100.0</u>

(1) Includes primarily Crystal Sugar Bird’s Nest.

(2) Includes non-EBN products, promotional gifts to customers, and products for internal sales.

Pure EBN Products

One Nest (碗燕)

One Nest features ready-to-serve EBN contained in bowl-shaped cans. Launched in 2012, *One Nest* is our signature product series that revolutionarily standardized the manufacturing process of EBN. According to the F&S Report, *One Nest* was one of the earliest mass-produced, ready-to-serve EBN products in China.


By standardizing the manufacturing process of ready-to-serve EBN products, we believe *One Nest* allows consumers to avoid the intricate and time-consuming process of cooking, which frustrates many consumers and deters them from purchasing EBN products. Our standardized manufacturing process enables us to preserve EBN’s original taste in *One Nest*, and at the same time, ensures consistent quality and safety of the products. Through *One Nest*, we have established ourselves as a leading EBN product brand, according to the F&S Report.

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In 2022, we had 54 pure EBN SKUs sold under *One Nest* product series. The standard prices of our pure EBN products under *One Nest* in 2022 ranged from RMB198 to RMB598 per bowl. Such prices depend on various factors including EBN contents per bowl and the number of bowls included in each product box, among others. *One Nest* products typically contain more EBN in each bowl as compared to that in each bottle of Freshly Stewed Bird’s Nest and Crystal Sugar Bird’s Nest. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, the revenue generated from our pure EBN products under *One Nest* was RMB559.3 million, RMB661.4 million, RMB672.6 million, RMB288.0 million and RMB283.4 million, respectively, accounting for 43.0%, 43.9%, 38.9%, 41.3% and 36.2% of our total revenue in the same periods, respectively. The following table sets forth certain key information about our current pure EBN products under *One Nest*.

Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Percentage of EBN content ⁽³⁾	Standard price ⁽⁴⁾ in 2022 (RMB/bowl-shaped can)	Product positioning
Premium Edition (尊享款)		Each box contains six, 12 or 30 bowls. Each bowl weighs 180 grams net.	2014	18 months	Over 3.6%	458	Premium products primarily for gifting
Classic Edition (經典款)		Each box contains three, five, 10 or 30 bowls. Each bowl weighs 180 grams net.	2018	18 months	Over 3.1%	398	Premium to middle-end products primarily for gifting
Honorable Edition (榮耀款)		Each box contains six bowls. Each bowl weighs 108 grams net.	2018	18 months	Over 2.9%	258	Premium to middle-end products primarily for gifting
True Love Edition (甄愛款)		Each box contains 30 bowls. Each bowl weighs 108 grams net.	2019	18 months	Over 3.4%	298	Premium to middle-end products primarily for self-consumption
Little Red Bowl Edition (小紅碗款)		Each box contains one, three or 10 bowls. Each bowl weighs 138 grams net.	2019	18 months	Over 2.7%	298	Premium to middle-end products primarily for self-consumption

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Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Percentage of EBN content ⁽³⁾	Standard price ⁽⁴⁾ in 2022 (RMB/bowl-shaped can)	Product positioning
Deep Love Edition (濃情款)		Each box contains one bowl along with a porcelain bowl. Each bowl weighs 180 grams net.	2016	18 months	Over 3.6%	520	Affordable products primarily for gifting as each box contains only one bowl
Sky Flying Edition (飛天款)		Each box contains six bowls. Each bowl weighs 180 grams net.	2021	18 months	Over 4.7%	598	Premium products primarily for gifting
Blessed Pregnancy (禧孕)		Each box contains 10 bowls. Each bowl weighs 80 grams net.	2022	12 months	Over 3.7%	238	Specifically designed for pregnant female consumers
Star Diamond (星鑽)		Each box contains 10 bowls. Each bowl weighs 100 grams net.	2022	12 months	Over 4.5%	359.9	Premium products primarily for gifting




- (1) Exclusively available for offline channels, except for Star Diamond which is exclusively available for online channels.
- (2) Made from long-length raw nest strips.
- (3) Calculated by dividing the weight of EBN in a given bowl by the net weight of that bowl.
- (4) Applies to the indicated sales channels.

Freshly Stewed Bird's Nest (鮮燉燕窩)

We believe e-commerce consumers have the demand for higher freshness requirements and launched our Freshly Stewed Bird's Nest, which is available primarily for online channels. Our fresh stewed EBN products are bottle-canned and stewed at 115 degrees Celsius, which led to a relatively short shelf life but ensures the freshness. Consumers could order our weekly, monthly or annual packages for such products at different prices. Depending on the consumption frequency specified in a particular package, we deliver three or seven bottles in different volumes to consumers every six or seven days. We believe this package ordering program has enhanced customer stickiness. In addition to our cooperation with industry-leading express courier companies, we have also established a production base that primarily manufactures Freshly Stewed Bird's Nest in Songjiang District, Shanghai to ensure faster delivery. See “—Production—Production Bases.”

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In 2022, there were 75 SKUs sold under Freshly Stewed Bird’s Nest product series. The standard prices of these products in 2022 ranged from RMB86 to RMB249.5 per bottle. Such prices primarily depend on EBN content per bottle, the bottle volume as well as the length and consumption frequency of ordered packages. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our revenue generated from Freshly Stewed Bird’s Nest was RMB321.1 million, RMB423.3 million, RMB485.4 million, RMB188.7 million and RMB215.2 million, respectively, accounting for 24.7%, 28.1%, 28.1%, 27.1% and 27.5% of our total revenue in the same periods, respectively. The following table sets forth certain key information about our current Freshly Stewed Bird’s Nest products.

Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Percentage of EBN content ⁽³⁾	Standard price ⁽⁴⁾ in 2022 (RMB/bottle)	Product positioning
Environmental-friendly Edition (環保款)		Each bottle weighs 45 grams or 70 grams net. Customers could order boxes that contain different number of bottles with different net content, i.e., 45 grams x seven bottles, 70 grams x three bottles and 70 grams x seven bottles, depending on their consumption frequency.	2022	15 days	Over 4.4% (bottles weighted 45 grams net) Over 5.0% (bottles weighted 70 grams net)	133 (bottles weighted 45 grams net) 228 (bottles weighted 70 grams net)	Middle-end products primarily for self-consumption
Refrigerated Edition (冷藏款)		Each bottle weighs either 45 grams or 70 grams net. Customers could order boxes that contain different number of bottles with different net content, i.e., 45 grams x seven bottles, 70 grams x three bottles and 70 grams x seven bottles, depending on their consumption frequency.	2021	15 days	Over 4.4% (bottles weighted 45 grams net) Over 5.0% (bottles weighted 70 grams net)	133 (bottles weighted 45 grams net) 228 (bottles weighted 70 grams net)	Middle-end products primarily for self-consumption
Fresh Enjoyment Edition (鮮享裝)		Each box contains three or seven bottles. Each bottle weighs 45 grams net.	2020	15 days	Over 3.3%	86	Affordable products primarily for self-consumption

(1) Exclusively available for online channels.

(2) Made from medium-length raw nest strips.

(3) Calculated by dividing the weight of EBN in a given bottle by the net weight of that bottle.

(4) Applies to online channels.

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Other Bottle-canned Bird’s Nest

Other bottle-canned bird’s nest is our traditional EBN product series, primarily including Crystal Sugar Bird’s Nest. We produce product series in accordance with traditional Chinese recipes that preserve the original taste of EBN as a delicious dish in traditional Chinese cuisine. Compared to Freshly Stewed Bird’s Nest, Crystal Sugar Bird’s Nest products generally have a longer shelf life of 24 months. In 2022, we had 35 pure EBN SKUs sold under other bottle-canned bird’s nest. The standard prices of these products in 2022 ranged from RMB66.3 to RMB169.9 per bottle. Such prices primarily depend on EBN content per bottle, the bottle volume and the number of bottles included in each product box. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, the revenue generated from our pure EBN products under other bottle-canned bird’s nest was RMB201.3 million, RMB193.3 million, RMB305.1 million, RMB122.8 million and RMB169.3 million, respectively, accounting for 15.5%, 12.8%, 17.6%, 17.6% and 21.6% of our total revenue in the same periods, respectively. The following table sets forth certain key information about our current pure EBN products under other bottle-canned bird’s nest.

Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Percentage of EBN content ⁽³⁾	Standard price ⁽⁴⁾ in 2022 (RMB/bottle)	Product positioning
Crystal Sugar Bird’s Nest for offline channels (冰糖官燕線下款)		Each box contains six or 12 bottles. Each bottle weighs 75 grams net.	2022	24 months	Over 1.6%	80	Affordable products for both gifting and self-consumption
Blooming Castle Edition (花漾城堡系列)		Each box contains five, eight, 15 or 30 bottles. Each bottle weighs 70 grams net.	2021	24 months	Over 2.1%	95	Affordable products primarily for gifting
Sugar Free Edition (悦·享零糖燕窩)		Each box contains 10 bottles. Each bottle weighs 60 grams net.	2022	100 days	Over 3.3%	169.9	Middle-end products primarily for gifting

(1) Exclusively available for online channels, except for Crystal Sugar Bird’s Nest for offline channels.

(2) Made from short-length raw nest strips.

(3) Calculated by dividing the weight of EBN in a given bottle by the net weight of that bottle.



(4) Applies to the indicated sales channels.

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Dried EBN

We rigorously select high-quality raw nests in the intact shape of a shallow cup for customers to prepare their own serving of delicacy. We grade such intact raw nests depending on their length, height and weight. For example, we grade intact raw nests with a length not less than 12.5 cm, a height not less than 4.0 cm, and a weight not less than 6.5 grams as 6A nests. Consumers could turn these intact raw nests into various dishes of their choosing through their own preparation process, which at least includes soaking and feather picking. In addition, we also provide consumers with dried EBN that have gone through certain processes, such as soaking, feather picking, cleaning and drying, so that these products are available for instant stewing, avoiding hours of preparation by our customers.

In 2022, we had 30 SKUs sold under our classic dried EBN product series. The standard prices of intact raw nests in 2022 ranged from RMB28 to RMB88 per gram. Such prices primarily depend on the grades of raw nests and the weight per intact nest. The standard prices of dried EBN for instant stewing (即燉乾燕窩) in 2022 was RMB440 per serving. Each serving weights approximately five grams. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, the revenue generated from our classic dried EBN product series was RMB172.2 million, RMB165.0 million, RMB175.0 million, RMB65.7 million and RMB70.8 million, respectively, accounting for 13.2%, 10.9%, 10.1%, 9.4% and 9.0% of our total revenue in the same periods, respectively. The following table sets forth certain key information about our current classic dried EBN products.

Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Weight (gram/box, unless otherwise indicated)	Standard price ⁽³⁾ in 2022 (RMB/box)	Product positioning
4A Intact Nests		Made from grade 4A intact raw nests with a length ranged from 8.0 to 12.0 cm, a height not less than 3.3 cm, and a weight not less than 4.0 grams.	2020	36 months	100 grams	5,200	Middle-end products primarily for gifting
6A Intact Nests		Made from grade 6A intact raw nests with a length not less than 12.5 cm, a height not less than 4.0 cm, and a weight not less than 6.5 grams.	2018	36 months	100 grams	8,800	Premium to middle-end products primarily for gifting
Dried EBN for Instant Stewing		Made from raw nests that have gone through certain processes, such as soaking, feather picking, cleaning and drying.	2015	36 months	12 servings per box, each weighs five grams	5,280	Premium products primarily for gifting

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Product ⁽¹⁾	Illustration	Description ⁽²⁾	Launch year	Shelf life	Weight (gram/box, unless otherwise indicated)	Standard price ⁽³⁾ in 2022 (RMB/box)	Product positioning
China Red (中國紅)		Made from five-star intact raw nests with a length not less than 12.0 cm, a height not less than 4.0 cm, and a weight not less than 5.5 grams.	2021	36 months	50 grams	3,400	Premium products primarily for gifting

- (1) Exclusively available for offline channels, except for China Red which is exclusively available for online channels.
- (2) To avoid competition between our online and offline sales channels, we grade dried EBN products exclusively available for online channels from three stars to five stars. For dried EBN products targeting offline consumers, we grade them from grade 4A to 6A.
- (3) Applies to the indicated sales channels.

The following table sets forth a breakdown of our sales volume and average selling price per minimum unit or gram by product series for the periods indicated.




	Year ended December 31,						Five months ended May 31,			
	2020		2021		2022		2022		2023	
	Sales volume	Average selling price ⁽¹⁾	Sales volume	Average selling price ⁽¹⁾	Sales volume	Average selling price ⁽¹⁾	Sales volume	Average selling price ⁽¹⁾	Sales volume	Average selling price ⁽¹⁾
One Nest (pure EBN)	3,430,930	RMB163	3,855,506	RMB172	3,868,281	RMB174	1,648,520	RMB175	1,596,938	RMB177
	bowls	per bowl	bowls	per bowl	bowls	per bowl	bowls	per bowl	bowls	per bowl
Freshly Stewed Bird's Nest	5,943,315	RMB54	8,116,586	RMB52	8,941,642	RMB54	3,564,531	RMB53	4,066,314	RMB53
	bottles	per bottle	bottles	per bottle	bottles	per bottle	bottles	per bottle	bottles	per bottle
Other bottle-canned bird's nest (pure EBN) ⁽²⁾	5,162,726	RMB39	4,366,735	RMB44	7,162,425	RMB43	2,719,766	RMB45	4,056,142	RMB42
	bottles	per bottle	bottles	per bottle	bottles	per bottle	bottles	per bottle	bottles	per bottle
Dried EBN	6,064	RMB28	5,949	RMB28	6,497	RMB27	2,319	RMB28	2,658	RMB27
	kilograms	per gram	kilograms	per gram	kilograms	per gram	kilograms	per gram	kilograms	per gram

- (1) Calculated by dividing the total revenue from a given product series in the indicated period with the total sales volume of such product series sold in same period.
- (2) Includes primarily Crystal Sugar Bird's Nest.

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EBN+ Products

We have also developed EBN+ products, primarily including EBN-based products (with an EBN feed rate of 1% or above and up to 5%) with additional tonic ingredients to create enhanced flavors and cater to different consumption scenarios, such as *One Nest — Vitality* (碗燕—元氣款) and *Crystal Sugar Bird’s Nest with Ginseng* (人參冰糖官燕). In addition, we have also launched *Little Blue Bottle* (晚安小藍瓶) product series under EBN+ product category, which add gamma-aminobutyric acid to produce a calming effect and improve sleep quality. In 2022, we had 22 SKUs for EBN+ products. The following table sets forth certain key information about our current EBN+ products.

Product ⁽¹⁾	Illustration	Description	Launch year	Shelf life	Percentage of EBN content ⁽²⁾	Standard price ⁽³⁾ in 2022 (RMB/bottle or bowl-shaped can)
One Nest — Vitality		EBN-based products made from long-length raw nest strips with additional tonic ingredients including matsutake, ginseng, white fungus and wolfberry. Each box contains two or 10 bowls. Each bowl weighs 138 grams net.	2020	12 months	Over 1.3%	198
Crystal Sugar Bird’s Nest with Ginseng		Made from short-length raw nest strips. Each box contains eight bottles. Each bottle weighs 70 grams net.	2019	18 months	Over 2.1%	98.5
Little Blue Bottle		EBN-based products with gamma-aminobutyric acid to produce a calming effect and improve sleep quality. Each box contains two or six bottles. Each bottle weighs 50 grams net.	2022	12 months	Over 2.0%	99.5

(1) Exclusively available for online channels, except for One Nest—Vitality, which is exclusively available for offline channels.

(2) Calculated by dividing the weight of EBN in a given bowl/bottle by the net weight of that bowl/bottle.

(3) Applies to the indicated sales channels.





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+EBN Products

Leveraging our in-depth understanding of EBN extract accumulated over decades of product research and development, we have expanded the value chain of the EBN industry by developing innovative +EBN products, including food products, such as EBN porridge, EBN zongzi, various EBN beverages, and introduced a line of EBN skincare products that use bird’s nest peptides as an enhancement. Our +EBN products contain EBN or EBN extracts as an enhancement for elevated nutrition or other benefits. +EBN food products are products that use EBN (with an EBN feed rate of less than 1%) and other food ingredients as raw materials. +EBN skincare products are products that contain EBN or EBN extracts. In 2022, we had 34 SKUs for +EBN products.

In March 2023, we commercially launched our skincare product series featuring small molecule bird’s nest peptide as an enhancement under our sub-brand of “*Yan Palace — Yan Bao Shi*” (燕寶詩). With our proprietary modern enzymatic hydrolysis technology, we are able to convert functional macromolecular protein of EBN extracts into active small molecules peptide, which has the functions of repairing skin damage, anti-aging and anti-oxidation, among others. We are one of the first movers in the industry that launched skincare products featuring bird’s nest peptide, according to the same source. As of the Latest Practicable Date, our skincare product series included facial masks, essence, essence mist, facial cleanser, hand cream and facial cleansing wipes.

The following table sets forth certain key information about our current +EBN products.

Product ⁽¹⁾	Illustration	Description	Launch year	Shelf life	Percentage of EBN content ⁽²⁾ (unless otherwise indicated)	Standard price ⁽³⁾ in 2022
EBN porridge		Each box contains six bowls. Each bowl weighs 252 grams net.	2023	12 months	Over 0.26%	RMB36.5/bowl
Iced EBN zongzi		Each box contains eight zongzis with different flavors. Each zongzi weighs 60 grams net.	2023	Three months	Over 0.58%	RMB46/zongzi
Drinkable EBN essence with ginsengs		Each box contains 10 bottles, the volume of each is 25 milliliters.	2022	12 months	100 milligrams/	RMB98.8/bottle bottle
EBN facial masks		Each box contains two masks.	2023	Three years	Not applicable (EBN as non-food additive)	RMB199/box

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- (1) Available for both online and offline channels, except for iced EBN zongzi and drinkable EBN essence with ginsengs which are exclusively for offline channels.
- (2) Calculated by dividing the weight of EBN in a given bowl/zongzi by the net weight of that bowl/zongzi.
- (3) Applies to the indicated sales channels.

OUR SALES NETWORK

We have a broad sales network for our products, covering both online and offline channels. We not only engage distributors to distribute our products through their online and offline stores but also sell directly to customers through self-operated online and offline stores. In addition, we have engaged e-commerce platforms as our customers to further expand our online channels. The following table sets forth a breakdown of our revenue by sales channel for the periods indicated.

	Year ended December 31,						Five months ended May 31,			
	2020		2021		2022		2022		2023	
	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue	RMB	Percentage of total revenue
	(Unaudited)									
	(RMB in thousands except for percentages)									
Offline channels	578,506	44.5	738,711	49.0	791,991	45.8	333,941	47.9	353,209	45.2
— Sales to offline distributors . . .	409,777	31.5	509,917	33.8	477,525	27.6	198,716	28.5	208,563	26.7
— Direct sales to offline customers .	168,729	13.0	228,794	15.2	314,466	18.2	135,225	19.4	144,646	18.5
Online channels	722,651	55.5	768,286	51.0	937,954	54.2	362,935	52.1	429,367	54.8
— Direct sales to online customers .	575,220	44.1	564,587	37.4	695,265	40.2	264,361	38.0	327,802	41.8
— Direct sales to e-commerce platforms ⁽¹⁾	137,545	10.6	189,196	12.6	227,071	13.1	92,228	13.2	93,700	12.0
— Sales to online distributors . . .	9,886	0.8	14,503	1.0	15,618	0.9	6,346	0.9	7,865	1.0
Total	1,301,157	100.0	1,506,997	100.0	1,729,945	100.0	696,876	100.0	782,576	100.0

(1) Include sales to platform-operated online stores by JD.com, Vipshop and Tmall Supermarket, among others.

Our Offline Channels

We have established a nationwide offline sales network covering substantially all provincial administrative divisions across China. We engage distributors to distribute our products. In addition, we also sell directly to consumers through our self-operated stores. As of May 31, 2023, we had 91 self-operated stores in 14 cities and 614 stores operated by 214 distributors in 202 cities. The following table sets forth a breakdown of the number of our distributors by city tier as of the dates indicated.

	As of December 31,			As of May 31,
	2020	2021	2022	2023
Offline distributors	155	195	225	214
— Tier 1 cities	8	30	37	31
— New tier 1 cities	17	21	24	20
— Tier 2 cities	28	30	29	30
— Other cities	102	114	135	133
Online distributors	6	8	13	13
Total	161	203	238	227

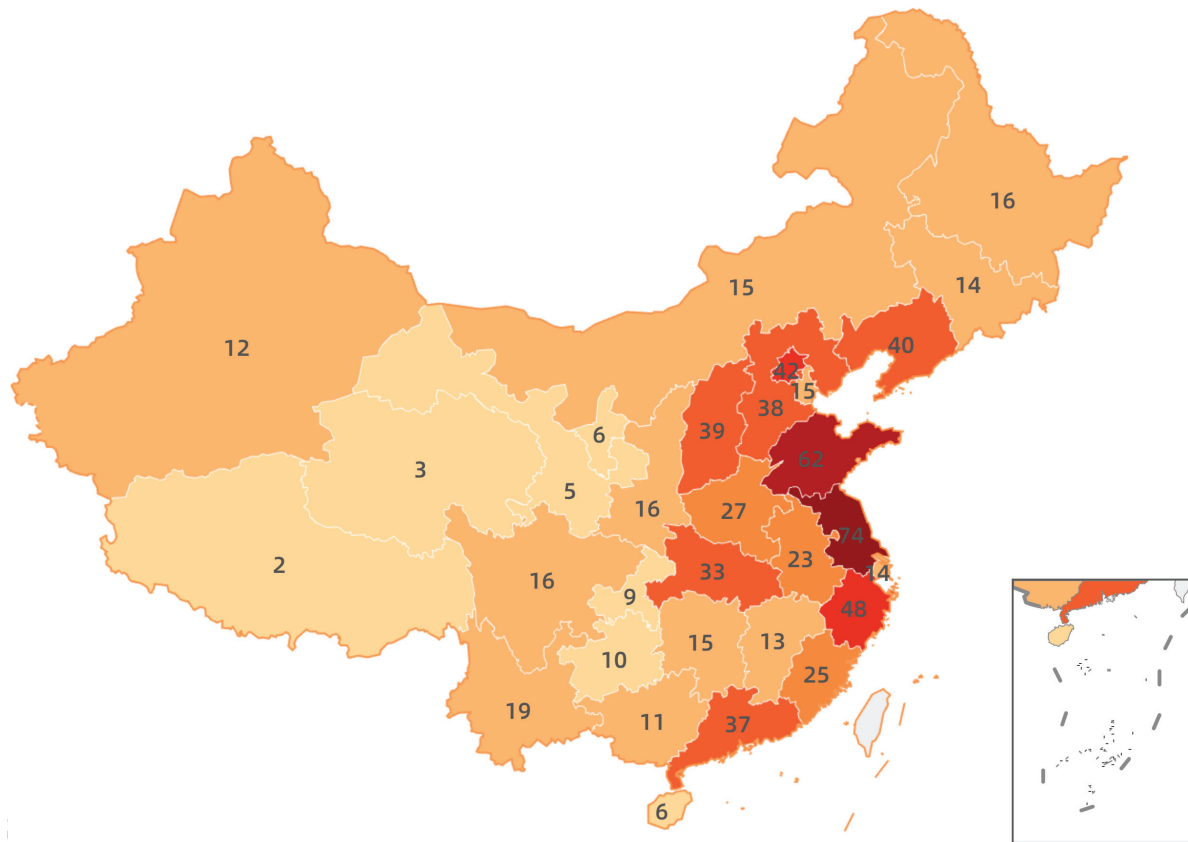
BUSINESS

Our distributorship and direct-sale network complement each other in geographic coverage and consumer reach. We leverage our distributors’ understanding of and resources in local markets to quickly expand our presence in various regions in an asset-light manner. Meanwhile, we establish our own self-operated stores to strengthen our brand image and engage with customers directly. We designate pre-determined distribution areas for distributor-operated stores as defined in their respective distribution agreements to avoid unnecessary competition among stores. Moreover, for certain greenfield markets that require substantial upfront investment, we may tap into those markets by establishing our self-operated stores, cultivating customer relationships and leading marketing initiatives in such market. We operate all self-operated stores through their respective local operation team under the supervision of our headquarters-level operating staff. We require both self-operated stores and distributor-operated stores to reflect our unique decoration style in a consistent manner and offer our products and services with consistent quality. The following images illustrate the typical decoration style of our storefronts.



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The following map is an illustration of the geographic coverage and the number of our stores as of May 31, 2023.



The following table sets forth the total number of our offline stores and their movements (including addition and termination) for the periods indicated.

	Year ended December 31,			Five months ended May 31, 2023
	2020	2021	2022	
Number of offline stores at the beginning of the period	455	523	633	704
— Self-operated offline stores	43	40	89	89
— Distributor-operated offline stores	412	483	544	615
Number of new offline stores	108	218	143	79
— Self-operated offline stores	5	56	13	3
— Distributor-operated offline stores	103	162	130	76
Number of terminated offline stores	40	108	72	78
— Self-operated offline stores	8	7	13	1
— Distributor-operated offline stores	32	101	59	77
Number of offline stores at the end of the period	523	633	704	705
— Self-operated offline stores ⁽¹⁾⁽²⁾	40	89	89	91
— Distributor-operated offline stores ⁽²⁾	483	544	615	614

- (1) Our self-operated offline stores as of May 31, 2023 were located in 14 cities, including Beijing, Fuzhou, Guangzhou, Harbin, Jilin, Kunming, Xiamen, Shenzhen, Songyuan, Taiyuan, Tonghua, Changchun, Suihua and Mudanjiang.
- (2) As of May 31, 2023, certain of our self-operated offline stores and distributor-operated offline stores were located in the same cities, including Beijing, Harbin, Changchun, Taiyuan, Guangzhou and Shenzhen. We engaged distributors in these cities to leverage their resources in untapped areas within such cities. We manage the cannibalization risk among our self-operated offline stores and distributor-operated offline stores within the same cities through clear delineation of geographic distribution scope.

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During the Track Record Period, the numbers of our self-operated offline stores and distributor-operated stores both experienced increases. The increase in the number of stores during the Track Record Period was attributable to our business growth in general. According to the F&S Report, we ranked No.1 as measured by the number of EBN specialty storefronts in 2022, surpassing the runner-up by over 100%. As of May 31, 2023, our stores had a nationwide presence covering over 200 cities in China, with a strong foothold in all tier-1 cities and the majority of new tier-1 cities. Our stores are located at prime locations in these cities, as we recognize the vital role storefronts serve for maintaining our brand image, engaging our customers, enhancing customer coverage and loyalty, and promoting the concept of beauty and wellness. In recent years, we have been expanding our reach into tier-2 and tier-3 cities to allow more customers to have access to our products.

During the Track Record Period, we terminated certain self-operated offline stores, primarily due to either their unsatisfactory operating results or the increased leasing expenses. The termination of distributor-operated offline stores during the Track Record Period was mostly voluntary by the relevant distributors themselves due to their underperformance. In 2021, we recorded 101 terminated distributor-operated offline stores, primarily because we terminated certain small-scale distributors with infrequent orders, in part motivated by a shift in our strategic focus to promote direct sales in certain cities. These terminated distributor-operated offline stores contributed an insignificant portion of our revenue in the previous year prior to the termination. In the five months ended May 31, 2023, we recorded 77 terminated distributor-operated offline stores, primarily as a result of our efforts to optimize our distribution network. In particular, we ceased to collaborate with certain distributors that failed to meet our performance target. The termination of those distributor-operated offline stores during the Track Record Period did not have any material adverse effect on our operations or financial condition.

Our Offline Distributors

As of December 31, 2020, 2021 and 2022 and May 31, 2023, there were 155, 195, 225 and 214 distributors in our offline distribution network, respectively. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, the revenue generated from our sales to offline distributors was RMB409.8 million, RMB509.9 million, RMB477.5 million, RMB198.7 million and RMB208.6 million, respectively, representing 70.8%, 69.0%, 60.3%, 59.5% and 59.0% of our revenue generated from offline channels, respectively.

We allow our offline distributors to engage sub-distributors. Our offline distributors occasionally develop sub-distributors to leverage their coverage of the underserved areas within the same city or the peripheral regions. As of December 31, 2020, 2021 and 2022 and May 31, 2023, we had 17, 14, 18 and 18 sub-distributors, respectively. As of May 31, 2023, the sub-distributors were all Independent Third Parties with relevant experience and resources in local EBN or consumer goods markets. During the Track Record Period, there was no revenue directly generated from the sub-distributors, as we did not have any purchase, payment or other direct transaction with the sub-distributors and they purchased our products from our distributors. Although we do not enter into a distribution agreement with the sub-distributors, we require our distributors to notify us of their engagement with sub-distributors and we pay visits to the sub-distributors.

Our relationship with offline distributors is a buyer and seller relationship, as offline distributors acquire ownership of the products we deliver to them. We do not accept returns and only allow exchanges for limited circumstances such as quality defects or damages during transportation. According to the F&S Report, our product return and exchange policy for offline distributors is common in the industry. We recognize sales revenues from offline distributors when control over our products is transferred to them.

We generally designate one distributor within a specific city. Our offline distributors are responsible for the daily operations of their own offline stores. However, we exert strong control over material aspects of distributor-operated offline stores, covering the decoration, marketing and promotional materials to be used by such stores, as well as the display of our products.

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We require all distributors to adhere to our pricing guidelines, which establishes the standard prices at which our products shall be sold to retail customers.

In 2020, 2021, 2022 and the five months ended May 31, 2023, the revenue attributed to our returned products from offline channels as a percentage of our revenue generated from offline channels was 0.19%, 0.16%, 0.07% and 0.07%, respectively.

Our Online Channels

Our online sales network consists of self-operated online stores, distributor-operated online stores and e-commerce platforms. As of May 31, 2023, we had 23 self-operated online stores and 13 distributor-operated online stores on mainstream e-commerce or social media platforms such as JD.com, Tmall and Douyin. In addition, we began to engage e-commerce platforms to distribute our products through platform-operated online stores in 2018 to further expand our online presence. As of May 31, 2023, we had 15 e-commerce platforms as our customers, including JD.com, Vipshop and Tmall Supermarket, among others.

The following table sets forth the number of our online stores by type as of the dates indicated.

	As of December 31,			As of May 31,
	2020	2021	2022	2023
Online stores				
Self-operated stores	12	18	23	23
Distributor-operated stores	6	8	13	13
Total	18	26	36	36

Online Channel Management

Store management. All self-operated online stores are managed and operated by our e-commerce operation team. Online distributor-operated stores are managed and operated by online distributors, while the marketing materials used by and promotional events held by such stores are subject to our supervision. For e-commerce platform customers, online stores are owned and managed by e-commerce platforms, and we generally provide operational assistance by designating operational staff to such stores and providing online marketing materials. In particular, the designated operational staff to each of our e-commerce platform customers regularly communicate with them regarding the sales of our products, assist them in designing promotional activities and produce marketing materials such as promotion images for our products. We also assign our customer service staff to these e-commerce platform customers to more efficiently resolve questions concerning our products from their end customers.

Order and delivery. For all self-operated online stores, we handle customer orders and payments and deliver products to customers directly. For distributor-operated online stores, we receive orders from distributors and ship products in the manner mandated by the order, usually to retail customers directly. For e-commerce platform customers, we take orders from such customers; per their instructions, our products may be shipped either to such customers’ warehouses or to retail customers directly.

Payment. We generally receive payments from retail customers upon order. For online distributors, we generally receive payments from them before a fixed date each month. For e-commerce platform customers, we settle payment with them according to respective cooperation agreements with such customers and typically on a monthly basis.

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Product return and exchange. All the e-commerce platforms we work with impose a seven-day return/exchange policy, which allows consumers to return or exchange our products within seven days after the delivery for no cause if the product is unopened in their original packaging. For all products sold online (other than Freshly Stewed Bird’s Nest), we abide by the return/exchange policies imposed by e-commerce platforms. Returned products are shipped directly to our warehouses. We typically do not re-sell these returned products even if they are not defective in quality and still within the shelf life. In limited circumstances such as quality defects or late deliveries that exceed two-thirds of the shelf life of our products, online distributors are allowed to request for return or exchange within seven days. In 2020, 2021, 2022 and the five months ended May 31, 2023, the revenue attributed to our returned products from online channels as a percentage of our revenue generated from online channels was 2.1%, 1.1%, 2.5% and 1.6%, respectively.

We manage the cannibalization risk among offline stores through clear delineation of geographic distribution scope. Additionally, we have differentiated product offerings for online channels and offline channels to avoid unnecessary competition between online and offline channels. For example, Freshly Stewed Bird’s Nest was specifically designed for online channels and quickly gained traction after its launch. Given that online distribution of EBN products is highly fragmented and each e-commerce platform has its own target user base with varied user profiles according to the F&S Report, we believe cannibalization risk among online distributors is relatively low and therefore have not installed measures that particularly address the cannibalization risk among online distributors.

Selection of New Distributors

As part of our commitment to maintaining high standards, we select new distributors throughout the year and conduct annual assessment of existing distributors. We have implemented rigorous selection criteria for new distributors to ensure that they are well equipped to represent our brand and promote our products.

Major considerations of our offline distributor selection criteria include:

- *Business qualification.* We require offline distributor candidates to obtain all requisite business licenses and permits to carry out businesses covering at least sales of EBN products.
- *Business premises.* Successful candidates shall be able to establish stable business premises within agreeable locations pursuant to our standards.
- *Financial resources.* Successful candidates must demonstrate their ability to access adequate financial resources to establish and operate new stores effectively.
- *Management ability.* We assess candidates’ operational and management capabilities through previous or current business experience.
- *Sales force.* Distributors must have the ability to establish a sales force to effectively distribute our products.
- *Marketing experience or resources.* Candidates with relevant marketing experience or resources that can help promote the sales of our products are strongly preferred.

Major considerations of our online distributor selection criteria include:

- *E-commerce team.* Candidates must be able to establish an e-commerce team that is capable of online store management and operation, online marketing and promotion, art design and customer service.

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- *Successful e-commerce operation experience.* Candidates must demonstrate their e-commerce operational and management capabilities through successful e-commerce operation experience.
- *Detailed e-commerce operation plan.* Candidates must submit an operation plan for the upcoming year, which includes certain details such as sales target and budget.
- *Resourcefulness.* Candidates with demonstrated resources that could promote online store development, such as resources in the e-commerce live streaming industry, are strongly preferred.
- *Minimum sales target.* Online distributor candidates shall have the ability to satisfy our minimum sales target for each procurement cycle.

We conduct a stringent annual assessment to review our business relationships with existing distributors. Our primary evaluation criteria, among others, are the actual annual purchase amount, store establishment as well as advertising and marketing activities. In cases where dishonest or illegal operations, intellectual property infringement, or other improper behaviors that could damage our brand are discovered, we may terminate our business relationship with such distributors and take any other prompt and appropriate action to safeguard our brand.

The following table sets forth the total number of our distributors and their movements (including addition and termination) for the periods indicated.

	Year ended December 31,			Five months ended May 31, 2023
	2020	2021	2022	
Number of distributors at the beginning of the period	136	161	203	238
— Offline	136	155	195	225
— Online	0	6	8	13
Number of new distributors	28	57	53	24
— Offline	22	54	45	20
— Online	6	3	8	4
Number of terminated distributors	3	15	18	35
— Offline ⁽¹⁾	3	14	15	31
— Online	0	1	3	4
Number of distributors at the end of the period	161	203	238	227
— Offline	155	195	225	214
— Online	6	8	13	13

(1) We acquired four distributors in 2021, which have become our subsidiaries since then. Such distributors were counted as terminated distributors in 2021. See “History, Development and Corporate Structure—Major Acquisitions, Disposals and Mergers.”

The addition of new distributors during the Track Record Period was primarily attributable to our business growth in general. In 2021, due to our acquisitions of four distributors, we engaged the sub-distributors of these distributors directly, who were previously not in privity with us. The termination of distributors during the Track Record Period was mostly voluntary by themselves due to underperformance of these distributors. In the five months ended May 31, 2023, we terminated 31 offline distributors. The termination was primarily driven by our efforts to optimize our distribution network. In particular, we ceased to collaborate with certain distributors that failed to meet our performance target.

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Additionally, we terminated certain small-scale distributors with infrequent orders during our collaboration term in Beijing, in part motivated by a shift in our strategic focus to promote direct sales in Beijing following the acquisition of the then local distributor in 2021. These terminated 31 offline distributors contributed an insignificant portion of our revenue in the previous year prior to the termination. The termination of these distributors did not have any material adverse effect on our operations or financial condition.

During the Track Record Period and up to the Latest Practicable Date, we had an unsettled litigation with a terminated online distributor (and its absolute controlling shareholder) which defaulted on several payments for our products, where we demanded compensation of approximately RMB1.5 million including interests accrued. As of the Latest Practicable Date, we had not received final judgment from the court for this unsettled litigation. Save for this unsettled litigation, during the Track Record Period and up to the Latest Practicable Date, there were no material unsettled disputes or litigations between terminated distributors and us.

We value our distributors’ business operation capabilities and their cooperative relationships with us. The number of our offline distributors increased from 136 as of January 1, 2020 to 214 as of May 31, 2023. Among the 136 distributors as of January 1, 2020, 111, or 81.6%, of them had remained with us as of May 31, 2023. We do not rely on any single distributor or a few distributors. Our revenue from any single distributor accounted for no more than 5% of our total revenue during the Track Record Period.

During the Track Record Period and up to the Latest Practicable Date, we had not provided any financial assistance to any of our distributors for any purpose. During the Track Record Period, in addition to Beijing Tianfeiyuan, Changchun Jinyanhui, Harbin Jinyanhui, Taiyuan Jixiangyan and the distributorship businesses controlled by Mr. Zheng, Ms. Xue and Mr. Li and his spouse that had been consolidated into these four subsidiaries prior to our acquisitions, we had (1) two distributors each controlled by a former employee of ours; (2) one distributor, namely Tianjin Union Yutai Trading Co., Ltd. (天津市合聯裕泰商貿有限公司) (“Union Yutai”), which is held as to 38.5% by Mr. Zheng and will continue to conduct business with us after [REDACTED] (see “Connected Transactions” for further details); (3) one distributor, namely Fuding Yixing Trading Co. (福鼎市怡興貿易商行), which is controlled by an associate of Mr. Huang and no longer had business relationship with us; and (4) one distributor, namely Beijing Sanhe Tianrun Trading Co., Ltd. (北京三和天潤商貿有限公司), which is controlled by Mr. Liu and no longer had business relationship with us. See “History, Development and Corporate Structure—Major Acquisitions, Disposals and Mergers” for details of our acquisitions of Beijing Tianfeiyuan, Changchun Jinyanhui, Harbin Jinyanhui and Taiyuan Jixiangyan. See also “—Our Customers” for details of Union Yutai. Save as disclosed above, to the best of our knowledge after reasonable inquiry, all of our distributors during the Track Record Period were Independent Third Parties.

Major Terms of Distribution Agreements

We typically enter into standard distribution agreements with our distributors. Major terms of our standard distribution agreements with offline distributors include:

- *Duration.* The duration of distribution agreements is typically three year. We may renew the distribution agreements in the event that offline distributors pass our assessment.
- *Exclusivity.* We require our distributors to sell only our products unless with our permission.
- *Right to use our trademark.* We authorize offline distributors to use our trademarks within the duration and scope of distribution agreements.
- *Offline store operations.* Offline distributors shall establish offline stores according to our unified decoration standards. Supplies and promotional materials required for display in offline stores shall all be provided by us.

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- *Management on prices.* We provide offline distributors with standard prices of our products according to our price system. Offline distributors shall abide by our price system. Except for our brand-wide promotional events, any adjustment made to standard prices requires a written application from distributors for our approval. We generally allow a deviation from our standard pricing of less than 20% in the forms of gifts and price discounts.
- *Sales rebates.* We provide sales rebates to offline distributors upon their satisfaction of performance requirements. We primarily look at their procurement volume and their contribution to distribution network expansion and marketing events. Such sales rebates can be applied to their future purchase of our products.
- *Scope of distribution.* Offline distributors are only permitted to sell our products in a predetermined geographic area. They are prohibited from distributing our products through any online channels without our approval. They are also prohibited from distributing any products that are similar to our products.
- *Sub-distribution.* We authorize our offline distributors to set up and sell products to offline sub-distributors. We generally do not require sub-distributors to enter into direct agreements with us.
- *Payment.* We require offline distributors to make payment before the delivery of our products. We may provide short-term payment period for certain offline distributors with excellent qualifications and stable business relationships with us.
- *Logistics.* After offline distributors make the payment, we deliver our products according to the time and method specified in the purchase order.
- *Limitations on return or exchange.* We typically do not accept return or exchange of products from offline distributors. We only allow product exchanges under limited circumstances such as quality defects or damages during transportation.
- *Termination.* Grounds for termination under the distribution agreements include, among others, unauthorized usages of our trademark, selling products of our competitors or any counterfeits of our products and other actions that are harmful to our interests. We are entitled to terminate the distribution agreements if offline distributors breach the distribution agreements.

Major terms of our standard distribution agreements with online distributors include:

- *Duration.* The duration of distribution agreements is typically one year. The distribution agreements can be renewed upon mutual agreement.
- *Exclusivity.* We require our distributors to sell our products exclusively on the designated e-commerce platform unless with our permission.
- *Right to use our trademark.* We authorize online distributors to use our trademarks within the duration and scope of distribution agreements.
- *Management on prices.* Online distributors shall abide by our price system that included in the purchase agreement. Except for our brand-wide promotional events, any adjustment made to the standard price by online distributors requires an additional price adjustment agreement with us. We generally allow a deviation from our standard pricing of less than 20% in the forms of gifts and price discounts.

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- *Scope of distribution.* Online distributors are only authorized to distribute our products through their online stores. They are prohibited from distributing or promoting our products through any other sales channels.
- *Sub-distribution.* Our online distributors are not allowed to engage sub-distributors, or assign their rights or obligations to any third party.
- *Payment and delivery.* We generally deliver our products after receiving the orders from e-commerce consumers who have made the payments online and settle full payments with online distributors on a monthly basis for such orders.
- *Limitations on return or exchange.* In the event that a customer refuses to accept the delivery of our products or requests to return our products unopened and in their original packaging within seven days after the delivery, online distributors could instruct such customer to return relevant products to our warehouses. In limited circumstances such as quality defects or late deliveries that exceed two-thirds of the shelf life of our products, online distributors could also request for return or exchange within seven days.
- *Termination.* Grounds for termination under the distribution agreements include, among others, unauthorized grant, assignment or transfer of our trademark, selling products of our competitors or any counterfeits of our products and other actions that are harmful to our interests. We are entitled to terminate the distribution agreements if online distributors breach the distribution agreements.

During the Track Record Period, we did not experience material breach of distribution agreements that had a significant impact on our business. During the same period, we did not have any material disputes with our distributors that had a significant impact on our business.

Distributor Management

We believe that effective management of our distribution network is crucial to our success. We have adopted a detailed distributor management policy that is agreed to by our distributors. We regularly pay visits to our offline distributors and collect information on their sales results, inventories, operations and market development. The inventory information collected from our offline distributors was made on sampling or cycling basis. We also inspect distributor-operated online stores from time to time for the same purposes, although our online distributors generally do not maintain an inventory. In each year during the Track Record Period, we generally inspected and paid visits to each of our distributor-operated stores at least once, unless it was unfeasible to do so due to the COVID-19 pandemic related restrictions. In 2022, we inspected and paid visits to over 73% of our distributor-operated stores. If we discover any irregularity in their sales practice, we may take relevant punishment measures according to the distribution agreement. In addition, we require our distributors to provide sales targets and sales results reports on a monthly basis. Their operating results are used by us to control and monitor their inventories and to assess whether they are qualified to be part of our distribution network for the next year.

We believe that the risk of channel stuffing on our distributors is low, based on the following facts and observations: (1) our relationship with offline distributors is a buyer and seller relationship and we generally require payments before delivery; (2) we do not accept returns of our products and only allow exchanges of our products under limited circumstances such as quality defects or damages during transportation; (3) our online distributors generally do not maintain an inventory as we typically receive orders from such distributors and ship products in the manner mandated by the order (i.e., usually to retail customers directly); and (4) our offline distributors generally maintain a relatively low level of inventory and frequently make procurement from us to replenish their inventory. In 2020, 2021, 2022 and the five

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months ended May 31, 2023, each of our offline distributors made purchases from us for a monthly average of 3.6, 4.5, 4.5 and 5.3 times, respectively. During the Track Record Period, to the best knowledge of our Directors, the offline distributors maintained their inventory as a percentage to their monthly turnover within a range of approximately 3.7% to 6.2%.

We strive to provide our distributors with operational supports to boost their development. In particular, we provide them with promotional materials, management support and employee training from time to time. We also provide them with product procurement guidance based on their respective circumstances as part of our efforts to control and monitor our distributors’ inventories. We assist our distributors in formulating promotional plans and provide certain supports in organizing promotional events. We also provide certain supports for online distributors, such as online store page design and marketing material editing services.

We impose a minimum sales target on our distributors, which is the result of negotiation between us and each distributor. Such minimum sales target is not mandatory in nature, and failure to meet the target does not constitute a ground for automatic termination of distributorship. Instead, only distributors who meet their respective sales target are eligible for sales rebate. However, if a distributor repeatedly fails to hit its target, we reserve the right to terminate our cooperation with such distributor, and we would take such underperformance into consideration when it comes to distributorship renewal.

We provide sales rebates to our distributors as performance-based incentives. Distributors meeting their respective minimum sales target are eligible for sales rebates, which are calculated by multiplying their actual purchase amount with an agreed-upon percentage. Distributors may apply such sales rebates for future purchase of our products of their own choice. According to the F&S Report, our terms for such performance-based sales rebates conform with the industry norm. In 2020, 2021, 2022 and the five months ended May 31, 2023, our sales rebates to offline distributors was RMB47.6 million, RMB46.8 million, RMB50.3 million and RMB19.3 million, respectively, accounting for 11.6%, 9.2%, 10.5% and 9.3% of our revenue generated from offline distributorship in the same periods, respectively. In the same periods, our sales rebates to online distributors was RMB0.7 million, RMB0.6 million, RMB0.02 million and RMB0.05 million, respectively, accounting for 7.1%, 4.1%, 0.1% and 0.6% of our revenue generated from online distributors in the same periods, respectively. Our sales rebates to online distributors experienced decreases during the Track Record Period, primarily because we reduced the agreed-upon rebate percentage for online distributors in 2021, and further adjusted our sales rebate policies for online distributors primarily by limiting eligible period for sales rebates to certain months in 2022.

OUR CUSTOMERS

Our customers primarily include distributors, e-commerce platform customers and retail customers of our self-operated stores. For details of our distributors and e-commerce platform customers, see “—Our Sales Network.” We believe that our engagement with retail customers is beneficial to strengthening our market leadership and enable us to better serve both large and small customers. For example, we can directly receive customers’ feedbacks on our products, which help us adjust our marketing strategies in a timely manner and control the direction of research and development of our products. Generally, we accept returns or exchanges from our direct sale customers only for quality defects or damage during transportation. During the Track Record Period, the value of returned products from direct sale customers was insignificant.

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Our Membership Programs

We stay close to our customers. Through the Yan Palace (燕之屋) membership mini program, our Golden Yan Club (金燕薈) membership program, and other membership programs on major e-commerce platforms, we have cultivated a loyal membership network of customers with a tiered membership system to drive customer stickiness and repeated purchase. As of the Latest Practicable Date, there were over 1.8 million customers registered in our membership programs. Through this membership network, we organize various interactive events to maintain direct engagement with our customers.

Members could earn points on their purchases with us and their membership level goes up with aggregated purchase amount within a period of time, which allows them to enjoy various benefits, such as points redemption for our EBN products, birthday gifts and invitations for events designed for our valued customers. We primarily promote and recommend our membership program to retail customers through publicities in our stores and in-person recommendation by sales staff. We have gained considerable insight from our interaction with customers, which allows us to continually optimize our product offerings and customer services.

In 2020, 2021 and 2022, we had approximately 143,700, 168,200 and 204,800 paying customers registered in our membership programs, respectively, accounting for 25.0%, 22.1% and 23.5% of our total registered customers as of December 31, 2020, 2021 and 2022, respectively. In the five months ended May 31, 2023, we had approximately 117,600 paying customers registered in our membership programs, accounting for 7.2% of our total registered customers as of May 31, 2023. In 2020, 2021, 2022 and the five months ended May 31, 2023, purchases from such paying customers registered in our membership programs was RMB616.0 million, RMB806.6 million, RMB1,057.0 million and RMB499.7 million, respectively, representing an average purchase amount per registered paying customer of approximately RMB4,280, RMB4,790, RMB5,150 and RMB4,240, respectively.

Major Customers

In 2020, 2021, 2022 and the five months ended May 31, 2023, our revenue from the five largest customers in each year/period during the Track Record Period in total amounted to RMB219.3 million, RMB245.6 million, RMB274.2 million and RMB110.9 million, accounting for 16.9%, 16.3%, 15.8% and 14.2% of our total revenue, respectively. In the same periods, our revenue from the single largest customer in each year/period during the Track Record Period amounted to RMB100.8 million, RMB141.1 million, RMB189.0 million and RMB71.0 million, accounting for 7.7%, 9.4%, 10.9% and 9.1% of our total revenue, respectively. We typically require our customers to make payment before the delivery of our products. However, we may grant credit periods of no more than 60 days to certain customers such as e-commerce platforms.

Save for Beijing Zhongda Baichengtang Biotechnology Co., Ltd. (“Zhongda Baichengtang”) and Tianjin Union Yutai Trading Co., Ltd. (“Union Yutai”) as disclosed below, to the best of our knowledge after reasonable inquiry, none of our Directors, their respective associates or Shareholders who owned five percent or more of the total issued share capital of our Company had any interest in any of our Group’s five largest customers in each year/period during the Track Record Period, and all of our five largest customers in each year/period during the Track Record Period were Independent Third Parties. Zhongda Baichengtang, which is controlled by one of our Controlling Shareholders, has ceased its EBN product distribution business since 2022, as its business operations were transferred to Beijing Tianfeiyuan in 2021, after which we acquired Beijing Tianfeiyuan. The acquisition was completed on June 29, 2021 and Beijing Tianfeiyuan was then owned as to 55% by our Company and 45% by Qingdao Zhenpindao Enterprise Management Partnership (Limited Partnership) (青島珍品道企業管理合夥企業(有限合夥)), which is an employee shareholding platform of Beijing Tianfeiyuan and is controlled by the employees of Beijing Tianfeiyuan. See “Connected Transactions” for details about continuing connected transactions relating to Union Yutai.

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The following table sets forth the details of our top five customers during the Track Record Period.

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
<i>For the year ended December 31, 2020</i>							
Customer A and its related parties	100,831	7.7	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Customer A is a leading provider of medical and health products, services and solutions in China. Customer A was established on June 6, 2019, and its registered office is located in Beijing, with registered capital of RMB100.0 million as of the Latest Practicable Date. On December 8, 2020, Customer A was listed on the Stock Exchange of Hong Kong
Zhongda Baichengtang and its related parties	63,164	4.9	Sales of EBN products	Distributor	Bank transfer	2015	Zhongda Baichengtang and its related parties are companies that primarily distribute EBN products in Beijing. Zhongda Baichengtang is a private company established on January 13, 2004, and its registered office is located in Beijing, with registered capital of RMB0.5 million as of the Latest Practicable Date
Customer B	21,853	1.7	Sales of EBN products	Corporate customer	Bank transfer	2020	Customer B is a company primarily engaged in sales of healthy food. Customer B is a private company established on August 19, 2015, and its registered office is located in Guangzhou, with registered capital of RMB50.0 million as of the Latest Practicable Date

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Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
Customer C and its related parties	16,719	1.3	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Headquartered in Guangzhou, Customer C operates an e-commerce platform. Customer C was established on January 20, 2011, and its registered office is located in Guangzhou, with registered capital of US\$180.0 million as of the Latest Practicable Date. On March 23, 2012, Customer C was listed on the New York Stock Exchange
Customer D and its related parties	16,689	1.3	Sales of EBN products	Distributor	Bank transfer	2016	Established in Hefei, Customer D primarily distributes EBN products. Customer D is a private company established on December 12, 2016, and its registered office is located in Hefei, with registered capital of RMB5.0 million as of the Latest Practicable Date
Total	219,256	16.9					

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
<i>For the year ended December 31, 2021</i>							
Customer A and its related parties	141,137	9.4	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Customer A is a leading provider of medical and health products, services and solutions in China. Customer A was established on June 6, 2019, and its registered office is located in Beijing, with registered capital of RMB100.0 million as of the Latest Practicable Date. On December 8, 2020, Customer A was listed on the Stock Exchange of Hong Kong

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<u>Customers</u>	<u>Revenue amount (RMB in thousands)</u>	<u>Percentage of total revenue (%)</u>	<u>Type of services provided</u>	<u>Type of customer</u>	<u>Payment method</u>	<u>Year of commencement of business relationship</u>	<u>Background</u>
Zhongda Baichengtang and its related parties.	40,969	2.7	Sales of EBN products	Distributor	Bank transfer	2015	Zhongda Baichengtang and its related parties are companies that primarily distribute EBN products in Beijing. Zhongda Baichengtang is a private company established on January 13, 2004, and its registered office is located in Beijing, with registered capital of RMB0.5 million as of the Latest Practicable Date
Customer C and its related parties	23,596	1.6	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Headquartered in Guangzhou, Customer C operates an e-commerce platform. Customer C was established on January 20, 2011, and its registered office is located in Guangzhou, with registered capital of US\$180.0 million as of the Latest Practicable Date. On March 23, 2012, Customer C was listed on the New York Stock Exchange
Union Yutai	19,989	1.3	Sales of EBN products	Distributor	Bank transfer	2015	Established in Tianjin, Union Yutai primarily distributes EBN products. Union Yutai is a private company established on November 4, 2011, and its registered office is located in Tianjin, with registered capital of RMB1.0 million as of the Latest Practicable Date
Customer E	19,881	1.3	Sales of EBN products	Distributor	Bank transfer	2017	Established in Zhengzhou, Customer E primarily distributes EBN products in Henan. Customer E is a private company established on November 20, 2015, and its registered office is located in Zhengzhou, with registered capital of RMB1.0 million as of the Latest Practicable Date
Total	<u>245,572</u>	<u>16.3</u>					

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Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
<i>For the year ended December 31, 2022</i>							
Customer A and its related parties	189,036	10.9	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Customer A is a leading provider of medical and health products, services and solutions in China. Customer A was established on June 6, 2019, and its registered office is located in Beijing, with registered capital of RMB100.0 million as of the Latest Practicable Date. On December 8, 2020, Customer A was listed on the Stock Exchange of Hong Kong
Customer C and its related parties	23,870	1.4	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Headquartered in Guangzhou, Customer C operates an e-commerce platform. Customer C was established on January 20, 2011, and its registered office is located in Guangzhou, with registered capital of US\$180.0 million as of the Latest Practicable Date. On March 23, 2012, Customer C was listed on the New York Stock Exchange
Customer D and its related parties	21,113	1.2	Sales of EBN products	Distributor	Bank transfer	2016	Established in Hefei, Customer D primarily distributes EBN products. Customer D is a private company established on December 12, 2016, and its registered office is located in Hefei, with registered capital of RMB5.0 million as of the Latest Practicable Date
Union Yutai	20,447	1.2	Sales of EBN products	Distributor	Bank transfer	2015	Established in Tianjin, Union Yutai primarily distributes EBN products. Union Yutai is a private company established on November 4, 2011, and its registered office is located in Tianjin, with registered capital of RMB1.0 million as of the Latest Practicable Date

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Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
Customer F	19,763	1.1	Sales of EBN products	Distributor	Bank transfer	2017	Customer F primarily distributes EBN products in Wuhan. Customer F is a private company established on November 20, 2015, and its registered office is located in Wuhan, with registered capital of RMB0.5 million as of the Latest Practicable Date
Total	274,229	15.8					

Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
<i>For the five months ended May 31, 2023</i>							
Customer A and its related parties	70,953	9.1	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Customer A is a leading provider of medical and health products, services and solutions in China. Customer A was established on June 6, 2019, and its registered office is located in Beijing, with registered capital of RMB100.0 million as of the Latest Practicable Date. On December 8, 2020, Customer A was listed on the Stock Exchange of Hong Kong
Customer C and its related parties	13,130	1.7	Sales of EBN products	E-commerce platform customer	Bank transfer	2018	Headquartered in Guangzhou, Customer C operates an e-commerce platform. Customer C was established on January 20, 2011, and its registered office is located in Guangzhou, with registered capital of US\$180.0 million as of the Latest Practicable Date. On March 23, 2012, Customer C was listed on the New York Stock Exchange

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Customers	Revenue amount (RMB in thousands)	Percentage of total revenue (%)	Type of services provided	Type of customer	Payment method	Year of commencement of business relationship	Background
Customer D and its related parties.	10,864	1.4	Sales of EBN products	Distributor	Bank transfer	2016	Established in Hefei, Customer D primarily distributes EBN products. Customer D is a private company established on December 12, 2016, and its registered office is located in Hefei, with registered capital of RMB5.0 million as of the Latest Practicable Date
Customer F	8,081	1.0	Sales of EBN products	Distributor	Bank transfer	2017	Customer F primarily distributes EBN products in Wuhan. Customer F is a private company established on November 20, 2015, and its registered office is located in Wuhan, with registered capital of RMB0.5 million as of the Latest Practicable Date
Customer G	7,903	1.0	Sales of EBN products	Distributor	Bank transfer	2015	Customer G primarily distributes EBN products in Chengdu. Customer G is a private company established on November 7, 2018, and its registered office is located in Chengdu, with registered capital of RMB5.0 million as of the Latest Practicable Date
	<u>110,931</u>	<u>14.2</u>					

Zhongda Baichengtang, one of our five largest customers in 2020 and 2021, is controlled by Ms. Xue, one of our Controlling Shareholders and the spouse of Mr. Zheng. Ms. Xue also serves as the executive director and general manager of Zhongda Baichengtang. During the Track Record Period and prior to the acquisitions as described in “History, Development and Corporate Structure—Major Acquisitions, Disposals and Mergers,” certain then related parties of Zhongda Baichengtang were also our customers, including Beijing Tianfeiyang, Changchun Jinyanhui, Harbin Jinyanhui, Beijing Huixin Trading Co., Ltd. (北京惠忻商貿有限公司) (“Beijing Huixin”), Harbin Yanzhiwu Trading Co., Ltd. (哈爾濱市燕之屋商貿有限公司) (“Harbin Yanzhiwu”) and Changchun Changshengrong Trade Co., Ltd. (長春市昌盛榮商貿有限公司) (“Changchun Changshengrong”). After the acquisitions, as of the Latest Practicable Date, (1) Beijing Tianfeiyang is a non-wholly owned subsidiary of our Company and is owned as to 55% by our Company and 45% by Qingdao Zhenpindao Enterprise Management Partnership (Limited Partnership) (青島珍品道企業管理合夥企業(有限合夥)), which is an employee shareholding platform of Beijing Tianfeiyang and is controlled by the employees of Beijing Tianfeiyang; (2) Changchun Jinyanhui is a non-wholly owned subsidiary of our Company and is owned as to 55% by our Company and 45% by Qingdao Pintianxia Enterprise Management Partnership (Limited Partnership) (青島品天下企業管理合夥企業(有限合夥)), which is an employee shareholding platform of Changchun Jinyanhui and is controlled by the employees of Changchun Jinyanhui; (3) Harbin Jinyanhui is a non-wholly owned subsidiary of our Company and is owned as to 55% by our Company and 45% by Qingdao Tonggelin Enterprise Management Partnership (Limited Partnership) (青島桐格林企業管理合夥企業(有限合夥)), which is an

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employee shareholding platform of Harbin Jinyanhui and is controlled by the employees of Harbin Jinyanhui; and (4) Beijing Huixin, Harbin Yanzhiwu and Changchun Changshengrong, which were deregistered on July 21, 2022, February 15, 2022 and November 15, 2022, respectively, were previously controlled by Mr. Zheng.

Customer D, one of our five largest customers in 2020, 2022 and the five months ended May 31, 2023, is controlled by one of our indirect minority Shareholders, who also serves as the executive director and general manager of Customer D. During the Track Record Period, one related party of Customer D was also our customer, which is indirectly controlled by the same indirect minority Shareholder. Union Yutai, one of our five largest customers in 2021 and 2022, is held as to 38.5 % by Mr. Zheng and 50.0% by the spouse of one of our indirect minority Shareholders, who also serves as the executive director of Union Yutai. Customer E, one of our five largest customers in 2021, is held as to 40.0% by a family member of one of our indirect minority Shareholders. Customer F, one of our five largest customers in 2022 and the five months ended May 31, 2023, is controlled by the spouse of one of our minority Shareholders.

Save as disclosed above, our Directors confirm that, to their best knowledge having made reasonable enquiries, they are not aware of any other past or present relationships (including business, shareholding, employment, family, trust, financing and fund flows) between our Group and each of our five largest customers in each year/period during the Track Record Period, their respective substantial shareholders, directors or senior management, or any of their respective close associates during the Track Record Period and up to the Latest Practicable Date.

We applied standard terms and conditions of distributorship to transactions with our distributors, including both related distributors and independent distributors. Our transactions with related distributors and the pricing, credit terms, rebate and return policies of such transactions were in line with the terms and conditions we provided to a similar independent distributor during the Track Record Period.

MARKETING AND BRANDING

Branding

We have long-term plans for the development of our brand and strong brand communication capabilities. According to the F&S Report, we have established ourselves as a leading EBN product brand. We have a dedicated sales and marketing team with rich industry experience, who are responsible for the implementation of our branding and marketing strategies. As of the Latest Practicable Date, our sales and marketing team had a total of 664 members. Our executive director and general manager, Mr. Youquan Li, who is also our sales and marketing team leader, has over nine years of extensive marketing experience in China’s EBN market.

Marketing Campaigns

We adopt a multi-channel marketing approach that allows us to reach and influence a broad target customer base. Our focus is on maintaining and enhancing brand awareness through professional marketing and branding strategies. We conduct advertising campaigns via traditional channels such as television, radio and billboards. Additionally, we leverage e-commerce and social media platforms to promote our brand and products, collaborating with influencers and implementing targeted marketing campaigns on emerging e-commerce platforms, such as Douyin and Xiaohongshu. Our marketing efforts also include sponsorship and celebrity endorsements. For instance, we partnered with the China national fencing team as their official EBN product supplier and enlisted Ms. Liying Zhao (趙麗穎), a highly influential celebrity in China, as our brand ambassador. We actively organize and sponsor various interactive events, such as immersive Xiamen factory tours, golf tournaments, the Zhigang Think Tank

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Forum (智網智庫論壇) led by Mr. Zhigang Wang (王志綱), a strategic consulting expert, and sharing sessions with renowned host Ms. Lan Yang (楊瀾). These initiatives help consolidate our distribution system, attract more consumers, and promote the beauty and wellness lifestyle. We strive to enhance our marketing efficiency to maximize brand visibility and expand our consumer reach in a cost-effective manner.

We adopted certain measures to comply with relevant advertisement laws and regulations. We designated our legal department as the one in charge of advertising compliance review, and require that all proposed advertisements shall be reviewed and approved by our legal department before public release. We also require our production and quality control departments to further review and approve advertisement content in connection with production techniques, product features, and our research and development results, among others. While our advertising materials could also be produced by relevant third-party service providers, we adopted relevant internal control policies which stipulate that only service providers with relevant qualifications can be engaged for our outsourced advertising activities. Our advertising materials relating to the perceived health benefits of EBN products are generally supported by relevant published journals and scientific studies. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were not subject to any material legal proceedings or administrative penalties in connection with our advertising activities, according to relevant public searches conducted by our PRC Legal Advisor and relevant certificates issued by local market supervision and administration authorities. Furthermore, we have implemented certain measures to ensure that our distributors and influencers who we engaged for marketing and live streaming activities as well as relevant marketing materials used by them (including representations made during live streaming sessions) do not (1) contain any misleading information relating to us or our products or (2) contravene any applicable PRC laws and regulations. In particular, (1) our legal department shall screen all such marketing materials to ensure that all information relating to us and/or our products is accurate and complies with relevant laws and regulations in China, and we require in agreements with influencers or their agencies that all influencers should use the marketing materials and follow the marketing scripts provided by us (2) we typically engage influencers from multi-channel network companies (“MCNs”) and pursuant to our agreement with MCNs we engaged during the Track Record Period, such MCNs shall ensure that influencers who streamed online or marketed our products for us comply with relevant laws and regulations in China, and (3) we regularly monitor the marketing and live streaming activities by these influencers and pay visits to and inspect stores operated by our distributors. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, based on the public search conducted by our PRC Legal Advisor, there was no public record of government investigations or fines relating to marketing activities in connection with our products against these influencers by the relevant authorities when they were promoting our products on social media platforms.

PRODUCTION

Production Process

We have accumulated rich experience in the production of EBN products. According to the F&S Report, the preparation of EBN products from raw nests takes approximately 3.8 to 5.2 hours. By standardizing EBN production processes including, among others, soaking, feather picking, ingredient adding and stewing, we eliminated various obstacles caused by the traditional processing methods, so that our customers could enjoy such delicacy with consistent quality in a convenient manner.

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The following diagram summarizes the key steps of our production processes for canned EBN products.



Our standardized production processes for canned EBN products consist of 49 core steps. The following table sets forth the most critical steps of our production processes for canned EBN products.

Step	Description
Raw material examination	We strictly examine raw materials including raw nests and other ingredients for our canned EBN products, and evaluate their qualitative index from sensory, physical and chemical perspectives.
Soaking and feather picking	We use traditional, purely manual process to remove impurities such as feathers from raw nests.
Drying	We evenly spread wet raw nests on the steaming tray after feather picking, and dry them in a cold air-drying room.
Secondary feather picking	We conduct secondary feather picking process for dried raw nests, further reducing the impurity contents in our products.
Weighing	We manually weigh dried raw nests required for each bottle or bowl-shaped can of our EBN products, and pack each serving separately in sorting bags made of food-grade materials.
Water purification	We pass tap water through quartz sand, active carbon filters and reverse osmosis to remove impurities and odors in the water, and obtain purified water that meets industry standards.
Filling raw materials	We precisely prepare the sugar solution according to our product formula to ensure consistent taste, and use automatic filling equipment to fill EBN and sugar solution into the bottles or bowl-shaped cans.

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Step	Description
Sealing and stewing	We use high-temperature glue-free sealing technology to seal bowl-shaped cans and use four-turn stainless iron caps or aluminum cover rolling caps to seal bottles for our products. We then stew all ingredients in the bottles or bowl-shaped cans at high temperature, in which way for nutrients from EBN to stay in longer.
Quality control and labeling	We conduct a final inspection for our finished products, mainly for the product appearance and impurities in the content. For finished products that pass our quality control process, we label each bottle or bowl-shaped can with a QR code, which could be used by our customers to retrieve particulars of our products such as production factory, importer, raw nest origin and registration number and production date.

Production Bases

As of the Latest Practicable Date, we had three production bases in China, located in Xiamen City, Fujian Province, Songjiang District, Shanghai and Guanghe County, Gansu Province, respectively, with an aggregate gross floor area of approximately 39,300 square meters. As of December 31, 2022, we had the largest production bases for EBN products in China in terms of aggregate gross floor areas, according to the F&S Report. The following table sets forth the details of our production bases for the periods indicated.

Production base	Production capacity (tonnes) ⁽¹⁾				Production volume (tonnes)				Utilization rate (%) ⁽²⁾			
			2022	First five months in 2023			2022	First five months in 2023			2022	First five months in 2023
	2020	2021			2020	2021			2020	2021		
Xiamen, Fujian.	1,563.0	1,518.4	1,825.0	778.1	1,281.8	1,348.3	1,627.0	582.3	82.0	88.8	89.2	74.8
Songjiang, Shanghai . . .	—	31.8	135.0	66.5	—	6.4	66.4	49.3	—	20.1	49.2	74.1
Guanghe, Gansu ⁽³⁾ . . .	9.2	9.0	3.5	1.5	—	—	—	—	—	—	—	—

- (1) Production capacity is calculated based on the assumption that our production facilities operate 3,020 hours per year.
- (2) Utilization rate is calculated by dividing the production volume of a given period by the production capacity of the same period.
- (3) During the Track Record Period, our Guanghe production base was utilized for the feather picking process. The volume of raw nests that had gone through such process was not reflected in the production volume of such base as these raw nests were not counted as finished goods. In 2020, 2021, 2022 and the five months ended May 31, 2023, our Guanghe production base processed 4.0 tonnes, 6.9 tonnes, 1.9 tonnes and 0.9 tonnes of raw nests, respectively.

Our production base in Xiamen, with a gross floor area of approximately 31,100 square meters, is our first and primary production base, where we focus on the production of substantially all series of our products. Our production base in Shanghai, with a gross floor area of approximately 6,200 square meters, is our secondary production base, which is mostly designed for the production of Freshly Stewed Bird’s Nest. We established our Shanghai production base in 2021 to shorten the delivery distance in light of the short shelf life of our Freshly Stewed Bird’s Nest. In 2019, we established our Guanghe production base with a gross floor area of approximately 2,000 square meters, primarily for the lowered labor costs and the availability of production facilities. Our Guanghe production base is designed primarily for the feather picking process, through which we manually remove impurities such as feathers from raw nests.

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Equipment and Machinery

We purchase our production lines from relevant companies in China. We regularly inspect and maintain our production equipment. To ensure production safety and efficiency, we have employed maintenance personnel to regularly inspect and maintain our key production equipment and machinery. Our major production equipment and machinery have an estimated average useful life of 10 years. We use straight-line basis to make provision and depreciation, with an annual rate of 9.5%. The remaining useful life of such equipment and machinery was approximately 6.8 years on average as of May 31, 2023.

QUALITY CONTROL

We have established an enterprise quality management system, covering the raw material and packaging material supply chain, product manufacturing, storage and sales, to ensure our products comply with relevant quality standards. We implement stringent policies to manage raw material and packaging material suppliers regarding their admission and elimination, to strictly control the quality of our material supplies. We strictly implement product safety and quality control standards and take corresponding control measures throughout our entire product manufacturing process to ensure that all of our products meet the relevant national safety standards and our strict internal quality standards. We have also set up a dedicated quality assurance team consisting of 32 employees as of the Latest Practicable Date. As of the same date, members of our quality assurance team had an average of approximately four years of relevant experience. Our members of quality assurance team possessed relevant certificates, including ISO internal auditor certificate, internal auditor certificate for the BRC Global Standard for Food Safety, and advanced skills certificate for food safety inspection, among others. During the Track Record Period and up to the Latest Practicable Date, we (1) did not receive any fines, product recall orders or other penalties from the relevant competent authorities regarding material product quality issues, (2) did not receive any material product returns from our customers, and (3) did not receive any material complaints from the customers. During the same period, we were not involved in any claims, non-compliance or material complaints incidents relating to food safety or quality.

We are often involved in the formulation of industry standards. In 2014, we cooperated with China National Institute of Standardization and other government agencies to take the lead in formulating China’s first raw nest industry standard, i.e., GH/T 1092-2014, representing the beginning of the standardization development of China’s raw nest industry. In 2018, the China National Health Commission entrusted Xiamen Entry-Exit Inspection and Quarantine Bureau to take the lead in formulating the National Food Safety Standard for Edible Bird’s Nest Products. As an industry leader, we were invited to participate in the formulation of such standard. In 2020, we cooperated with the China National Research Institute of Food and Fermentation Industries to lead the formulation of the China Light Industry Standard for Edible Bird’s Nest Products. In 2020, we participated in the drafting of the group standard for fresh stewed EBN products, which has been implemented by the China Pharmaceutical Culture Society.

Our Quality Accreditations

We have implemented a stringent quality assurance system to ensure the quality of our products. According to the F&S Report, we are the first EBN product company in China that has been certified by the BRC Global Standard for Food Safety and International Food Standard. In addition, we have also obtained other major quality accreditations, including the certifications of ISO 9001 Quality Management System, ISO 22000 Food Safety Management System, Hazard Analysis and Critical Control Points, Integrity Management System, and ISO 14001 Environmental Management System.

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In addition to the quality accreditations and certifications mentioned above, we have adopted various measures to ensure our continuous compliance with relevant food safety laws and regulations. In particular, we have obtained necessary qualifications, including food production licenses and food distribution licenses, made necessary filings required by relevant food safety laws and regulations for our production bases and self-operated stores, and continue to monitor the status of such qualifications. Moreover, we require all distributors to obtain food distribution licenses from and make relevant filings with competent government agencies for the sales of our products. As advised by our PRC Legal Advisor, we complied with all material aspects of relevant food safety laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Our Quality Assurance Program

We ensure the continuous supply of quality products from different production bases through the effective implementation and continuous improvement of our stringent quality assurance system.

Raw Material Quality Control

We procure imported raw nests that passed inspection by China Inspection and Quarantine primarily from Indonesia as our principal raw materials. All these nests are affixed with the CAIQ traceability labels. Such labels record particulars of each imported raw nest such as its source of origin and importation date. We have integrated CAIQ traceability data to our ERP system, which enables us to achieve full-chain traceability of raw materials and the production process, allowing our own labeling system to record information about each critical step from the very beginning of the production processes to the sales to end customers. In addition, we are the first EBN product company in China that established a testing laboratory certified by China National Accreditation Service for Conformity Assessment, according to the F&S Report. All of our raw materials must be evaluated in this laboratory before being used in production.

We have implemented the supplier admission and assessment system and created a qualified supplier catalogue in which we record suppliers’ names, products and services provided and their quality accreditations. Through evaluation on the suppliers in various aspects such as their prices, delivery cycle, after-sale service, product quality and on-site inspection results, the suppliers which fail to pass the evaluation may be removed from the supplier catalogue. For instance, we obtain raw material samples for evaluation by our Edible Bird’s Nest Research Institute, ensuring that the quality of purchased raw materials meet our standards. See “—Research and Development” for details about Edible Bird’s Nest Research Institute (燕窩研究院).

In order to prevent unqualified raw materials from being used in production, we have established a procurement acceptance system to inspect raw materials that arrive at our production bases, and only raw materials that meet our standards can be accepted. We have adopted a raw nest acceptance standard, which specifies the sensory criteria, such as shape, color, smell and impurities, as well as physical and chemical criteria. It also lays out the standard sampling and testing methods for each criterion. According to the F&S Report, our raw nest acceptance standard conforms with relevant industry standards.

Production Process Quality Control

We follow relevant standards for the production of our products, including the national mandatory standards and our strict internal standards. We have established comprehensive operating procedures to conduct quality control throughout the entire production process in order to ensure that the quality of our products meets the requirements.

We require our personnel involved in production activities to follow strict hygiene standards. Our production personnel are required to change clean work clothes, including hats and shoes, and thoroughly clean themselves before entering into the production area. Equipment and machinery for the production process are subject to their respective detailed cleaning and sterilization requirements depending on functions and usages, in order to ensure product safety.

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We conduct comprehensive supervision and inspections on the entire production process to ensure that all of our production equipment, machinery and personnel satisfy the national mandatory standards and our stricter internal standards.

Finished Products Quality Control

Our quality management extends to the storage, delivery and sales processes of our products. In particular, by leveraging on the sales personnel located in different parts of China, we are able to closely keep track of the quality status of our products during their life cycles, to identify potential quality exposures and to ensure the stable quality of our products. We have implemented various quality control measures over the delivery process of our products. Prior to entrusting our products to our logistics and transportation service providers, we conduct stringent inspection procedures to ensure that our products meet the national quality standards. Additionally, we carefully package our products to suit the specific transportation mode and prevent damage or moisture during the delivery process. We collaborate with reputable express courier companies only and impose strict requirements to prevent the mixing of our products with non-food items, flammable or explosive goods, or items with strong odors.

All of our finished products are affixed with traceability labels or QR codes that could be used by end customers to retrieve particulars of our products, including information about raw nests' source of origin and registration number, storage condition, shelf life, and production date of finished products. Each of these traceability labels and QR codes is accompanied by unique anti-counterfeiting verification codes, which are covered by concealment layers that can be scratched off by end customers. When the end customer scans the traceability label or QR code and enters the verification code, the information retrieved would also indicate whether it is the first-time scan on this particular label or code. In the event that the information retrieved indicates otherwise, the end customer could easily determine that there may be any re-use or misuse of the traceability labels or QR codes. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any incidents or receive any reports from end customers in connection with the re-use or misuse of the traceability labels or QR codes.

We have also set up procedures to handle consumer complaints, including consumer service hotlines and other feedback mechanism. In addressing the consumers' complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures. Our dedicated customer complaint team promptly reaches out to customers who have lodged complaints to gain a thorough understanding of the circumstances. They carefully document all the details of the complaint to create a comprehensive written record. Based on the specific nature of each complaint, the customer complaint team escalates the matter to the relevant managers at different levels within our organization to explore potential solutions. Dedicated to addressing all consumer complaints to their satisfaction, we come up with appropriate solutions tailored to the unique circumstances of each complaint. If deemed necessary following quality investigation procedures, we readily and promptly accept return or exchange requests from complaining customers. During the Track Record Period and up to the Latest Practicable Date, we had consistently resolved all consumer complaints in a timely manner to their satisfaction.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials and Packaging Materials

The principal raw materials we use in the production of our EBN products are raw nests. During the Track Record Period, substantially all of raw nests used in our production process were sourced from suppliers in Indonesia, the largest raw nest production country in the world. According to the same source, Indonesia's lowland rainforests are ideal habitats for swiftlets, which create raw nests by their solidified saliva. We have built strong and stable relationships with various suppliers for raw nests in Indonesia. In

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2020 and 2021, we also sourced a total of RMB1.9 million of raw nests from suppliers in China, which, to the best knowledge of our Directors, imported these raw nests from Malaysia and Thailand. We currently do not intend to further diversify our raw nest supplier base by engaging relevant suppliers in Malaysia and Thailand, primarily because we intend to focus on procuring raw nests from Indonesia, as such raw nests are of a higher and more consistent quality and Indonesia is the largest raw nest production country. In the event we are to source raw nests from suppliers in these countries, the supplier candidates shall be subject to our comprehensive supplier selection and management policy.

We began to procure imported raw nests with CAIQ traceability labels in 2015, when China started to import CAIQ-certified raw nests from Indonesia, and all raw nests procured by us during the Track Record Period and up to the Latest Practicable Date were CAIQ-certified. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our purchase for raw nests was RMB770.1 million, RMB603.5 million, RMB617.0 million, RMB195.0 million and RMB284.3 million, respectively. In the same periods, the procurement volume of raw nests was 57.2 tonnes, 50.4 tonnes, 52.2 tonnes, 16.2 tonnes and 25.2 tonnes, respectively. According to the F&S Report, we ranked first for four consecutive years from 2019 to 2022 in terms of procurement volume of imported raw nests with the CAIQ traceability labels.

In 2021, through the recommendation of the Indonesian Bird’s Nest Association (印度尼西亞燕窩協會) and the Edible Bird’s Nest Market Committee of China Agricultural Wholesale Markets Association (全國城市農貿中心聯合會燕窩市場專業委員會), we entered into a non-binding letter of intent for raw nest procurement with the then Indonesian Ambassador to China to further strengthen the win-win cooperation between China and Indonesia and promote the long-term economic development of both countries. We believe that entering into such letter of intent could further promote and improve our brand image. Pursuant to this letter of intent, we indicated our intention to import a certain amount of raw nests from Indonesia in 2022, and this letter of intent did not designate any specific raw nest suppliers. As advised by our PRC Legal Advisor, this letter of intent is not a binding contract and therefore we are not obliged to purchase the raw nests as described in the letter of intent. Entering into this letter of intent will not affect how we procure raw nest from suppliers in Indonesia or other countries.

We also source packaging materials, which primarily consist of polypropylene bowls (an FDA-approved food contact plastic), glass bottles, cardboard, and metal packaging materials, to produce our products. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our purchase for packaging materials was RMB86.7 million, RMB85.3 million, RMB110.9 million, RMB38.3 million and RMB36.4 million, respectively.

The procurement price of raw nests and packaging materials could be volatile due to a variety of factors beyond our control, and any increase in the prices of raw nests and packaging materials may cause us to adjust our product prices upward. See “Risk Factors—Risks Relating to Our Business—Fluctuations in prices and changes in the quality of raw materials and packaging materials could materially and adversely affect our profitability and results of operations.” Nonetheless, we have implemented certain measures to manage the price fluctuations of raw materials and packaging materials. We strengthen our bargaining power through direct and centralized procurement for raw materials and packaging materials. We also continually monitor market conditions and purchase such materials to the extent possible at market low. In addition, we continue to optimize our production process to reduce production costs, so that we could mitigate the negative impact caused by the increase in the purchase price of raw materials or packaging materials, avoiding adjusting the prices of our products upward. During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues. See “Risk Factors—Risks Relating to Our Business—We do not conduct any swiftlet farming and primarily depend on suppliers in Indonesia for raw nests. If we are not able to source adequate raw nests from suppliers in Indonesia or fail to maintain good relationships with such suppliers, our business, financial condition and results of operations could be materially and adversely affected.”

BUSINESS

Our Suppliers

We purchase raw materials, packaging materials, and logistics and transportation services from suppliers for our business operations. During the Track Record Period, substantially all of our suppliers for raw nests were located in Indonesia. Our suppliers for packaging materials are primarily located in Zhejiang, Fujian and Jiangxi provinces, China. The following table sets forth the number of our suppliers by type for the periods indicated.

	Year ended December 31,			Five months ended May 31,
	2020	2021	2022	2023
Suppliers				
Raw nests	10	10	9	7
Packaging materials	93	79	83	62
Others ⁽¹⁾	138	139	175	110
Total	241	228	267	179

(1) Including primarily suppliers for logistics and transportation services, advertisement services and other food ingredients.

During the Track Record Period, the number of our raw nest suppliers decreased from 10 in 2020 to seven in the five months ended May 31, 2023, primarily due to our efforts in optimizing our supplier network for raw nests. In particular, we ceased to procure raw nests from certain suppliers that failed to meet our price and/or quality expectations.

Supplier Selection and Management

We consider several factors in the evaluation and selection of suppliers, including, among others, their background, reputation, and industry experience, and most importantly, the quality and price of their supplies. As advised by our PRC Legal Advisor, all of our raw nest and other major food suppliers in China as of the Latest Practicable Date had obtained all necessary licenses and/or registrations in connection with food safety and quality to conduct business in China. To ensure food safety, we only consider foreign supplier candidates for raw nests on the registered list of overseas manufacturers of imported food published by the General Administration of Customs of China, the sole government authority in charge of supervising the food safety qualifications of such suppliers. As advised by our PRC Legal Advisor, foreign suppliers for raw nests are only eligible for being registered on such list through recommendation by competent authorities in their respective countries, and the General Administration of Customs of China requires various registration materials, including inspection report and recommendation letter issued by such competent local authorities of the exporting countries as well as corporate certificates, among others. The General Administration of Customs of China also requires foreign suppliers for raw nests to establish an effective food safety management system, produce and export raw nests legally from their exporting countries, and ensure that raw nests exported to China conform with relevant PRC laws and regulations and national food safety standards. As further advised by our PRC Legal Advisor, all of our raw nest suppliers outside China as of the Latest Practicable Date were on the registered list of overseas manufacturers of imported food published by the General Administration of Customs of China.

All new suppliers must undergo our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection we conducted on their facilities on an as-needed basis to evaluate their quality control and test the raw material and packaging material samples. Furthermore, we require all of the raw materials purchased from suppliers to undergo evaluation by our testing laboratory certified by the China National Accreditation Service for Conformity Assessment before being used in production. Suppliers whose raw materials fail to pass the evaluation may be prohibited from conducting business with us.

BUSINESS

Pursuant to purchase agreements between us and raw nest suppliers, the quality of raw nests procured from them shall satisfy the national standards for imported raw nests in China as well as our corporate standards as stipulated in the respective purchase agreements. In the event that the quality of raw nests fails to satisfy any of these standards, we are entitled to return such raw nests. During the Track Record Period and up to the Latest Practicable Date, three batches of raw nests failed to pass the evaluation by our testing laboratory, among which two batches of raw nests with a total value of RMB0.8 million were returned in 2021 and the five months ended May 31, 2023 due to excessive impurities and one batch of raw nests with a value of RMB0.2 million was exchanged in 2022 due to excessive nitrite content. As advised by our PRC Legal Advisor, we had complied with the relevant PRC laws and regulations in connection with raw nest importation in all material aspects during the Track Record Period and up to the Latest Practicable Date.

We have established a comprehensive supplier selection and management policy with the following significant procedures:

- Suppliers must have proper certifications, licenses, and must comply with relevant regulations. Prior to being admitted to our qualified supplier list, supplier candidates shall provide us with business license, production license, third-party test report on safety audits, quality checks and compliances, HACCP reviews and other relevant permits, and pass our internal sampling tests. For raw material suppliers, including raw nest suppliers, we require production permits, veterinary health certificate, export permit and traceability report, to the extent applicable. In addition, we typically require suppliers to represent and warrant their qualification to engage in the business and compliance with relevant laws and regulations in China.
- The quality management process for our suppliers must be objective and adhere to relevant quality standards. We pay close attention to the supplier's allergen management, microbial control in the production process, and handling of non-conforming products.
- For certain raw materials including raw nest, we focus on the suppliers' internal control systems in place for product traceability and accountability.
- The supplier's production scale, on-site management, production capabilities, and technological expertise are assessed.
- The supplier's ability to meet delivery timelines and provide quality service are expected.
- We, from time to time, update our existing suppliers' information in our records, including their names, address, primary contact person and contact information.
- We regularly monitor the validity of suppliers' business licenses and permits. If any licenses or permits are found to be expired, the relevant suppliers are required to provide us with the renewed licenses and permits promptly, and we would suspend our cooperation with such suppliers should they fail to provide such documents within the required timeframe. We also reevaluate each supplier in our qualified supplier list every three years absent any material changes, and the suppliers are obligated to notify us of any material change immediately.
- We require proper documentation of the supplier evaluation and admission process. We conduct semi-annual and annual assessments for existing suppliers in our qualified supplier list.

BUSINESS

Key Contractual Terms of Supply Agreements for Raw Nests

We generally formulate procurement plans based on our monthly production requirements and purchase raw nests on an order-by-order basis. Set forth below is a summary of our standard supply agreement for raw nests.

- *Subject matter.* The agreement specifies the quantity, the price per kilogram and the total purchase price of raw nests.
- *Quality.* The quality of raw nests shall not only conform to the admission standards of China customs but also satisfy an agreed-upon quality standard, which describes the appearance, impurity and aroma requirements for raw nests, among others.
- *Insurance.* The supplier shall be responsible for purchasing relevant insurance that cover the invoice value of raw nests.
- *Payment.* We shall settle the payment by bank transfer within 30 days after completing the inspection and obtaining the inspection and quarantine certificates from China customs.
- *Anti-commercial bribery.* Both parties shall abide by relevant laws and regulations as well as business and professional ethics. Any commercial bribery is prohibited under our agreement.
- *Arbitration.* All disputes in connection with our agreement shall be settled through amicable negotiation. In the event that no mutual agreement could be reached through such negotiation, disputes shall be submitted to and resolved before the China International Economic and Trade Arbitration Commission.

We have maintained long-term and stable business relationships with major raw nest suppliers in Indonesia and expect to maintain amicable relationships with them. In particular, we have built strong relationships with various suppliers for raw nests in Indonesia. As of May 31, 2023, we had maintained an average of four years of business relationships with our raw nest suppliers. In the five months ended May 31, 2023, more than 46% of our purchase amount of raw nests were attributable to suppliers with over five years’ business relationship with us. We believe our long-term stable business relationships with these suppliers enable us to minimize the risks of unexpected fluctuation in the price of raw nests. Despite the absence of executed long-term agreements in place, we have established long-standing and stable business relationships with our raw nest suppliers. This demonstrates our ability to secure a reliable and consistent supply of raw nests, which is further strengthened by our strong market position.

Our agreements with suppliers, which vary depending on the type of supplier, typically include specific criteria for allocating product liabilities between the supplier and us. If a product quality issue arises and the supplier is found to be at fault according to the agreed-upon criteria, the supplier will be responsible for the issue and indemnify us against associated loss, if any. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material breach of supply agreements that had a significant impact on our production and did not have any material disputes with our suppliers.

Our Directors confirm that, to their best knowledge having made reasonable enquiries, they are not aware of any other relationships (including business, shareholding, employment, family, trust, financing and fund flows) between our Group’s raw nest suppliers, their shareholders, directors or senior management and our Company, its subsidiaries, their shareholders, directors or senior management, and their respective close associates during the Track Record Period and up to the Latest Practicable Date.

BUSINESS

Major Suppliers

During the Track Record Period, our major suppliers primarily consisted of suppliers for raw nests. In 2020, 2021, 2022 and the five months ended May 31, 2023, purchases from our five largest suppliers in each year/period during the Track Record Period accounted for 59.7%, 51.7%, 52.2% and 54.2% of our total purchases, respectively. In the same periods, purchases from our largest supplier in each year/period during the Track Record Period accounted for 23.7%, 15.4%, 16.4% and 20.7% of our total purchases, respectively. Our suppliers typically grant credit periods of no more than 30 days to us.

Save for Beijing Zhongshi Hongyun Advertising Co., Ltd. (“Zhongshi Hongyun”) as disclosed below, to the best of our knowledge after reasonable inquiry, none of our Directors, their respective associates or Shareholders who owned five percent or more of the total issued share capital of our Company had any interest in any of our Group’s five largest suppliers in each year/period during the Track Record Period, and all of our five largest suppliers in each year/period during the Track Record Period were Independent Third Parties. See “Connected Transactions” for details about continuing connected transactions relating to Zhongshi Hongyun.

The following table sets forth certain information of our major suppliers during the Track Record Period.

<u>Suppliers</u>	<u>Purchase amount</u>	<u>Percentage of total purchase</u>	<u>Year of commencement of business relationship</u>	<u>Payment method</u>	<u>Type of services supplied</u>	<u>Background</u>
	(RMB in thousands)	(%)				
<i>For the year ended December 31, 2020</i>						
Supplier A and its related parties	241,023	23.7	2018	Bank transfer	Raw nests	Established before a notary in Bogor Regency, Indonesia on October 26, 2016, Supplier A is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier A has authorized capital, issued capital and paid up capital of IDR8.0 billion, IDR2.0 billion and IDR2.0 billion, respectively
Supplier B	150,603	14.8	2015	Bank transfer	Raw nests	Established before a notary in Semarang Regency, Indonesia on March 31, 2000, Supplier B is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier B has authorized capital, issued capital and paid up capital of IDR3.0 billion, IDR3.0 billion and IDR3.0 billion, respectively

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
Supplier C	81,605	8.0	2018	Bank transfer	Raw nests	Established before a notary in Surabaya City, Indonesia on October 13, 2003, Supplier C is an Indonesian private limited partnership primarily engaging in the sales of raw nests. Supplier C has issued capital and paid up capital of IDR145.5 billion and IDR145.5 billion, respectively
Supplier D	73,236	7.2	2017	Bank transfer	Raw nests	Established before a notary in Medan City, Indonesia on July 22, 2014, Supplier D is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier D has authorized capital, issued capital and paid up capital of IDR25.0 billion, IDR25.0 billion and IDR25.0 billion, respectively
Zhongshi Hongyun and its related parties . . .	61,475	6.0	2018	Bank transfer	Advertisement	Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China. Zhongshi Hongyun is a private company established on January 18, 2006, and its registered office is located in Beijing, with registered capital of RMB1.0 million as of the Latest Practicable Date
Total	607,942	59.7				

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
<i>For the year ended December 31, 2021</i>						
Supplier A and its related parties	136,825	15.4	2018	Bank transfer	Raw nests	Established before a notary in Bogor Regency, Indonesia on October 26, 2016, Supplier A is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier A has authorized capital, issued capital and paid up capital of IDR8.0 billion, IDR2.0 billion and IDR2.0 billion, respectively
Supplier B	111,508	12.5	2015	Bank transfer	Raw nests	Established before a notary in Semarang Regency, Indonesia on March 31, 2000, Supplier B is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier B has authorized capital, issued capital and paid up capital of IDR3.0 billion, IDR3.0 billion and IDR3.0 billion, respectively
Supplier C	98,014	11.0	2018	Bank transfer	Raw nests	Established before a notary in Surabaya City, Indonesia on October 13, 2003, Supplier C is an Indonesian private limited partnership primarily engaging in the sales of raw nests. Supplier C has issued capital and paid up capital of IDR145.5 billion and IDR145.5 billion, respectively

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
Supplier D	60,741	6.8	2017	Bank transfer	Raw nests	Established before a notary in Medan City, Indonesia on July 22, 2014, Supplier D is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier D has authorized capital, issued capital and paid up capital of IDR25.0 billion, IDR25.0 billion and IDR25.0 billion, respectively
Zhongshi Hongyun and its related parties . . .	53,514	6.0	2018	Bank transfer	Advertisement	Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China. Zhongshi Hongyun is a private company established on January 18, 2006, and its registered office is located in Beijing, with registered capital of RMB1.0 million as of the Latest Practicable Date
Total	<u>460,602</u>	<u>51.7</u>				

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
<i>For the year ended December 31, 2022</i>						
Supplier A and its related parties	162,840	16.4	2018	Bank transfer	Raw nests	Established before a notary in Bogor Regency, Indonesia on October 26, 2016, Supplier A is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier A has authorized capital, issued capital and paid up capital of IDR8.0 billion, IDR2.0 billion and IDR2.0 billion, respectively
Supplier B	119,824	12.1	2015	Bank transfer	Raw nests	Established before a notary in Semarang Regency, Indonesia on March 31, 2000, Supplier B is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier B has authorized capital, issued capital and paid up capital of IDR3.0 billion, IDR3.0 billion and IDR3.0 billion, respectively
Supplier C	119,481	12.0	2018	Bank transfer	Raw nests	Established before a notary in Surabaya City, Indonesia on October 13, 2003, Supplier C is an Indonesian private limited partnership primarily engaging in the sales of raw nests. Supplier C has issued capital and paid up capital of IDR145.5 billion and IDR145.5 billion, respectively

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
Zhongshi Hongyun and its related parties . . .	60,298	6.1	2018	Bank transfer	Advertisement	Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China. Zhongshi Hongyun is a private company established on January 18, 2006, and its registered office is located in Beijing, with registered capital of RMB1.0 million as of the Latest Practicable Date
Supplier D	56,168	5.6	2017	Bank transfer	Raw nests	Established before a notary in Medan City, Indonesia on July 22, 2014, Supplier D is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier D has authorized capital, issued capital and paid up capital of IDR25.0 billion, IDR25.0 billion and IDR25.0 billion, respectively
Total	518,611	52.2				

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
<i>For the five months ended May 31, 2023</i>						
Supplier A and its related parties	93,411	20.7	2018	Bank transfer	Raw nests	Established before a notary in Bogor Regency, Indonesia on October 26, 2016, Supplier A is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier A has authorized capital, issued capital and paid up capital of IDR8.0 billion, IDR2.0 billion and IDR2.0 billion, respectively

BUSINESS

Suppliers	Purchase amount	Percentage of total purchase	Year of commencement of business relationship	Payment method	Type of services supplied	Background
	(RMB in thousands)	(%)				
Supplier B	55,938	12.4	2015	Bank transfer	Raw nests	Established before a notary in Semarang Regency, Indonesia on March 31, 2000, Supplier B is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier B has authorized capital, issued capital and paid up capital of IDR3.0 billion, IDR3.0 billion and IDR3.0 billion, respectively
Supplier C	39,924	8.8	2018	Bank transfer	Raw nests	Established before a notary in Surabaya City, Indonesia on October 13, 2003, Supplier C is an Indonesian private limited partnership primarily engaging in the sales of raw nests. Supplier C has issued capital and paid up capital of IDR145.5 billion and IDR145.5 billion, respectively
Supplier E	35,728	7.9	2020	Bank transfer	Raw nests	Supplier E is a raw nest company located in China. Supplier E is a private company established on August 24, 2017, and its registered office is located in Quanzhou, with registered capital of RMB10.0 million as of the Latest Practicable Date
Supplier D	19,682	4.4	2017	Bank transfer	Raw nests	Established before a notary in Medan City, Indonesia on July 22, 2014, Supplier D is an Indonesian private limited liability company primarily engaging in the sales of raw nests. Supplier D has authorized capital, issued capital and paid up capital of IDR25.0 billion, IDR25.0 billion and IDR25.0 billion, respectively
	<u>244,683</u>	<u>54.2</u>				

BUSINESS

We have maintained long-term and stable relationships with our suppliers. For our five largest suppliers in each year/period during the Track Record Period, we had maintained business relationships with these suppliers on average for approximately six years.

During the Track Record Period, an affiliate within the group of one e-commerce platform customer also provided marketing services to us. Negotiations of the terms of our sales to such customers and purchase from such marketing service supplier were conducted on an individual basis and the sales and purchases were neither connected with nor conditional upon each other. All of our sales to such e-commerce platform customer and purchases from such marketing service suppliers were conducted in the ordinary course of business under normal commercial terms and in arm’s length transactions.

None of our five largest suppliers in each year/period during the Track Record Period was previously involved in any food safety incidents which led to penalties or litigations during the Track Record Period and up to the Latest Practicable Date.

Zhongshi Hongyun, one of our five largest suppliers in 2020, 2021 and 2022, and one of its related parties, Guangyao Tianrun, were indirectly controlled by LIU Zhen, our non-executive Director, during the Track Record Period. See also “Connected Transactions—Purchase of Advertising Services—Zhongshi Hongyun Advertisement Service Framework Agreement and Guangyao Tianrun Advertisement Service Framework Agreement.” Save as disclosed above, our Directors confirm that, to their best knowledge having made reasonable inquiries, they are not aware of any other past or present relationships (including business, shareholding, employment, family, trust, financing and fund flows) between our Group and each of our five largest suppliers in each year/period during the Track Record Period, their respective substantial shareholders, directors or senior management, or any of their respective close associates during the Track Record Period and up to the Latest Practicable Date.

INVENTORY

During the Track Record Period, majority of our inventory were raw materials, i.e., imported raw nests that we sourced from suppliers in Indonesia. For better storage, our warehouse is equipped with refrigerator compartments, and we conduct testing of temperature and humidity degrees from time to time through our temperature and humidity monitoring system. Our inventories of work in progress primarily included raw nests that have gone through feather picking process. See “—Production—Production Process.” Such raw nests can be completed as finished products, which primarily consist of canned EBN products, in a relatively short period. We generally manufacture our products based on anticipated demand and do not stock considerable amount of finished products.

The following table sets forth our inventory breakdown as of the dates indicated. See also “Financial Information—Discussion of Certain Items from the Consolidated Statements of Financial Position—Inventories.”

	As of December 31,			As of May 31,
	2020	2021	2022	2023
	(RMB in thousands)			
Raw materials	174,103	163,851	125,926	187,748
— Raw nests	173,917	163,386	124,722	186,776
— Other raw materials	186	465	1,204	972
Work in progress	41,092	33,360	36,467	17,608
Finished goods	42,071	65,189	81,504	34,881
Goods in transit	6,739	4,743	13,295	9,183
Packaging	12,981	12,498	14,370	10,832
Right to recover returned goods.	59	101	233	102
Total	277,045	279,742	271,795	260,354

BUSINESS

Inventory Control

We have an inventory control policy in place to monitor our inventory. We perform the following inventory management procedures to keep track of incoming and outgoing inventories and monitor our inventory levels.

- We designate the storage location and area for our inventory according to the attributes of specific inventory to better utilize our warehousing facilities.
- We take necessary measures to protect our inventory from theft and damage.
- Unauthorized persons are prohibited from entering into our warehouses, which shall remain closed when there are no warehouse personnel on duty.
- Responsible departments shall examine each batch of inventory before admitting such inventory into warehousing facilities.
- The warehouse personnel shall regularly check the inventory level, the inspection results for which shall be recorded in writing.
- The inventory level shall be reported to the finance department for valuation.

In 2020, 2021, 2022 and the five months ended May 31, 2023, our inventory turnover days, which are calculated based on average inventories divided by cost of sales times number of days, were 91.2 days, 130.2 days, 118.2 days and 106.7 days, respectively. According to the F&S Report, our inventory turnover days during the Track Record Period were generally in line with the industry norm. As of December 31, 2020, 2021 and 2022 and May 31, 2023, finished products, which primarily include canned EBN products, accounted for 15.2%, 23.3%, 30.0% and 13.4% of our total inventories, respectively.

In 2020, 2021, 2022 and the five months ended May 31, 2023, we recorded raw material write-off of RMB40,300, RMB23,900, RMB266,100 and RMB4,200, respectively. Such write-off was typically due to food expiry of ingredients. In 2022, we wrote off raw nests in the amount of RMB254,200, as those raw nests were primarily fragmented materials designated to be used for a research and development project which did not initiate as anticipated.

PRICING

We price our products based on various factors, including the product type, the EBN content per unit, and the purchase cost of raw nests. We provide our distributors with standard prices of our products, as stipulated by our price system. Our distributors shall abide by our price system. See “—Our Products” for details of the standard prices of our products.

RESEARCH AND DEVELOPMENT

We explore and launch new products through continual product research and development. We have established an experienced research and development team, captained by Mr. Zhang Yukui (張玉奎), an academician of the Chinese Academy of Sciences, and Ms. Zhu Beiwei (朱蓓薇), an academician of the Chinese Academy of Engineering. As of the Latest Practicable Date, we had 49 research and development staff for product development with an average of over seven years’ relevant experience. As of the same date, over 30% of our research and development staff for product development held a master’s degree or above.

BUSINESS

We value investment in scientific research and standard research. We established the Edible Bird’s Nest Research Institute, which collaborates with academic institutions such as Nanchang University and Fujian Agriculture and Forestry University. As of the Latest Practicable Date, Edible Bird’s Nest Research Institute had 49 members. Edible Bird’s Nest Research Institute is primarily involved in formulating relevant standards for China’s EBN industry, conducting research on the production of EBN products, and empowering the development of our products. Through Edible Bird’s Nest Research Institute, we have participated in the formulation of multiple standards of EBN products, including one international standard, one national standard, two industry standards, 16 group standards and 25 enterprise standards. In addition, we are the first EBN product company in China that established a testing laboratory certified by China National Accreditation Service for Conformity Assessment, according to the F&S Report. Located in Xiamen, this testing laboratory is equipped with various testing equipment, including triple quadrupole mass spectrometer, atomic absorption spectrometer, ion chromatograph, colorimeter, automatic Kjeldahl nitrogen analyzer, commercial rapid sterility testing system, and rapid microbial detection system, among others. The laboratory can perform tests on various ingredients and packaging materials for our EBN products to ensure that they conform with relevant food safety standards and do not contain nitrite or other harmful substances above the permitted thresholds. Moreover, we strive to promote industry-university-research cooperation in China’s EBN industry. In 2022, we and Peking University Health Science Center established a collaborative innovation laboratory for researching EBN nutrition. We believe that such collaboration could further improve our innovation capabilities.

During the Track Record Period and up to the Latest Practicable Date, we had initiated 92 research and development projects, primarily focusing on research into EBN and EBN extracts, processing and packaging techniques and development of novel products. Among these 92 projects, 30 were in collaboration with third-party research partners mainly consisting of reputable academic institutions in China. As of the Latest Practicable Date, we had completed 56 of the 92 projects and acquired nine patents from these research and development projects.

During the Track Record Period, we collaborated with several third parties for the development and production of certain products, primarily including EBN pastries, drinkable EBN essence with ginsengs and EBN skincare products. To the best of our knowledge after reasonable inquiry, all of these third parties were Independent Third Parties. In 2020, 2021, 2022 and the five months ended May 31, 2023, our transaction amount with these parties was RMB1.7 million, RMB2.3 million, RMB2.5 million and RMB2.4 million, respectively.

OUR EMPLOYEES

We believe that our long-term growth depends on the expertise, experience and development of our employees. Our human resources center is responsible for recruiting, managing and training our employees. We have a labor union that is able to protect our employees’ rights, assist us in attaining our economic objectives and encourages employees to participate in management decisions.

We recruit employees primarily through recruitment websites, on-campus recruitment and internal referrals. We provide induction training to every new employee. In addition, we formulate and implement training plans for our employees on a regular basis. In particular, we established the Academy of Yan Palace (燕之屋學苑), which empowers the skill development of our employees.

BUSINESS

As of the Latest Practicable Date, we had 1,927 full-time employees. We generally enter into labor contracts with our employees. As of the same date, all of our employees were based in China and most of them were in Xiamen City, Fujian Province, Beijing and Songjiang District, Shanghai. The following table sets forth the number of our employees by function as of the Latest Practicable Date.

	Number of employees
Production and operation	948
Administrative and management	266
Sales and marketing	664
Research and development	49
Total	1,927

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees, most of whom are production line workers, as required by the relevant PRC laws and regulations. See “—Legal Proceedings and Compliance—Compliance—Social Insurance and Housing Provident Funds” and “Risk Factors—Risks Relating to Our Business—We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations.”

We have maintained a good relationship and expect to maintain an amicable relationship in the future with our employees. During the Track Record Period and up to the Latest Practicable Date, there were no material strikes which had an adverse impact on our operation and no material disputes between the Group and our employees.

DATA PRIVACY AND PROTECTION

With the prior consent of our customers, we collect and maintain their personal information to the extent necessary for the sales and delivery of our products through e-commerce platforms or our membership program and in accordance with the relevant laws and regulations on data privacy and security in China. We have taken measures to maintain the confidentiality of such information to ensure regulatory compliance. Specifically, we perform de-identification on raw data stored, during which we redact personal identifiable data, such as name and phone number of a specific customer. Since the collection, storage, usage, retention and transmission of information that can be identified as specific individuals or reflect the relevant activities of specific individuals are all subject to relevant data protection laws and regulations, the de-identification of raw data is necessary for us to efficiently protect personal data of our customers. We also set up an access control system for personal information in our internal system so that it cannot be viewed without proper authorization. We set up firewalls to prevent information loss or leakage caused by cyber-attacks. In addition, we from time to time examine the security of our data storage system. We strictly restrict the range of data that our employees are authorized to access based on their seniority and function.

In addition, we continue to pay close attention to the legislative and regulatory developments in cybersecurity and data protection and conduct routine cybersecurity and data protection compliance check and rectification to keep pace with regulatory development. In particular, we have established a comprehensive set of internal cybersecurity and data protection rules and policies. We have also formulated the overarching data security management policy, user personal information protection management policy and network security management policy, which provide the principal management rules on cybersecurity and data protection.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material data leakage or data loss or any material unauthorized use of customers' personal information. As advised by our PRC Legal Advisor, we had complied with the applicable laws and regulations with respect to data privacy and personal data protection during the Track Record Period and up to the Latest Practicable Date in all material aspects on the following basis.

- (1) As of the Latest Practicable Date, we had not been subject to any material administrative penalties, mandatory rectifications or other sanctions imposed by any competent regulatory authorities in relation to cybersecurity, data and personal information protection, nor had we been subject to or involved in any investigations, or received any inquiry, examination, material warning or interview in such respect;
- (2) As of the Latest Practicable Date, there were no material cybersecurity or data protection incidents, or any infringement upon any third parties, or other legal, administrative or governmental proceedings pending or, to the best of our knowledge, threatened against or relating to us; and
- (3) We have implemented stringent internal control systems for data security and personal information protection.

Regulatory Authority-initiated Security Review

Regulatory authority may initiate cybersecurity reviews if it is of the opinion that the network product or service, data processing activities or [REDACTED] in a foreign country affects or is likely to affect national security. To avoid such concerns, we are taking a more prudent approach in business operation and can prepare measures to reduce its risk of exposure to the implementation of the Cybersecurity Review Measures:

- Pay close attention to the latest trends in the critical information infrastructure (the "CII") identification by industry authorities and maintain continuous communication with competent and regulatory authorities and local government departments;
- Adopt relevant security measures and internal control system to reduce the risks of data leakage, theft and destruction and illegal control, preferably, as encouraged by the Cybersecurity Law, voluntarily participate in the CII protection system and perform relevant obligations to make advance preparations for possible future CII protection efforts;
- Be more conservative in network products or services procurement process; and
- Conduct personal information security impact assessment and relevant internal assessment to address security issues/concerns that may raise national security concerns in data processing activities.

Our Directors and our PRC Legal Advisor are of the view that the Cybersecurity Review Measures and the Draft Regulations on Cyber Data Security Management, if implemented in current form, will not have material adverse effects on our business operations or the [REDACTED] on the following basis:

- (1) We have implemented comprehensive measures to ensure user privacy and data security and to comply with applicable cybersecurity and data privacy laws and regulations;
- (2) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material investigation, inquiry or sanction in relation to cybersecurity, data privacy or cybersecurity review from the CAC, the CSRC or any other relevant government authorities;

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- (3) During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material fines or other material penalties due to non-compliance with cybersecurity or data privacy laws or regulations;
- (4) As advised by our PRC Legal Advisor, we had not been involved in any activities that might give rise to national security risks based on the factors set out in Article 10 of the Cybersecurity Review Measures during the Track Record Period and up to the Latest Practicable Date; and
- (5) As advised by our PRC Legal Advisor and subject to any further official guidance and implementation rules relating to the Cybersecurity Review Measures, Article 7 of the Cybersecurity Review Measures requires a cybersecurity review for internet platform operators possessing personal information of over one million users and pursuing [REDACTED].

With the continuous expansion of our business and growth of our customer and distributor base, there can be no assurance that the constantly evolving regulations on the collection and use of personal information in China will have no material adverse effect on us. See “Risk Factors—Risks Relating to Our Business—We are in possession of certain information regarding our customers, and the improper collection, storage, use or disclosure of such information could materially and adversely affect our business and reputation.” We will closely monitor the rule-making process of the relevant regulatory requirement and adjust our data practices in a timely manner to comply with the relevant laws and regulations, if necessary.

AWARDS AND RECOGNITION

During the Track Record Period and up to the Latest Practicable Date, we received a number of awards and recognitions in connection with our business. Some of the significant awards and recognitions we have received are set forth below.

Awards and Recognition	Awarding Parties	Year of Award
Well-known Trademark (馳名商標)	State Administration for Industry and Commerce of China (國家工商行政管理總局)	2011
Enterprises with Outstanding Contribution in the Food Industry during the 40 Years of Reform and Opening Up in Fujian Province (福建省改革開放40年食品工業突出貢獻企業)	Fujian Food Industry Association (福建省食品工業協會)	2019
Executive Vice Chairman (常務副理事長)	Edible Bird’s Nest Market Committee of China Agricultural Wholesale Markets Association (全國城市農貿中心聯合會燕窩市場專業委員會)	2020
The Fifth Group of Provincial Green Factories (第五批省級綠色工廠)	Fujian Provincial Department of Industry and Information Technology (福建省工業和信息化廳)	2022
Fujian Benchmark Company for Edible Bird’s Nest Products (福建省燕窩及燕窩製品標桿企業)	Fujian Food Industry Association (福建省食品工業協會)	2015
Leading Private Enterprise in Xiamen (廈門市龍頭骨幹民營企業)	Xiamen Municipal Government	2022
Advanced Company for Poverty Alleviation in Fujian Province (福建省脫貧攻堅先進集體)	The People’s Government of Fujian Province	2021

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INTELLECTUAL PROPERTY

Our intellectual property portfolio consists of trademarks, patents, copyrights and domain names. Our intellectual property is important to our business. See “Appendix IV—Statutory and General Information—B. Further Information about Our Business—2. Intellectual Property Rights of Our Group.”

We protect our intellectual property rights in accordance with the relevant laws and regulations and contractual agreements. We have established an intellectual property management system and improve and update our intellectual property management system in line with the business development.

When dealing with the infringement of our intellectual property rights, we found incidents about counterfeit products and other infringements against our products through internal and external channels, including: (1) our sales personnel across the country; (2) our staff from legal department when they visit the markets; and (3) complaints and reports by consumers through customer service hotline. After discovering incidents of infringements, we will collect supporting information, make an assessment on whether an infringement actually takes place, and analyze the feasibility of to defend our rights and the approaches we may take. Based on different product infringements and specific circumstances, with the support of intellectual property experts or legal consultants, we defend our rights through targeted approaches, including but not limited to filing industrial and commercial complaints and litigations.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to infringement of intellectual property rights which would have a material adverse effect on our business. During the same period, a third-party individual submitted an application to the National Intellectual Property Administration seeking to invalidate two of our registered trademarks, with a registration number of 58276334 and 38107129, respectively. The National Intellectual Property Administration has rejected the invalidation application for our registered trademark with a registration number of 58276334, and the third-party individual did not initiate an administrative proceeding against such rejection within statutory limitation period. Therefore, based on the confirmations from the intellectual property agent we engaged to defend us in this dispute (the “Intellectual Property Agent”), this third-party individual no longer has the right to bring an administrative proceeding in this regard. For the trademark with a registration number of 38107129, the National Intellectual Property Administration supported the invalidation application from the same individual, and the Intellectual Property Agent has engaged a PRC intellectual property legal advisor on our behalf to initiate an administrative proceeding against such unfavorable result. As of the Latest Practicable Date, we had filed all necessary materials with the relevant intellectual property court and had not received the notice of the trial date. Our Directors are of the view that the final result of this administrative proceeding would not have a material adverse effect on our business, as (1) the trademark with a registration number of 38107129 was rarely used on a discrete basis to market our products, (2) no revenue was derived independently from this trademark, and (3) we have many other similar and alternative registered trademarks which can be used for the same purposes. See “Risk Factors—Risks Relating to Our Business—We may face intellectual property infringement claims by third parties, which could disrupt our business, cause substantial legal costs, and damage our reputation.”

Our know-hows in production are invaluable assets to us, as we pride ourselves of the unique production techniques we possess. We have entered into confidentiality agreements with our core research and development employees to prevent such employees from disclosing our know-how secrets to others without our proper authorization. Our employment contracts also stipulate that any intellectual property created by such employees in the course of and after a specific period of their employment shall belong to us, in the event that such intellectual property is created as a result of performance of duties within the scope of their employment with us.

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LICENSES, PERMITS AND APPROVALS

We are required to maintain various licenses, permits and approvals in order to operate our business. We are not required to obtain any additional licenses for our online sales to customers. We continually monitor our compliance with the requirements related to licenses, permits and approvals in order to ensure that we have all such licenses, permits and approvals which are necessary to operate our business. As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we had obtained all requisite licenses, approvals and permits from relevant authorities that are material to the operation of our existing business.

The following table sets out a list of material licenses, permits and approval held by us as of the Latest Practicable Date.

<u>License/permit⁽¹⁾</u>	<u>Entity holding the license/permit</u>	<u>Grant date</u>	<u>Expiration date</u>
Food production license ⁽²⁾	Yan Sinong Shanghai Yan	January 21, 2022	January 20, 2027
Food production license ⁽³⁾	Palace	October 29, 2021	October 28, 2026
Food production license ⁽²⁾	Zhiqiao Industry	April 1, 2022	March 31, 2027

(1) Our Guanghe production base is designed primarily for the feather picking process, through which we manually remove impurities such as feathers from raw nests. As advised by our PRC Legal Advisor, based on the confirmation from Guanghe County Market Supervision Administration, we are not required to obtain a food production license for the feather picking process conducted by our Guanghe production base.

(2) Applies to our Xiamen production base.

(3) Applies to our Shanghai production base.

INSURANCE

We maintain certain insurance policies, including car insurance and property-all-risks insurance, which are consistent with the customary practice in China. We currently do not maintain product liability insurance for our products or litigation insurance. Our Directors consider that our existing insurance coverage is consistent with industry practice in China and sufficient for our present operations.

SEASONALITY

Our financial condition and results of operations are subject to seasonal fluctuations. We typically carry out more sales and marketing activities before and during holiday seasons and other traditional festivities, such as the mid-autumn festival and the dragon boat festival. We also actively participate in shopping events and promotional activities organized by third-party e-commerce platforms, such as Singles' Day Shopping Carnival (雙十一購物狂歡節), to capture more sales opportunities. We typically have increased sales before and during the holiday seasons, festivals and events, most of which happen during the second half of the year. As a result, we generally record higher revenue in the second half of the year.

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PROPERTIES

As of the Latest Practicable Date, all of our production bases were located in China.

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, 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 require a valuation report with respect to all the Group’s interests in land or buildings, for the reason that, as of May 31, 2023, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

As of the Latest Practicable Date, we owned five properties with an aggregate gross floor area of approximately 5,573.9 square meters in China. We have obtained title certificates for such five properties.

Leased Properties

As of the Latest Practicable Date, we leased 119 properties relating to our business operations in total with an aggregate gross floor area of approximately 45,951.5 square meters, which have been used primarily as stores, offices, production bases or warehouses. As of the same date, there were defects in some of our leased properties. See “—Legal Proceedings and Compliance—Compliance—Leased Properties.”

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We may from time to time become a party to various legal, arbitration or administrative proceedings arising in the ordinary course of our business. During the Track Record and up to the Latest Practicable Date, there were no litigation, arbitration or administrative proceedings pending or threatened against our Company or any of our Directors which had caused or could cause a material and adverse effect on our financial condition or results of operations.

Compliance

We are subject to various regulatory requirements and guidelines issued by regulatory authorities in China. During the Track Record Period and as of the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, and we did not experience any material non-compliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. As advised by our PRC legal advisor, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant laws and regulations in all material respects in China. During the Track Record Period and up to the Latest Practicable Date, we were from time to time subject to government inspections in connection with our production equipment and facilities, food safety and importation of raw nests. However, relevant government agencies did not have any adverse findings against us.

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Third-Party Payment Arrangements

During the Track Record Period, we had 21 customers (the “Relevant Customers”) that settled their payments with us through third-party payors (the “Third-party Payment Arrangements”). Many small-sized EBN product distributors operated their business in the form of sole proprietorship (個體工商戶), which is a type of organization that typically prefers not to open a separate business bank account but to settle payments through personal bank accounts due to the complexity of using corporate bank accounts. To the best of our knowledge after reasonable inquiry, third-party payors involved in the Third-party Payment Arrangements consisted of owner/co-owners, legal representatives and affiliated companies of the Relevant Customers. Our Directors confirm that all these third-party payors are Independent Third Parties. Since January 1, 2022, we have ceased all Third-party Payment Arrangements.

In 2020, 2021, 2022 and the five months ended May 31, 2023, the aggregate amount of third-party payments was RMB23.5 million, RMB15.3 million, nil and nil, respectively, accounting for 1.8%, 1.0%, nil and nil of our total revenue in the same periods, respectively. No individual Relevant Customer had made material contribution to our revenue during the Track Record Period. In 2020 and 2021, other than simply accepting the third-party payments paid by the third-party payors for the Relevant Customers, we had not proactively initiated any of the Third-party Payment Arrangements, nor had we participated in any separate arrangement between the Relevant Customers and their respective third-party payors for the settlement of the payments owed by the Relevant Customers to the third-party payors. Furthermore, in the same years, we had not provided any discount, commission, rebate or other benefit to any of the Relevant Customers or the third-party payors to facilitate or incentivize the Third-party Payment Arrangements.

As advised by our PRC Legal Advisor, the Third-party Payment Arrangements do not constitute a non-compliance as these arrangements do not contravene or circumvent applicable laws or regulations in China. Nonetheless, we are subject to various risks relating to the Third-party Payment Arrangements, including possible claims from third-party payors for return of funds as they were not contractually indebted to us and possible claims from liquidators of third-party payors. In the event of any claims from third-party payors or their liquidators, or legal proceedings (whether civil or criminal) instituted or brought against us in respect of third-party payments, we will have to spend financial and managerial resources to defend against such claims and legal proceedings, and our financial condition and results of operations may as a result be adversely affected. As advised by our PRC Legal Advisor, our Directors believe that any possible claims arising from such Third-party Payment Arrangements will not have any material adverse effect upon our business and results of operation, on the basis that (1) the aggregate amount of third-party payments during the Track Record Period was immaterial and (2) we have ceased all Third-party Payment Arrangements since January 1, 2022. In addition, the Third-party Payment Arrangements also exposed us to the risk of money laundering, as such arrangements may not be based on genuine business transactions. In the event that any of funds received by us under the Third-party Payment Arrangements were illegal proceeds, we may be subject to criminal liability, the funds we receive as well as the revenue we generate from such arrangements may be confiscated, and further fines may be imposed on us. Additionally, persons directly involved in these arrangements may face imprisonment, detention and fines. As further advised by our PRC Legal Advisor, the risk is remote that the Third-party Payment Arrangements involved money laundering, primarily because (1) the majority of the Relevant Customers and their respective third-party payors confirmed that the Third-party Payment Arrangements were based on genuine business transactions and (2) we are not subject to any investigation or prosecution by any law enforcement agency for violating any laws or regulations relevant to money laundering. See “Risk Factors—Risks Relating to Our Business—We are subject to various risks relating to third-party payments.”

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Based on the due diligence work performed by the Joint Sponsors, including (i) the review of the full list of all transactions during the Track Record Period that involved the Third-party Payment Arrangements and the sales and cash in bank ledgers of the relevant subsidiaries of the Company which received payment pursuant to the Third-party Payment Arrangements; (ii) the discussion with the Company in relation to the reasons for adopting the Third-party Payment Arrangements, its internal control measures in respect of the Third-party Payment Arrangements and understand that the Company had not proactively initiated any of the Third-party Payment Arrangements and that such arrangements have ceased since January 1, 2022; (iii) the interviews with or written confirmations obtained from the Relevant Customers (except for four Relevant Customers) and their respective third-party payors confirming that, amongst other matters, (a) the Third-party Payment Arrangements were based on genuine business transactions, (b) no discount, commission, rebate or other benefit was provided by the Company to facilitate or incentivize the Third-party Payment Arrangements, (c) there have been no disputes arising from the Third-party Payment Arrangements, (d) the Relevant Customers and their respective third-party payors are Independent Third Parties, (e) the source of funding for the Third-party Payment Arrangements was legitimate and independent from the Company, (f) the Third-party Payment Arrangements do not involve any illegal activities, (g) they will not make any claims for return of funds from the Company and (h) such Third-party Payment Arrangements have ceased; (iv) with respect to the four Relevant Customers that the Joint Sponsors were not able to interview or obtain a written confirmation from, obtaining and reviewing the walkthrough documents for selected transactions of the Third-party Payment Arrangements involving those four Relevant Customers, and obtaining and reviewing the relevant third-party payment authorisations and sample walkthrough documents for the other Relevant Customers; (v) the discussion with the Industry Consultant and understand that it is not uncommon for such third-party payment arrangements to be adopted in China's EBN or food sale industry; (vi) the review of the Company's internal control report and noted that the Company has implemented enhanced internal control measures since April 28, 2023 to prevent the reoccurrence of the Third-party Payment Arrangements in the future by prohibiting customers from settling payments through third-party payors; (vii) the background search and litigation search conducted on the Company and its subsidiaries, which did not reveal any litigation, claim or dispute with any Relevant Customers, third-party payors or their creditors/liquidators with respect to the Third-party Payment Arrangements nor any prosecution or penalty for violation of any laws or regulations relevant to money laundering; and (viii) the review of the memorandum of the PRC Legal Advisor regarding the basis of their view as set out above, particularly their view that the Third-party Payment arrangements do not constitute a non-compliance in China and the risk that the Third-party Payment Arrangements involved money laundering is remote, nothing material has come to the attention of the Joint Sponsors in respect of the genuineness, source of funding and legal implications of the transactions underlying the Third-party Payment Arrangements that needs to be brought to the attention of the Stock Exchange.

Leased Properties

As of the Latest Practicable Date, we leased 119 properties relating to our business operations in total with an aggregate gross floor area of approximately 45,951.5 square meters, which have been used primarily as stores, offices, production bases or warehouses.

Among the 119 leased properties, for 86 leased properties with an aggregate gross floor area of approximately 44,516.1 square meters (accounting for 96.9% of the aggregate gross floor area of our leased properties relating to our business), we had obtained valid title certificates or real estate purchase agreements from the lessors. In respect of the remaining 33 of our leased properties with an aggregate gross floor area of approximately 1,435.4 square meters (accounting for 3.1% of the aggregate gross floor area of our leased properties relating to our business operations), the lessors had not provided us with the relevant title certificates, real estate purchase agreements or permits from the landowner for sublease. Among these 33 leased properties, 31 were used as stores, one was used as staff dormitory and one was used as warehouse. If the lessors of the 33 leased properties are not the legal owners or have not obtained

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the proper authorization from the legal owners of such premises, the legal owners of such premises or third-party tenants that have leased from the legal owners will have ground to challenge the validity of our leasehold interest in the affected premises. Additionally, the intended purposes contained in the title certificates or relevant authorization documents are inconsistent with the actual use of four leased properties (accounting for 0.6% of the aggregate gross floor area of our leased properties relating to our business operations). Among these four leased properties, the intended purpose contained in the title certificates or relevant authorization documents of three leased properties is residence and that for the remaining one is garage. However, as of the Latest Practicable Date, one was occupied as office space and three were occupied as warehouses. As of the Latest Practicable Date, we were not aware of any title or usage challenge being made by any third party or government agency with respect to these leased properties. Should disputes or government actions arise due to title or usage challenges to such properties, we may encounter difficulties in continuing to lease such properties and may be required to relocate. We are confident that we will identify comparable properties in proximity in a timely manner and secure a lease on comparable terms without substantial reinstatement, relocation or renovation costs. As advised by our PRC Legal Advisor, among the 31 leased stores for which the lessors had not provided us with the relevant title certificates or real estate purchase agreements, the risk is low that 30 leased stores will be required to relocate, primarily because these 30 leased stores were located within large shopping malls, which generally would not provide lessees including us with relevant title certificates or real estate purchase agreements. In respect of the remaining one leased stores for which we did not obtain relevant title certificate or real estate purchase agreement, the owner has applied for the title certificate with local government, which may become available in November 2023.

Furthermore, we did not register 117 out of the 119 lease agreements with the competent authorities as of the Latest Practicable Date. Under the relevant PRC laws and regulations, the parties to a lease agreement have the obligation to register and file the executed lease agreement. As advised by our PRC Legal Advisor, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease. As of the Latest Practicable Date, we had not received any such request from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

Social Insurance and Housing Provident Funds

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees, most of whom are production line workers, as required by the relevant PRC laws and regulations. We did not make full contributions to the social insurance and housing provident fund for the relevant employees primarily because, among other reasons, (1) consistent with the industry norm, our labor force was mobile, which made it impracticable for us to make such contributions in time for the relevant employees who were only with us on a temporary basis, (2) the applicable PRC laws and regulations governing social insurance and housing provident funds are intricate and vary by region, which added complexity to our compliance efforts, and (3) many of our employees were not willing to bear the costs associated with social insurance and housing provident funds.

If the competent PRC government authority determines that the social insurance contributions we made for our employees violate the requirements under the relevant PRC laws and regulations, we may be required to pay all outstanding social insurance contributions within a prescribed period, with late fees at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were due. If this payment is not made within the stipulated period, the competent authority

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may further impose a fine of one to three times of the overdue amount on us. In addition, pursuant to relevant PRC laws and regulations, in case of a failure to pay the full amount of housing provident fund, the housing provident fund management center may require us to pay the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. In 2020, 2021, 2022 and the five months ended May 31, 2023, the estimated shortfall amounts of the social insurance and housing provident fund contributions, calculated based on the prevailing regulatory requirements, were RMB3.5 million, RMB16.5 million, RMB17.1 million and RMB13.0 million, respectively. The maximum amount of penalties in relation to such shortfalls was RMB5.0 million as of September 30, 2023. We made provisions of RMB3.9 million, RMB5.6 million, RMB7.9 million and RMB9.9 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively, in accordance with the relevant accounting standards.

Our Directors believe that the incident described above would not have a material adverse effect on our business and results of operations, considering that: (1) we have obtained written confirmations issued by certain relevant local social insurance and housing provident funds authorities that no administrative penalty was imposed on us during the Track Record Period; (2) as of the Latest Practicable Date, we had not received any notification from the relevant PRC regulatory authorities requiring us to pay material shortfalls with respect to social insurance and housing provident funds; (3) we were not aware of any employee complaints nor were involved in any labor disputes with our employees with respect to social insurance and housing provident funds; (4) we undertake to make full contributions or to pay the shortfall within a prescribed time period if and when requested by the competent government authorities; and (5) Mr. Huang, Mr. Zheng and Mr. Li have undertaken to, pursuant to the terms and condition of their confirmation, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with relevant laws, rules and regulations concerning social insurance and housing provident fund contributions. In addition, pursuant to the Urgent Notice on Enforcing the Requirement of the General Meeting of the State Council and Stabilizing the Levy of Social Insurance Payment (關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知) promulgated on September 21, 2018 by the Ministry of Human Resources and Social Security, administrative enforcement authorities are prohibited from organizing and conducting centralized collection of enterprises’ historical social insurance arrears. Our PRC legal advisor is of the view that the risk we would be subject to administrative penalties by the competent authorities regarding our contribution to the mandatory social insurance and housing provident fund during the Track Record Period is low. Based on the foregoing, our Directors are also of the view that such incident would not have a material adverse effect on our business and results of operations. See “Risk Factors—Risks Relating to Our Business—We may be required to make additional contributions of social insurance fund and/or housing provident fund and late payments and fines under PRC laws and regulations.”

To monitor our compliance with relevant laws and regulations in respect of social insurance and housing provident fund contributions, we have taken the following internal control measures:

- we have designated our human resources department to review and monitor the reporting and contributions of social insurance and housing provident funds on a monthly basis;
- we are in the process of communicating and will continue to communicate with our employees with a view to seeking their understanding and cooperation in complying with the applicable payment base for the social insurance and housing provident funds, which also requires additional contributions from our employees; and
- we will consult our PRC legal advisors on a regular basis for advice on relevant PRC laws and regulations to keep us abreast of relevant PRC laws and regulatory developments, including but not limited to PRC laws and regulations in relation to social insurance and housing provident funds, and will provide relevant employees with legal compliance trainings relating to the same.

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RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to various risks during our operations. We have established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations. Our policies and procedures relate to managing our procurement, production, as well as monitoring our sales performance and product quality.

To monitor the ongoing implementation of our risk management policies and corporate governance measures after the [REDACTED], we have adopted or will continue to adopt, among other things, the following risk management measures:

- establish an Audit Committee to review and supervise our financial reporting process and internal control system. See “Directors, Supervisors and Senior Management” for the qualifications and experience of the committee members;
- adopt various policies to ensure compliance with the Listing Rules, including but not limited to aspects related to risk management, connected transactions and information disclosure;
- execute anti-money laundering management and anti-bribery compliance management on our senior management and employees to enhance their knowledge and compliance with applicable laws and regulations, and include relevant policies against non-compliance in employee handbooks;
- organize training session for our Directors and senior management in respect of the relevant requirements of the Listing Rules and duties of directors of companies [REDACTED] in Hong Kong;
- enhance our reporting and records system for production bases, including centralizing their quality control and safety management systems and conducting regular inspections; and
- provide enhanced training programs on quality assurance and product safety procedures.

Sales and delivery of products through e-commerce platforms involve certain customer privacy information, such as personal information, contact information and user address. We sell our products on e-commerce platforms primarily through self-operated online stores on e-commerce platforms, under which circumstances we have access to customers’ network identity information, address and contact information, among others, all of which will be used for product delivery. See “Risk Factors—Risks Relating to Our Business—Our information technology and software systems may encounter malfunction, unexpected system failure, interruption, insufficiency or security breaches.” We highly value the protection of the privacy and personal information of our customers, and also treat and process customers’ personal information with high prudence. We have technical support for data protection and various safeguards to ensure information security. In addition, with database audits, high-strength firewalls and security reinforcement provided by established security vendors, we regularly organize tests and perform security scans on our systems. We have also formulated the data security management policy, which requires our employees to abide by information security regulations, in order to ensure safety of the relevant information involved in the business operations.

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Anti-bribery and Anti-corruption Policy

In order to maintain our reputation and integrity, we have implemented anti-bribery and anti-corruption policies which require our employees and business partners such as distributors and suppliers to conduct business legally and ethically. We require our employees and business partners to undertake in writing not to conduct non-compliances, suspicious transactions, fraud, corruption or bribery by signing a letter of commitment. Our letter of commitment prohibits our employees and business partners from offering unauthorized payment, such as bribes, kickbacks or benefit with each other. In addition, our anti-bribery and anti-corruption policy provides whistle blowing contact details including hotline and email address for reporting suspicious conducts. Information of the whistleblowers are strictly confidential. Our anti-bribery and anti-corruption supervision team, which consists of the general manager, human resources director, financial director, head of the audit department and head of the legal department, are responsible for receiving internal reports and conducting investigation against suspicious conducts.

Fraud Prevention and Anti-money Laundering Measures

Keeping defrauders and money launderers out of our business has long been a priority of ours. We prohibit and actively prevent fraudulent activities and money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. We have installed “know your customer” policies in place to help prevent fraudulent and money laundering activities, which involves monitoring the activity of our distributors and understanding the types of transactions that should raise red flags through training sessions for our employees. We also keep records of all account transactions with our distributors. In addition, we have established an anti-fraud and anti-money laundering supervision team consisting of the general manager, human resources director, financial director, head of the audit department and head of the legal department, all of whom are responsible for receiving internal reports for suspicious activities and conducting appropriate investigation against such activities. Furthermore, we are under obligations to report suspicious activities to relevant law enforcement agencies. During the Track Record Period and up to the Latest Practicable Date, we had not identified any incident related to fraudulent or money laundering activities.

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE POLICY

We are subject to various PRC environmental laws and regulations, the implementation of which involves regular inspections by local environmental protection authorities. See “Regulatory Overview—Laws and Regulations Relating to Environmental Protection.” We have adopted environmental protection measures to ensure compliance with applicable PRC environmental laws and regulations. Our wastewater discharge procedures comply with national standards, and we treat solid waste and liquid waste in cooperation with qualified third parties.

We work closely with our suppliers in Southeast Asia to ensure that we only use harvested bird’s nests abandoned by swiftlets. The artificial birdhouses protect swiftlets from enemies and predators and create a safe breeding environment for them, thereby promoting the healthy growth of the swiftlet population and enabling a sustainable and environmentally friendly manufacturing process. In addition, we continuously invest in the application of green technology to our manufacturing processes to reduce energy consumption and emissions. For instance, our Freshly Stewed Bird’s Nest (Eco-Friendly Packaging) in 45g×7 size, it produces approximately 54.1% less carbon emissions compared to the same size of refrigerated delivery packaging. In other words, the carbon emission reduction from 1,000 boxes of this EBN product is equivalent to the carbon sequestration of approximately 166 trees in one year. We believe that it is our responsibility to protect the environment and promote sustainable practices in the industry, and we are committed to doing our part to achieve this goal.

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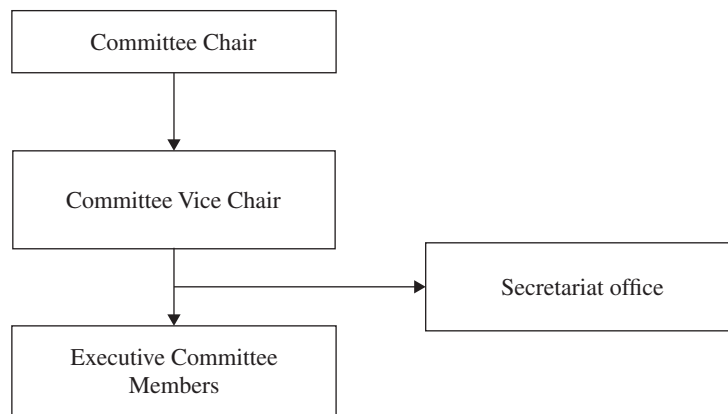
We also adhere to the principles of waste and pollutant emission reduction, energy saving and an overall environmentally friendly approach in the way we operate. During the Track Record Period, all of our production bases met the national compulsory standards for wastewater and exhaust gas emission.

As advised by our PRC Legal Advisor, during the Track Record Period and up to the Latest Practicable Date, we were in compliance with applicable PRC environmental laws and regulations in all material aspects, and not subject to any material administrative penalties for violations of applicable PRC environmental laws or regulations which would have a material adverse effect on our business.

Governance Structure

Solid corporate governance forms the foundation of our operations. The Board has the overall responsibility for our sustainability strategy and reporting and oversees sustainability issues related to our operations.

To ensure a better implementation system is in place, the Board has established a committee that is focused on environmental, social, and governance matters (the “ESG Committee”) on July 21, 2022. The structure of the committee is as follows:



Our general manager and executive Director, Mr. Li, was appointed as Chairperson of the ESG Committee, who represents the Board of Directors to oversee the whole operation and implementation of ESG matters. Our executive Director and vice general manager, Ms. HUANG Danyan, and our vice general manager, Mr. FAN Qunyan were appointed as Committee Vice Chairperson of the ESG Committee, who will bridge the work of the Board and the management team. The committee members have included representatives from different departments and roles across the organization to ensure that all aspects of our Group are represented. The ESG Committee reports up to the executive leadership level through the chairperson and vice chairperson.

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The Board will adopt the following approaches to identify, manage and review material ESG issues:

Identify: The Board will engage key stakeholders, including our major suppliers, management team, employees, and clients to identify material ESG issues and risks inherent in our business operations. The Board believes that open dialogue with stakeholders plays a crucial role in maintaining our business sustainability.

Assess: Apart from assessing the performance of our ESG measures through discussion with our stakeholders, the Board will engage an independent third party to identify and assess our performance in respect of environmental protection and climate change.

Review: The Board will review the metrics and progress made against ESG-related goals yearly to guide us to achieve better ESG performance. Via our ESG policy, a set of systematic risk management practices have been put in place to ensure financial and operational functions, compliance control systems, material control, asset management and risk management all operate effectively.

Our independent non-executive Director candidate, Mr. LAM Yiu Por (林曉波), will conduct a thorough analysis of potential risks that may affect the Group’s operations and management. This analysis considers three key dimensions: environmental protection, social responsibility, and corporate governance.

After identifying these risks, the Group evaluates their significance in terms of their potential impact on sustainable operations and social values. The risks are then sorted based on their level of impact, with those having the most significant impact given priority status.

In essence, Mr. LAM Yiu Por’s professional knowledge and expertise are utilized to help the Group identify and prioritize ESG risks, in order to ensure the sustainable operation of the Group while also considering its impact on society as a whole.

Potential Climate Risk on Our Business Operation and Financial Performance

Climate change is a critical issue that has become increasingly relevant to the bird’s nest industry in recent years. The industry is vulnerable to climate-related risks as extreme weather events, such as hurricanes, thunderstorms, and heatwaves, can disrupt natural resources, and impact supply chains. Climate change will undoubtedly be of increasing concern to the Group and industry as a whole for the foreseeable future. The Group has identified the following risks that climate change poses.

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Climate risk, including physical risks and transition risks

We have identified relevant climate-related risks and assessed their potential financial impacts. The climate risks identified, their time horizon, trend and the potential financial impacts affecting the Group are shown below.

	Climate Risks	Time horizon	Trend	Potential financial impact
Physical Risks	Acute	Short term	Increase	Climate change affects all regions around the world. South Asia Pacific is particularly vulnerable to extreme weather events which these risks can destroy the birdhouses built by the farmers to accommodate the wild birds, damaging the bird’s nest farm that may disrupt the supply chain of EBN products and ultimately impacting revenue.
	Chronic	Long term		Longer-term shifts in climate patterns can increase capital costs, operating costs, costs of human resources and increased insurance premiums and potential for reduced availability of insurance on assets for production. Long-term climate change may also cause changes in habitats and animal behaviors. Warmer temperatures and shifts in precipitation are increasing drought risk in many tropical forests. This environmental stress makes trees more vulnerable to disease and death. As climate conditions change, many tropical tree and plant species are experiencing population declines or range shifts. Species that cannot adapt fast enough face higher extinction risks. There is a chance that swiftlets may change their migration routes and patterns due to climate change.
	Market	Medium term	Increase	The Group’s industry relies on a product of nature, bird’s nest, as a key input for our processed food production. If natural product shortages, supply disruptions and price volatility are not well managed, the risk of not being able to supply stably would increase and will lead to an inability to access necessary natural products, reduced margins, constrained revenue growth and/or high costs or capital
	Reputation	Long term	Increase	For centuries, bird’s nests were harvested from lime caves in Indonesia. Bird’s nest products were widely attacked by environmentalists for the destruction of natural habitats. Some animal rights groups may also emphasize animal cruelty issues with exaggerated stories and videos. As climate change becomes an increasingly pressing issue, consumers and investors are paying more attention to the environmental impact of companies. Misunderstanding of the EBN industry may lead to fierce attacks from environmental groups and animal rights groups.

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Suppliers’ risk

Raw nest farmers construct farming structures to provide habitat for swiftlets to build nests. However, without universal construction standards, some farms become overcrowded and stressed habitats. High-density farmhouses and intensive practices violating regulations can put environmental pressure on surrounding forests. Additionally, overpopulation within areas raises risks of avian flu and other diseases spreading among bird populations. As substantially all of our raw nest suppliers are located in Indonesia, concentrating production carries short-term supply chain risks. Disease outbreaks or environmental impacts threatening swiftlets’ health could disrupt our incoming product supply and negatively affect our financial condition.

How to mitigate physical risk and suppliers’ risk

To mitigate the risk derived from the disruption of the upstream supply chain, the Group engages suppliers from various geographical regions in Indonesia to diversify the sources of suppliers. Given that substantially all of our suppliers are based in Indonesia, in the event that they are facing the risks of habitat changes affecting swiftlet populations, we will proactively seek to diversify our supplier network across multiple countries as a mitigation strategy. The Group continues to enhance internal awareness and training for the Group’s professionals regarding climate risk so that the ability of the Group to cope with the negative impacts of extreme weather can be strengthened. The Group enhances supply chain management continuously to mitigate risks arising from the supply chain. This helps to ensure the smooth and effective acquisition of edible bird’s nest products from different locations, even during extreme weather conditions in the long term.

How to mitigate transition risks

We have a stringent code of conduct for all of our raw nest suppliers to comply with the local conservation law. All of the nests are farmed rather than collected from caves. Farmers build wooden huts to attract and accommodate wild swiftlets and harvest their nests on a seasonal basis. No swiftlets were cruelly treated nor were wild habitats destroyed. As an industry leader, the Group has the responsibility to vindicate the misunderstanding.

We are prioritizing sustainability and will actively engage with our stakeholders, including customers, investors and employees, to understand their expectations and concerns around sustainability. In addition, we will establish environmental targets for reducing our carbon footprint and regularly review and report their progress. By doing so, we demonstrate our commitment to sustainability and provide transparency to stakeholders.

Additionally, to further increase transparency and provide accurate disclosure of sustainability-related information, we will publish ESG reports annually. This report can provide stakeholders with a comprehensive overview of our sustainability initiatives, progress, and future plans, which assures our customers that we operate in a sustainable and responsible manner.

Climate Opportunities

Climate change interacts with and exacerbates existing health risks, while it also presents new challenges. Impacts involve increased respiratory and cardiovascular issues as well as injuries and fatalities resulting from extreme weather. Changing climate conditions can influence the spread and incidence of food-borne, water-borne and infectious diseases globally. Mental health faces threats as well from climate-driven disruptions.

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Traditional Chinese medicine ascribes various remedial properties to EBN, citing benefits for conditions such as tuberculosis, asthma, stomach ailments, libido improvement, immune function enhancement, energy metabolism and circulatory system stimulation. As interest in and reliance upon traditional remedies grows, it could generate expanding demand for our EBN products. A wider embrace of oriental medicinal philosophies and deepening consumer belief in the restorative powers attributed to EBN present viable commercial opportunities for us. Adaptive farming and manufacturing practices will ensure supply chain reliability in meeting rising market needs.

ESG Policies

The Group is committed to working on the environmental, health and safety, employment, and supply chain issues that its operations affect, and to working with its stakeholders to promote sustainable development in the industry in which it operates. The Group undertakes all reasonable efforts to ensure compliance with all applicable national and local safety, health, labour, and environmental obligations. The Group has implemented an ESG policy, which provides guidelines to manage our environmental, social, and climate-related issues, and the Board will constantly update the policy in response to the environmental, social, and climate-related changes.

Environmental Policy

Use of resources

- Responsibly manage energy and water resources for the benefit of the business and society
- Design and implement effective energy and water management measures
- Minimize the production of all kinds of waste where applicable
- Handle waste in accordance with national and local laws and regulations
- Source edible bird’s nest responsibly and sustainably, including prioritizing suppliers with environmentally sound practices and management
- Reuse and recycle as much as our used material

Emissions management and energy efficiency

- Encourage the adoption of energy-efficient machinery, system and equipment in the procurement process
- Avoid unnecessary vehicle use and encourage its employees to use public transport
- Turn off the unnecessary electrical equipment and lights

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Social policy

Human resources

The following table sets forth our workforce by gender, age and expertise diversity.

	December 31,	
	2021	2022
Expertise diversity		
Sales	558	592
Management and administration.	209	223
Research and development	47	51
Production	898	1039
Total	1712	1905
Age		
18-25.	117	169
26-35.	887	1028
36-45.	575	589
46-55.	120	108
56 or above	13	11
Total	1712	1905
Gender		
Male	393	446
Female.	1319	1459
Total	1712	1905

- Equal Opportunity applies to all aspects of employment. The Group is committed to the principle of equal opportunities for all employees and candidates regardless of their gender, age, race, nationality, marital status, disability, religious belief, sexual orientation or any other characteristic protected under the law.
- All employees are recruited based on a merit basis. No discrimination in recruitment and remuneration is involved. In fact, the Group has been working on increasing the ratio of male employees within a female-dominated industry. As indicated above, the number of females outweighs that of males in the Group. This situation is a result of our product nature. The Group strives to recruit more males to contribute to deconstructing gender norms, stereotypes and expectations.
- For the Group’s formal staff, remuneration packages, which includes salary and bonuses, are offered. They also receive various welfare benefits, such as medical care, retirement benefits, occupational injury insurance and other miscellaneous items. Public holidays, marital leaves, maternity leaves, compassionate leaves and annual leave are also granted by the Group according to labor laws and regulations. Paternity leave and special breastfeeding arrangements are also provided.
- The Group has employee handbooks in place which stipulated procedures regarding employment, compensation and dismissal, performance review and promotion, working hours, rest periods, other benefits and welfare, development and training, and employees’ code of conduct. Such employee handbooks aim to provide employees with guidance on daily operation practices, establish a standard for employees to be treated on a fair basis, and establish a sound management system to manage the Group’s internal social issues.

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- The Training Policy encourages the Group’s employees to constantly improve their skills and abilities and develop competencies through the taking up of both internal and external training programmes. Training needs for improvement on existing skills will be regularly identified through performance appraisals. The Group will provide appropriate training and development opportunities to assist employees in meeting their training objectives and achieving business goals.
- Promotional and job opportunities are offered to existing employees and suitable candidates, and selection is based on the assessment of the work performance of all individuals on merit, qualifications, and abilities, and suitability for the position.

Occupational safety and health

We are subject to the PRC laws and regulations in respect of employee health and safety. We have in place safety guidelines with which our employees are required to strictly comply and equip our production personnel with adequate safety equipment.

Our occupational safety and health policy includes the following:

- A management system that imposes full compliance with laws and regulations
- To provide and maintain a safe and healthy working environment and work systems for all the staff
- To strive for continual improvement in safety and health management and performance, including identifying and developing best practices in safety and health
- To provide adequate resources for implementing the safety and health policy and safety plan, and to provide the necessary information, staff training, and supervision
- To foster a proactive risk-based accident prevention culture, the attitude that every level of the organization bears responsibility for work safety
- Regularly evaluate our equipment and production facility to ensure their safety for our operations
- Conduct training for employees to strengthen their awareness and knowledge of safety procedures and accident prevention from time to time

Number of workplace accidents and lost working days due to injury:

	Year ended December 31,	
	2021	2022
Work-related fatality	0	0
Work injury cases	2	2
Lost days due to work injury	42	85

Given the inherent characteristics of our production process, the risk associated with our production is low. The four incidents mentioned above occurred due to violations of working procedures and mishandling of equipment. The Group has provided comprehensive working insurance coverage for our staff, ensuring that any harm or injury they sustain can be claimed through the Administration Department of Labor. Additionally, the Group has bought additional insurance coverage for commercial damages.

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Anti-corruption

- Policy sets out the responsibilities of those who work for the Group regarding observing and upholding a zero-tolerance position on issues related to bribery and corruption
- Any act of corruption is to be condemned strongly
- The policy is applicable to all stakeholders, including but not limited to, all employees, consultants, contractors, and trainees, associated with the Group
- All employees are committed to acting professionally, fairly, and with integrity in all business dealings and relationships, anywhere the Group operates
- A whistle-blowing system that allows employees to make a report if they are aware of any malpractice

Food safety and product recall mechanism

The food safety and product recall mechanism works on three levels:

- The Group established a food procurement procedure and supplier management system on January 17, 2023. We have categorized our products into different types. Edible products are under special monitoring regarding their licensing, certificate of approval, health certificate, supplier's credibility, traceability, and third-party approval certificate.
- The Group established a handling procedure on December 15, 2020 for all the purchased food including:
 1. Entrance approval for qualified workers
 2. Provide sufficient lighting for all working process
 3. Prevention of mishandling of storage
 4. Prevention of harmful material from food additive
 5. Prevention of mishandling during the transportation process
 6. Prevention of hostile action on water supply
 7. Prevention of hostile action during our treatment process
- The Group established a product recall system and procedure on January 19, 2022, which includes the criteria and procedure for recalling our products. Furthermore, our research and development department will implement appropriate testing and analysing processes to determine further actions. Whenever any incident of product recall occurs, related departments should notify the accreditation agency within 3 days and provide sufficient evidence within 21 days.

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Supply chain management

The Group is responsible for evaluating the price, the standard of product quality, business condition and environmental and social corporate responsibility of the new suppliers regularly in order to ensure the product and service quality of the suppliers.

Indonesian farmers construct buildings for swiftlets and harvest their nests. EBN farming does not directly degrade forest resources and is therefore considered a sustainable means of production. Swiftlets only use their nests for one mating season, after which they have no use for the nests after their babies fly away. Sustainable harvesting refers to the process whereby the farms only harvest these nests when the swiftlets have no use for the nest. This practice protects the swiftlets' population and poses no harm to the environment.

Our suppliers are required to sign a code of conduct declaration to make sure that they adhere to the ethical and legal standard required by us. We also conduct on-site inspections annually to ensure that our suppliers have not materially deviated from the code of conduct. In the event that we discover suspicious practice of a supplier that violates the code of conduct, we will require the relevant supplier to submit evidence or documents to demonstrate that it complies with the code of conduct in all material aspects. We may reassess and possibly discontinue our business relationship with suppliers who fail to comply with our code of conduct.

Key elements of our code of conduct include the following.

1. **Environmental commitment.** Our raw nest suppliers shall pledge to uphold ecological and environmental protection standards.
2. **Ethical harvesting.** Our raw nest suppliers shall refrain from over-harvesting swiftlet nests.
3. **Legal compliance.** Our raw nest suppliers shall adhere to all relevant laws and regulations pertaining to swiftlet nest harvesting.
4. **Preservation of swiftlet health.** Our raw nest suppliers shall commit to safeguarding the overall health and well-being of swiftlet populations.
5. **Fair labor practices.** Our raw nest suppliers are prohibited from engaging in illegal child labor and are committed to fair labor practices.
6. **Prohibition of forced labor.** Our raw nest suppliers shall have zero tolerance for forced labor and prioritize the rights and dignity of all workers.

Major, well-known, and sizeable suppliers with good governance, relevant licenses, and registrations are chosen in order to ensure all suppliers are committed to good ESG performance and high-quality products. Priority is given to green procurement. Products from cave harvest are strictly prohibited. Scores will be given to the related supplier and unauthorized suppliers will be penalized and taken out from our supplier list.

The Group will monitor the environmental and social performance of all existing suppliers continuously in order to ensure the quality of suppliers and their compliance with all environmental and social related laws and regulations.

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Packaging Material Consumption

The following table sets forth the details of our packing material consumption.

	December 31,	
	2021	2022
Materials	<i>(tonnes)</i>	
Plastic	604.2	602.5
Stainless steel	1.4	6.8
Iron	118.1	197.3
Aluminum	26.3	33.1
Glass	1475.6	2045.0
Paperboard	2738.6	3457.9
Ceramic	2.0	2.2
Others	905.0	386.9
Total	5871.2	6731.7

The Group acknowledges that packaging waste accounts for 40% of all solid waste in municipal waste streams. Environmentally friendly packaging is more important than ever. The ESG committee closely analyses different packaging materials and evaluates possible uses. Our agenda for the continuous development of sustainable packaging includes the following:

- Invest in custom size packaging to reduce material use
- Use tailored packaging to improve space efficiency and reduce material usage
- Minimize void fill and secondary packaging materials
- Utilize packaging design that eliminates or reduces use of tapes and wraps
- Integrated fittings to minimize material use
- Substitute materials to reduce volume/weight
- Eliminate unnecessary packaging such as outer sleeves
- Use recyclable and reuse material
- Train staff to be aware of packaging costs

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Metrics and Targets

Electricity and water consumption

The following table presents our total consumption of water and electricity for the year ended December 31, 2022 and December 31, 2021:

	Unit	2022	2021
Water	Tons	147,126	127,568
Intensity	(Tons/million RMB revenue)	85	85
Electricity	kWh	4,329,635	3,553,119
Intensity	(kWh/million RMB revenue)	2,503	2,358

GHG emissions

The following table presents our greenhouse gas emissions for the year ended December 31, 2022 and December 31, 2021:

Scope of Greenhouse gas emissions	Emission Sources	Unit	2022	2021
Scope 1 emission⁽¹⁾	Combustion of natural Gas, diesel and petrol	tCO ₂ e	1,268	913
Scope 2 emission⁽²⁾	Purchased electricity	tCO ₂ e	2,642	2,168
Total		tCO ₂ e	3,910	3,081
Intensity		tCO ₂ e/million RMB revenue	2.26	2.05

- (1) As pursuant to Appendix 2 of “How to Prepare an ESG Report” set out by Hong Kong Exchanges and Clearing Limited, Scope 1 greenhouse gas emissions refer to direct emissions from equipment and operations that are owned or controlled by our Group including natural gas used by manufacturing process, and petrol and diesel used by our vehicles.
- (2) As pursuant to Appendix 2 of “How to Prepare an ESG Report” set out by Hong Kong Exchanges and Clearing Limited, Scope 2 greenhouse gas emissions refer to energy indirect emissions resulting from the generation of purchased or acquired electricity, heating, cooling, and steam consumed within our Group.

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Targets

The Group recognizes the importance of environmental protection and sustainability. To promote environmental responsibility and reduce our environmental footprint, the Group has established environmental targets that are aligned with its overall business strategy and objectives. These targets are regularly reviewed and updated to ensure continuous improvement in sustainability practices. By setting these targets, the Group believes that they can demonstrate its commitment to environmental protection by taking proactive measures to minimize its impact on the environment.

Category	Targets for the next 10 years
GHG emissions	Reduce total GHG emission intensity by 10% within 10 years, with 2022 as the base year.
Energy efficiency	Reduce total electricity consumption intensity by 10% within 10 years, with 2022 as the base year.
Water efficiency	Reduce total water consumption intensity by 10% within 10 years, with 2022 as the base year.

The above target setting is mainly based on the following two reference factors:

1. At least 30% of our fossil fuel cars will be replaced by EV cars in the coming 10 years.
2. The portion of renewable energy provided to the main grid will be at least 5% higher in 2028, and our internal energy conservation policy will contribute the other 5%.

Approaches to achieving environmental targets

	Measures	Financial impact
Reducing GHG emission	<ul style="list-style-type: none"> • Actively improve energy efficiency to reduce GHG emissions from gas consumption and electricity consumption • Gradually replace our aging fossil car with EV car • Actively upgrade our manufacturing machinery and equipment when appropriate • Maintain an appropriate temperature and humidity for the inventories at warehouses to avoid overuse of electricity • In case we are unable to achieve the GHG reduction target, we will purchase voluntary carbon certificates to offset our remaining target 	<ul style="list-style-type: none"> • Upgrading manufacturing machinery and equipment whenever appropriate is a permanent policy of our Group, no extra cost will be incurred on this aspect • As we set the target to reduce the intensity by 10% of total consumption within 10 years, our worst-case scenario will be that we cannot achieve our target by 10%, which is approximately 400 tonnes of carbon dioxide emission. As the China Certified Emission Reductions (the “CCERs”) were priced at approximately RMB80 per tonne, the total extra cost will not exceed RMB40,000 per year starting from 2032

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	<u>Measures</u>	<u>Financial impact</u>
Energy efficiency	<ul style="list-style-type: none">• Purchase energy-efficient equipment throughout the whole Group• Constantly monitor the energy consumption in the manufacturing process and the warehouses• Purchase energy from renewable sources when possible and available• Educate employees to turn off unnecessary electronic machines when they are away from their post	<ul style="list-style-type: none">• We estimate the cost of electricity from renewable sources will be slightly higher than conventional electricity in the coming five years but will be on par after 2028. The total extra cost per year will be around RMB300,000 per year for five years
Water efficiency	<ul style="list-style-type: none">• Actively reuse and recycle our water usage• Install water efficiency equipment to reduce water usage	<ul style="list-style-type: none">• No extra cost needed