

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial statements as of and for the years ended December 31, 2020, 2021 and 2022 and the five months ended May 31, 2022 and 2023, including the notes thereto, as set forth in the Accountants’ Report in Appendix I to this document. You should read the entire Accountants’ Report in Appendix I to this document and not rely merely on the information contained in this section. The consolidated financial statements as of and for the years ended December 31, 2020, 2021 and 2022 and the five months ended May 31, 2022 and 2023 have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which may differ in material aspects from generally accepted accounting principles in other jurisdictions, including the United States.

The following discussion and analysis contain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future development, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties. In evaluating our business, you should carefully consider the information provided in “Risk Factors” and “Forward-looking Statements” in this document.

For the purpose of this section, unless the context otherwise requires, references to 2020, 2021 and 2022 refer to our financial years ended December 31 of such years. Unless the context otherwise requires, financial information described in this section is described on a consolidated basis.

OVERVIEW

We are a leading brand in China’s 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.

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 (鲜炖燕窝), Crystal Sugar Bird’s Nest (冰糖官燕), and dried EBN (乾燕窝). 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 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.

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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.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial condition and results of operations have been, and are expected to continue to be, affected by a number of factors, primarily including the following:

Consumer Demand for EBN Products

Our success hinges on consumer’s demand for quality EBN products. Underpinned by the broad and venerable cultural foundations and history of consumptions of EBN in China, the consumer demand for quality EBN products has shown a significant growth trajectory in China. In particular, the size of the EBN product market in China, in terms of retail value, has grown rapidly from RMB12.9 billion in 2017 to RMB43.0 billion in 2022, at a CAGR of 27.2%, and is expected to reach RMB92.1 billion in 2027, at a CAGR of 16.5% from 2022 to 2027, according to the F&S Report. Capitalizing on our industry position, we believe we will continue to benefit from the rising consumer demand for quality EBN products in China.

The potential growth of the EBN market may be affected by a number of factors, such as general economic health, change in lifestyle, consumer awareness of beauty and wellness, and consumer attitudes toward EBN products. As a leading brand in the EBN product market with strong brand reputation, high quality products and proven track record of business success, we believe we are well positioned to capture the growth opportunities in the EBN product market.

Product Offering and Mix

Our results of operations depend on our ability to address evolving consumer preferences in the EBN product market with a diverse product portfolio. 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. We are closely attuned to changes in consumer behavior and lifestyle trends as we continue to expand our product offering through innovation. For instance, our signature product series, *One Nest*, was launched in 2012 in response to the market demand for ready-to-serve EBN products in China. In recent years, we have also expanded the value chain of the EBN industry by developing other innovative EBN products, such as EBN+ products and +EBN products. Our ability to align our product offerings with customer needs has been a cornerstone of our growth.

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During the Track Record Period, among our diversified product portfolio, *One Nest* (pure EBN) represented the largest revenue contribution, accounting for 43.0%, 44.0%, 38.9%, 41.3% and 36.2% of our total revenue in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. Freshly Stewed Bird’s Nest experienced the highest growth rate during the Track Record Period, from RMB321.1 million in 2020 to RMB485.4 million in 2022, at a CAGR of 22.9%, and from RMB188.7 million in the five months ended May 31, 2022 to RMB215.2 million in the five months ended May 31, 2023 at a growth rate of 14.0%. *One Nest* and Crystal Sugar Bird’s Nest, however, tend to have higher gross profit margins than Freshly Stewed Bird’s Nest and dried EBN. *One Nest* and Crystal Sugar Bird’s Nest have such higher gross profit margins because (1) we position *One Nest* as our premium product series, and primarily sell *One Nest* products through offline sales channels, which require limited online promotional activities and logistics costs, and (2) Crystal Sugar Bird’s Nest as our traditional product series has built its stable customer base, resulting in a pricing strategy that entails less promotional activities, and its less demanding transportation condition to certain extent reduced relevant logistics costs. Any significant change in our product offering and mix will likely have an impact on our revenue growth and profitability.

Distribution Channels

Our diverse and expansive distribution network plays a crucial role in our market reach and revenue growth. We have established an expansive national sales network covering online and offline channels, enabling us to effectively reach a broad customer base and reinforce our premium brand image. We have rapidly expanded our offline sales network through a combination of 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. According to the F&S Report, we ranked No.1 as measured by the number of EBN specialty storefronts as of December 31, 2022 and surpassed the runner-up by over 100%. Revenues from offline channels increased from RMB578.5 million in 2020 to RMB738.7 million in 2021 and further to RMB792.0 million in 2022, and increased from RMB333.9 million in the five months ended May 31, 2022 to RMB353.2 million in the five months ended May 31, 2023, accounting for 44.5%, 49.0%, 45.8%, 47.9% and 45.2% of our total revenues in the same periods, respectively. In particular, our direct sales to offline customers have demonstrated strong momentum, growing from RMB168.7 million in 2020 to RMB314.5 million in 2022, at a CAGR of 36.5%, and from RMB135.2 million in the five months ended May 31, 2022 to RMB144.6 million in the five months ended May 31, 2023 at a growth rate of 7.0%. The table below sets forth the number of our offline stores by type as of the dates indicated.

| | As of December 31, | | | As of May 31 |
|---------------------------------------|--------------------|------------|------------|--------------|
| | 2020 | 2021 | 2022 | 2023 |
| Offline stores | | | | |
| Self-operated stores | 40 | 89 | 89 | 91 |
| Distributor-operated stores | 483 | 544 | 615 | 614 |
| Total | 523 | 633 | 704 | 705 |

In addition to the traditional offline channels, we have expanded our online presence by establishing online stores on all major e-commerce platforms. Our direct sales to online customers through self-operated online stores accounted for 44.1%, 37.4%, 40.2%, 38.0% and 41.8% of our total revenues in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. In recent years, we have also engaged e-commerce platforms to distribute our products through platform-operated online stores to further expand our online presence. Our direct sales to e-commerce platforms increased from RMB137.5 million in 2020 to RMB227.1 million in 2022, at a CAGR of 28.5%, and increased by 1.6% from RMB92.2 million in the five months ended May 31, 2022 to RMB93.7 million in the five months ended May 31, 2023. We adopt a differentiated product and service offering strategy for different channels to maximize sales potential across all channels. For instance, Freshly Stewed Bird’s Nest was launched specifically for online channels with a subscription model, catering to demands from younger generations.

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Ability to Control Cost of Raw Materials

Our results of operations have been, and will continue to be, affected by our ability to control cost of sales. Cost of raw materials was the most significant component of our cost of sales during the Track Record Period, accounting for 76.7%, 79.3%, 77.3%, 77.8% and 77.7% of our total cost of sales in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. The principal raw materials we use 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. 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. The price of raw nests may be affected by a number of factors, such as market demand, quality of raw nests, climate conditions, natural habitat preservation, logistics costs, and international trade policies. We have built strong and stable relationships with various suppliers for raw nests in Indonesia. 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. We believe our long-lasting relationship with local suppliers in Indonesia has positioned us advantageously within the EBN market to ensure a reliable and consistent supply of high-quality raw nests and, at the same time, negotiate favorable pricing terms to lower our costs.

Marketing Effectiveness

We have invested, and is expected to continue to invest, in our sales and marketing activities, which we believe is critical to raising our brand awareness among consumers and maintaining our premium brand positioning, which will contribute to our long-term revenue growth and profitability. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our selling and distribution expenses were RMB317.8 million, RMB399.0 million, RMB503.9 million, RMB205.8 million and RMB208.5 million, respectively, accounting for 24.4%, 26.5%, 29.1%, 29.5% and 26.6% of our total revenues for the same periods, respectively. Advertising and promotion fees constituted the largest component of our selling and distribution expenses during the Track Record Period, accounting for 74.3%, 67.4%, 64.8%, 66.7% and 60.0% of the total selling and distribution expenses in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively.

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 Forum (智綱智庫論壇) 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.

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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 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.

BASIS OF PREPARATION

Our historical financial information has been prepared in accordance with the IFRSs issued by the International Accounting Standard Board. The historical financial information has been prepared on a historical cost basis, except for certain financial asset measured at fair value. Details for the financial asset measured at fair value are as stated in Note 2(g) to the Accountants’ Report in Appendix I to this document.

The preparation of historical financial information in conformity with IFRSs requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Such estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Judgements made by our management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are stated in Note 3 to the Accountants’ Report in Appendix I to this document.

All effective standards, amendments to standards and interpretation, which are mandatory for the financial year beginning on January 1, 2023, are consistently applied to us for the Track Record Period.

MATERIAL ACCOUNTING POLICY INFORMATION AND CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

We have identified certain accounting policies that we believe are the most significant to the preparation of our consolidated financial statements. Our material accounting policy information and critical estimates and judgements, which are important for understanding our results of operations and financial condition, are set forth in Notes 2 and 3 to the Accountants’ Report in Appendix I to this document. Some of the accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires our management’s judgement based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (1) our selection of material accounting policies, (2) the judgement and other uncertainties affecting the application of such policies, and (3) the sensitivity of reported results to changes in conditions and assumptions.

Revenue and Other Income

We classify income as revenue when it arises from the sales of EBN products in the ordinary course of our business. We are the principal for our revenue transactions and recognizes revenue on a gross basis. In determining whether we act as a principal or as an agent, we consider whether we obtain control of the products before they are transferred to our customers. Control refers to our ability to direct the use of and obtain substantially all of the remaining benefits from the products.

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Further details of our revenue and other income recognition policies are set forth below.

Revenue from contracts with customers

We recognize revenue when control over a product is transferred to the customer at the amount of promised consideration to which we are expected to be entitled, excluding those amounts collected on behalf of third parties such as value added tax or other sales taxes.

Direct sales to customers

We recognize direct sales of our EBN products through self-operated online and offline stores to customers as follows:

- For retail customers that purchase from our offline stores, sales revenue is recognised when customers take possession of the products and make payment.
- For retail customers that purchase from our online stores, payment is collected when customers place purchase orders and sales revenue is recognised when customers accept the products upon delivery.

We typically offer retail customers a right of return for a period of seven days upon customer acceptance. We estimate the constrained transaction price with all reasonably available information and updates the variable consideration at each reporting date.

We operate membership programs for retail customers and members can earn loyalty points on their purchases from stores operated by our Group as well as our distributors. Points are redeemable against any future purchases of our products or other offerings provided by us. We allocate a portion of the consideration received from direct sales and sales to distributors as appropriate to loyalty points based on the relative stand-alone selling prices. The amount allocated to the membership programs is deferred and recognised as revenue when loyalty points are redeemed or expire. Unused loyalty points generally expire in 12 to 15 months after they are granted.

Sales to distributors

We sell EBN products to distributors through offline and online channels.

Offline channel distributors make payments for their purchase orders before product shipment. Sales revenue is recognized when the products are delivered to and accepted by distributors at the locations specified in the purchase orders.

We generally do not accept return of products from offline channel distributors, except for quality defects or transportation damages in rare cases.

We provide sales rebates to distributors who satisfy relevant requirements specified in the distribution agreements and our distributor incentivising policies.

The above sales rebates and the rights of return (where applicable) to distributors give rise to variable consideration. We use the most likely amount approach to estimate variable consideration based on our current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of products to distributors, we recognize revenue after taking into account adjustment to transaction price arising from sales rebates and returns which are estimated and updated at each reporting date.

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Sales to e-commerce platform

We sell EBN products to e-commerce platforms. Sales of products sold to e-commerce platforms are recognized when the products are accepted by the platforms upon delivery to their designated premises.

Certain e-commerce platforms can return unsold products to us⁽¹⁾. We also provide a profit protection⁽²⁾ to an e-commerce platform such that the monthly overall gross margin generated by this e-commerce platform from selling the products is not less than a floor.

The above rights of return and profit protection give rise to variable consideration. We use the most likely amount approach to estimate variable consideration based on our current and future performance expectations and all information that is reasonably available. This estimated amount is included in the transaction price to the extent it is highly probable that a significant reversal of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is resolved. At the time of sale of products to e-commerce platforms, we recognize revenue after taking into account adjustment to transaction price arising from returns and profit protection which are estimated and updated at each reporting date.

Revenue from other sources and other income

Interest income

Interest income is recognized as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortized cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortized cost, i.e., gross carrying amount net of loss allowance, of the asset. See Note 2(k)(i) to the Accountants’ Report in Appendix I to this document for details.

Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that we will comply with the conditions attaching to them. Grants that compensate us for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate us for the cost of an asset are initially recognized as deferred income and subsequently recognized in profit or loss on a systematic basis over the useful life of the asset.

(1) All e-commerce platform customers that enjoy the right to return unsold products are established and publicly listed companies operating mainstream e-commerce platforms. In 2020, 2021, 2022 and the five months ended May 31, 2023, the total value of returned products from these e-commerce platform customers (including those returned by their end customers) was RMB3.1 million, RMB4.5 million, RMB6.4 million and RMB3.3 million, respectively. The increase in the total value of returned products from these e-commerce platform customers during the Track Record Period was generally in line with our increased transaction amounts with such customers.

(2) Pursuant to an e-commerce platform customer’s standard form contract with us, in the event that its monthly overall gross margin for products purchased from us, as calculated by the method stipulated in the contract, failed to reach the minimum level, we shall deduct a certain amount of payment due from it as appropriate so that its gross margin could at least satisfy such minimum requirement. Such profit protection amounts were recognized as a reduction of the sales revenue from the e-commerce platform. According to the F&S Report, e-commerce platforms in China that include such boilerplate profit protection clauses in their standard form contracts generally do not concede to removing such clauses.

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Inventories and Other Contract Costs

Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value.

Costs is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

A right to recover returned goods is recognized for the right to recover products from customers sold with a right of return. It is measured in accordance with the policy set out in Note 2(u)(i) to the Accountants' Report in Appendix I to this document.

Other contract costs

Other contract costs are the costs to fulfil a contract with a customer which are not capitalized as inventory. See Note 2(l)(ii) to the Accountants' Report in Appendix I to this document for details.

Costs to fulfil a contract are capitalized if the costs relate directly to an existing contract or to a specifically identifiable anticipated contract; generate or enhance resources that will be used to provide goods or services in the future; and are expected to be recovered. Costs that relate directly to an existing contract or to a specifically identifiable anticipated contract may include direct labor, direct materials, allocations of costs, costs that are explicitly chargeable to the customer and other costs that are incurred only because we entered into the contract. Other costs of fulfilling a contract, which are not capitalized as inventory, are expensed as incurred.

Capitalized contract costs are stated at cost less accumulated amortization and impairment losses. Impairment losses are recognized to the extent that the carrying amount of the contract cost asset exceeds the net of (1) remaining amount of consideration that we expect to receive in exchange for the goods or services to which the asset relates, less (2) any costs that relate directly to providing those goods or services that have not yet been recognized as expenses.

Amortization of capitalized contract costs is charged to profit or loss when the revenue to which the asset relates is recognized. The accounting policy for revenue recognition is set out in Note 2(u)(i) to the Accountants' Report in Appendix I to this document.

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Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. See Note 2(k)(ii) to the Accountants' Report in Appendix I to this document for details.

- Interests in leasehold land and buildings where we are the registered owner of the property interest. See Note 2(j) to the Accountants' Report in Appendix I to this document for details;
- Right-of-use assets arising from leases over leasehold properties where we are not the registered owner of the property interest; and
- Items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment. See Note 2(j) to the Accountants' Report in Appendix I to this document for details.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labor, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs. See Note 2(v) to the Accountants' Report in Appendix I to this document for details.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by our management. The proceeds from selling any such items and the related costs are recognized in profit or loss.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows.

Our interests in buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and the buildings' estimated useful lives, being no more than 50 years after the date of completion.

| | |
|----------------------------|---|
| Motor vehicles | four to five years |
| Machinery | five to 10 years |
| Office and other equipment | three to five years |
| Leasehold improvements | Shorter of the lease terms or the estimated useful life of the assets |

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

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Employee Benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Share-based payments

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant-date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

RESULTS OF OPERATIONS

The following table sets forth our results of operations for the periods indicated.

| | Year ended December 31, | | | Five months ended May 31, | |
|--|-------------------------|------------------|------------------|------------------------------|----------------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | (Unaudited) | | | | |
| | (RMB in thousands) | | | | |
| Revenue | 1,301,157 | 1,506,997 | 1,729,945 | 696,876 | 782,576 |
| Cost of sales | (745,448) | (780,214) | (851,693) | (337,313) | (376,565) |
| Gross profit | 555,709 | 726,783 | 878,252 | 359,563 | 406,011 |
| Other net income | 20,714 | 32,680 | 27,692 | 5,123 | 3,293 |
| Selling and distribution expenses | (317,762) | (398,951) | (503,879) | (205,800) | (208,533) |
| Administrative expenses | (76,060) | (108,020) | (111,543) | (41,462) | (60,807) |
| Research and development expenses | (17,679) | (18,982) | (24,320) | (8,809) | (9,579) |
| Profit from operations | 164,922 | 233,510 | 266,202 | 108,615 | 130,385 |
| Finance costs | (4,882) | (3,337) | (1,636) | (764) | (857) |
| Share of loss of an associate | (214) | — | — | — | — |
| Profit before taxation | 159,826 | 230,173 | 264,566 | 107,851 | 129,528 |
| Income tax | (36,401) | (57,814) | (58,688) | (24,096) | (29,031) |
| Profit and total comprehensive income for the year/period | 123,425 | 172,359 | 205,878 | 83,755 | 100,497 |
| Attributable to: | | | | | |
| Equity shareholders of the Company | 122,017 | 167,353 | 191,840 | 78,772 | 95,058 |
| Non-controlling interests | 1,408 | 5,006 | 14,038 | 4,983 | 5,439 |
| Profit and total comprehensive income for the year/period | 123,425 | 172,359 | 205,878 | 83,755 | 100,497 |

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NON-IFRS MEASURE

In order to supplement our consolidated financial statements presented in accordance with the IFRSs, we use adjusted net profit (non-IFRS measure) as an additional financial measure, which is not required by, or not presented in accordance with IFRSs. Our adjusted net profit (non-IFRS measure) represents our profit and total comprehensive income for the year/period, adjusted to add back equity-settled share-based payment expenses and [REDACTED] that we recognized in our consolidated statements of profit or loss and other comprehensive income during the Track Record Period less related income tax. Equity-settled share-based payment expenses are adjusted for as they are non-cash in nature and were not expected to result in future cash payments. We believe that the non-IFRS measure facilitates comparisons of operating performance from period to period and company to company by eliminating potential impacts of certain items. However, adjusted net profit (non-IFRS measure) presented by us may not be comparable to the similar financial measure presented by other companies. There are limitations to the non-IFRS measure used as an analytical tool, and you should not consider it in isolation or regard it as a substitute for our results of operation or financial position analysis that is in accordance with IFRSs.

| | Year ended December 31, | | | Five months ended May 31, | |
|--|-------------------------|-----------------------|-----------------------|---------------------------|-----------------------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | | | | (Unaudited) | |
| | | | | (RMB in thousands) | |
| Profit and total comprehensive income for the year/period | 123,425 | 172,359 | 205,878 | 83,755 | 100,497 |
| Add: | | | | | |
| Equity-settled share-based payment expenses | 438 | 21,813 | 5,253 | 2,189 | 2,189 |
| [REDACTED] | — | — | — | — | [REDACTED] |
| Less: | | | | | |
| Income tax in relation to [REDACTED] | — | — | — | — | [REDACTED] |
| Adjusted net profit (non-IFRS measure). | <u>123,863</u> | <u>194,172</u> | <u>211,131</u> | <u>85,944</u> | <u>113,673</u> |

KEY COMPONENTS OF OUR RESULTS OF OPERATIONS

Revenue

During the Track Record Period, we generated revenue primarily from sales and distribution of EBN products. Our total revenue increased from RMB1,301.2 million in 2020 to RMB1,729.9 million in 2022, and from RMB696.9 million in the five months ended May 31, 2022 to RMB782.6 million in the five months ended May 31, 2023.

Revenue by Product

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 primarily consisted of (1) *One Nest* (碗燕), (2) Freshly Stewed Bird’s Nest (鲜炖燕窝), (3) Crystal Sugar Bird’s Nest (冰糖官燕), and (4) dried EBN. In addition to pure EBN products, we have also developed EBN+ products and +EBN products.

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During the Track Record Period, we generated a substantial majority of revenue from sales of pure EBN products, accounting for 96.4%, 95.8%, 94.7%, 95.4% and 94.3% of our total revenue in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. To a lesser extent, we also generated revenue from EBN+ and +EBN products. 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) Include primarily Crystal Sugar Bird’s Nest.

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

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) Include primarily Crystal Sugar Bird’s Nest.

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Revenue by Sales Channel

We have built 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 platform 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.

Revenue by City Tier

We have established a nationwide offline sales network covering substantially all provincial administrative divisions across China. 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. In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, the revenue generated from our offline channels was RMB578.5 million, RMB738.7 million, RMB792.0 million, RMB333.9 million and RMB353.2 million, respectively, accounting for 44.5%, 49.0%, 45.8%, 47.9% and 45.2% of our total revenue in the same periods, respectively. The following table sets forth a breakdown of our revenue from offline channels by city tier for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|--|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentage) | | | | | | | | | |
| Offline channels | | | | | | | | | | |
| Tier 1 cities | 107,371 | 18.6 | 145,612 | 19.7 | 163,562 | 20.7 | 71,144 | 21.3 | 81,661 | 23.1 |
| New tier 1 cities | 131,157 | 22.7 | 174,133 | 23.6 | 173,581 | 21.9 | 73,941 | 22.1 | 78,881 | 22.4 |
| Tier 2 cities | 164,145 | 28.4 | 207,503 | 28.1 | 237,544 | 30.0 | 101,036 | 30.3 | 103,626 | 29.3 |
| Other cities | 175,833 | 30.3 | 211,463 | 28.6 | 217,304 | 27.4 | 87,820 | 26.3 | 89,041 | 25.2 |
| Total revenue from offline channels | 578,506 | 100.0 | 738,711 | 100.0 | 791,991 | 100.0 | 333,941 | 100.0 | 353,209 | 100.0 |

FINANCIAL INFORMATION

Cost of Sales

During the Track Record Period, our cost of sales consisted primarily of cost of raw materials, employee benefits expenses and courier fees. The principal raw materials we use in the production of our 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. During the same period, our packaging materials consisted primarily of polypropylene bowls (an FDA-approved food contact plastic), glass bottles, cardboard, and metal packaging materials to produce our products.

Our employee benefits expenses primarily included salaries that we pay to our employees. Production costs represent expenses in connection with the production of our EBN products, primarily including purchase of consumable manufacturing supplies and general overhead. Courier fees are fees paid to express companies responsible for delivering our EBN products to our customers.

In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our cost of sales was RMB745.4 million, RMB780.2 million, RMB851.7 million, RMB337.3 million and RMB376.6 million, respectively, accounting for 57.3%, 51.8%, 49.2%, 48.4% and 48.1% of our total revenue for the same periods, respectively. The following table sets forth a breakdown of our cost of sales by nature for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--------------------------------------|---|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Cost of raw materials . . . | 571,875 | 76.7 | 618,780 | 79.3 | 658,101 | 77.3 | 262,274 | 77.8 | 292,648 | 77.7 |
| Employee benefits expenses | 72,654 | 9.7 | 69,400 | 8.9 | 86,373 | 10.1 | 33,701 | 10.0 | 36,752 | 9.8 |
| Production costs | 23,284 | 3.1 | 20,674 | 2.6 | 23,318 | 2.7 | 9,012 | 2.7 | 11,977 | 3.2 |
| Courier fees | 38,834 | 5.2 | 36,970 | 4.7 | 40,035 | 4.7 | 16,142 | 4.8 | 16,983 | 4.5 |
| Others ⁽¹⁾ | 38,801 | 5.3 | 34,390 | 4.5 | 43,866 | 5.2 | 16,184 | 4.7 | 18,205 | 4.8 |
| Total | 745,448 | 100.0 | 780,214 | 100.0 | 851,693 | 100.0 | 337,313 | 100.0 | 376,565 | 100.0 |

(1) Include primarily e-commerce platform commissions, cost of consumables, taxes and surcharges, and asset impairment loss.

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

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|---|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Pure EBN products | 709,009 | 95.1 | 736,576 | 94.4 | 792,700 | 93.1 | 317,214 | 93.9 | 349,472 | 92.7 |
| — One Nest | 248,388 | 33.3 | 276,006 | 35.4 | 258,445 | 30.3 | 110,044 | 32.6 | 106,695 | 28.3 |
| — Freshly Stewed Bird’s Nest | 237,546 | 31.9 | 267,055 | 34.2 | 282,555 | 33.2 | 112,059 | 33.2 | 116,807 | 31.0 |
| — Other bottle-canned bird’s nest ⁽¹⁾ | 114,634 | 15.4 | 94,585 | 12.1 | 146,275 | 17.2 | 57,174 | 16.9 | 84,407 | 22.4 |
| — Dried EBN | 108,441 | 14.5 | 98,930 | 12.7 | 105,425 | 12.4 | 37,937 | 11.2 | 41,563 | 11.0 |
| EBN+ and +EBN products | 28,531 | 3.8 | 30,760 | 3.9 | 36,934 | 4.3 | 14,288 | 4.2 | 18,419 | 4.9 |
| Others ⁽²⁾ | 7,908 | 1.1 | 12,878 | 1.7 | 22,059 | 2.6 | 5,811 | 1.9 | 8,674 | 2.4 |
| Total | 745,448 | 100.0 | 780,214 | 100.0 | 851,693 | 100.0 | 337,313 | 100.0 | 376,565 | 100.0 |

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

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

The following table sets forth a breakdown of our cost of sales 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 cost of sales | RMB | Percentage of total cost of sales | RMB | Percentage of total cost of sales | RMB | Percentage of total cost of sales | RMB | Percentage of total cost of sales |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Offline channels | 286,160 | 38.4 | 340,740 | 43.6 | 342,823 | 40.2 | 142,915 | 42.4 | 149,542 | 39.7 |
| — Sales to offline distributors | 218,382 | 29.3 | 263,150 | 33.7 | 240,550 | 28.2 | 98,872 | 29.3 | 104,049 | 27.6 |
| — Direct sales to offline customers | 67,778 | 9.1 | 77,590 | 9.9 | 102,273 | 12.0 | 44,043 | 13.1 | 45,493 | 12.1 |
| Online channels | 459,288 | 61.6 | 439,474 | 56.4 | 508,870 | 59.8 | 194,398 | 57.6 | 227,023 | 60.3 |
| — Direct sales to online customers | 383,500 | 51.4 | 341,349 | 43.8 | 389,770 | 45.8 | 149,146 | 44.2 | 174,186 | 46.3 |
| — Direct sales to e-commerce platforms ⁽¹⁾ | 70,188 | 9.4 | 89,418 | 11.5 | 110,151 | 12.9 | 41,582 | 12.3 | 48,415 | 12.9 |
| — Sales to online distributors | 5,600 | 0.8 | 8,707 | 1.1 | 8,949 | 1.1 | 3,670 | 1.1 | 4,422 | 1.1 |
| Total | 745,448 | 100.0 | 780,214 | 100.0 | 851,693 | 100.0 | 337,313 | 100.0 | 376,565 | 100.0 |

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

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Gross Profit and Gross Profit Margin

In 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, our gross profit was RMB555.7 million, RMB726.8 million, RMB878.3 million, RMB359.6 million and RMB406.0 million, respectively. In the same periods, our gross profit margin was 42.7%, 48.2%, 50.8%, 51.6% and 51.9%, respectively. Gross margins of all major product series improved during the Track Record Period, except for other products, which consisted primarily of non-EBN products, promotional gifts to customers, and products for internal sales. The following table sets forth a breakdown of our gross profit and gross profit margin by product category for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|---|---------------------|----------------|---------------------|----------------|---------------------|---------------------------|---------------------|----------------|---------------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Pure EBN products . . . | 544,891 | 43.5% | 706,375 | 49.0% | 845,427 | 51.6% | 347,947 | 52.3% | 389,141 | 52.7% |
| — One Nest | 310,900 | 55.6% | 385,406 | 58.3% | 414,195 | 61.6% | 177,914 | 61.8% | 176,711 | 62.4% |
| — Freshly Stewed Bird’s Nest | 83,598 | 26.0% | 156,209 | 36.9% | 202,817 | 41.8% | 76,605 | 40.6% | 98,361 | 45.7% |
| — Other bottle-canned bird’s nest ⁽¹⁾ | 86,664 | 43.1% | 98,733 | 51.1% | 158,830 | 52.1% | 65,642 | 53.4% | 84,852 | 50.1% |
| — Dried EBN | 63,729 | 37.0% | 66,027 | 40.0% | 69,585 | 39.8% | 27,786 | 42.3% | 29,217 | 41.3% |
| EBN+ and +EBN products | 14,520 | 33.7% | 25,355 | 45.2% | 36,169 | 49.5% | 14,331 | 50.1% | 18,818 | 50.5% |
| Others ⁽²⁾ | (3,702) | (88.0)% | (4,947) | (62.4)% | (3,344) | (17.9)% | (2,715) | (87.7)% | (1,948) | (29.0)% |
| Total | 555,709 | 42.7% | 726,783 | 48.2% | 878,252 | 50.8% | 359,563 | 51.6% | 406,011 | 51.9% |

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

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

The following table sets forth a breakdown of our gross profit and gross profit margin by sales channel for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|---|---|---------------------|----------------|---------------------|----------------|---------------------|---------------------------|---------------------|----------------|---------------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Gross profit margin | RMB | Gross profit margin | RMB | Gross profit margin | RMB | Gross profit margin | RMB | Gross profit margin |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Offline channels | 292,346 | 50.5% | 397,971 | 53.9% | 449,168 | 56.7% | 191,026 | 57.2% | 203,667 | 57.7% |
| — Sales to offline distributors | 191,395 | 46.7% | 246,767 | 48.4% | 236,975 | 49.6% | 99,844 | 50.2% | 104,514 | 50.1% |
| — Direct sales to offline customers | 100,951 | 59.8% | 151,204 | 66.1% | 212,193 | 67.5% | 91,182 | 67.4% | 99,153 | 68.5% |
| Online channels | 263,363 | 36.4% | 328,812 | 42.8% | 429,084 | 45.7% | 168,537 | 46.4% | 202,344 | 47.1% |
| — Direct sales to online customers | 191,720 | 33.3% | 223,238 | 39.5% | 305,495 | 43.9% | 115,215 | 43.6% | 153,616 | 46.9% |
| — Direct sales to e-commerce platforms ⁽¹⁾ | 67,357 | 49.0% | 99,778 | 52.7% | 116,920 | 51.5% | 50,646 | 54.9% | 45,285 | 48.3% |
| — Sales to online distributors | 4,286 | 43.4% | 5,796 | 40.0% | 6,669 | 42.7% | 2,676 | 42.2% | 3,443 | 43.8% |
| Total | 555,709 | 42.7% | 726,783 | 48.2% | 878,252 | 50.8% | 359,563 | 51.6% | 406,011 | 51.9% |

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

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Selling and Distribution Expenses

Our selling and distribution expenses consisted primarily of advertising and promotion fees as well as employee benefits expenses. Advertising and promotion fees constitute the most significant component of our selling and distribution expenses, as we adopted a multi-channel marketing approach that allows us to reach and influence a broad target customer base. 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. Employee benefits expenses are primarily salaries paid to sales and marketing staff. Technical service fees are primarily annual fees, promotional activity fees and data analysis service fees charged by e-commerce platforms.

We incurred selling and distribution expenses of RMB317.8 million, RMB399.0 million, RMB503.9 million, RMB205.8 million and RMB208.5 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively, accounting for 24.4%, 26.5%, 29.1%, 29.5% and 26.6% of our total revenue for the same periods, respectively. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--------------------------------------|---|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Advertising and promotion fees . . . | 235,952 | 74.3 | 269,011 | 67.4 | 326,325 | 64.8 | 137,325 | 66.7 | 125,050 | 60.0 |
| Employee benefits expenses . . . | 47,386 | 14.9 | 71,728 | 18.0 | 106,601 | 21.2 | 41,020 | 19.9 | 46,133 | 22.1 |
| Sample and gift costs | 7,459 | 2.3 | 12,928 | 3.2 | 14,941 | 3.0 | 3,514 | 1.7 | 4,500 | 2.2 |
| Technical service fees | 6,490 | 2.0 | 5,292 | 1.3 | 3,109 | 0.6 | 3,820 | 1.9 | 5,291 | 2.5 |
| Rent | 5,107 | 1.6 | 10,364 | 2.6 | 16,937 | 3.3 | 7,545 | 3.7 | 8,642 | 4.1 |
| Depreciation and amortization . . . | 5,432 | 1.7 | 12,031 | 3.1 | 13,376 | 2.7 | 5,698 | 2.8 | 5,595 | 2.7 |
| Others ⁽¹⁾ | 9,936 | 3.2 | 17,597 | 4.4 | 22,590 | 4.4 | 6,878 | 3.3 | 13,322 | 6.4 |
| Total | 317,762 | 100.0 | 398,951 | 100.0 | 503,879 | 100.0 | 205,800 | 100.0 | 208,533 | 100.0 |

(1) Include primarily design fees, conference fees, property utilities, office expenses, business hospitality, travel expenses and decoration and maintenance costs.

The following table sets forth a breakdown of our advertising and promotion fees by marketing channel for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|----------------------------|--|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|----------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentage) | | | | | | | | | |
| Offline Channels | 117,269 | 49.7 | 120,124 | 44.7 | 145,237 | 44.5 | 55,015 | 40.1 | 55,128 | 44.1 |
| Online Channels | 118,683 | 50.3 | 148,888 | 55.3 | 181,088 | 55.5 | 82,310 | 59.9 | 69,922 | 55.9 |
| Total | 235,952 | 100.0 | 269,011 | 100.0 | 326,325 | 100.0 | 137,325 | 100.0 | 125,050 | 100.0 |

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The following table sets forth a breakdown of our advertising and promotion fees by major service provider for the periods indicated.

| Suppliers | Advertising and promotion fee | Percentage of total advertising and promotion fee | Background |
|---|----------------------------------|--|--|
| | (RMB in thousands) | (Percentage) | |
| <i>For the five months ended May 31, 2023</i> | | | |
| Service Provider A | 15,890 | 12.7 | Independent third-party e-commerce platform group |
| Zhongshi Hongyun and its related parties | 14,915 | 11.9 | Related party that is controlled by Mr. LIU Zhen |
| Service Provider B | 8,804 | 7.0 | Independent third-party advertisement company |
| Service Provider C | 8,091 | 6.5 | Independent third-party social media platform group |
| Service Provider D | 6,905 | 5.5 | Independent third-party advertisement company |
| Other service providers | 70,445 | 56.4 | |
| Total | 125,050 | 100.0 | |
| <i>For the year ended December 31, 2022</i> | | | |
| Zhongshi Hongyun and its related parties | 60,298 | 18.5 | Related party that is controlled by Mr. LIU Zhen |
| Service Provider A | 47,448 | 14.5 | Independent third-party e-commerce platform group |
| Service Provider D | 20,666 | 6.3 | Independent third-party advertisement company |
| Service Provider B | 19,207 | 5.9 | Independent third-party advertisement company |
| Service Provider C | 14,664 | 4.5 | Independent third-party social media platform group |
| Other service providers | 164,042 | 50.3 | |
| Total | 326,325 | 100.0 | |

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| Suppliers | Advertising and promotion fee | Percentage of total advertising and promotion fee | Background |
|---|----------------------------------|--|--|
| | (RMB in thousands) | (Percentage) | |
| <i>For the year ended December 31, 2021</i> | | | |
| Zhongshi Hongyun and its related parties | 53,514 | 19.9 | Related party that is controlled by Mr. LIU Zhen |
| Service Provider A | 47,877 | 17.8 | Independent third-party e-commerce platform group |
| Service Provider E | 12,686 | 4.7 | Independent third-party advertisement company |
| Service Provider B | 11,086 | 4.1 | Independent third-party advertisement company |
| Service Provider F | 10,225 | 3.8 | Independent third-party marketing company |
| Other service providers | 133,623 | 49.7 | |
| Total | 269,011 | 100.0 | |
| <i>For the year ended December 31, 2020</i> | | | |
| Zhongshi Hongyun and its related parties | 61,475 | 26.1 | Related party that is controlled by Mr. LIU Zhen |
| Service Provider A | 39,017 | 16.5 | Independent third-party e-commerce platform group |
| Service Provider F | 11,594 | 4.9 | Independent third-party marketing company |
| Service Provider G | 7,400 | 3.1 | Independent third-party advertisement company |
| Service Provider H | 7,083 | 3.0 | Independent third-party advertisement company |
| Other service providers | 109,383 | 46.4 | |
| Total | 235,952 | 100.0 | |

Administrative Expenses

Our administrative expenses consisted primarily of employee benefits expenses, consulting service fee, office expenses, and depreciation and amortization. Employee benefits expenses are primarily salaries and share-based compensations that we paid to administrative staff. The consulting service fee consisted primarily of expenses in connection with strategic and management consulting services as well as the [REDACTED] for our previous A-share [REDACTED] application and the [REDACTED] application. Office expenses are expenditures related to the daily operation of our business.

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We incurred administrative expenses of RMB76.1 million, RMB108.0 million, RMB111.5 million, RMB41.5 million and RMB60.8 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively, accounting for 5.8%, 7.2%, 6.4%, 5.9% and 7.8% of our total revenue for the same periods, respectively. The following table sets forth a breakdown of our administrative expenses for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|-------------------------|--------------|----------------|--------------|----------------|--------------|---------------------------|--------------|---------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| (Unaudited) | | | | | | | | | | |
| (RMB in thousands except for percentages) | | | | | | | | | | |
| Employee benefits expenses | 44,323 | 58.3 | 72,318 | 66.9 | 65,444 | 58.7 | 25,505 | 61.5 | 29,566 | 48.6 |
| Consulting service fee ⁽¹⁾ | 13,601 | 17.9 | 8,792 | 8.1 | 14,862 | 13.3 | 2,360 | 5.7 | 18,748 | 30.8 |
| Office expenses | 4,828 | 6.3 | 9,426 | 8.7 | 9,015 | 8.1 | 4,179 | 10.1 | 3,133 | 5.2 |
| Travel and business reception expenses | 3,927 | 5.1 | 5,718 | 5.3 | 5,158 | 4.7 | 2,059 | 4.9 | 2,809 | 4.6 |
| Depreciation and amortization | 4,556 | 6.0 | 5,397 | 5.0 | 9,142 | 8.2 | 3,632 | 8.8 | 3,818 | 6.3 |
| Property utilities | 904 | 1.2 | 2,741 | 2.5 | 3,967 | 3.6 | 1,089 | 2.6 | 911 | 1.5 |
| Credit impairment loss ⁽²⁾ | 977 | 1.3 | 1,859 | 1.7 | 2,205 | 2.0 | 2,144 | 5.2 | 64 | 0.1 |
| Others ⁽³⁾ | 2,944 | 3.9 | 1,769 | 1.8 | 1,750 | 1.4 | 494 | 1.2 | 1,758 | 2.9 |
| Total | 76,060 | 100.0 | 108,020 | 100.0 | 111,543 | 100.0 | 41,462 | 100.0 | 60,807 | 100.0 |

(1) Include primarily expenses in connection with strategic and management consulting services as well as the [REDACTED] for our previous A-share [REDACTED] application and the [REDACTED] application.

(2) Represent the provision for impairment of certain receivables.

(3) Include primarily cost of low-value consumables and notary fees.

The following table sets forth a breakdown of our consulting service fee for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|-------------------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|-------------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| (Unaudited) | | | | | | | | | | |
| (RMB in thousands except for percentage) | | | | | | | | | | |
| Strategic and management consulting services | 11,353 | 83.5 | 4,842 | 55.1 | 4,367 | 29.4 | 1,717 | 72.8 | 3,214 | [REDACTED] |
| [REDACTED] for previous A-share [REDACTED] application | 2,248 | 16.5 | 3,950 | 44.9 | 10,494 | 70.6 | 643 | 27.2 | 884 | [REDACTED] |
| [REDACTED] for the [REDACTED] application | - | - | - | - | - | - | - | - | [REDACTED] | [REDACTED] |
| Total consulting service fee | 13,601 | 100.0 | 8,792 | 100.0 | 14,862 | 100.0 | 2,360 | 100.0 | [REDACTED] | 100.0 |

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We typically procure services for strategic consulting, public relations, brand marketing, and IT development on an on-going basis. During the Track Record Period, the service providers for the strategic and management consulting services were primarily third-party consulting firms, public relation firms, brand marketing firms and IT service companies, among others. In 2020, we recorded higher strategic and management consulting service fees as compared to other periods during the Track Record Period, primarily due to (1) a strategic positioning consulting fee of RMB5.2 million, (2) an uniform design fee of RMB0.9 million, (3) a business model consulting fee of RMB0.9 million and (4) a market research fee of RMB0.5 million.

Research and Development Expenses

Our research and development expenses consisted primarily of employee benefits expenses as well as research and development materials and process development costs. Employee benefits expenses are primarily salaries paid to research and development staff. We also incurred costs for purchase of raw materials to be used in research and development activities and process development during the course of our continuous product research and development.

We incurred research and development expenses of RMB17.7 million, RMB19.0 million, RMB24.3 million, RMB8.8 million and RMB9.6 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively, accounting for 1.4%, 1.3%, 1.4%, 1.3% and 1.2% of our total revenue for the same periods, respectively. The following table sets forth a breakdown of our research and development expenses for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|--|---|--------------|---------------|--------------|---------------|--------------|---------------------------|--------------|--------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Employee benefits expenses | 7,186 | 40.6 | 7,818 | 41.2 | 10,386 | 42.7 | 3,950 | 44.8 | 4,501 | 47.0 |
| Research and development materials and process development costs . . . | 5,948 | 33.6 | 5,584 | 29.4 | 7,624 | 31.3 | 2,666 | 30.3 | 2,559 | 26.7 |
| Depreciation and amortization | 3,740 | 21.2 | 3,986 | 21.0 | 4,198 | 17.3 | 1,706 | 19.4 | 1,731 | 18.1 |
| Others ⁽¹⁾ | 805 | 4.6 | 1,594 | 8.4 | 2,112 | 8.7 | 487 | 5.5 | 788 | 8.2 |
| Total | 17,679 | 100.0 | 18,982 | 100.0 | 24,320 | 100.0 | 8,809 | 100.0 | 9,579 | 100.0 |

(1) Include primarily expenses in connection with our research and development cooperation with third parties and travel expenses for research and development staff.

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Other Net Income

Our other net income consisted primarily of government grants, interest income and net fair value changes on financial assets measured at fair value through profit or loss. We recorded other net income of RMB20.7 million, RMB32.7 million, RMB27.7 million, RMB5.1 million and RMB3.3 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. The following table sets forth a breakdown of our other income for the periods indicated.

| | Year ended December 31, | | | | | | Five months ended May 31, | | | |
|---|---|--------------|---------------|--------------|---------------|--------------|---------------------------|--------------|--------------|--------------|
| | 2020 | | 2021 | | 2022 | | 2022 | | 2023 | |
| | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage | RMB | Percentage |
| | (Unaudited) | | | | | | | | | |
| | (RMB in thousands except for percentages) | | | | | | | | | |
| Government grants | 17,156 | 82.8 | 36,507 | 111.7 | 24,553 | 88.7 | 4,378 | 85.5 | 1,085 | 32.9 |
| Interest income | 4,276 | 20.6 | 1,884 | 5.8 | 1,950 | 7.0 | 567 | 11.1 | 1,048 | 31.8 |
| Net fair value changes on financial assets measured at fair value through profit or loss | 1,128 | 5.4 | 2,329 | 7.1 | 1,455 | 5.3 | 480 | 9.4 | 1,169 | 35.5 |
| Gain on disposal of investments in a subsidiary | — | — | — | — | 380 | 1.4 | — | — | — | — |
| Gain on disposal of interest in an associate | — | — | 33 | 0.1 | — | — | — | — | — | — |
| Net (loss)/gain on disposal of property, plant and equipment | (29) | (0.1) | 159 | 0.5 | (60) | (0.2) | 52 | 1.0 | 52 | 1.6 |
| Other expenses | (1,817) | (8.7) | (8,232) | (25.2) | (586) | (2.2) | (354) | (7.0) | (61) | (1.8) |
| Total | 20,714 | 100.0 | 32,680 | 100.0 | 27,692 | 100.0 | 5,123 | 100.0 | 3,293 | 100.0 |

During the Track Record Period, the net fair value changes on financial assets measured at fair value through profit or loss was primarily related to our investments in short-term wealth management products issued by reputable commercial banks in China.

During the Track Record Period, government grants were primarily awarded by local government authorities as a recognition of our contribution towards the local economic development. During the same period, we only had one type of government grants, i.e., grants that compensate us for expenses incurred. Such grants were recognized as income in profit or loss on a systematic basis in the same periods in which the expenses were incurred. The criteria and/or conditions for substantially all government grants we received during the Track Record Period were related to our financial conditions, including revenue, taxation and research and development expenditures. Our management is of the view that there are no significant unfulfilled conditions or other contingencies attached to these subsidies. During the Track Record Period, the amount of government grants experienced fluctuations, primarily because certain government grants were one-off in nature.

Other expenses during the Track Record Period represented primarily donations and late fee for overdue taxation. The spike in 2021 was primarily attributed to multiple one-time donations of RMB3.0 million as well as a late fee for tax overdue of RMB5.5 million. The late fee was resulted from an overdue taxation of RMB18.0 million by Yan Sinong, one of our subsidiaries, in 2018 and 2019. In 2021, all of such overdue taxation and late fee had been fully settled by Yan Sinong. As advised by our PRC Legal Advisor, late fees due to failure to pay taxes within the prescribed time limit constitute tax collection by relevant tax authorities rather than administrative penalties. Therefore, the late fee of RMB5.5 million was not penalty in nature. To prevent similar events in the future, we regularly conduct internal and external

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trainings for our finance personnel to keep them abreast of the latest developments in the relevant accounting and tax regulations. Yan Sinong has also obtained tax compliance certificates from the local tax authority, confirming that it did not violate PRC laws and regulations in relation to tax in material aspects during the Track Record Period. As further advised by our PRC Legal Advisor, such local tax authority is competent government authority to issue such confirmation.

Finance Costs

Finance costs consisted primarily of our lease liabilities and interest expenses on bank loans. We incurred finance costs of RMB4.9 million, RMB3.3 million, RMB1.6 million, RMB0.8 million and RMB0.9 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively.

Income Tax

We incurred income tax of RMB36.4 million, RMB57.8 million, RMB58.7 million, RMB24.1 million and RMB29.0 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. The effective tax rate for the same periods was 22.8%, 25.1%, 22.2%, 22.3% and 22.4%, respectively, calculated by dividing the income tax in a given period by the profit before taxation in that period.

Pursuant to the EIT Law and related regulations, enterprises which operate in China are subject to enterprise income tax at a rate of 25% on the taxable profit. During the Track Record Period, one of our subsidiaries, Guanghe Yan Palace, is qualified to enjoy the preferential income tax rate of 15% and is expected to enjoy such preferential income tax treatment until December 31, 2030. During the same period, our Company and other subsidiaries were all subject to enterprise income tax at a rate of 25%.

During the Track Record Period and up to the Latest Practicable Date, we had paid all relevant taxes when due and there are no matters in dispute or unresolved with the relevant tax authorities.

Profit for the Period

Our profit for the period increased from RMB123.4 million in 2020 to RMB205.9 million in 2022, and increased from RMB83.8 million in the five months ended May 31, 2022 to RMB100.5 million in the five months ended May 31, 2023.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Five Months Ended May 31, 2023 Compared to Five Months Ended May 31, 2022

Revenue

Our revenue 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, primarily as a result of our continued efforts to grow our business, optimize sales channels, and launch products that cater to the evolving consumer demand. More specifically:

- *One Nest (pure EBN)*. Our revenue generated from *One Nest* (pure EBN) decreased by 1.6% from RMB288.0 million in the five months ended May 31, 2022 to RMB283.4 million in the five months ended May 31, 2023, primarily due to (1) our strategic shift to focus on the offline sales of *One Nest* in the second half of 2022, which led to a decrease in online sales revenue from *One Nest* in the five months ended May 31, 2023, and (2) seasonal fluctuation due to the stocking up of inventory by offline distributors in December 2022 ahead of the Spring Festival in January 2023, which resulted in a squeeze on the sales in January 2023, despite the rebound in sales from the impact of pandemic.

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- *Freshly Stewed Bird’s Nest*. Our revenue generated from *Freshly Stewed Bird’s Nest* 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, primarily due to continued popularity of our *Freshly Stewed Bird’s Nest* products among online consumers.
- *Other bottle-canned bird’s nest (pure EBN)*. Our revenue generated from other bottle-canned bird’s nest (pure EBN) increased by 37.8% from RMB122.8 million in the five months ended May 31, 2022 to RMB169.3 million in the five months ended May 31, 2023, primarily due to our enhanced sales efforts both online and offline.
- *Dried EBN*. Our revenue generated from Dried EBN increased by 7.7% from RMB65.7 million in the five months ended May 31, 2022 to RMB70.8 million in the five months ended May 31, 2023, primarily due to the recovery of offline sales from the impact of the pandemic, partially offset by the seasonal fluctuation caused by the stocking up of inventory by offline distributors in December 2022 ahead of the Spring Festival in January 2023.
- *EBN+ and +EBN products*. Our revenue generated from EBN+ and +EBN products increased by 38.6% from RMB31.7 million in the five months ended May 31, 2022 to RMB44.0 million in the five months ended May 31, 2023, primarily because we launched *Little Blue Bottle* (晚安小藍瓶) in April 2022, which quickly became popular among consumers, and other EBN+ and +EBN products such as *One Nest—Vitality* continued to gain traction.

Cost of Sales

Our cost of sales increased by 11.6% from RMB337.3 million in the five months ended May 31, 2022 to RMB376.6 million in the five months ended May 31, 2023, generally consistent with our business growth.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 12.9% from RMB359.6 million in the five months ended May 31, 2022 to RMB406.0 million in the five months ended May 31, 2023, and our gross profit margin increased from 51.6% in the five months ended May 31, 2022 to 51.9% in the five months ended May 31, 2023. More specifically:

- *One Nest (pure EBN)*. The gross profit margin of *One Nest* (pure EBN) remained stable at 61.8% in the five months ended May 31, 2022 and 62.4% in the five months ended May 31, 2023.
- *Freshly Stewed Bird’s Nest*. The gross profit margin of *Freshly Stewed Bird’s Nest* increased from 40.6% in the five months ended May 31, 2022 to 45.7% in the five months ended May 31, 2023, primarily due to reduced discounts for *Freshly Stewed Bird’s Nest* products in the five months ended May 31, 2023 as a result of our products’ established market position.
- *Other bottle-canned bird’s nest (pure EBN)*. The gross profit margin of other bottle-canned bird’s nest (pure EBN) decreased from 53.4% in the five months ended May 31, 2022 to 50.1% in the five months ended May 31, 2022 and 2023, primarily due to increased magnitude of discounts for other bottle-canned bird’s nest (pure EBN) products through online channels in the five months ended May 31, 2023 to enhance online sales.
- *Dried EBN*. The gross profit margin of Dried EBN remained stable at 42.3% in the five months ended May 31, 2022 and 41.3% in the five months ended May 31, 2023.
- *EBN+ and +EBN products*. The gross profit margin of EBN+ and +EBN products remained stable at 36.6% in the five months ended May 31, 2022 and 38.4% in the five months ended May 31, 2023.

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Selling and Distribution Expenses

Our selling and distribution expenses remained relatively stable at RMB205.8 million and RMB208.5 million in the five months ended May 31, 2022 and 2023, respectively.

Administrative Expenses

Our administrative expenses increased by 46.7% from RMB41.5 million in the five months ended May 31, 2022 to RMB60.8 million in the five months ended May 31, 2023, primarily due to (1) an increase in employee benefits expenses as a result of headcount increase in administrative personnel, and (2) an increase in consulting service fee in the five months ended May 31, 2023 in connection with the [REDACTED] application.

Research and Development Expenses

Our research and development expenses increased by 8.7% from RMB8.8 million in the five months ended May 31, 2022 to RMB9.6 million in the five months ended May 31, 2023, primarily due to (1) an increase in employee benefits expenses as a result of headcount increase in research and development personnel, and (2) increases in traveling expenses and consulting service fees in connection with our new research and development projects.

Other Net Income

Our other net income decreased by 35.7% from RMB5.1 million in the five months ended May 31, 2022 to RMB3.3 million in the five months ended May 31, 2023, primarily due to a decrease in government grants as certain government grants in the five months ended May 31, 2022 were one-off in nature.

Finance Costs

Our finance costs increased by 12.2% from RMB0.8 million in the five months ended May 31, 2022 to RMB0.9 million in the five months ended May 31, 2023, primarily due to an increase in interest on lease liabilities in connection with the additional leased properties in the five months ended May 31, 2023 as a result of our business expansion.

Income Tax

Our income tax increased by 20.5% from RMB24.1 million in the five months ended May 31, 2022 to RMB29.0 million in the five months ended May 31, 2023, largely in line with our profit growth.

Profit for the Period

As a result of the above factors, we recorded net profit of RMB83.8 million and RMB100.5 million in the five months ended May 31, 2022 and 2023, respectively. Our net profit margin was 12.0% and 12.8% in the five months ended May 31, 2022 and 2023, respectively.

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Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenue

Our revenue increased by 14.8% from RMB1,507.0 million in 2021 to RMB1,729.9 million in 2022, primarily as a result of our continued efforts to grow our business, optimize sales channels, and launch products that cater to the evolving consumer demand. More specifically:

- *One Nest (pure EBN)*. Our revenue generated from *One Nest* (pure EBN) increased by 1.7% from RMB661.4 million in 2021 to RMB672.6 million in 2022, primarily due to the expansion of our offline stores from 633 as of December 31, 2021 to 704 as of December 31, 2022, partially offset by the negative impact caused by the resurgence of COVID-19 in 2022. In particular, our *One Nest* products are distributed generally through our offline stores, most of which experienced temporary store closures, reduced operating hours, and reduced offline customer traffic in 2022, which resulted in a slower growth rate.
- *Freshly Stewed Bird’s Nest*. Our revenue generated from Freshly Stewed Bird’s Nest increased by 14.7% from RMB423.3 million in 2021 to RMB485.4 million in 2022, primarily due to rising demand of our Freshly Stewed Bird’s Nest products among online consumers seeking products with higher standards for freshness and quality.
- *Other bottle-canned bird’s nest (pure EBN)*. Our revenue generated from other bottle-canned bird’s nest (pure EBN) increased by 57.8% from RMB193.3 million in 2021 to RMB305.1 million in 2022, primarily due to our (1) efforts to diversify the Crystal Sugar Bird’s Nest product portfolio with new flavors and packaging options that appealed to more customer segments, and (2) enhanced marketing and promotional activities for Crystal Sugar Bird’s Nest in 2022.
- *Dried EBN*. Our revenue generated from Dried EBN increased by 6.1% from RMB165.0 million in 2021 to RMB175.0 million in 2022, which is largely in line with our business growth.
- *EBN+ and +EBN products*. Our revenue generated from EBN+ and +EBN products increased by 43.4% from RMB64.0 million in 2021 to RMB91.8 million in 2022, primarily because we launched innovative products in 2022 which quickly gained popularity, such as bird nest with quinoa and gas bladder (藜麥花膠燕窩) and drinkable EBN essence imbued with ginseng (紅參精華飲).

Cost of Sales

Our cost of sales increased by 9.2% from RMB780.2 million in 2021 to RMB851.7 million in 2022, generally consistent with our business growth but outpaced by the revenue growth as our margin profile improved. In particular, we managed to reduce the average raw material costs which led to a general decrease in production costs for our products in 2022.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 20.8% from RMB726.8 million in 2021 to RMB878.3 million in 2022, and our gross profit margin increased from 48.2% in 2021 to 50.8% in 2022. More specifically:

- *One Nest (pure EBN)*. The gross profit margin of *One Nest* (pure EBN) increased from 58.3% in 2021 to 61.6% in 2022, primarily because (1) we acquired four companies primarily engaged in offline sales of EBN products, our sales through which became direct sales to customers, effectively driving up the gross profit margin of *One Nest*, and (2) a decrease in production costs for *One Nest* in 2022 primarily as a result of decreased raw material price.

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- *Freshly Stewed Bird’s Nest.* The gross profit margin of Freshly Stewed Bird’s Nest increased from 36.9% in 2021 to 41.8% in 2022, primarily due to (1) an increase in the average selling prices of our Freshly Stewed Bird’s Nest products from RMB52 per bottle to RMB54 per bottle, (2) a decline in production costs for Freshly Stewed Bird’s Nest in 2022 primarily as a result of decreased raw material price, and (3) a decline in courier fee because we launched non-refrigerated Freshly Stewed Bird’s Nest, which required less demanding transportation condition, and we established our production base in Shanghai in 2021 to shorten the delivery distance in light of the short shelf life of our Freshly Stewed Bird’s Nest. See “Business—Production—Production Bases.”
- *Other bottle-canned bird’s nest (pure EBN).* The gross profit margin of other bottle-canned bird’s nest (pure EBN) slightly increased from 51.1% in 2021 to 52.1% in 2022, primarily due to the decrease in raw material price in 2022.
- *Dried EBN.* The gross profit margin of Dried EBN remained stable at 40.0% in 2021 and 39.8% in 2022.
- *EBN+ and +EBN products.* The gross profit margin of EBN+ and +EBN products increased from 31.9% in 2021 to 35.8% in 2022, primarily due to the launch of several innovative products with a higher margin in 2022, such as *Little Blue Bottle* (晚安小藍瓶) as well as the continued popularity of *One Nest—Vitality*.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 26.3% from RMB399.0 million in 2021 to RMB503.9 million in 2022, primarily due to our increased investment in marketing efforts to promote our EBN products, which was primarily reflected by (1) an increase in our employee benefits expenses as a result of our sales force expansion partially attributable to the addition of sales personnel from the four companies we acquired in 2021 that were primarily engaged in offline sales of EBN products, and (2) an increase in our advertising and promotion fees.

Administrative Expenses

Our administrative expenses increased by 3.3% from RMB108.0 million in 2021 to RMB111.5 million in 2022, primarily due to an increase in our consulting service fee in 2022 in connection with our previous A-share [REDACTED] application.

Research and Development Expenses

Our research and development expenses increased by 28.1% from RMB19.0 million in 2021 to RMB24.3 million in 2022, primarily due to (1) an increase in employee benefits expenses as the number of our research and development staff increased from 47 as of December 31, 2021 to 51 as of December 31, 2022, and (2) an increase in our investment in research and development projects with certain universities and research institutions.

Other Net Income

Our other net income decreased by 15.3% from RMB32.7 million in 2021 to RMB27.7 million in 2022, primarily due to the decrease in government grants for our contribution towards the local economic development from RMB36.5 million in 2021 to RMB24.6 million in 2022.

Finance Costs

Our finance costs decreased by 51.0% from RMB3.3 million in 2021 to RMB1.6 million in 2022, primarily due to a decrease in interest expenses on bank loans.

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Income Tax

Our income tax remained stable at RMB57.8 million and RMB58.7 million in 2021 and 2022, respectively.

Profit for the Period

As a result of the above factors, we recorded net profit of RMB172.4 million and RMB205.9 million in 2021 and 2022, respectively. Our net profit margin was 11.4% and 11.9% in 2021 and 2022, respectively.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenue

Our revenue increased by 15.8% from RMB1,301.2 million in 2020 to RMB1,507.0 million in 2021, primarily as a result of our continued efforts to grow our business, optimize sales channels and launch products that cater to the evolving consumer demand. More specifically:

- *One Nest (pure EBN)*. Our revenue generated from *One Nest* (pure EBN) increased by 18.3% from RMB559.3 million in 2020 to RMB661.4 million in 2021, primarily due to the rapid expansion of our offline stores from 523 as of December 31, 2020 to 633 as of December 31, 2021, spurring the sales of our *One Nest* products in 2021.
- *Freshly Stewed Bird's Nest*. Our revenue generated from Freshly Stewed Bird's Nest increased by 31.8% from RMB321.1 million in 2020 to RMB423.3 million in 2021, primarily due to our optimization of online sales channels, which spurred stronger demand for our Freshly Stewed Bird's Nest, which is available primarily for online channels.
- *Other bottle-canned bird's nest (pure EBN)*. Our revenue generated from other bottle-canned bird's nest (pure EBN) decreased by 4.0% from RMB201.3 million in 2020 to RMB193.3 million in 2021, primarily due to our strategic decision to rebalance our marketing and promotion focus, which resulted in reduced sales and marketing resources for Crystal Sugar Bird's Nest.
- *Dried EBN*. Our revenue generated from Dried EBN decreased by 4.2% from RMB172.2 million in 2020 to RMB165.0 million in 2021, primarily from a slight decrease in the online sales volume of our dried EBN products.
- *EBN+ and +EBN products*. Our revenue generated from EBN+ and +EBN products increased by 35.5% from RMB47.3 million in 2020 to RMB64.0 million in 2021, primarily because we launched *One Nest — Vitality* in 2020, which quickly gained popularity and contributed to revenue growth in 2021.

Cost of Sales

Our cost of sales increased by 4.7% from RMB745.4 million in 2020 to RMB780.2 million in 2021, generally consistent with our business growth but outpaced by the revenue growth as our margin profile improved.

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Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by 30.8% from RMB555.7 million in 2020 to RMB726.8 million in 2021. Our gross profit margin increased from 42.7% in 2020 to 48.2% in 2021. More specifically:

- *One Nest (pure EBN)*. The gross profit margin of *One Nest* (pure EBN) increased from 55.6% in 2020 to 58.3% in 2021, primarily because (1) we adjusted our sales strategies for *One Nest* by reducing discounts for *One Nest* products, which increased the average selling prices of *One Nest* products from RMB163 per bowl in 2020 to RMB172 per bowl in 2021, and (2) the purchasing prices of raw materials experienced decreases in 2021.
- *Freshly Stewed Bird's Nest*. The gross profit margin of Freshly Stewed Bird's Nest increased from 26.0% in 2020 to 36.9% in 2021, primarily due to (1) reduced discounts for Freshly Stewed Bird's Nest as our products had gained a foothold in the market, and (2) decreases in the purchasing prices of raw materials and courier fees for Freshly Stewed Bird's Nest.
- *Other bottle-canned bird's nest (pure EBN)*. The gross profit margin of other bottle-canned bird's nest (pure EBN) increased from 43.1% in 2020 to 51.1% in 2021, primarily because (1) we reduced discounts for Crystal Sugar Bird's Nest based on market competition condition, which increased the average selling prices of Crystal Sugar Bird's Nest products from RMB39 per bottle in 2020 to RMB44 per bottle in 2021, and (2) the purchasing prices of raw materials experienced decreases in 2021. Additionally, we undertook two large customized product orders with a total contract value of RMB24.7 million from a corporate client in 2020. Compared to retail products, such orders had a relatively lower margin, which had a negative impact on the overall gross profit margin for the year.
- *Dried EBN*. The gross profit margin of Dried EBN increased from 37.0% in 2020 to 40.0% in 2021, primarily due to the decrease in the purchasing prices for raw nests in 2021.
- *EBN+ and +EBN products*. The gross profit margin of EBN+ and +EBN products increased from 22.9% in 2020 to 31.9% in 2021 primarily due to the launch of *One Nest—Vitality* in 2020, which had a higher margin profile.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 25.6% from RMB317.8 million in 2020 to RMB399.0 million in 2021, primarily due to our increased investment in marketing efforts to promote our EBN products, which was primarily reflected by (1) an increase in our employee benefits expenses as we expanded our sales force as a result of the increase of the number of self-operated stores from 40 as of December 31, 2020 to 89 as of December 31, 2021, and (2) an increase in our advertising and promotion fees.

Administrative Expenses

Our administrative expenses increased by 42.0% from RMB76.1 million in 2020 to RMB108.0 million in 2021, primarily due to an increase in employee benefits expenses as the number of our administrative staff increased from 156 as of December 31, 2020 to 208 as of December 31, 2021.

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Research and Development Expenses

Our research and development expenses increased by 7.4% from RMB17.7 million in 2020 to RMB19.0 million in 2021, primarily due to (1) an increase in employee benefits expenses as the number of our research and development staff increased from 40 as of December 31, 2020 to 47 as of December 31, 2021 as we established more research and development cooperations with third parties, (2) an increase in travel expenses for research and development personnel, and (3) increased research and development activities in collaboration with third parties in 2021.

Other Net Income

Our other net income increased by 57.8% from RMB20.7 million in 2020 to RMB32.7 million in 2021, primarily due to the increase in government grants recognizing our contribution towards the local economic development from RMB17.2 million in 2020 to RMB36.5 million in 2021.

Finance Costs

Our finance costs decreased by 31.6% from RMB4.9 million in 2020 to RMB3.3 million in 2021, primarily due to a significant decrease in the interest expenses on bank loans as the amount of our bank loans decreased in 2021.

Share of Loss of An Associate

We recorded RMB0.2 million in 2020. The share of loss of an associate in 2020 was primarily attributable to the loss of a then joint venture in Shanghai.

Income Tax

Our income tax increased by 58.8% from RMB36.4 million in 2020 to RMB57.8 million in 2021, primarily due to the growth of our profit before taxation from RMB159.8 million in 2020 to RMB230.2 million in 2021.

Profit for the Period

As a result of the above factors, we recorded net profit of RMB123.4 million and RMB172.4 million in 2020 and 2021, respectively. Our net profit margin was 9.5% and 11.4% in 2020 and 2021, respectively.

FINANCIAL INFORMATION

DISCUSSION OF SELECTED BALANCE SHEET ITEMS

The following table sets forth details of our consolidated statements of financial position as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|--|--------------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Non-current assets | | | | |
| Property, plant and equipment | 62,462 | 91,934 | 87,782 | 94,187 |
| Intangible assets | 704 | 873 | 1,275 | 1,018 |
| Goodwill | — | 75,165 | 75,165 | 75,165 |
| Interest in an associate | 2,067 | — | — | — |
| Deferred tax assets | 4,342 | 16,313 | 36,130 | 29,914 |
| Other non-current assets | 1,264 | 6,862 | 4,679 | 2,870 |
| Total non-current assets | 70,839 | 191,147 | 205,031 | 203,154 |
| Current assets | | | | |
| Financial assets measured at fair value through profit or loss | 46,225 | — | 4,996 | — |
| Inventories and other contract costs | 277,045 | 279,742 | 271,795 | 260,354 |
| Trade and other receivables | 70,537 | 87,583 | 89,459 | 95,270 |
| Prepayments | 33,353 | 66,759 | 54,655 | 48,460 |
| Restricted bank deposits | 1,202 | 2,000 | 1,600 | 8,000 |
| Cash and cash equivalents | 150,573 | 169,495 | 350,818 | 187,403 |
| Total current assets | 578,935 | 605,579 | 773,323 | 599,487 |
| Current liabilities | | | | |
| Trade and other payables | 213,699 | 204,794 | 239,673 | 166,805 |
| Contract liabilities | 102,084 | 138,789 | 176,450 | 157,079 |
| Bank loans | 66,097 | — | — | — |
| Lease liabilities | 7,697 | 15,644 | 15,657 | 15,250 |
| Other current liabilities | 12,849 | 17,897 | 23,274 | 19,566 |
| Current taxation | 16,391 | 47,133 | 38,091 | 7,224 |
| Total current liabilities | 418,817 | 424,257 | 493,145 | 365,924 |
| Net current assets | 160,118 | 181,322 | 280,178 | 233,563 |
| Total assets less current liabilities | 230,957 | 372,469 | 485,209 | 436,717 |
| Non-current liabilities | | | | |
| Bank loans | 8,597 | — | — | — |
| Lease liabilities | 7,793 | 17,047 | 11,264 | 20,918 |
| Deferred tax liabilities | 2,802 | 2,285 | 1,935 | 1,103 |
| Total non-current liabilities | 19,192 | 19,332 | 13,199 | 22,021 |
| Net assets | 211,765 | 353,137 | 472,010 | 414,696 |
| Capital and reserves | | | | |
| Share capital | 83,333 | 86,700 | 86,700 | 86,700 |
| Reserves | 124,054 | 250,253 | 367,696 | 304,943 |
| Total equity attributable to equity shareholders of the Company | 207,387 | 336,953 | 454,396 | 391,643 |
| Non-controlling interests | 4,378 | 16,184 | 17,614 | 23,053 |
| Total equity | 211,765 | 353,137 | 472,010 | 414,696 |

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Property, Plant and Equipment

Our property, plant and equipment consisted primarily of other properties leased for own use, machinery, leasehold improvements and ownership interests in leasehold building held for own use.

We had property, plant and equipment of RMB62.5 million, RMB91.9 million, RMB87.8 million and RMB94.2 million as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. The increase in our property, plant and equipment as of December 31, 2021 as compared to that as of December 31, 2020 was primarily due to the addition of a production base that primarily manufactures Freshly Stewed Bird’s Nest in Songjiang District, Shanghai. See “Business—Production—Production Bases.” The slight decrease in our property, plant and equipment as of December 31, 2022 as compared to that as of December 31, 2021 was primarily due to the depreciation of equipment for our manufacturing activities during normal business operations. The increase in our property, plant and equipment as of May 31, 2023 as compared to that as of December 31, 2022 was primarily due to the increases in other properties leased for own use.

As of December 31, 2020, 2021 and 2022 and May 31, 2023, our property, plant and equipment of RMB14.7 million, nil, nil and nil were pledged as collateral for our short-term bank loans. For details, see Note 25 to the Accountants’ Report in Appendix I to this document.

Intangible Assets

Our intangible assets consisted primarily of computer software. We had intangible assets of RMB0.7 million, RMB0.9 million, RMB1.3 million and RMB1.0 million as of December 31, 2020, 2021 and 2022 and May 31, 2023. The increase in our intangible assets in 2022 was primarily due to the purchase of software for our daily operations. The decrease in our intangible assets in the five months ended May 31, 2023 was primarily due to amortization.

Goodwill

As of December 31, 2020, 2021 and 2022 and May 31, 2023, we recorded goodwill of nil, RMB75.2 million, RMB75.2 million and RMB75.2 million, respectively. Such goodwill arose from our strategic acquisitions of Beijing Tianfeiyuan, Harbin Jinyanhui, Changchun Jinyanhui, and Taiyuan Jixiangyan, all of which engage in offline sales of EBN products. Goodwill is mainly attributable to the sales talent of these entities’ work force and the synergies expected to be achieved from integrating such entities into our existing sales channels. See “History, Development and Corporate Structure—Major Acquisitions, Disposals and Mergers.”

None of the goodwill recognized is expected to be deductible for tax purposes. Non-controlling interests recognized at the acquisition date were measured by reference to the non-controlling interests’ proportionate share of the acquiree’s identifiable net assets.

No impairment loss of goodwill was recognized during the Track Record Period. Any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment losses.

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Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to our cash-generating units (“CGU”) identified according to city of operation and operating segment as follows:

| | As of December 31, | | | As of |
|--|--------------------|--------|--------|-----------------|
| | 2020 | 2021 | 2022 | May 31, 2023 |
| | (RMB in thousands) | | | |
| Beijing Tianfeiyuan Trading Co., Ltd. (“Beijing Tianfeiyuan”) – offline retail | – | 31,609 | 31,609 | 31,609 |
| Harbin Jinyanhui Trading Co., Ltd. (“Harbin Jinyanhui”) – offline retail | – | 17,301 | 17,301 | 17,301 |
| Changchun Jinyanhui Trading Co., Ltd. (“Changchun Jinyanhui”) – offline retail | – | 15,245 | 15,245 | 15,245 |
| Taiyuan Jixiangyan Trading Co., Ltd. (“Taiyuan Jixiangyan”) – offline retail | – | 11,010 | 11,010 | 11,010 |
| | – | 75,165 | 75,165 | 75,165 |

The recoverable amount of the CGU – Beijing Tianfeiyuan is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

| | As of December 31, | | As of |
|---|--------------------|--------|-----------------|
| | 2021 | 2022 | May 31, 2023 |
| Annual growth rate of revenue during five-year forecast period | 2% | 3% | 3% |
| Estimated weighted average growth rate beyond the five-year period | 2% | 2% | 2% |
| Pre-tax discount rate | 16.20% | 14.58% | 14.43% |

The headroom calculated based on the recoverable amounts deducting the carrying amount of the CGU – Beijing Tianfeiyuan as of December 31, 2021 and 2022 and May 31, 2023 was RMB2.6 million, RMB3.7 million and RMB11.4 million, respectively.

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Our management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to growth rate and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as of December 31, 2021 and 2022 and May 31, 2023:

| | As of December 31, | | As of |
|---|-----------------------|-----------------------|-----------------------|
| | 2021 | 2022 | May 31, 2023 |
| Decrease in annual growth rate of revenue during five-year forecast period | 0.7 percentage points | 0.9 percentage points | 3.3 percentage points |
| Decrease in estimated weighted average growth rate beyond the five-year period. | 0.9 percentage points | 1.1 percentage points | 3.7 percentage points |
| Increase in pre-tax discount rate | 0.6 percentage points | 0.7 percentage points | 2.4 percentage points |

The recoverable amount of the CGU – Harbin Jinyanhui is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by our management covering a five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

| | As of December 31, | | As of |
|---|--------------------|--------|-----------------|
| | 2021 | 2022 | May 31, 2023 |
| Annual growth rate of revenue during five-year forecast period. | 2%-3% | 4%-5% | 4%-5% |
| Estimated weighted average growth rate beyond the five-year period. | 2% | 2% | 2% |
| Pre-tax discount rate. | 16.20% | 14.58% | 14.43% |

The headroom calculated based on the recoverable amounts deducting the carrying amount of the CGU – Harbin Jinyanhui as of December 31, 2021 and 2022 and May 31, 2023 was RMB1.9 million, RMB4.3 million and RMB8.3 million, respectively.

Our management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to growth rate and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as of December 31, 2021 and 2022 and May 31, 2023:

| | As of December 31, | | As of |
|---|-----------------------|-----------------------|-----------------------|
| | 2021 | 2022 | May 31, 2023 |
| Decrease in annual growth rate of revenue during five-year forecast period | 1.2 percentage points | 2.4 percentage points | 5.6 percentage points |
| Decrease in estimated weighted average growth rate beyond the five-year period. | 1.3 percentage points | 2.3 percentage points | 4.9 percentage points |
| Increase in pre-tax discount rate | 0.8 percentage points | 1.5 percentage points | 3.0 percentage points |

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The recoverable amount of the CGU – Changchun Jinyanhui is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

| | As of December 31, | | As of |
|---|--------------------|--------|-----------------|
| | 2021 | 2022 | May 31, 2023 |
| Annual growth rate of revenue during five-year forecast period. | 2%-3% | 3%-4% | 3%-4% |
| Estimated weighted average growth rate beyond the five-year period. | 2% | 2% | 2% |
| Pre-tax discount rate. | 16.20% | 14.58% | 14.43% |

The headroom calculated based on the recoverable amounts deducting the carrying amount of the CGU – Changchun Jinyanhui as of December 31, 2021 and 2022 and May 31, 2023 was RMB1.1 million, RMB3.9 million and RMB4.8 million, respectively.

Our management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to growth rate and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as of December 31, 2021 and 2022 and May 31, 2023:

| | As of December 31, | | As of |
|---|-----------------------|-----------------------|-----------------------|
| | 2021 | 2022 | May 31, 2023 |
| Decrease in annual growth rate of revenue during five-year forecast period | 0.7 percentage points | 2.5 percentage points | 3.4 percentage points |
| Decrease in estimated weighted average growth rate beyond the five-year period. | 0.8 percentage points | 2.5 percentage points | 3.1 percentage points |
| Increase in pre-tax discount rate | 0.5 percentage points | 1.6 percentage points | 1.9 percentage points |

The recoverable amount of the CGU – Taiyuan Jixiangyan is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

| | As of December 31, | | As of |
|---|--------------------|--------|-----------------|
| | 2021 | 2022 | May 31, 2023 |
| Annual growth rate of revenue during five-year forecast period. | 2% | 2% | 2% |
| Estimated weighted average growth rate beyond the five-year period. | 2% | 2% | 2% |
| Pre-tax discount rate. | 16.20% | 14.58% | 14.43% |

The headroom calculated based on the recoverable amounts deducting the carrying amount of the CGU – Taiyuan Jixiangyan as of December 31, 2021 and 2022 and May 31, 2023 was RMB2.9 million, RMB7.5 million and RMB14.5 million, respectively.

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Our management has undertaken sensitivity analysis on the impairment test of goodwill. The following table sets out the hypothetical changes to growth rate and pre-tax discount rate that would, in isolation, have removed the remaining headroom respectively as of December 31, 2021 and 2022 and May 31, 2023:

| | As of December 31, | | As of |
|---|-----------------------|-----------------------|------------------------|
| | 2021 | 2022 | May 31, 2023 |
| Decrease in annual growth rate of revenue during five-year forecast period | 2.0 percentage points | 3.7 percentage points | 8.1 percentage points |
| Decrease in estimated weighted average growth rate beyond the five-year period. | 3.3 percentage points | 7.3 percentage points | 16.5 percentage points |
| Increase in pre-tax discount rate | 1.9 percentage points | 4.1 percentage points | 8.2 percentage points |

Our management adopted Weighted Average Cost of Capital (“WACC”) model to calculate the discount rate of the CGUs. Since all CGUs are engaged in sales of the same products in the PRC, parameters adopted in WACC model, such as beta extracted from comparable companies, risk free rate, cost of debt and tax rate, are the same for all CGUs. Further, given that all CGUs are substantially similar in business model in the PRC, operation scale, stage of development, core competitiveness and financing costs during the Track Record Period, our management apply consistent CGU-specific risk premium of all CGUs, which results in the same pre-tax discount rate for all CGUs during the Track Record Period.

No impairment loss of goodwill was recognized in 2021, 2022 and the five months ended May 31, 2023. Except for the pre-tax discount rates, a reasonably possible adverse change in the assumptions used in the calculation of recoverable amount would not result in impairment losses.

Interest in An Associate

We had interest in an associate of RMB2.1 million, nil, nil and nil as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. Our interest in an associate in 2020 was not material and such then associate was disposed of in 2021.

Financial Assets Measured at Fair Value through Profit or Loss

We had financial assets measured at fair value through profit or loss of RMB46.2 million, nil, RMB5.0 million and nil as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. Our financial assets measured at fair value through profit or loss represented our investments in short-term wealth management products issued by reputable commercial banks in China. See “—Liquidity and Capital Resources—Investment Management Policy.”

FINANCIAL INFORMATION

Inventories

Our inventories primarily included raw materials, work in progress and finished goods, with raw materials being the major component. As of December 31, 2020, 2021 and 2022 and May 31, 2023, we had inventories of RMB277.0 million, RMB279.7 million, RMB271.8 million and RMB260.4 million, respectively. As of the same dates, the percentage of raw materials to inventories was 62.8%, 58.6%, 46.3% and 72.1%, respectively. The following table sets forth a breakdown of our inventory balances as of the dates indicated.

| | 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 |

In 2020, we stocked up raw nests to prevent raw material shortage amid the pandemic, which resulted in a raw material inventory balance of RMB174.1 million as of December 31, 2020. While the pandemic generally came under control in China in 2021, we adjusted our inventory management strategy to maintain raw materials at a level that was in line with our production pace. As such, our raw materials decreased from RMB163.9 million as of December 31, 2021 to RMB125.9 million as of December 31, 2022. Our raw materials increased from RMB125.9 million as of December 31, 2022 to RMB187.7 million as of May 31, 2023, primarily because we purchased a certain amount of raw nests for production in anticipation of the “618” shopping festival.

Our inventories of raw materials primarily included raw nests, which generally have a shelf life of three years. Our inventories of work in progress primarily included raw nests that have gone through feather picking process. Our inventories of finished goods primarily included our EBN products that can immediately be sold to our distributors and/or direct sale customers.

The following tables set forth an aging analysis of our inventories as of the dates indicated.

| | Within one year | One to two years | Two to three years | Over three years | Total |
|--|--------------------|---------------------|-----------------------|---------------------|----------------|
| | (RMB in thousands) | | | | |
| As of December 31, 2020 | | | | | |
| Raw materials | 173,787 | 279 | 37 | — | 174,103 |
| Work in progress | 41,083 | 9 | — | — | 41,092 |
| Finished goods | 40,683 | 1,332 | 1 | 55 | 42,071 |
| Goods in transit | 6,739 | — | — | — | 6,739 |
| Packaging | 11,710 | 643 | 409 | 219 | 12,981 |
| Right to recover returned goods | 59 | — | — | — | 59 |
| Total | 274,061 | 2,263 | 447 | 274 | 277,045 |

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| | Within one year | One to two years | Two to three years | Over three years | Total |
|--|--------------------|---------------------|-----------------------|---------------------|----------------|
| (RMB in thousands) | | | | | |
| As of December 31, 2021 | | | | | |
| Raw materials | 160,258 | 3,585 | 1 | 7 | 163,851 |
| Work in progress | 33,357 | 3 | – | – | 33,360 |
| Finished goods | 64,463 | 347 | 328 | 51 | 65,189 |
| Goods in transit | 4,743 | – | – | – | 4,743 |
| Packaging | 11,545 | 501 | 160 | 292 | 12,498 |
| Right to recover returned goods | 101 | – | – | – | 101 |
| Total | 274,467 | 4,436 | 489 | 350 | 279,742 |

| | Within one year | One to two years | Two to three years | Over three years | Total |
|--|--------------------|---------------------|-----------------------|---------------------|----------------|
| (RMB in thousands) | | | | | |
| As of December 31, 2022 | | | | | |
| Raw materials | 124,797 | 895 | 234 | – | 125,926 |
| Work in progress | 36,446 | 21 | – | – | 36,467 |
| Finished goods | 81,317 | 153 | 32 | 2 | 81,504 |
| Goods in transit | 13,295 | – | – | – | 13,295 |
| Packaging | 13,536 | 593 | 127 | 114 | 14,370 |
| Right to recover returned goods | 233 | – | – | – | 233 |
| Total | 269,624 | 1,662 | 393 | 116 | 271,795 |

| | Within one year | One to two years | Two to three years | Over three years | Total |
|--|--------------------|---------------------|-----------------------|---------------------|----------------|
| (RMB in thousands) | | | | | |
| As of May 31, 2023 | | | | | |
| Raw materials | 185,672 | 1,516 | 560 | – | 187,748 |
| Work in progress | 17,603 | 5 | – | – | 17,608 |
| Finished goods | 34,523 | 350 | 7 | 1 | 34,881 |
| Goods in transit | 9,183 | – | – | – | 9,183 |
| Packaging | 9,634 | 937 | 173 | 88 | 10,832 |
| Right to recover returned goods | 102 | – | – | – | 102 |
| Total | 256,717 | 2,808 | 740 | 89 | 260,354 |

The following table sets forth our inventory turnover days for the periods indicated.

| | Year ended December 31, | | | Five months ended May 31, 2023 |
|--|-------------------------|-------|-------|---|
| | 2020 | 2021 | 2022 | |
| Inventory turnover days ⁽¹⁾ | 91.2 | 130.2 | 118.2 | 106.7 |

(1) Calculated based on the average of the beginning and ending balances of inventory for that period divided by cost of sales for that period and multiplied by the number of days in that period.

Our inventory turnover days increased from 91.2 days in 2020 to 130.2 days in 2021, primarily because we stocked up raw nests to prevent raw material shortage amid the pandemic in 2020, which resulted in a slower turnover in 2021.

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The following table sets forth our turnover days for work-in-progress and finished goods by shelf life for the periods indicated.

| Turnover days | Shelf life | Year ended December 31, | | | Five months ended |
|---|------------------|-------------------------|------|------|-------------------|
| | | 2020 | 2021 | 2022 | May 31, 2023 |
| Work in progress and finished goods | 15 to 100 days | 4.9 | 6.0 | 7.4 | 8.3 |
| | Six to 18 months | 45.9 | 67.1 | 84.3 | 57.4 |
| | 24 months | 45.6 | 67.1 | 56.6 | 34.4 |
| | 36 months | 34.7 | 60.5 | 59.0 | 52.7 |

Our turnover days for work in progress and finished goods with a shelf life from six to 18 months increased from 67.1 days in 2021 to 84.3 days in 2022, primarily because we produced more *One Nest* products for offline channels in anticipation of 2023 spring festival which was earlier than usual. Our turnover days for work in progress and finished goods with a shelf life of 24 months decreased from 56.6 days in 2022 to 34.4 days in the five months ended May 31, 2023, primarily due to the growing demand for our Crystal Sugar Bird’s Nest products in the five months ended May 31, 2023.

As of September 30, 2023, approximately RMB233.4 million, or 89.7%, of our total inventories as of May 31, 2023 were utilized or sold.

Trade and Other Receivables

During the Track Record Period, our trade receivables were primarily related to the sales of EBN products. For offline distributors, we typically require them to make payment before the delivery of our products. However, under rare circumstances, we may provide short-term payment period, typically less than two months, for certain offline distributors with excellent qualifications and stable business relationships with us. For online distributors, 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. For e-commerce platform customers, we settle payment with them according to respective cooperation agreements with such customers and typically have an agreed payment cycle of 60 days. Deposits represent rental deposits for our office and production bases.

The following table sets forth the details of our trade and other receivables as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|---|--------------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Trade receivables, net of loss allowance | | | | |
| — Third parties | 23,340 | 38,442 | 62,834 | 58,223 |
| — Related parties | 135 | — | — | — |
| Deposits | 6,157 | 9,416 | 9,282 | 10,683 |
| Amounts due from related parties ⁽¹⁾ . . | 1,827 | 1,015 | 1,900 | 1,900 |
| VAT recoverable | 27,905 | 14,769 | 13,956 | 16,723 |
| Government grants receivables | 10,067 | 22,242 | — | — |
| Other receivables | 1,106 | 1,699 | 1,487 | 1,738 |
| Current tax recoverable | — | — | — | 6,003 |
| Total | 70,537 | 87,583 | 89,459 | 95,270 |

(1) See Note 33 to the Accountants’ Report in Appendix I to this document.

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Our trade and other receivables increased from RMB70.5 million as of December 31, 2020 to RMB87.6 million as of December 31, 2021 and further to RMB89.5 million as of December 31, 2022, primarily due to the increases in trade receivables from third parties, which was generally in line with our business expansion. Our trade and other receivables remained stable at RMB95.3 million as of May 31, 2023.

The following table sets forth an aging analysis of our trade receivables as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|---|--------------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Current (not past due) | 21,275 | 38,038 | 62,643 | 58,220 |
| Less than three months past due | 2,200 | 404 | 191 | 3 |
| Total | 23,475 | 38,442 | 62,834 | 58,223 |

The following table sets forth the number of our trade receivable turnover days for the periods indicated.

| | Year ended December 31, | | | Five months ended May 31, 2023 |
|---|-------------------------|------|------|---|
| | 2020 | 2021 | 2022 | |
| Trade receivable turnover days ⁽¹⁾ | 6.1 | 7.5 | 10.7 | 11.7 |

(1) Calculated based on the average of the beginning and ending balances of trade receivables for that period divided by revenue for that period and multiplied by the number of days in that period.

Our trade receivable turnover days increased from 6.1 days in 2020 to 7.5 days in 2021 and further to 10.7 days in 2022, primarily due to an increase in revenue generated from direct sales to e-commerce platform customers which generally have a longer credit period.

As of September 30, 2023, approximately RMB57.3 million, or 98.5%, of our trade receivables as of May 31, 2023 had been settled.

Prepayments

Our prepayments primarily included prepayments for purchase of raw materials and prepayments for selling and distribution expenses. Prepayments for purchase of raw materials are primarily for purchasing raw nests. Prepayments for selling and distribution expenses are primarily for advertising activities to promote our EBN products.

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As of December 31, 2020, 2021 and 2022 and May 31, 2023, our prepayments were RMB33.4 million, RMB66.8 million, RMB54.7 million and RMB48.5 million, respectively. The following table sets forth the details of our prepayments as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|--|--------------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Prepayments for selling and distribution expenses ⁽¹⁾ | 15,249 | 49,935 | 42,279 | 33,568 |
| Prepayments for purchase of packaging materials | 3,899 | 2,840 | 3,909 | 3,694 |
| Prepayments for purchase of raw nests | 9,402 | – | – | – |
| Others ⁽²⁾ | 4,803 | 13,984 | 8,467 | 11,198 |
| Total prepayments | 33,353 | 66,759 | 54,655 | 48,460 |

(1) Include primarily prepayments for advertising services.

(2) Include primarily prepayments for (i) fees for our previous A-share listing application, (ii) rents and property maintenance fees, (iii) design fees and (iv) fees for outsourced research and development projects.

Our prepayments increased from RMB33.4 million as of December 31, 2020 to RMB66.8 million as of December 31, 2021, primarily due to the increases in our prepayments for advertising service fees and consulting service fees for our previous A-share [REDACTED] application. In particular, we recorded RMB15.2 million of prepayments for selling and distribution expenses as of December 31, 2020, which was lower than the same as of the other indicated dates, primarily because we took a conservative approach in our advertising and marketing activities amid the COVID-19 pandemic in 2020. Our prepayments for selling and distribution expenses then increased to RMB49.9 million as of December 31, 2021, as we resumed regular pace of our advertising and marketing activities due to the alleviation of COVID-19 in 2021.

As of September 30, 2023, approximately RMB34.9 million, or 72.0%, of our prepayments, as of May 31, 2023 had been utilized. In particular, as of the same date, (1) approximately RMB25.1 million, or 74.8%, of our prepayments for selling and distribution expenses as of May 31, 2023 had been utilized; (2) approximately RMB2.9 million, or 78.7%, of our prepayments for purchase of packaging materials as of May 31, 2023 had been utilized; and (3) approximately RMB6.9 million, or 61.3%, of our prepayments for others as of May 31, 2023 had been utilized.

FINANCIAL INFORMATION

Trade and Other Payables

Our trade and other payables consisted primarily trade payables, salary and welfare payables as well as other tax payables. Trade payables primarily represented payables for raw materials and packaging materials. Salary and welfare payables primarily include salaries payable to our employees. The following table sets forth the details of our trade and other payables as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|--|--------------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Trade payables | 44,240 | 62,467 | 64,087 | 46,223 |
| Receipts in advance | 51,989 | 24,929 | 22,035 | 12,562 |
| Salary and welfare payables | 39,872 | 43,900 | 53,210 | 34,816 |
| Amount due to non-controlling interests | — | — | 7,200 | — |
| Other payables and accruals | 17,984 | 23,050 | 25,442 | 39,723 |
| Financial liabilities measured at amortized cost | 154,085 | 154,346 | 171,974 | 133,324 |
| Other tax payables | 22,174 | 11,766 | 18,222 | 11,694 |
| Refund liabilities ⁽¹⁾ | | | | |
| — arising from right of return | 113 | 192 | 478 | 217 |
| — arising from sales rebates ⁽²⁾ | 37,327 | 38,490 | 48,999 | 21,570 |
| Total | 213,699 | 204,794 | 239,673 | 166,805 |

(1) We recognize refund liabilities for the consideration received or receivable of which we do not expect to be entitled. We also recognize other assets in relation to refunds, measured with reference to the former carrying amount of the products. See Note 19 to the Accountants’ Report in Appendix I to this document. The costs to recover the products are not material because the product returned are usually in a saleable condition.

(2) We offer performance-based sales rebates to our distributors which give rise to variable consideration in the measurement of revenue. See Note 2(u) to the Accountants’ Report in Appendix I to this document. The refund liabilities arising from sales rebates are accrued when the corresponding sales revenue is recognized. Depending on the specific arrangement with a particular distributor, we typically reconcile and finalize such distributor’s entitlements to sales rebates for past sales transactions on a quarterly or annual basis. In practice, our distributors generally select to utilize their entitlements as part of their upfront payments for subsequent purchases, and will usually utilize their rebate entitlements within the next two months.

Our trade and other payables increased from RMB213.7 million as of December 31, 2020 to RMB204.8 million as of December 31, 2021 and further to RMB239.7 million as of December 31, 2022, primarily due to an increase in trade payables, driven by our business expansion. Our trade and other payables decreased from RMB239.7 million as of December 31, 2022 to RMB166.8 million as of May 31, 2023, primarily due to (1) decrease in salary and welfare payables due to settlement of year-end bonuses, (2) decrease in trade payables due to decreased purchase of raw nests with Indonesian suppliers during their Ramadan, and (3) decrease in refund liabilities primarily due to the annual settlement of sales rebates with certain distributors.

Our receipts in advance represent advance payments from our distributors for our EBN products. As of December 31, 2020, we recorded receipts in advance of RMB52.0 million, most of which were attributable to four then distributors who were acquired by us in 2021 and have become our subsidiaries since then. See “History, Development and Corporate Structure—Major Acquisitions, Disposals and Mergers.” We recorded receipts in advance of RMB24.9 million and RMB22.0 million as of December 31, 2021 and 2022, respectively, higher than that as of May 31, 2023, primarily because our distributors generally make more advance payments in the end of the year in anticipation of the upcoming Spring Festival.

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The following table sets forth an aging analysis of our trade payables as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|---|--------------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | 2023 |
| | (RMB in thousands) | | | |
| Within three months | 42,968 | 59,969 | 63,301 | 45,323 |
| Over three months but within six months | 26 | 132 | 204 | 675 |
| Over six months but within nine months | — | 9 | 13 | 139 |
| Over nine months but within one year | 785 | — | — | 44 |
| Over one year but within two years | 461 | 2,357 | 569 | 42 |
| Total | 44,240 | 62,467 | 64,087 | 46,223 |

The following table sets forth the number of our trade payable turnover days for the periods indicated.

| | Year ended December 31, | | | Five months ended |
|--|-------------------------|------|------|-------------------|
| | 2020 | 2021 | 2022 | May 31, 2023 |
| Trade payable turnover days ⁽¹⁾ | 19.0 | 25.0 | 27.1 | 22.1 |

(1) Calculated based on the average of opening and closing balance of trade payables for the relevant period, divided by the cost of sales for the same period, and multiplied by the number of days in that period.

Our trade payable turnover days increased from 19.0 days in 2020 to 25.0 days in 2021 and further to 27.1 days in 2022, primarily because our suppliers granted longer credit periods to us during the Track Record Period. Our trade payable turnover days decreased from 27.1 days in 2022 to 22.1 days in the five months ended May 31, 2023, primarily due to decrease in the balance of trade payables as a result of decreased purchase from Indonesian suppliers during their Ramadan.

As of September 30, 2023, approximately RMB45.6 million, or 98.7%, of our trade payables as of May 31, 2023 had been settled.

Contract Liabilities

Our contract liabilities primarily represented advance payments received from our customers. As of December 31, 2020, 2021 and 2022 and May 31, 2023, our contract liabilities was RMB102.1 million, RMB138.8 million, RMB176.5 million and RMB157.1 million, respectively. Our contract liabilities increased from RMB102.1 million as of December 31, 2020 to RMB138.8 million as of December 31, 2021 and further to RMB176.5 million as of December 31, 2022, primarily due to our increased direct sales to online customers, which led to an increase in advance payments from such customers. Our contract liabilities decreased from RMB176.5 million as of December 31, 2022 to RMB157.1 million as of May 31, 2023, primarily due to decrease in advance payments over time, which tend to increase significantly during major shopping events such as Singles’ Day Shopping Carnival.

As of September 30, 2023, approximately RMB114.7 million, or 73.0%, of our contract liabilities as of May 31, 2023 were recognized as revenue.

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Bank Loans

Our bank loans consisted primarily of bank loans that are either secured or unsecured. As of December 31, 2020, 2021 and 2022 and May 31, 2023, our bank loans were RMB74.7 million, nil, nil and nil, respectively. As of December 31, 2020, all of our bank loans were guaranteed by certain shareholders of our Group. As of the same date, our bank loans of RMB30.0 million were secured by our property, plant and equipment with an aggregate value of RMB14.7 million.

Lease Liabilities

During the Track Record Period, we leased various properties mainly used as our stores, offices, production bases for our business operations. Such lease contracts were generally entered into for fixed terms of one to five years. We negotiate lease terms, which include different payment terms and conditions, on an individual basis. The following table sets forth our lease liabilities as of the dates indicated.

| | As of December 31, | | | As of May 31, 2023 |
|--|--------------------|---------------|---------------|-----------------------|
| | 2020 | 2021 | 2022 | |
| | (RMB in thousands) | | | |
| Within one year | 7,697 | 15,644 | 15,657 | 15,250 |
| After one year but within two years. . | 3,006 | 10,106 | 7,970 | 9,203 |
| After two years but within five years | 3,328 | 6,428 | 3,294 | 10,091 |
| After five years | 1,459 | 513 | — | 1,624 |
| | 7,793 | 17,047 | 11,264 | 20,918 |
| Total | 15,490 | 32,691 | 26,921 | 36,168 |

Our lease liabilities increased from RMB15.5 million as of December 31, 2020 to RMB32.7 million as of December 31, 2021, as we continued to grow our business and leased more properties for our stores as well as other business operations. Our lease liabilities then decreased to RMB26.9 million as of December 31, 2022, primarily due to the expiration of such leases. Our lease liabilities increased from RMB26.9 million as of December 31, 2022 to RMB36.2 million as of May 31, 2023, primarily because the lease renewal of the office space for our headquarter in Xiamen.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES OF LIQUIDITY AND WORKING CAPITAL

Our primary uses of cash are to fund our working capital requirements, production of EBN products and other recurring expenses. During the Track Record Period, we financed our capital expenditures and working capital requirements principally with cash generated from our operating activities. Going forward, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans, [REDACTED] from the [REDACTED] and other funds raised from the capital markets from time to time. As of December 31, 2020, 2021 and 2022 and May 31, 2023, we had cash and cash equivalents of RMB150.6 million, RMB169.5 million, RMB350.8 million and RMB187.4 million, respectively.

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Cash Flows

The following table sets forth a summary of our cash flows for the periods indicated.

| | Year ended December 31, | | | Five months ended May 31, | |
|---|-------------------------|-----------|-----------|---------------------------|-----------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | (Unaudited) | | | | |
| | (RMB in thousands) | | | | |
| Operating cash flows before movements in working capital ⁽¹⁾ | 179,339 | 281,488 | 308,089 | 127,320 | 147,743 |
| Adjusted for: | | | | | |
| Changes in working capital ⁽²⁾ | (110,295) | (28,074) | (85,862) | 22,508 | (76,161) |
| Income tax paid | (20,031) | (39,642) | (88,072) | (64,484) | (60,972) |
| Net cash generated from operating activities | 49,013 | 213,772 | 305,879 | 85,344 | 10,610 |
| Net cash generated from/(used in) investing activities | 60,085 | (46,450) | (21,024) | (53,768) | 1,470 |
| Net cash used in financing activities | (54,166) | (148,400) | (103,532) | (92,472) | (175,495) |
| Net change in cash and cash equivalents | 54,932 | 18,922 | 181,323 | (60,896) | (163,415) |
| Cash and cash equivalents at beginning of the year | 95,641 | 150,573 | 169,495 | 350,818 | 108,599 |
| Cash and cash equivalents at end of the year | 150,573 | 169,495 | 350,818 | 108,599 | 187,403 |

(1) Our operating cash flows before movements in working capital are the total sum of our Group’s profit before taxation, with adjustments made, including depreciation, amortization of intangible assets, finance costs, interest income, share of profits less losses of an associate, loss/(gain) on disposal of property, plant and equipment, gain on financial assets measured at fair value through profit or loss, gain on disposal of investment in a subsidiary, gain on disposal of interests in an associate, equity-settled share-based payment expenses, impairment loss on trade and other receivables, and COVID-19-related rent concessions received.

(2) Our changes in working capital are the total sum of the movements in our Group’s inventories, trade receivables, other receivables and prepayments, restricted bank deposits, trade and other payables, contract liabilities, and other current liabilities.

Operating Activities

Net cash generated from operating activities was RMB10.6 million in the five months ended May 31 2023, which primarily reflected our profit before taxation of RMB129.5 million and income tax paid of RMB61.0 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of RMB8.2 million primarily in connection with our right of use assets, (2) depreciation of RMB7.9 million in connection with our property, plant and equipment, and (3) negative changes in working capital. Adjustments for changes in working capital primarily included (i) a decrease in trade and other payables of RMB72.9 million and (ii) a decrease in contract liabilities of RMB19.4 million.

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Net cash generated from operating activities was RMB305.9 million in 2022, which primarily reflected our profit before taxation of RMB264.6 million and income tax paid of RMB88.1 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of RMB36.3 million primarily in connection with our right of use assets, (2) equity-settled share-based payment expenses of RMB5.3 million, and (3) positive changes in working capital. Adjustments for changes in working capital primarily included (i) an increase in contract liabilities of RMB36.3 million and (ii) an increase in trade and other payables of RMB32.2 million.

Net cash generated from operating activities was RMB213.8 million in 2021, which primarily reflected our profit before taxation of RMB230.2 million and income tax paid of RMB39.6 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of RMB28.1 million primarily in connection with our right of use assets, (2) equity-settled share-based payment expenses of RMB21.8 million, and (3) negative changes in working capital. Adjustments for changes in working capital primarily included (i) an increase in trade receivables, other receivables and prepayments of RMB37.7 million primarily as a result of increased trade receivables from e-commerce platform customers, which typically have a longer credit period, and (ii) an decrease in trade and other payables of RMB28.2 million.

Net cash generated from operating activities was RMB49.0 million in 2020, which primarily reflected our profit before taxation of RMB159.8 million and income tax paid of RMB20.0 million, as adjusted by certain non-cash and non-operating items, primarily including (1) depreciation of RMB18.3 million primarily in connection with our right of use assets, (2) finance costs of RMB4.9 million, and (3) negative changes in working capital. Adjustments for changes in working capital primarily included (i) an increase in inventories of RMB181.7 million and (ii) an increase in trade receivables, other receivables and prepayments of RMB26.7 million.

Investing Activities

Net cash generated from investing activities was RMB1.5 million in the five months ended May 31, 2023, primarily attributable to proceeds from disposal of financial assets measured at fair value through profit or loss of RMB414.2 million, partially offset by payment for acquisition of financial assets measured at fair value through profit or loss of RMB408.0 million.

Net cash used in investing activities was RMB21.0 million in 2022, primarily attributable to (1) payment for acquisition of financial assets measured at fair value through profit or loss of RMB555.0 million and (2) payment for purchase of property, plant and equipment and intangible assets of RMB22.5 million, partially offset by proceeds from disposal of financial assets measured at fair value through profit or loss of RMB551.5 million.

Net cash used in investing activities was RMB46.5 million in 2021, primarily attributable to (1) payment for acquisition of financial assets measured at fair value through profit or loss of RMB527.3 million, (2) acquisition of subsidiaries, net of cash acquired of RMB73.8 million, and (3) payment for purchase of property, plant and equipment and intangible assets of RMB24.8 million, partially offset by proceeds from disposal of financial assets measured at fair value through profit or loss of RMB575.9 million.

Net cash generated from investing activities was RMB60.1 million in 2020, primarily attributable to (1) proceeds from disposal of financial assets measured at fair value through profit or loss of RMB508.0 million and (2) cash received from entrusted loans of RMB54.0 million, partially offset by payment for acquisition of financial assets measured at fair value through profit or loss of RMB496.1 million. Xiamen Suntama, an entity controlled by Mr. Huang, entered into three separate entrusted loan agreements with us and Xiamen Bank which acted as our agent bank, for an aggregate amount of RMB54.0 million.

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Pursuant to these agreements, we lent Xiamen Suntama RMB54.0 million at an annual interest rate of 9.6% for liquidity purposes such as repayments of historical loans and interests accrued, and the agent bank was responsible for the collection of the principal and any interest without assumptions of the loan risks. We adopted such entrusted loan arrangements to ensure compliance with PRC laws and regulations. As advised by our PRC Legal Advisor, according to the General Rule of Loan (貸款通則), no financing activities involving lending or borrowing may be conducted between enterprises in violation of state regulations. Our Directors believe that each of these entrusted loan agreements was entered in the ordinary course of business on an arm’s length basis.

Financing Activities

Net cash used in financing activities was RMB175.5 million in the five months ended May 31, 2023, primarily attributable to (1) dividends paid to the shareholders of RMB160.0 million, (2) dividends to non-controlling interests of subsidiaries of RMB7.2 million and (3) capital element of lease rentals paid of RMB6.5 million.

Net cash used in financing activities was RMB103.5 million in 2022, primarily attributable to (1) dividends paid to the shareholders of RMB80.0 million, (2) capital element of lease rentals paid of RMB16.8 million and (3) repayment of bank loans of RMB12.2 million, partially offset by proceeds from new bank loans of RMB12.2 million. The majority of such new bank loans were short-term borrowings from a reputable commercial bank in China for raw nest procurement.

Net cash used in financing activities was RMB148.4 million in 2021, primarily attributable to (1) repayment of bank loans of RMB129.6 million, (2) dividends paid to the shareholders of RMB100.0 million and (3) capital element of lease rentals paid of RMB13.8 million, partially offset by (i) proceeds from new bank loans of RMB55.4 million and (ii) issuance of new shares of RMB40.4 million.

Net cash used in financing activities was RMB54.2 million in 2020, primarily attributable to (1) dividends paid to the shareholders of RMB120.0 million and (2) repayment of bank loans of RMB87.1 million, partially offset by proceeds from new bank loans of RMB161.3 million.

Current Assets and Current Liabilities

The following table sets forth our current assets and liabilities as of the dates indicated.

| | As of December 31, | | | As of | As of |
|--|--------------------|----------------|----------------|-----------------|-----------------------|
| | 2020 | 2021 | 2022 | May 31, 2023 | September 30, 2023 |
| | | | | | (Unaudited) |
| | (RMB in thousands) | | | | |
| Current assets | | | | | |
| Financial assets measured at fair value through profit or loss | 46,225 | — | 4,996 | — | — |
| Inventories and other contract costs | 277,045 | 279,742 | 271,795 | 260,354 | 311,073 |
| Trade and other receivables . . . | 70,537 | 87,583 | 89,459 | 95,270 | 140,089 |
| Prepayments | 33,353 | 66,759 | 54,655 | 48,460 | 65,342 |
| Restricted bank deposits | 1,202 | 2,000 | 1,600 | 8,000 | 8,000 |
| Cash and cash equivalents | 150,573 | 169,495 | 350,818 | 187,403 | 333,148 |
| Total current assets | 578,935 | 605,579 | 773,323 | 599,487 | 857,652 |

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| | As of December 31, | | | As of | As of |
|--|--------------------|----------------|----------------|-----------------|-----------------------|
| | 2020 | 2021 | 2022 | May 31, 2023 | September 30, 2023 |
| | | | | | (Unaudited) |
| | (RMB in thousands) | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 213,699 | 204,794 | 239,673 | 166,805 | 217,307 |
| Contract liabilities | 102,084 | 138,789 | 176,450 | 157,079 | 247,364 |
| Bank loans | 66,097 | — | — | — | — |
| Lease liabilities | 7,697 | 15,644 | 15,657 | 15,250 | 14,985 |
| Other current liabilities | 12,849 | 17,897 | 23,274 | 19,566 | 29,480 |
| Current taxation | 16,391 | 47,133 | 38,091 | 7,224 | 22,189 |
| Total current liabilities | 418,817 | 424,257 | 493,145 | 365,924 | 531,325 |
| Net current assets | 160,118 | 181,322 | 280,178 | 233,563 | 326,327 |

Our net current asset decreased from RMB280.2 million as of December 31, 2022 to RMB233.6 million as of May 31, 2023, primarily due to a decrease of RMB163.4 million in cash and cash equivalents, partially offset by (1) a decrease of RMB72.9 million in trade and other payables, and (2) a decrease of RMB30.9 million in current taxation.

Our net current asset increased from RMB181.3 million as of December 31, 2021 to RMB280.2 million as of December 31, 2022, primarily due to (1) an increase of RMB181.3 million in cash and cash equivalents, and (2) a decrease of RMB9.0 million in current taxation, partially offset by (i) an increase of RMB34.9 million in trade and other payables, and (ii) an increase of RMB37.7 million in contract liabilities.

Our net current asset increased from RMB160.1 million as of December 31, 2020 to RMB181.3 million as of December 31, 2021, primarily due to (1) an increase of RMB33.4 million in prepayments, (2) an increase of RMB18.9 million in cash and cash equivalents, (3) an increase of RMB17.0 million in trade and other receivables, and (4) a decrease of RMB8.9 million in trade and other payables, partially offset by (i) an increase of RMB36.7 million in contract liabilities, and (ii) an increase of RMB30.7 million in current taxation.

We intend to continue to finance our working capital with cash generated from our operations, bank loans, [REDACTED] from the [REDACTED] and other funds raised from the capital markets from time to time. We will closely monitor the level of our working capital, and diligently review future cash flow requirements and adjust our operation and expansion plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations.

Taking into consideration of financial resources presently available to us, our Directors are of the view that the working capital available to our Group, including our available cash and cash equivalents, anticipated cash flow from operations, bank loans and [REDACTED] from the [REDACTED], will be sufficient to meet our present and anticipated cash requirements and for at least the next 12 months from the date of this document.

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Investment Management Policy

We have adopted an internal investment management policy and established a set of internal control measures to allow us to achieve reasonable returns on our investment while mitigating our exposure to high investment risks. Such investment management policy regulates our internal investment decision making procedures and record keeping practices. Under our investment management policy, we only conduct short-to-medium term financial product investment or fixed-income securities investment transactions, and the investment period shall not exceed one year. Our finance department is responsible for the overall management of our investment activities, subject to the supervision of our Directors, Supervisors and audit department. Depending on, among others, the investment amount and the risk associated with a particular investment product, our shareholders, the board of directors and/or our senior management serve as decision-making bodies for our investment activities.

We believe that our internal policies regarding investment and the related risk management mechanism are adequate. During the Track Record Period, we purchased short-term or mid-term wealth management products issued by reputable financial institutions in China with annualized interest rates ranging from approximately 1.5% to 4.0%. We may continue to invest in similar wealth management products or assets using our surplus cash where we believe it is prudent to do so after the completion of the [REDACTED], subject to the compliance requirement under Chapter 14 of the Listing Rules. We expect to comply with such applicable requirements, including the relevant size test requirements.

CAPITAL EXPENDITURES AND COMMITMENTS

Capital Expenditures

Our capital expenditures during the Track Record Period consisted primarily of payments for purchase of property, plant and equipment and purchase of intangible assets, and amounted to RMB11.7 million, RMB24.8 million, RMB22.5 million, RMB9.2 million and RMB4.7 million in 2020, 2021, 2022 and the five months ended May 31, 2022 and 2023, respectively. We funded our capital expenditure requirements during the Track Record Period mainly from cash generated from our operating activities. We plan to fund our planned capital expenditure by using the cash flow generated from our operations, bank loans and the [REDACTED] received from the [REDACTED].

Commitments

Our commitments primarily related to leases which had been contracted but not yet paid for. The following table sets forth our commitments as of the dates indicated.

| | As of December 31, | | | As of |
|--|--------------------|-------|-------|-----------------|
| | 2020 | 2021 | 2022 | May 31, 2023 |
| | (RMB in thousands) | | | |
| Contracted for new short-term leases | 1,749 | 3,809 | 3,327 | 4,332 |

FINANCIAL INFORMATION

INDEBTEDNESS

Our indebtedness during the Track Record Period consisted primarily of bank loans and lease liabilities. The following table sets forth a breakdown of our indebtedness as of the dates indicated.

| | As of December 31, | | | As of | As of |
|---------------------------------|--------------------|---------------|---------------|---------------|---------------|
| | 2020 | 2021 | 2022 | May 31, | September 30, |
| | | | | 2023 | 2023 |
| | | | | | (Unaudited) |
| (RMB in thousands) | | | | | |
| Current indebtedness | | | | | |
| Bank loans | 66,097 | — | — | — | — |
| Lease liabilities | 7,697 | 15,644 | 15,657 | 15,250 | 14,985 |
| Subtotal | 73,794 | 15,644 | 15,657 | 15,250 | 14,985 |
| Non-current indebtedness | | | | | |
| Bank loans | 8,597 | — | — | — | — |
| Lease liabilities | 7,793 | 17,047 | 11,264 | 20,918 | 19,640 |
| Subtotal | 16,390 | 17,047 | 11,264 | 20,918 | 19,640 |
| Total | 90,184 | 32,691 | 26,921 | 36,168 | 34,625 |

As of September 30, 2023, being the latest practicable date for determining our indebtedness, we had RMB144.8 million of unutilized and unrestricted bank loans.

Our Directors confirm that as of the Latest Practicable Date, there was no material covenant on any of our outstanding debt and there was no breach of any covenant during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that we did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date. Save as disclosed above, we had no bank loans or other borrowings, or any other loan capital issued and outstanding or agreed to be issued, bank overdrafts, borrowings or similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchases, guarantees or other material contingent liabilities. Our Directors confirm that there has not been any material change in our indebtedness since September 30, 2023.

CONTINGENT LIABILITIES

As of the Latest Practicable Date, we did not have any material contingent liabilities, guarantees or any litigations or claims of material importance, pending or threatened against any member of our Group.

[REDACTED]

We expect to incur a total of RMB[REDACTED] of [REDACTED] (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the [REDACTED] between HK\$[REDACTED] and HK\$[REDACTED], and assuming that the [REDACTED] is not exercised) until the completion of the [REDACTED]. We recognized [REDACTED] of RMB[REDACTED] in our consolidated statement of profit or loss and other comprehensive income for the five months ended May 31, 2023. We estimate that RMB[REDACTED] of [REDACTED] will be charged to our consolidated statement of comprehensive income after the Track Record Period. The remaining RMB[REDACTED] is directly attributable to the issue of our Shares to the public and is expected to be deducted from equity.

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[REDACTED] include RMB[REDACTED] of fees for [REDACTED], RMB[REDACTED] of other fees unrelated to the [REDACTED], and RMB[REDACTED] of [REDACTED] payable to the [REDACTED] and transaction fees (including SFC transaction levy, AFRC transaction levy, and Stock Exchange trading fee) in connection with the [REDACTED] of [REDACTED] under the [REDACTED]. The [REDACTED] above represent approximately [REDACTED]% of our [REDACTED] from the [REDACTED] and were our best estimate as of the Latest Practicable Date and for reference only. The actual amount may differ from this estimate.

KEY FINANCIAL RATIOS

| | As of/for the year ended December 31, | | | As of/for the five months ended May 31, | |
|---|---------------------------------------|-------|-------|---|-------|
| | 2020 | 2021 | 2022 | 2022 | 2023 |
| | | | | (Unaudited) | |
| Profitability ratios | | | | | |
| Gross profit margin ⁽¹⁾ | 42.7% | 48.2% | 50.8% | 51.6% | 51.9% |
| Net profit margin ⁽²⁾ | 9.5% | 11.4% | 11.9% | 12.0% | 12.8% |
| Return on equity ⁽³⁾ | 59.2% | 61.0% | 49.9% | 23.7% | 22.7% |
| Return on total assets ⁽⁴⁾ | 22.3% | 23.8% | 23.2% | 11.2% | 11.3% |
| Liquidity ratios | | | | | |
| Current ratio ⁽⁵⁾ | 1.4x | 1.4x | 1.6x | 1.5x | 1.6x |
| Gearing ratio ⁽⁶⁾ | 42.6% | 9.3% | 5.7% | 8.5% | 8.7% |

- (1) The calculation of gross profit margin is based on gross profit for the period divided by revenue for the respective period and multiplied by 100%.
- (2) The calculation of net profit margin is based on profit for the period divided by revenue for the respective period and multiplied by 100%.
- (3) The calculation of return on equity is based on profit or loss for the period divided by average total equity as of the beginning and end of the period and multiplied by 100%.
- (4) The calculation of return on total assets is based on profit for the period divided by the average of opening and closing balance of total assets of the same period and multiplied by 100%.
- (5) The calculation of current ratio is based on current assets divided by current liabilities as of period end.
- (6) The calculation of gearing ratio is based on total debt (including interest-bearing borrowings and lease liabilities) divided by total equity and multiplied by 100%.

Analysis of Key Financial Ratios

Gross Profit Margin and Net Profit Margin

See “—Period to Period Comparison of Results of Operations” for a discussion of the factors affecting our gross profit margin and net profit margin during the Track Record Period.

Return on Equity and Return on Total Assets

Our return on equity ratio was 59.2%, 61.0% and 49.9% as of December 31, 2020, 2021 and 2022, respectively. Our return on equity increased from 59.2% as of December 31, 2020 to 61.0% as of December 31, 2021, primarily due to the growth rate of our net profit outpacing the growth of our total equity. Our return on equity ratio decreased from 61.0% as of December 31, 2021 to 49.9% as of December 31, 2022, primarily due to the growth rate of our total equity outpacing the growth of our net profit. The increase in our total equity was primarily due to an increase in retained profits, which were in line with our increased net profit, and an increase in statutory reserve.

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Our return on total assets was 22.3%, 23.8% and 23.2% as of December 31, 2020, 2021 and 2022, respectively. Our return on total assets increased from 22.3% as of December 31, 2020 to 23.8% as of December 31, 2021, primarily due to the growth rate of our net profit outpacing the growth of our total assets. Our return on total assets remained stable at 23.8% and 23.2% in 2021 and 2022, respectively.

Current Ratio and Gearing Ratio

Our current ratio was 1.4x, 1.4x, 1.6x and 1.6x as of December 31, 2020, 2021 and 2022 and May 31, 2023, respectively. Our current ratio increased from 1.4x as of December 31, 2021 to 1.6x as of December 31, 2022, primarily due to the growth of our current assets outpacing the growth of current liabilities, largely due to an increase in cash and cash equivalents. Our current ratio remained stable at 1.6x as of December 31, 2022 and May 31, 2023, respectively.

Our gearing ratio was 42.6%, 9.3%, 5.7% and 8.7% as of December 31, 2020, 2021 and 2022 and May 31, 2023. Our gearing ratio decreased from 42.6% as of December 31, 2020 to 9.3% as of December 31, 2021, primarily due to the increase in our total equity and the decrease in our bank loans. Our gearing ratio further decreased from 9.3% as of December 31, 2021 to 5.7% as of December 31, 2022, primarily due to the increase in our total equity and the decrease in our lease liabilities. Our gearing ratio increased from 5.7% as of December 31, 2022 to 8.7% as of May 31, 2023, primarily due to a decrease in our total equity as well as an increase in our lease liabilities.

RELATED PARTY TRANSACTIONS

For details of our material related party transactions, see Note 33 to the Accountants’ Report in Appendix I to this document. Our Directors believe that each of the related party transactions was conducted in the ordinary course of business on an arm’s length basis. Our Directors are of the view that related party transactions during the Track Record Period would not distort our track record results or make our historical results not reflective of our future performance.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

DISTRIBUTABLE RESERVES

As of May 31, 2023, our statutory reserve and retained profits were RMB137.0 million. Our statutory reserve and retained profits represent the distributable reserve of our Group as of the same date.

DIVIDENDS

According to the Articles of Association and applicable laws and regulations, our profit distribution proposal is formulated by our Board, and upon approval by the Board and the Board of Supervisors, it is submitted to a Shareholders’ general meeting for consideration where it must be passed by Shareholders representing more than half of the voting rights of the Shareholders who attend the general meeting. Our Board will declare dividends, if any, in RMB with respect to the H Shares on a per Share basis and will pay such dividends in Hong Kong dollars. All of our Shareholders have equal rights to distributable profits, and our profits will be distributed on a pro-rata basis.

Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board. Both current and new Shareholders are entitled to our accumulated retained earnings prior to the [REDACTED], subject to compliance with our Articles of Association and relevant regulatory requirements.

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During the Track Record Period, we declared dividends to our then Shareholders of RMB120.0 million, RMB100.0 million, RMB80.0 million and RMB160.0 million in 2020, 2021, 2022 and the five months ended May 31, 2023, respectively, in light of our cumulative business growth. As of May 31, 2023, all of such dividends declared during the Track Record Period had been fully settled by bank transfer to our then Shareholders. See also Note 30(b) to the Accountants’ Report in Appendix I to this document.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as of the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial or trading position since May 31, 2023 (being the date on which the latest audited consolidated financial information of our Group was prepared) and there has been no event since May 31, 2023 which would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report in Appendix I to this document.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

We are exposed to a variety of financial risks, including credit risk, liquidity risk and interest rate risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on our financial performance. Risk management is carried out by our management.

Credit Risk

We are primarily exposed to credit risk in relation to our trade receivables. Our trade receivables are mainly from sales of EBN products. We have established a credit risk management policy, under which individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on our customers’ past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, we do not obtain collateral from customers.

We do not have significant concentration of credit risk in industries or countries in which the customers operate. Significant concentrations of credit risk primarily arise when we have significant exposure to individual customers. As of December 31, 2020, 2021 and 2022 and May 31, 2023, 17.9%, 51.6%, 81.7% and 83.6% of the total trade receivables were due from our largest customer in each year/period during the Track Record Period, respectively, and 64.7%, 59.0%, 85.5% and 88.6% of the total trade receivables were due from our five largest customers in each year/period during the Track Record Period, respectively. Such increase was primarily due to the growth in business scale with e-commerce platform customers, which tend to have a longer settlement cycle. For further details, see Note 31(a) to the Accountants’ Report in Appendix I to this document.

Liquidity Risk

To manage the liquidity risk, we manage the treasury function, which includes the short-term investment of cash surpluses and the raising of funds to cover expected cash demands. We also regularly monitor our liquidity requirements and compliance with lending covenants, to ensure that we maintain a level of cash and cash equivalents deemed adequate by our management to finance our Group’s operations and mitigate the effects of fluctuations in cash flows. The table below analyses our financial liabilities into

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relevant maturity groupings based on the remaining period at the statement of financial position dates to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For details, see Note 31(b) to the Accountants’ Report in Appendix I to this document.

| | Within one year or on demand | More than one year but less two years | More than two years but less than five years | More than five years | Total |
|---------------------------------------|------------------------------------|--|---|-------------------------|----------------|
| (RMB in thousands) | | | | | |
| <i>As of December 31, 2020</i> | | | | | |
| Bank loans | 66,421 | 1,067 | 7,585 | — | 75,073 |
| Trade and other payables . . . | 154,085 | — | — | — | 154,085 |
| Lease liabilities | 8,305 | 3,325 | 3,778 | 1,510 | 16,918 |
| | 228,811 | 4,392 | 11,363 | 1,510 | 246,076 |
| <i>As of December 31, 2021</i> | | | | | |
| Trade and other payables . . . | 154,346 | — | — | — | 154,346 |
| Lease liabilities | 17,018 | 10,729 | 6,808 | 516 | 35,071 |
| | 171,364 | 10,729 | 6,808 | 516 | 189,417 |
| <i>As of December 31, 2022</i> | | | | | |
| Trade and other payables . . . | 171,974 | — | — | — | 171,974 |
| Lease liabilities | 16,898 | 8,312 | 3,474 | — | 28,684 |
| | 188,872 | 8,312 | 3,474 | — | 200,658 |
| <i>As of May 31, 2023</i> | | | | | |
| Trade and other payables . . . | 133,324 | — | — | — | 133,324 |
| Lease liabilities | 17,637 | 10,810 | 11,119 | 1,637 | 41,203 |
| | 150,961 | 10,810 | 11,119 | 1,637 | 174,527 |

Interest Rate Risk

Our interest rate risk arises primarily from restricted bank deposits, cash at banks, bank loans issued at fixed rates and lease liabilities. We are exposed to cash flow interest rate risk and fair value interest rate risk from interest-bearing financial instruments at variable rates and at fixed rates, respectively. The following table sets forth the interest rate risk profile of our fixed rate instruments and variable rate instruments as of the dates indicated.

| | As of December 31, | | | As of May 31, |
|---|--------------------|----------------|----------------|----------------|
| | 2020 | 2021 | 2022 | 2023 |
| (RMB in thousands) | | | | |
| Fixed rate instruments | | | | |
| Restricted bank deposits | 1,202 | 2,000 | 1,600 | 8,000 |
| Lease liabilities | 15,490 | 32,691 | 26,921 | 36,168 |
| Bank loans | 74,694 | — | — | — |
| Total | 91,386 | 34,691 | 28,521 | 44,168 |
| Variable rate instruments | | | | |
| Cash at bank and on hand | 143,239 | 163,503 | 338,398 | 180,425 |
| Cash balances with payment platforms | 7,334 | 5,992 | 12,420 | 6,978 |
| Total | 150,573 | 169,495 | 350,818 | 187,403 |

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[REDACTED] ADJUSTED [REDACTED]

The following [REDACTED] statement of adjusted consolidated [REDACTED] of our Group is prepared in accordance with paragraph 4.29 of the Listing Rules and is set out below to illustrate the effect of the [REDACTED] on the consolidated [REDACTED] of our Group attributable to equity shareholders of our Company as if the [REDACTED] had taken place on May 31, 2023.

This [REDACTED] statement of adjusted consolidated [REDACTED] has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not provide a true picture of the financial position of our Group had the [REDACTED] been completed as of May 31, 2023 or at any future dates.

[REDACTED]