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OUR PHILOSOPHY

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

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

OVERVIEW

We are a leading brand in the edible bird’s nest (“EBN”) product market globally, dedicated to the development, production and marketing of high-quality modern EBN products. We are the largest EBN product company globally for three consecutive years in terms of retail value from 2020 to 2022, with a global market share of 4.1% 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, an innovative product portfolio, a robust quality assurance scheme, and an extensive omni-channel sales network, which has allowed us to prevail in the market competition. We ranked No. 1 in terms of top-of-mind awareness among all EBN brands in China, according to the F&S Report.

For over 400 years, the Chinese people have considered EBN as a premium natural health delicacy with various health benefits and nutritional value. Modern scientific studies from domestic and overseas academic institutions in recent years have also supported the Chinese traditional wisdom on health benefits of EBN with scientific testing and experimentation. Numerous authoritative scientific studies have shown from multiple aspects that EBN offers various health benefits in internal and external use.⁽¹⁾ See “Industry Overview” for details. With the broad and venerable cultural foundations and history of consumptions, China has been the preeminent market and home to the largest consumer base for EBN products, according to the F&S Report. Driven by the raising living standard and the growing health and wellness awareness among Chinese consumers, EBN has become an embodiment of beauty, wellness and joy among many Chinese consumers. As an industry leader, we have outperformed industry average, with a revenue growth from RMB1,301.2 million in 2020 to RMB1,729.9 million in 2022, at a CAGR of 15.3%, which was 11.6 percentage points higher than the industry average and was the highest among the top five EBN brands during the same periods, according to the F&S Report. According to the same source, China’s EBN market, in terms of retail value, is expected to grow from RMB43.0 billion in 2022 to RMB92.1 billion in 2027, at a CAGR of 16.5%. We believe we are well-positioned to capture the substantial market opportunity, leveraging our leading market share and superior revenue growth.

⁽¹⁾ For example, *A Comprehensive Review of Edible Bird’s Nest* published in *Food Research International* indicates that edible bird’s nests have been shown to have a variety of pharmacological effects that may benefit human health, including improving the skin quality (such as skin whitening and dermal thickness improvement), regulating the immune system, enhancing cognitive function and memory, and exhibiting certain anti-aging, anti-viral, and antioxidant properties; *Anti-aging, Anti-Inflammatory, and Wound-Healing Activities of Edible Bird’s Nest in Human Skin Keratinocytes and Fibroblasts* published in *Pharmacognosy Magazine* indicates that edible bird’s nests exhibit certain anti-aging, anti-inflammatory, and wound healing effects in human skin; *Edible Bird’s Nest, an Asian Health Food Supplement, Possesses Skin Lightening Activities: Identification of N-Acetylneuraminic Acid as Active Ingredient* published in *Journal of Cosmetics, Dermatological Sciences and Applications* suggests that consuming bird’s nest has skin whitening effect; *Effect of Maternal Administration of Edible Bird’s Nest on the Learning and Memory Abilities of Suckling Offspring in Mice* published in *Neural Plasticity* suggests that sialic acid can promote brain and intellectual development; *Edible Bird’s Nest Extract Inhibits Influenza Virus Infection* published in *Antiviral Research* shows that consuming edible bird’s nests can prevent infection by influenza virus; and *Complete Digestion of Edible Bird’s Nest Releases Free N-acetylneuraminic Acid and Small Peptides: An Efficient Method to Improve Functional Properties* published in *Food & Function* suggests that EBN peptides have significant effects on improving the skin tone and can be applied to make healthy foods, beverages and skincare products.

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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). *One Nest*, launched in 2012, was among the earliest mass-produced, ready-to-serve EBN products in China with a standardized manufacturing process. This manufacturing process has allowed us to preserve the EBN’s original taste and, at the same time, ensure consistent product quality. After over a decade of development, *One Nest* has expanded in variety and become our signature product series beloved by our customers. Our revenue generated from *One Nest* (pure EBN) increased from RMB559.3 million in 2020 to RMB672.6 million in 2022 at a CAGR of 9.7%. 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 innovative EBN products, including “EBN+” products (which are products based on EBN as a core ingredient or component), 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 core ingredients. The following diagram is a simplified illustration of our product matrix.



We have developed an extensive and geographically diverse brick-and-mortar sales network, consisting of both self-operated stores and distributor-operated stores. As of December 31, 2022, we had a nationwide offline sales network consisting of 89 self-operated stores and 225 offline distributors covering 615 distributor-operated stores in China. The number of our offline distributors increased from 136 as of January 1, 2020 to 225 as of December 31, 2022. Among the 136 distributors as of January 1, 2020, 113, or 83.1%, of them had remained with our as of December 31, 2022. To capture the rapid growth of e-commerce in recent years, we have also expanded our online presence on major e-commerce or social media platforms, such as Tmall, JD.com, Douyin and Xiaohongshu. In addition, we have launched products specifically designed for online channels, such as Freshly Stewed Bird’s Nest, which has quickly gained popularity among younger consumers. Our revenue generated from sales of Freshly Stewed Bird’s Nests increased from RMB321.1 million in 2020 to RMB485.4 million in 2022 at a CAGR of 22.9%.

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We stay close to and intimate with our customers. Through the Yan Palace (燕之屋) membership mini program, our Golden Yan Club (金燕薈) membership program, and other membership programs on major e-commerce platforms, we have cultivated a loyal membership network of customers with a tiered membership system to drive customer stickiness and repeated purchase. As of the Latest Practicable Date, we had over 1.6 million customers registered in our membership programs. Through this membership network, we organize various interactive events to maintain direct engagement with our customers. We have gained considerable insight from our interaction with customers, which allows us to continually optimize our product offerings and customer services.

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

We achieved robust growth and profitability during the Track Record Period. Our revenue increased from RMB1,301.2 million in 2020 to RMB1,507.0 million in 2021 and further to RMB1,729.9 million in 2022, at a CAGR of 15.3% from 2020 to 2022. Our net profit increased from RMB123.4 million in 2020 to RMB172.4 million in 2021 and further to RMB205.9 million in 2022, at a CAGR of 29.2% from 2020 to 2022. Our net profit margin was 9.5%, 11.4% and 11.9% for 2020, 2021 and 2022, respectively. 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 years. See “Financial Information” for more information.

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

COMPETITIVE STRENGTHS

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

A leading brand in the global EBN product market with sustained growth

We are a leading brand in the global EBN product market, dedicated to the development, production and marketing of high-quality modern EBN products. According to the F&S Report, we are the largest EBN product company globally for three consecutive years in terms of retail value from 2020 to 2022, with a global market share of 4.1% in 2022, and ranked No.1 by the number of EBN specialty storefronts and the volume of CAIQ-certified imports in the EBN product market in China in 2022. We imported 26.3 tonnes, 57.2 tonnes, 50.4 tonnes and 52.2 tonnes of CAIQ certified EBN from Indonesia in 2019, 2020, 2021 and 2022, respectively, accounting for 14.4%, 17.0%, 15.2% and 11.6% of the total volume of imported traceable EBN to China in respective years, and 20.1%, 21.4%, 22.1% and 17.9% of the total volume of imported traceable EBN from Indonesia to China in respective years, according to the F&S Report. Moreover, we also ranked No.1 in the scale of EBN manufacturing bases in China in 2022, according to the same source.

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Benefiting from our industry leadership, our growth has far exceeded the industry average. Our revenue increased from RMB1,301.2 million in 2020 to RMB1,507.0 million in 2021 and further to RMB1,729.9 million in 2022, at a CAGR of 15.3% from 2020 to 2022, which was 11.6 percentage points higher than the industry average and was the highest among the top five EBN brands during the same periods, according to the F&S Report. Moreover, our imported volume of EBN increased from 0.2 tonnes in 2015 to 52.2 tonnes in 2022 at a CAGR of 128.6%, as compared to the total imported volume of EBN to China, which increased from 22.5 tonnes in 2015 to 451.6 tonnes in 2022 at a CAGR of 53.5%, according to data published by the CAIQ. Leveraging our favorable industry position, advantage in scale and growth potential, we believe we are well positioned to capture the market opportunity in the EBN industry.

As a pioneer in China’s EBN industry, we have established ourselves as a widely recognized brand among consumers in the beauty and wellness industry. Our brand has consistently ranked No.1 by the China Brand Power Index in the EBN category since 2019 and was elected for Xinhua News Agency’s Ethnic Brand Project in 2021 and a consumer product brand with national influence by People’s Daily Online in 2022. Moreover, in 2021, we established an official partnership with the Chinese national fencing team and become their designated EBN product brand. We believe our advantage in brand awareness will further solidify our industry leadership and give us a head start in expanding our presence in the beauty and wellness industry. According to the F&S Report, we ranked No. 1 in terms of top-of-mind awareness among all EBN brands in China, synonymous with product quality, over 99% of consumers who have purchased our products expressed satisfaction with their experience and indicated that they would purchase our EBN products again.

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

As a pioneer of China’s modern EBN industry, we have proven our ability to innovate and develop products that re-define the industry and expand customer reach. Our signature product series, *One Nest*, was among the earliest mass-produced, ready-to-serve EBN products in China with a standardized manufacturing process, enabling us to preserve the original taste of EBN and, at the same time, ensure consistent quality. We launched *One Nest* in 2012, which quickly gained popularity among consumers for its original taste and convenience. We have continued to innovate and introduced new products under *One Nest* series tailored to different consumer groups, significantly enriching the variety of this product series and contributing to our growth. Our revenue generated from *One Nest* (pure EBN) increased from RMB559.3 million in 2020 to RMB672.6 million in 2022 at a CAGR of 9.7%.

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

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

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Our success in product innovation is built on our exceptional research and development capabilities. We have established an industry-leading research and development platform, which consists of the EBN Research Institute, EBN Peptide Research Center, EBN Skincare Research Center, and the Peking University-Yan Palace Joint Lab. As of the Latest Practicable Date, we had a strong in-house research and development team of 46 personnel, and more than 30% of them hold a master’s degree or above. We have also established extensive collaborations with industry leading experts such as academicians from the Chinese Academy of Sciences and the Chinese Academy of Engineering, as well as various well-known academic institutions, such as South China University of Technology, Jiangnan University, and Xiamen University. Benefiting from the research and development platform, our research and development capabilities have positioned us at the forefront of our industry, evidenced by a total of 117 patents granted to us as of the Latest Practicable Date, which ranks No.1 in the industry and significantly surpasses the second place, according to the F&S Report. Many of the patents have tremendously improved customers’ experience with our products and solidified our industry leadership. For instance, our high-temperature adhesive-free sealing technology allows for room temperature storage and on-the-go consumption and, at the same time, avoids the use of potentially toxic adhesive agents. Our industry-leading sterilization equipment features temperature control with a controlled precision of within ± 0.2 degrees Celsius, ensuring standardized taste.

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

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

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

Raw material procurement. We have adopted strict grading criteria for imported EBN, based on factors such as shape, color, moisture content, and sialic acid content, and select high-quality swiftlet nests from Indonesia as our raw materials. During the Track Record Period, substantially all of raw nests used in our production process were sourced from suppliers in Indonesia, the largest raw nest production country in the world, according to the F&S Report. We have implemented strict supplier admission policies and thoroughly review and assess the capabilities and background of all supplier candidates through qualification checks, on-site inspections and sample testing. We only choose the best suppliers who possess complete qualifications, offer the highest quality raw nests, and have the strongest supply capacity.

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

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

Advanced manufacturing facilities. We have built our own production bases with a total floor area of approximately 39,300 square meters to house our experienced technical specialists, cutting-edge research and development equipment, and integrated EBN processing production line to focus on the quality and safety of our products and the sustainability of the production process. We adhere to the principle of digitalized manufacturing to present EBN to consumers in their natural and pure form. For ready-to-serve pure EBN products, we strictly follow the principles of “Four Zeros” in manufacturing, i.e., zero-additive, zero-preservative, zero-fat and zero-nitrite.

Extensive and stable sales network with omni-channel reach and differentiated product offerings

We have established an extensive national sales network covering online and offline channels. We have rapidly expanded our brick-and-mortar sales network through a combination of self-operated stores and distributor-operated stores. As of December 31, 2022, we had established a nationwide offline sales network consisting of 89 self-operated stores and 225 offline distributors covering 615 distributor-operated stores in China. According to the F&S Report, we ranked No.1 as measured by the number of EBN specialty storefronts in 2022 and surpasses the runner-up by over 100%. Our offline sales network has covered all direct-administered municipalities and provincial capitals in China. Our stores are located at prime locations in these cities, as we recognize the vital role storefronts serve for maintaining our brand image, engaging our customers, enhancing customer coverage and loyalty, and promoting the concept of beauty and wellness. We are also expanding into the mass markets to maintain our first-mover advantage in distribution channels. Our strong brand reputation and exceptional product quality have led distributors to foster long-term partnerships with us. The number of our offline distributors increased from 136 as of January 1, 2020 to 225 as of December 31, 2022. Among the 136 distributors as of January 1, 2020, 113, or 83.1%, of them had remained with our as of December 31, 2022.

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

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Capitalizing on our extensive omni-channel presence, we have cultivated a robust pool of private domain traffic through the Yan Palace membership mini program, our Golden Yan Club membership program, and other membership programs on major e-commerce platforms, enabling us to maintain direct contact with our consumers and strengthen our engagement with them. As of the Latest Practicable Date, there were over 1.6 million customers registered in our membership programs. We frequently organize various interactive events for our valued members. For instance, we regularly invite selected members to join a tour in Xiamen, where members not only visit popular tourist sites and enjoy local food, but also have an immersive factory tour, which allows them to further understand our products and connect to our brand. We have also established the Yan Palace Golf Club and organized the National Women’s Golf Tour around the country to promote the sport of golf among women as well as the concept of beauty and wellness. Our membership program and interactive events have resulted in elevated customer loyalty.

An advocate for harmonious coexistence between humans and nature, a leader in formulating industry standards, and an active contributor to public welfare

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

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

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We honor our social responsibility and are committed to giving back to the society. In 2019, we established a poverty alleviation factory in Guanghe County, Gansu Province which has created approximately 300 employment opportunities for the local community and helped 277 workers lift themselves out of poverty. We have been recognized for our commitment to social responsibility, and we were named the Pioneer Group in Poverty Alleviation (脫貧攻堅先進集體) in Fujian Province in 2021 and the Annual Role Model for Social Responsibility in the 2021 Beautiful Charity Conference (2021美好公益大會年度責任典範). Mr. Huang, founder and chairman of our Company, was awarded the Pioneer Individual in Poverty Alleviation (脫貧攻堅先進個人) in Gansu Province in 2021.

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

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

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

GROWTH STRATEGIES

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

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

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

To support the expansion of our product portfolio, we plan to increase investment in our research and development capabilities to consolidate our leadership in industry innovation. More specifically, we plan to set up new research and testing laboratories, establish fully-equipped pilot workshops for all product

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categories, purchase advanced research and development equipment, and recruit professional research and development talents to provide technical support for product development and upgrades. In addition, we plan to establish research institutions devoted to the research and development of EBN products, including (1) Yan Palace Indonesia Joint Laboratory, which will conduct research into various aspects of raw nests, such as its food safety, nutritional components, processing technology and ecological studies; (2) Yan Palace Japan Joint Laboratory, which will specialize in the research and development of EBN and EBN peptides for use in skincare and health food products; and (3) Edible Bird’s Nest Special Food Research Center, dedicated to exploring the application of EBN in specialized foods for medical purposes and targeted diets. Furthermore, we will continue to strengthen our collaborations with renowned domestic and international universities and research institutions to conduct specialized research in areas, such as EBN pharmacology, product development, manufacturing automation and intelligent upgrading, to promote the overall development of the EBN industry in China.

Further fortify our sales network to deepen our omni-channel consumer reach

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

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

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

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

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

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

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

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

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

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

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

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

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

Investing in corporate digitalization to improve operational efficiency

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

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

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

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

Continue to invest in our employees

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

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

OUR PRODUCTS

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

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

| | Year ended December 31, | | | | | |
|--------------------------------------|---|-----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------------|
| | 2020 | | 2021 | | 2022 | |
| | RMB | Percentage of total revenue | RMB | Percentage of total revenue | RMB | Percentage of total revenue |
| | (RMB in thousands except for percentages) | | | | | |
| Pure EBN products . . . | 1,253,900 | 96.4 | 1,442,951 | 95.8 | 1,638,127 | 94.7 |
| — One Nest | 559,288 | 43.0 | 661,412 | 44.0 | 672,640 | 38.9 |
| — Freshly Stewed | | | | | | |
| Bird’s Nest | 321,144 | 24.7 | 423,264 | 28.1 | 485,372 | 28.1 |
| — Other bottle-canned | | | | | | |
| bird’s nest ⁽¹⁾ | 201,298 | 15.5 | 193,318 | 12.8 | 305,105 | 17.6 |
| — Dried EBN | 172,170 | 13.2 | 164,957 | 10.9 | 175,010 | 10.1 |
| EBN+ and +EBN | | | | | | |
| products | 43,051 | 3.3 | 56,115 | 3.7 | 73,103 | 4.2 |
| Others ⁽²⁾ | 4,206 | 0.3 | 7,931 | 0.5 | 18,715 | 1.1 |
| 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> |

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

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

Pure EBN Products

One Nest (碗燕)

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

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

In 2022, we had 54 pure EBN SKUs sold under *One Nest* product series. The standard prices of our pure EBN products under *One Nest* in 2022 ranged from RMB198 to RMB598 per bowl. Such prices depend on various factors including EBN contents per bowl and the number of bowls included in each product box, among others. In 2020, 2021 and 2022, the revenue generated from our pure EBN products under *One Nest* was RMB559.3 million, RMB661.4 million and RMB672.6 million, respectively, accounting for 43.0%, 43.9% and 38.9% of our total revenue in the same years, respectively. The following table sets forth key information about our current pure EBN products under *One Nest*.

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| Product | Illustration | Description | Standard price in 2022 (RMB/bowl-shaped can) |
|---|---|---|--|
| Premium Edition (尊享款) |  | Each box contains six, 12 or 30 bowls. Each bowl weighs 180 grams net. | 458 |
| Classic Edition (經典款) |  | Each box contains three, five, 10 or 30 bowls. Each bowl weighs 180 grams net. | 398 |
| Honorable Edition (榮耀款) |  | Each box contains six bowls. Each bowl weighs 108 grams net. | 258 |
| True Love Edition (甄愛款) |  | Each box contains 30 bowls. Each bowl weighs 108 grams net. | 298 |
| Little Red Bowl Edition (小紅碗款) |  | Each box contains one, three, six or 10 bowls. Each bowl weighs 138 grams net. | 298 |
| Deep Love Edition (濃情款) |  | Each box contains one bowl along with a porcelain bowl. Each bowl weighs 180 grams net. | 520 |
| Sky Flying Edition (飛天款) |  | Each box contains six bowls. Each bowl weighs 180 grams net. | 598 |


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| Product | Illustration | Description | Standard price in 2022 (RMB/bowl-shaped can) |
|----------------------------------|---|--|---|
| Blessed Pregnancy (禧孕) |  | Each box contains 10 bowls. Each bowl weighs 80 grams net. | 238 |
| Star Diamond (星鑽) |  | Each box contains 10 bowls. Each bowl weighs 100 grams net. | 359.9 |

Freshly Stewed Bird’s Nest (鮮燉燕窩)

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

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

| Product | Illustration | Description⁽¹⁾ | Standard price in 2022 (RMB/bottle) |
|--|---|--|--|
| Environmental-friendly Edition (環保款) |  | Each bottle weighs 45 grams or 70 grams net. Customers could order boxes that contain different number of bottles with different net content, i.e., 45 grams x seven bottles, 70 grams x three bottles and 70 grams x seven bottles, depending on their consumption frequency. | 133 (bottles weighted 45 grams net) 228 (bottles weighted 70 grams net) |

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| Product | Illustration | Description⁽¹⁾ | Standard price in 2022 (RMB/bottle) |
|---|---|---|--|
| Refrigerated Edition (冷藏款) . . . |  | Each bottle weighs either 45 grams or 70 grams net. Customers could order boxes that contain different number of bottles with different net content, i.e., 45 grams x seven bottles, 70 grams x three bottles and 70 grams x seven bottles, depending on their consumption frequency. | 133 (bottles weighted 45 grams net) 228 (bottles weighted 70 grams net) |
| Fresh Enjoyment Edition (鲜享装) |  | Each box contains three or seven bottles. Each bottle weighs 45 grams net. | 86 |

(1) All Freshly Stewed Bird’s Nest products have a shelf life of 15 to 45 days.

Other Bottle-canned Bird’s Nest

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

| Product | Illustration | Description | Standard price in 2022 (RMB/bottle) |
|--|---|---|--|
| Crystal Sugar Bird’s Nest for offline channels (冰糖官燕线下款) |  | Each box contains six or 12 bottles. Each bottle weighs 75 grams net. | 80 |


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| Product | Illustration | Description | Standard price in 2022 (RMB/bottle) |
|--|---|---|-------------------------------------|
| Blooming Castle Edition (花漾城堡系列) |  | Each box contains five, eight, 15 or 30 bottles. Each bottle weighs 70 grams net. | 95 |
| Sugar Free Edition (悦·享零糖燕窝) |  | Each box contains 10 bottles. Each bottle weighs 60 grams net. | 169.9 |


Dried EBN

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

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

| Product | Illustration | Description ⁽¹⁾ | Weight (gram/box, unless otherwise indicated) | Standard price in 2022 (RMB/box) |
|-----------------------|---|--|---|----------------------------------|
| 4A Intact Nests . . . |  | Made from grade 4A intact raw nests with a length ranged from 8.0 to 12.0 cm, a height not less than 3.3 cm, and a weight not less than 4.0 grams. | 100 grams | 5,200 |

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| Product | Illustration | Description ⁽¹⁾ | Weight (gram/box, unless otherwise indicated) | Standard price in 2022 (RMB/box) |
|---|---|--|---|----------------------------------|
| 6A Intact Nests . . . |  | Made from grade 6A intact raw nests with a length not less than 12.5 cm, a height not less than 4.0 cm, and a weight not less than 6.5 grams. | 100 grams | 8,800 |
| Dried EBN for Instant Stewing |  | Made from raw nests that have gone through certain processes, such as soaking, feather picking, cleaning and drying. | 12 servings per box, each weighs five grams | 5,280 |
| China Red (中國紅) |  | Made from five-star intact raw nests with a length not less than 12.0 cm, a height not less than 4.0 cm, and a weight not less than 5.5 grams. | 50 grams | 3,180 |

(1) To avoid competition between our online and offline sales channels, we grade dried EBN products exclusively available for online channels from three stars to five stars. For dried EBN products targeting offline consumers, we grade them from grade 4A to 6A.

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 years indicated.

| | Year ended December 31, | | | | | |
|---|-------------------------|--------------------------------------|--------------|--------------------------------------|--------------|--------------------------------------|
| | 2020 | | 2021 | | 2022 | |
| | 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 per bowl | 3,855,506 | RMB172 per bowl | 3,868,281 | RMB174 per bowl |
| Freshly Stewed Bird's Nest | 5,943,315 | RMB54 per bottle | 8,116,586 | RMB52 per bottle | 8,941,642 | RMB54 per bottle |
| Other bottle-canned bird's nest (pure EBN) ⁽²⁾ | 5,162,726 | RMB39 per bottle | 4,366,735 | RMB44 per bottle | 7,162,425 | RMB43 per bottle |
| Dried EBN | 6,064 | RMB28 per gram | 5,949 | RMB28 per gram | 6,497 | RMB27 per gram |

(1) Calculated by dividing the total revenue from a given product series in the indicated year with the total sales volume of such product series sold in same year.

(2) Include primarily Crystal Sugar Bird's Nest.

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EBN+ Products

We have also developed EBN+ products, primarily including EBN-based products with additional tonic ingredients to create enhanced flavors and cater to different consumption scenarios, such as *One Nest — Vitality* (碗燕—元氣款) and Crystal Sugar Bird’s Nest with Ginseng (人參冰糖官燕). In addition, we have also launched *Little Blue Bottle* (晚安小藍瓶) product series under EBN+ product category, which add gamma-aminobutyric acid to produce a calming effect and improve sleep quality. In 2022, we had 22 SKUs for EBN+ products.

+EBN Products

Leveraging our in-depth understanding of EBN extract accumulated over decades of product research and development, we have expanded the value chain of the EBN industry by developing innovative +EBN products, including food products, such as EBN porridge, EBN zongzi, various EBN beverages, and introduced a line of EBN skincare products that use bird’s nest peptides as core ingredients. In 2022, we had 34 SKUs for +EBN products.

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

OUR SALES NETWORK

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

| | Year ended December 31, | | | | | |
|---|---|-----------------------------|------------------|-----------------------------|------------------|-----------------------------|
| | 2020 | | 2021 | | 2022 | |
| | RMB | Percentage of total revenue | RMB | Percentage of total revenue | RMB | Percentage of total revenue |
| | (RMB in thousands except for percentages) | | | | | |
| Offline channels | 578,506 | 44.5 | 738,711 | 49.0 | 791,991 | 45.8 |
| — Sales to offline distributors | 409,777 | 31.5 | 509,917 | 33.8 | 477,525 | 27.6 |
| — Direct sales to offline customers | 168,729 | 13.0 | 228,794 | 15.2 | 314,466 | 18.2 |
| Online channels | 722,651 | 55.5 | 768,286 | 51.0 | 937,954 | 54.2 |
| — Direct sales to online customers | 575,220 | 44.1 | 564,587 | 37.4 | 695,265 | 40.2 |
| — Direct sales to e-commerce platforms ⁽¹⁾ | 137,545 | 10.6 | 189,196 | 12.6 | 227,071 | 13.1 |
| — Sales to online distributors | 9,886 | 0.8 | 14,503 | 1.0 | 15,618 | 0.9 |
| Total | 1,301,157 | 100.0 | 1,506,997 | 100.0 | 1,729,945 | 100.0 |

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

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Our Offline Channels

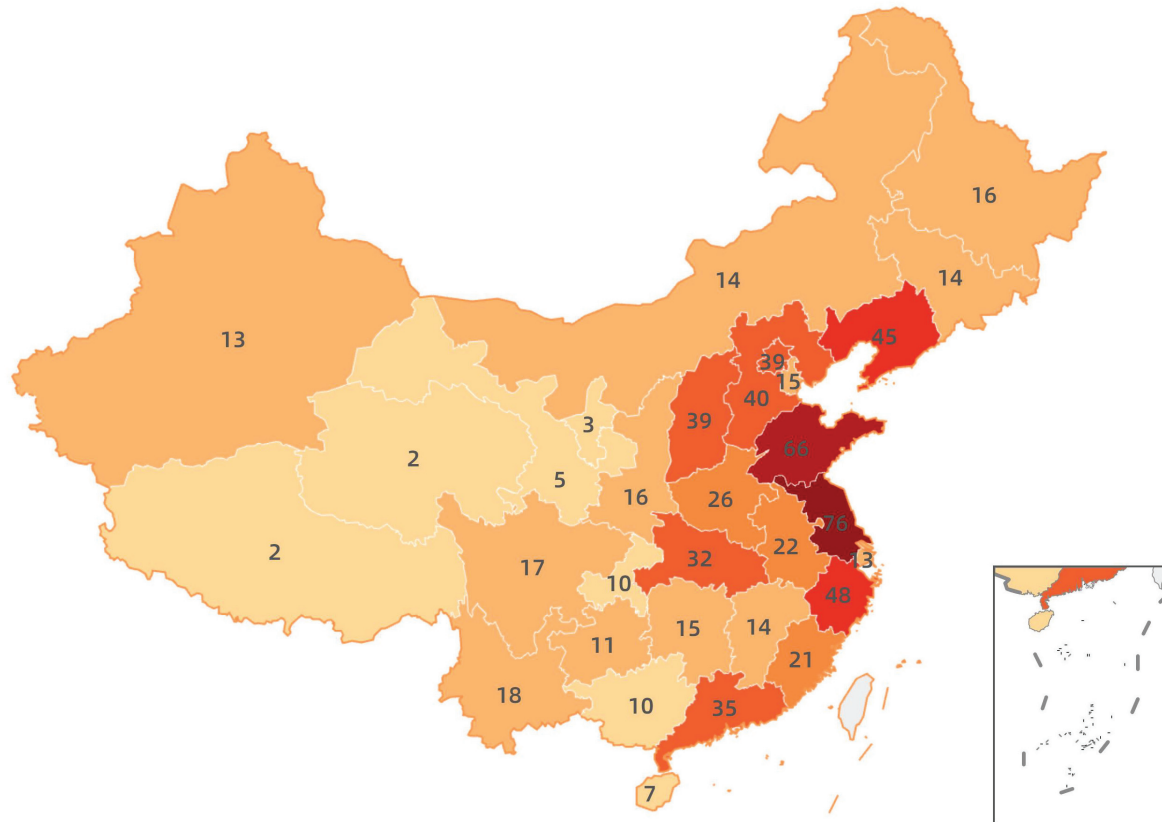
We have established a nationwide offline sales network covering substantially all provincial administrative divisions across China. We engage distributors to distribute our products. In addition, we also sell directly to consumers through our self-operated stores. As of December 31, 2022, we had 89 self-operated stores in 10 cities and 615 stores operated by 225 distributors in 201 cities.

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



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The following map is an illustration of the geographic coverage and the number of our stores as of December 31, 2022.



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

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

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

Our Offline Distributors

As of December 31, 2020, 2021 and 2022, there were 155, 195 and 225 distributors in our offline distribution network, respectively. In 2020, 2021 and 2022, the revenue generated from our sales to offline distributors was RMB409.8 million, RMB509.9 million and RMB477.5 million, respectively, representing 70.8%, 69.0% and 60.3% of our revenue generated from offline channels, respectively.

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

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

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

Our Online Channels

Our online sales network consists of self-operated online stores, distributor-operated online stores and e-commerce platforms. As of December 31, 2022, we have 23 self-operated online stores and 13 distributor-operated online stores on mainstream e-commerce or social media platforms such as JD.com, Tmall and Douyin. In addition, we began to engage e-commerce platforms to distribute our products through platform-operated online stores in 2018 to further expand our online presence. As of December 31, 2022, we had 11 e-commerce platforms as our customers, including JD.com, Vipshop and Tmall Supermarket, among others.

Online Channel Management

Store management. All self-operated online stores are managed and operated by our e-commerce operation team. Online distributor-operated stores are managed and operated by online distributors, while the marketing materials used by and promotional events held by such stores are subject to our supervision. For e-commerce platform customers, online stores are owned and managed by e-commerce platforms, and we generally provide operational assistance by designating operational staff to such stores and providing online marketing materials.

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

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

Product return and exchange. All the e-commerce platforms we work with impose a seven-day return/exchange policy, which allows consumers to return or exchange our products within seven days after the delivery for no cause if the product is unopened in their original packaging. For all products sold online (other than Freshly Stewed Bird's Nest), we abide by the return/exchange policies imposed by e-commerce platforms. Returned products are shipped directly to our warehouses. We typically do not re-sell these returned products even if they are not defective in quality and still within the shelf life. In

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limited circumstances such as quality defects or late deliveries that exceed two-thirds of the shelf life of our products, online distributors are allowed to request for return or exchange within seven days. During the Track Record Period, the value of our returned products from online channels was insignificant.

Selection of New Distributors

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

Major considerations of our offline distributor selection criteria include:

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

Major considerations of our online distributor selection criteria include:

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

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

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

| | Year ended December 31, | | |
|--|-------------------------|------------|------------|
| | 2020 | 2021 | 2022 |
| Number of distributors at the beginning of the year | 136 | 161 | 203 |
| — Offline | 136 | 155 | 195 |
| — Online | — | 6 | 8 |
| Number of new distributors | 28 | 57 | 53 |
| — Offline | 22 | 54 | 45 |
| — Online | 6 | 3 | 8 |
| Number of terminated distributors | 3 | 15 | 18 |
| — Offline ⁽¹⁾ | 3 | 14 | 15 |
| — Online | — | 1 | 3 |
| Number of distributors at the end of the year | 161 | 203 | 238 |
| — Offline | 155 | 195 | 225 |
| — Online | 6 | 8 | 13 |

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

During the Track Record Period and up to the Latest Practicable Date, there were no material unsettled disputes or litigations between terminated distributors and us.

We value our distributors’ business operation capabilities and their cooperative relationships with us. The number of our offline distributors increased from 136 as of January 1, 2020 to 225 as of December 31, 2022. Among the 136 distributors as of January 1, 2020, 113, or 83.1%, of them had remained with our as of December 31, 2022. We do not rely on any single distributor or a few distributors. Our revenue from any single distributor accounted for no more than 5% of our total revenue during the Track Record Period.

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

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Major Terms of Distribution Agreements

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

- *Duration.* The duration of distribution agreements is typically three year. We may renew the distribution agreements in the event that offline distributors pass our assessment.
- *Right to use our trademark.* We authorize offline distributors to use our trademarks within the duration and scope of distribution agreements.
- *Offline store operations.* Offline distributors shall establish offline stores according to our unified decoration standards. Supplies and promotional materials required for display in offline stores shall all be provided by us.
- *Management on prices.* We provide offline distributors with standard prices of our products according to our price system. Offline distributors shall abide by our price system.
- *Sales rebates.* We provide sales rebates to offline distributors upon their satisfaction of performance requirements. We primarily look at their procurement volume and their contribution to distribution network expansion and marketing events. Such sales rebates can be applied to their future purchase of our products.
- *Scope of distribution.* Offline distributors are only permitted to sell our products in a predetermined geographic area. They are prohibited from distributing our products through any online channels without our approval. They are also prohibited from distributing any products that are similar to our products.
- *Sub-distribution.* We authorize our offline distributors to set up and sell products to offline sub-distributors. We generally do not require sub-distributors to enter into direct agreements with us.
- *Payment.* We require offline distributors to make payment before the delivery of our products. We may provide short-term payment period for certain offline distributors with excellent qualifications and stable business relationships with us.
- *Logistics.* After offline distributors make the payment, we deliver our products according to the time and method specified in the purchase order.
- *Limitations on return or exchange.* We typically do not accept return or exchange of products from offline distributors. We only allow product exchanges under limited circumstances such as quality defects or damages during transportation.
- *Termination.* Grounds for termination under the distribution agreements include, among others, unauthorized usages of our trademark, selling products of our competitors or any counterfeits of our products and other actions that are harmful to our interests. We are entitled to terminate the distribution agreements if offline distributors breach the distribution agreements.

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

- *Duration.* The duration of distribution agreements is typically one year. The distribution agreements can be renewed upon mutual agreement.

BUSINESS

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

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

Distributor Management

We believe that effective management of our distribution network is crucial to our success. We have adopted a detailed distributor management policy that is agreed to by our distributors. We regularly pay visits to our offline distributor and collect information on their operations and market development. We also inspect distributor-operated online stores from time to time. If we discover any irregularity in their sales practice, we may take relevant punishment measures according to the distribution agreement. In addition, we require our distributors to provide sales targets and sales results reports on a regular basis. Their annual operating results are used by us to assess whether they are qualified to be part of our distribution network for the next year.

We strive to provide our distributors with operational supports to boost their development. In particular, we provide them with promotional materials, management support and employee training from time to time. We assist our distributors in formulating promotional plans and provide certain supports in organizing promotional events. We also provide certain supports for online distributors, such as online store page design and marketing material editing services.

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OUR CUSTOMERS

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

Our Membership Programs

We stay close to and intimate with our customers. Through the Yan Palace (燕之屋) membership mini program, our Golden Yan Club (金燕薈) membership program, and other membership programs on major e-commerce platforms, we have cultivated a loyal membership network of customers with a tiered membership system to drive customer stickiness and repeated purchase. As of the Latest Practicable Date, there were over 1.6 million customers registered in our membership programs. Through this membership network, we organize various interactive events to maintain direct engagement with our customers.

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

Major Customers

In 2020, 2021 and 2022, our revenue from the five largest customers in total amounted to RMB219.3 million, RMB245.6 million and RMB274.2 million, accounting for 16.9%, 16.3% and 15.8% of our total revenue, respectively. In the same years, our revenue from the single largest customer amounted to RMB100.8 million, RMB141.1 million and RMB189.0 million, accounting for 7.7%, 9.4% and 10.9% of our total revenue, respectively. We typically require our customers to make payment before the delivery of our products. However, we may grant credit periods of no more than 60 days to certain customers such as e-commerce platforms.

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

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

| Customers | Revenue amount (RMB in thousands) | Percentage of total revenue (%) | Type of services provided | Payment method | Year of commencement of business relationship | Background |
|--|--|--|----------------------------------|-----------------------|--|---|
| <i>For the year ended December 31, 2020</i> | | | | | | |
| Customer A | 100,831 | 7.7 | Sales of EBN products | Bank transfer | 2018 | Customer A is a leading provider of medical and health products, services and solutions in China |
| Zhongda Baichengtang and related parties | 63,164 | 4.9 | Sales of EBN products | Bank transfer | 2015 | Zhongda Baichengtang and related parties are companies that primarily distribute EBN products in Beijing |
| Customer B | 21,853 | 1.7 | Sales of EBN products | Bank transfer | 2020 | Customer B is a company primarily engaged in sales of healthy food |
| Customer C | 16,719 | 1.3 | Sales of EBN products | Bank transfer | 2018 | Headquartered in Guangzhou, Customer C operates an e-commerce platform. On March 23, 2012, Customer C was listed on the New York Stock Exchange |
| Customer D | 16,689 | 1.3 | Sales of EBN products | Bank transfer | 2016 | Established in Hefei, Customer D primarily distributes EBN products |
| Total | <u>219,256</u> | <u>16.9</u> | | | | |

| Customers | Revenue amount (RMB in thousands) | Percentage of total revenue (%) | Type of services provided | Payment method | Year of commencement of business relationship | Background |
|--|--|--|----------------------------------|-----------------------|--|--|
| <i>For the year ended December 31, 2021</i> | | | | | | |
| Customer A | 141,137 | 9.4 | Sales of EBN products | Bank transfer | 2018 | Customer A is a leading provider of medical and health products, services and solutions in China |
| Zhongda Baichengtang and related parties | 40,969 | 2.7 | Sales of EBN products | Bank transfer | 2015 | Zhongda Baichengtang and related parties are companies that primarily distribute EBN products in Beijing |

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| <u>Customers</u> | <u>Revenue amount (RMB in thousands)</u> | <u>Percentage of total revenue (%)</u> | <u>Type of services provided</u> | <u>Payment method</u> | <u>Year of commencement of business relationship</u> | <u>Background</u> |
|------------------------|--|--|----------------------------------|-----------------------|--|---|
| Customer C | 23,596 | 1.6 | Sales of EBN products | Bank transfer | 2018 | Headquartered in Guangzhou, Customer C operates an e-commerce platform. On March 23, 2012, Customer C was listed on the New York Stock Exchange |
| Union Yutai | 19,989 | 1.3 | Sales of EBN products | Bank transfer | 2015 | Established in Tianjin, Union Yutai primarily distributes EBN products |
| Customer E | 19,881 | 1.3 | Sales of EBN products | Bank transfer | 2017 | Established in Zhengzhou, Customer E primarily distributes EBN products in Henan |
| Total | <u>245,572</u> | <u>16.3</u> | | | | |

| <u>Customers</u> | <u>Revenue amount (RMB in thousands)</u> | <u>Percentage of total revenue (%)</u> | <u>Type of services provided</u> | <u>Payment method</u> | <u>Year of commencement of business relationship</u> | <u>Background</u> |
|---|--|--|----------------------------------|-----------------------|--|---|
| <i>For the year ended December 31, 2022</i> | | | | | | |
| Customer A | 189,036 | 10.9 | Sales of EBN products | Bank transfer | 2018 | Customer A is a leading provider of medical and health products, services and solutions in China |
| Customer C | 23,870 | 1.4 | Sales of EBN products | Bank transfer | 2018 | Headquartered in Guangzhou, Customer C operates an e-commerce platform. On March 23, 2012, Customer C was listed on the New York Stock Exchange |
| Customer D | 21,113 | 1.2 | Sales of EBN products | Bank transfer | 2016 | Established in Hefei, Customer D primarily distributes EBN products |
| Union Yutai | 20,447 | 1.2 | Sales of EBN products | Bank transfer | 2015 | Established in Tianjin, Union Yutai primarily distributes EBN products |
| Customer F | 19,763 | 1.1 | Sales of EBN products | Bank transfer | 2017 | Customer F primarily distributes EBN products in Wuhan |
| Total | <u>274,229</u> | <u>15.8</u> | | | | |

BUSINESS

MARKETING AND BRANDING

Branding

We have long-term plans for the development of our brand and strong brand communication capabilities. According to the F&S Report, we have established ourselves as a leading EBN product brand well-recognized among Chinese consumers. We have a dedicated sales and marketing team with rich industry experience, who are responsible for the implementation of our branding and marketing strategies. As of the Latest Practicable Date, our sales and marketing team had a total of 622 members. Our executive director and general manager, Mr. Youquan Li, who is also our sales and marketing team leader, has over nine years of extensive marketing experience in China’s EBN market.

Marketing Campaigns

We adopt a multi-channel marketing approach that allows us to reach and influence a broad target customer base. Our focus is on maintaining and enhancing brand awareness through professional marketing and branding strategies. We conduct advertising campaigns via traditional channels such as television, radio and billboards. Additionally, we leverage e-commerce and social media platforms to promote our brand and products, collaborating with influencers and implementing targeted marketing campaigns on emerging e-commerce platforms, such as Douyin and Xiaohongshu. Our marketing efforts also include sponsorship and celebrity endorsements. For instance, we partnered with the China national fencing team as their official EBN product supplier and enlisted Ms. Liying Zhao (趙麗穎), a highly influential celebrity in China, as our brand ambassador. We actively organize and sponsor various interactive events, such as immersive Xiamen factory tours, golf tournaments, the Zhigang Think Tank Forum (智網智庫論壇) led by Mr. Zhigang Wang (王志綱), a strategic consulting expert, and sharing sessions with renowned host Ms. Lan Yang (楊瀾). These initiatives help consolidate our distribution system, attract more consumers, and promote the beauty and wellness lifestyle. We strive to enhance our marketing efficiency to maximize brand visibility and expand our consumer reach in a cost-effective manner.

PRODUCTION

Production Process

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

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



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

| Step | Description |
|------------------------------|--|
| Raw material examination | We strictly examine raw materials including raw nests and other ingredients for our canned EBN products, and evaluate their qualitative index from sensory, physical and chemical perspectives. |
| Soaking and feather picking | We use traditional, purely manual process to remove impurities such as feathers from raw nests. |
| Drying | We evenly spread wet raw nests on the steaming tray after feather picking, and dry them in a cold air-drying room. |
| Secondary feather picking | We conduct secondary feather picking process for dried raw nests, further reducing the impurity contents in our products. |
| Weighing | We manually weigh dried raw nests required for each bottle or bowl-shaped can of our EBN products, and pack each serving separately in sorting bags made of food-grade materials. |
| Water purification | We pass tap water through quartz sand, active carbon filters and reverse osmosis to remove impurities and odors in the water, and obtain purified water that meets industry standards. |
| Filling raw materials | We precisely prepare the sugar solution according to our product formula to ensure consistent taste, and use automatic filling equipment to fill EBN and sugar solution into the bottles or bowl-shaped cans. |
| Sealing and stewing | We use high-temperature glue-free sealing technology to seal bowl-shaped cans and use four-turn stainless iron caps or aluminum cover rolling caps to seal bottles for our products. We then stew all ingredients in the bottles or bowl-shaped cans at high temperature, in which way for nutrients from EBN to stay in longer. |
| Quality control and labeling | We conduct a final inspection for our finished products, mainly for the product appearance and impurities in the content. For finished products that pass our quality control process, we label each bottle or bowl-shaped can with a QR code, which could be used by our customers to retrieve particulars of our products such as production factory, importer, raw nest origin and registration number and production date. |

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Production Bases

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

| Production base | Production capacity (tonnes) ⁽¹⁾ | | | Production volume (tonnes) | | | Utilization rate (%) ⁽²⁾ | | |
|---------------------------|--|---------|---------|----------------------------|---------|---------|-------------------------------------|------|------|
| | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 | 2020 | 2021 | 2022 |
| Xiamen, Fujian | 1,563.0 | 1,518.4 | 1,825.0 | 1,281.8 | 1,348.3 | 1,627.0 | 82.0 | 88.8 | 89.2 |
| Songjiang, Shanghai . . . | — | 31.8 | 135.0 | — | 6.4 | 66.4 | — | 20.1 | 49.2 |

(1) Production capacity is calculated based on the assumption that our production facilities operate 3,020 hours per year.

(2) Utilization rate is calculated by dividing the production volume of a given year by the production capacity of the same year.

Our production base in Xiamen is our first and primary production base, where we manufacture a majority of our products. Our production base in Shanghai is our secondary production base, which is mostly designed for the production of Freshly Stewed Bird’s Nest. We established our Shanghai production base in 2021 to shorten the delivery distance in light of the short shelf life of our Freshly Stewed Bird’s Nest.

In 2019, we responded to the local government’s call for poverty alleviation and established our Guanghe production base, creating significant employment opportunities for the local population. Our Guanghe production base is designed primarily for the feather picking process, through which we manually remove impurities such as feathers from raw nests. In 2020, 2021 and 2022, our Guanghe production base processed 4.0 tonnes, 6.9 tonnes and 1.9 tonnes of raw nests, respectively.

Equipment and Machinery

We purchase our production lines from relevant companies in China. We regularly inspect and maintain our production equipment. To ensure production safety and efficiency, we have employed maintenance personnel to regularly inspect and maintain our key production equipment and machinery. Our major production equipment and machinery have an estimated average useful life of 10 years. We use straight-line basis to make provision and depreciation, with an annual rate of 9.5%. The remaining useful life of such equipment and machinery was approximately 6.7 years on average as of December 31, 2022.

QUALITY CONTROL

We have established an enterprise quality management system, covering the raw material and packaging material supply chain, product manufacturing, storage and sales, to ensure our products comply with relevant quality standards. We implement stringent policies to manage raw material and packaging material suppliers regarding their admission and elimination, to strictly control the quality of our material supplies. We strictly implement product safety and quality control standards and take corresponding control measures throughout our entire product manufacturing process to ensure that all of our products meet the relevant national safety standards and our strict internal quality standards. We have also set up a dedicated quality assurance team consisting of 27 employees as of the Latest Practicable Date. During the Track Record Period and up to the Latest Practicable Date, we (1) did not receive any fines, product recall orders or other penalties from the relevant competent authorities regarding material product quality issues, (2) did not receive any material product returns from our customers, or (3) receive any material complaints from the customers.

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

Our Quality Accreditations

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

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

Our Quality Assurance Program

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

Raw Material Quality Control

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

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

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In order to prevent unqualified raw materials from being used in production, we have established a procurement acceptance system to inspect raw materials that arrive at our production bases, and only raw materials that meet our standards can be accepted.

Production Process Quality Control

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

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

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

Finished Products Quality Control

Our quality management extends to the storage, delivery and sales processes of our products. In particular, by leveraging on the sales personnel located in different parts of China, we are able to closely keep track of the quality status of our products during their life cycles, to identify potential quality exposures and to ensure the stable quality of our products.

All of our finished products are affixed with traceability labels or QR codes that could be used by end customers to retrieve particulars of our products, including information about raw nests’ source of origin and registration number, storage condition, shelf life, and production date of finished products.

We have also set up procedures to handle consumer complaints, including consumer service hotlines and other feedback mechanism. In addressing the consumers’ complaints, we undertake to communicate and liaise with the consumers in a timely manner and to commence the quality investigation procedures. If our customer complaint team deems it is necessary after such investigation, we promptly accept the return or exchange request from complaining customer.

RAW MATERIALS, PACKAGING MATERIALS AND SUPPLIERS

Raw Materials and Packaging Materials

The principal raw materials we use in the production of our EBN products are raw nests. During the Track Record Period, substantially all of raw nests used in our production process were sourced from suppliers in Indonesia, the largest raw nest production country in the world, according to the F&S Report. According to the same source, Indonesia’s lowland rainforests are ideal habitats for swiftlets, which create raw nests by their solidified saliva. We have built strong and stable relationships with various suppliers for raw nests in Indonesia. In 2020, 2021 and 2022, our purchase for raw nests was RMB770.1 million, RMB603.5 million and RMB617.0 million, respectively. According to the F&S Report, we ranked first for four consecutive years from 2019 to 2022 in terms of procurement volume of imported raw nests with the CAIQ traceability labels.

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

The procurement price of raw nests and packaging materials could be volatile due to a variety of factors beyond our control, and any increase in the prices of raw nests and packaging materials may cause us to adjust our product prices upward. See “Risk Factors—Risks Relating to Our Business—Fluctuations in prices and changes in the quality of raw materials and packaging materials could materially and adversely affect our profitability and results of operations.” During the Track Record Period, we did not experience any significant shortage of raw material and packaging material supplies, and the raw materials and packaging materials provided by our suppliers did not have any significant quality issues. See “Risk Factors—Risks Relating to Our Business—We do not conduct any swiftlet farming and primarily depend on suppliers in Southeast Asia, particularly Indonesia, for raw nests. If we are not able to source adequate raw nests from suppliers in Southeast Asia or fail to maintain good relationships with such suppliers, our business, financial condition and results of operations could be materially and adversely affected.”

Our Suppliers

We purchase raw materials, packaging materials, and logistics and transportation services from suppliers for our business operations. During the Track Record Period, substantially all of our suppliers for raw nests were located in Indonesia. Our suppliers for packaging materials are primarily located in Zhejiang, Fujian and Jiangxi provinces, China.

Supplier Selection and Management

We consider several factors in the evaluation and selection of suppliers, including, among others, their background, reputation, and industry experience, and most importantly, the quality and price of their supplies. All new suppliers must undergo our internal supplier admission process before entering into supply agreements with us. Some of them are subject to an onsite inspection we conducted on their facilities on an as-needed basis to evaluate their quality control and test the raw material and packaging material samples.

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

- Prior to being admitted to our qualified supplier list, supplier candidates shall provide us with business license, production license, third-party test report for their products and pass our internal sampling tests.
- We, from time to time, update our existing suppliers’ information in our records, including their names, address, primary contact person and contact information.
- We verify the validity of our existing suppliers’ qualifications every three years.
- We conduct semi-annual and annual assessments for existing suppliers in our qualified supplier list.

Key Contractual Terms of Supply Agreements for Raw Nests

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

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

We have maintained long-term and stable business relationships with major raw nest suppliers in Indonesia and expect to maintain amicable relationships with them. In particular, we have built strong relationships with various suppliers for raw nests in Indonesia. In 2022, more than 52% of our purchase amount of raw nests were attributable to suppliers with over five years’ business relationship with us. We believe our long-term stable business relationships with these suppliers also enable us to minimize the risks of unexpected fluctuation in the price of raw nests.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material breach of supply agreements that had a significant impact on our production and did not have any material disputes with our suppliers.

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

Major Suppliers

During the Track Record Period, our major suppliers primarily consisted of suppliers for raw nests. In 2020, 2021 and 2022, purchases from our five largest suppliers accounted for 59.7%, 51.7% and 52.2% of our total purchases, respectively. In the same years, purchases from our largest supplier accounted for 23.7%, 15.4% and 16.4% of our total purchases, respectively. Our suppliers typically grant credit periods of no more than 30 days to us.

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

BUSINESS

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

| Suppliers | Purchase amount | Percentage of total purchase | Year of commencement of business relationship | Payment method | Type of services supplied | Background |
|--|---------------------------|-------------------------------------|--|-----------------------|----------------------------------|---|
| | (RMB in thousands) | (%) | | | | |
| <i>For the year ended December 31, 2020</i> | | | | | | |
| Supplier A | 241,023 | 23.7 | 2018 | Bank transfer | Raw nests | Supplier A is a raw nest company located in Indonesia and China |
| Supplier B | 150,603 | 14.8 | 2015 | Bank transfer | Raw nests | Supplier B is a raw nest company located in Indonesia |
| Supplier C | 81,605 | 8.0 | 2018 | Bank transfer | Raw nests | Supplier C is a raw nest company located in Indonesia |
| Supplier D | 73,236 | 7.2 | 2017 | Bank transfer | Raw nests | Supplier D is a raw nest company located in Indonesia |
| Zhongshi Hongyun and related parties | 61,475 | 6.0 | 2018 | Bank transfer | Advertisement | Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China |
| Total | 607,942 | 59.7 | | | | |

| Suppliers | Purchase amount | Percentage of total purchase | Year of commencement of business relationship | Payment method | Type of services supplied | Background |
|--|---------------------------|-------------------------------------|--|-----------------------|----------------------------------|---|
| | (RMB in thousands) | (%) | | | | |
| <i>For the year ended December 31, 2021</i> | | | | | | |
| Supplier A | 136,825 | 15.4 | 2018 | Bank transfer | Raw nests | Supplier A is a raw nest company located in Indonesia and China |
| Supplier B | 111,508 | 12.5 | 2015 | Bank transfer | Raw nests | Supplier B is a raw nest company located in Indonesia |
| Supplier C | 98,014 | 11.0 | 2018 | Bank transfer | Raw nests | Supplier C is a raw nest company located in Indonesia |
| Supplier D | 60,741 | 6.8 | 2017 | Bank transfer | Raw nests | Supplier D is a raw nest company located in Indonesia |
| Zhongshi Hongyun and related parties | 53,514 | 6.0 | 2018 | Bank transfer | Advertisement | Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China |
| Total | 460,602 | 51.7 | | | | |

BUSINESS

| Suppliers | Purchase amount | Percentage of total purchase | Year of commencement of business relationship | Payment method | Type of services supplied | Background |
|--|-----------------------|------------------------------|---|----------------|---------------------------|---|
| | (RMB in thousands) | (%) | | | | |
| <i>For the year ended December 31, 2022</i> | | | | | | |
| Supplier A | 162,840 | 16.4 | 2018 | Bank transfer | Raw nests | Supplier A is a raw nest company located in Indonesia and China |
| Supplier B | 119,824 | 12.1 | 2015 | Bank transfer | Raw nests | Supplier B is a raw nest company located in Indonesia |
| Supplier C | 119,481 | 12.0 | 2018 | Bank transfer | Raw nests | Supplier C is a raw nest company located in Indonesia |
| Zhongshi Hongyun and related parties | 60,298 | 6.1 | 2018 | Bank transfer | Advertisement | Zhongshi Hongyun is an advertisement company located in Beijing and Fujian, China |
| Supplier D | 56,168 | 5.6 | 2017 | Bank transfer | Raw nests | Supplier D is a raw nest company located in Indonesia |
| Total | <u>518,611</u> | <u>52.2</u> | | | | |

We have maintained long-term and stable relationships with our suppliers. For our five largest suppliers in 2020, 2021 and 2022, we had maintained business relationships with these suppliers on average for approximately five years.

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

INVENTORY

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

BUSINESS

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

| | As of December 31, | | |
|--|--------------------|----------------|----------------|
| | 2020 | 2021 | 2022 |
| | (RMB in thousands) | | |
| Raw materials | 174,103 | 163,851 | 125,926 |
| Work in progress | 41,092 | 33,360 | 36,467 |
| Finished goods | 42,071 | 65,189 | 81,504 |
| Goods in transit | 6,739 | 4,743 | 13,295 |
| Packaging | 12,981 | 12,498 | 14,370 |
| Right to recover returned goods. | 59 | 101 | 233 |
| Total | 277,045 | 279,742 | 271,795 |

Inventory Control

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

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

In 2020, 2021 and 2022, our inventory turnover days, which are calculated based on average inventories divided by cost of sales times number of days, were 91.2 days, 130.2 days and 118.2 days, respectively. As of December 31, 2020, 2021 and 2022, finished products, which primarily include canned EBN products, accounted for 15.2%, 23.3% and 30.0% of our total inventories, respectively.

BUSINESS

PRICING

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

RESEARCH AND DEVELOPMENT

We explore and launch new products through continual product research and development. We have established an experienced research and development team, captained by Mr. Zhang Yukui (張玉奎), an academician of the Chinese Academy of Sciences, and Ms. Zhu Beiwei (朱蓓薇), an academician of the Chinese Academy of Engineering. As of the Latest Practicable Date, we had 46 research and development staff for product development with an average of approximately seven years’ relevant experience. As of the same date, over 30% of our research and development staff for product development held a master’s degree or above.

We value investment in scientific research and standard research. We established the Edible Bird’s Nest Research Institute, which collaborates with academic institutions such as Nanchang University and Fujian Agriculture and Forestry University. As of the Latest Practicable Date, Edible Bird’s Nest Research Institute had 46 members. Edible Bird’s Nest Research Institute is primarily involved in formulating relevant standards for China’s EBN industry, conducting research on the production of EBN products, and empowering the development of our products. Through Edible Bird’s Nest Research Institute, we have participated in the formulation of multiple standards of EBN products, including one international standard, one national standard, two industry standards, 16 group standards and 25 enterprise standards. In addition, we are the first EBN product company in China that established an independent testing laboratory certified by China National Accreditation Service for Conformity Assessment, according to the F&S Report. Moreover, we strive to promote industry-university-research cooperation in China’s EBN industry. In 2022, we and Peking University Health Science Center established a collaborative innovation laboratory for researching EBN nutrition. We believe that such collaboration could further improve our innovation capabilities.

OUR EMPLOYEES

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

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

BUSINESS

As of the Latest Practicable Date, we had 1,792 full-time employees. We generally enter into labor contracts with our employees. As of the same date, all of our employees were based in China and most of them were in Xiamen City, Fujian Province, Beijing and Songjiang District, Shanghai. The following table sets forth the number of our employees by function as of the Latest Practicable Date.

| | Number of employees |
|---|------------------------|
| Production and operation | 899 |
| Administrative and management | 225 |
| Sales and marketing | 622 |
| Research and development | 46 |
| Total | 1,792 |

We are required by PRC social insurance and housing provident fund laws and regulations to make contributions for mandatory social insurance and housing provident funds for our employees. During the Track Record Period, we did not make adequate contributions to the social insurance and housing provident funds with respect to certain of our employees, most of whom are production line workers, as required by the relevant PRC laws and regulations. If the competent PRC government authority determines that the social insurance contributions we made for our employees violate the requirements under the relevant PRC laws and regulations, we may be required to pay all outstanding social insurance contributions within a prescribed period, with late fees at a daily rate of 0.05% of the outstanding amount, accruing from the date when the social insurance contributions were due. If this payment is not made within the stipulated period, the competent authority may further impose a fine of one to three times of the overdue amount on us. In addition, pursuant to relevant PRC laws and regulations, in case of a failure to pay the full amount of housing provident fund, the housing provident fund management center may require us to pay the outstanding amount within a prescribed period. If the payment is not made within such time limit, an application may be made to the PRC courts for compulsory enforcement. We made provisions of RMB3.9 million, RMB5.6 million and RMB7.9 million as of December 31, 2020, 2021 and 2022, respectively.

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

BUSINESS

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

DATA PRIVACY AND PROTECTION

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

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

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material data leakage or data loss or any material unauthorized use of customers' personal information.

Regulatory Authority-initiated Security Review

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

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

BUSINESS

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

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

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

AWARDS AND RECOGNITION

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

| Awards and Recognition | Awarding Parties | Year of Award |
|---|--|---------------|
| Well-known Trademark (馳名商標) | State Administration for Industry and Commerce of China (國家工商行政管理總局) | 2011 |
| Enterprises with Outstanding Contribution in the Food Industry during the 40 Years of Reform and Opening Up in Fujian Province (福建省改革開放40年食品工業突出貢獻企業) | Fujian Food Industry Association (福建省食品工業協會) | 2019 |
| Executive Vice Chairman (常務副理事長) | Edible Bird’s Nest Market Committee of China Agricultural Wholesale Markets Association (全國城市農貿中心聯合會燕窩市場專業委員會) | 2020 |

BUSINESS

| Awards and Recognition | Awarding Parties | Year of Award |
|---|--|---------------|
| The Fifth Group of Provincial Green Factories (第五批省級綠色工廠) | Fujian Provincial Department of Industry and Information Technology (福建省工業和資訊化廳) | 2022 |
| Fujian Benchmark Company for Edible Bird’s Nest Products (福建省燕窩及燕窩製品標桿企業) | Fujian Food Industry Association (福建省食品工業協會) | 2015 |
| Leading Private Enterprise in Xiamen (廈門市龍頭骨幹民營企業) | Xiamen Municipal Government | 2022 |
| Advanced Company for Poverty Alleviation in Fujian Province (福建省脫貧攻堅先進集體) | The People’s Government of Fujian Province | 2021 |

INTELLECTUAL PROPERTY

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

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

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

During the Track Record Period and up to the Latest Practicable Date, we did not experience any threatened or pending disputes relating to infringement of intellectual property rights which would have a material adverse effect on our business. See “Risk Factors—Risks Relating to Our Business—We may face intellectual property infringement claims by third parties, which could disrupt our business, cause substantial legal costs, and damage our reputation.”

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

BUSINESS

ENVIRONMENTAL PROTECTION

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

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

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

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

OCCUPATIONAL HEALTH AND SAFETY

We are subject to the PRC laws and regulations in respect of employee health and safety. We have in place safety guidelines with which our employees are required to strictly comply and equip our production personnel with adequate safety equipment. We regularly evaluate our equipment and production facility to ensure their safety for our operations. We also conduct trainings for employees to strengthen their awareness and knowledge on safety procedures and accident prevention from time to time. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material accidents involving personal injury or property damage, and we were not subject to any material claims, lawsuits, penalties or disciplinary actions as a result of any material accidents.

LICENSES, PERMITS AND APPROVALS

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

BUSINESS

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

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

INSURANCE

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

SEASONALITY

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

PROPERTIES

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

According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which require a valuation report with respect to all the Group’s interests in land or buildings, for the reason that, as of December 31, 2022, we had no single property with a carrying amount of 15% or more of our total assets.

Owned Properties

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

Leased Properties

As of the Latest Practicable Date, we leased 129 properties relating to our business operations in total with an aggregate gross floor area of approximately 46,763.6 square meters, which have been used primarily as stores, offices, production bases or warehouses.

In respect of the 103 leased properties with an aggregate gross floor area of approximately 45,825.3 square meters (accounting for 98.0% of the aggregate gross floor area of our leased properties relating to our business), we had obtained valid title certificates or real estate purchase agreements from the lessors.

BUSINESS

In respect of the remaining 26 of our leased properties with an aggregate gross floor area of approximately 938.2 square meters (accounting for 2.0% of the aggregate gross floor area of our leased properties relating to our business operations), the lessors had not provided us with the relevant title certificates or real estate purchase agreements. These leased properties are used as stores or staff dormitories. If the lessors with respect to the 26 leased properties are not the legal owners or have not obtained the proper authorization from the legal owners of such premises, the legal owners of such premises or third-party tenants that have leased from the legal owners will have ground to challenge the validity of our leasehold interest in the affected premises. Additionally, the intended purposes contained in the title certificates or relevant authorization documents are inconsistent with the actual use of four leased properties (accounting for 0.6% of the aggregate gross floor area of our leased properties relating to our business operations). These four leased properties are occupied as office space or warehouses. As of the Latest Practicable Date, we were not aware of any title or usage challenge being made by any third party or government agency with respect to these leased properties. Should disputes or government actions arise due to title or usage challenges to such properties, we may encounter difficulties in continuing to lease such properties and may be required to relocate. We expect to identify comparable properties in proximity in a timely manner and secure a lease on comparable terms without substantial reinstatement, relocation or renovation costs.

In respect of 124 leased properties, we did not register the lease agreements with the competent authorities as of the Latest Practicable Date. Under the relevant PRC laws and regulations, the parties to a lease agreement have the obligation to register and file the executed lease agreement. As advised by our PRC Legal Advisor, the validity and enforceability of the lease agreements are not affected by the failure to register or file the lease agreements with the relevant government authorities. According to the relevant PRC regulations, we may be ordered by the relevant government authorities to register the relevant lease agreements within a prescribed period, failing which we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each nonregistered lease. As of the Latest Practicable Date, we had not received any such request from the relevant government authorities. We undertake to cooperate fully to facilitate the registration of lease agreements once we receive any requirements from relevant government authorities.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

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

Compliance

We are subject to various regulatory requirements and guidelines issued by regulatory authorities in China. During the Track Record Period and as of the Latest Practicable Date, we did not commit any material non-compliance of the laws and regulations, and we did not experience any material noncompliance incident, which taken as a whole, in the opinion of our Directors, is likely to have a material and adverse effect on our business, financial condition or results of operations. As advised by our PRC legal advisor, during the Track Record Period and up to the Latest Practicable Date, we had complied with the relevant laws and regulations in all material respects in China.

RISK MANAGEMENT AND INTERNAL CONTROL

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

BUSINESS

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

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

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