
SUMMARY

This summary aims to give you an overview of the information contained in this document. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the [REDACTED]. There are risks associated with any investment. Some of the particular risks in investing in the [REDACTED] are set out in the section headed “Risk Factors” in this document. You should read that section carefully before you decide to invest in the [REDACTED].

OVERVIEW

We are principally engaged in the marketing, sales and distribution of finished nutritional products in the PRC. We sell our nutritional products under our proprietary brands, namely “紐曼思” and “紐曼斯” (in English, “Nemans”), which can be broadly categorised into five main types, namely algal oil DHA, probiotics, vitamins, multi-nutrients and algal calcium products. Our business relies heavily on our brands. Our suppliers adopt an OEM model to manufacture and/or affix labels of our brands on our nutritional products.

We commenced to sell and distribute DHA products in 2007. We are a proprietary brand owner in the algal oil DHA segment in the maternal and children nutritional product industry in the PRC. We position our nutritional products as high quality nutritional products, targeting consumers ranging from pregnant and postpartum women, infants to children. In particular, the principal raw materials of our algal oil DHA products are supplied by DSM Group, which is a reputable overseas supplier, and we set the recommended retail price of our algal oil products at above RMB4.0 per DHA capsule. As a proprietary brand owner, we strive to target and market our nutritional products to customers in the PRC, who have increasing health and nutritional awareness.

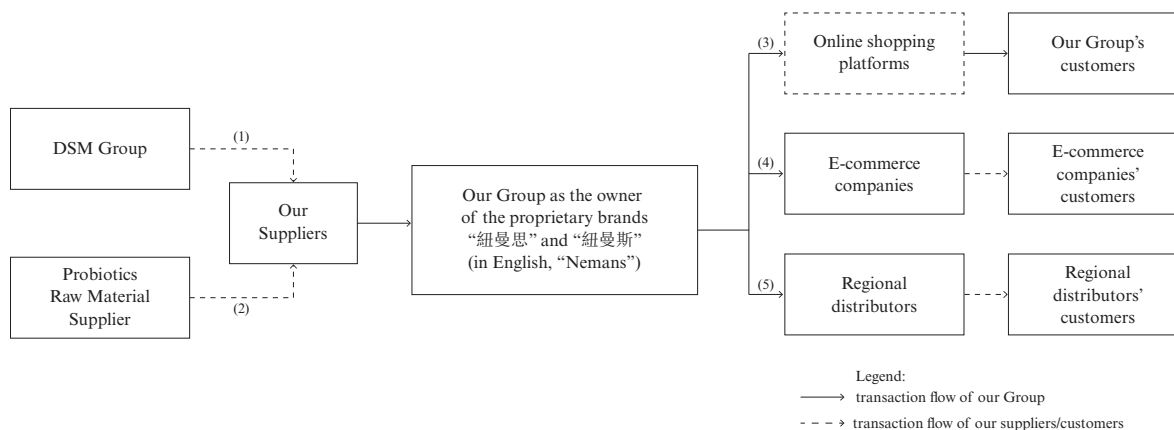
Our algal oil DHA products are our major products, which contributed to a substantial proportion of our revenue during the Track Record Period. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, of our algal oil DHA products accounted for approximately 91.9%, 92.7%, 94.7%, 93.5% and 96.2% of our total revenue, respectively. According to Frost & Sullivan, the maternal and children algal oil DHA market in the PRC can be divided into products launched by international players and domestic players, where the products of domestic players can be further categorised into products with locally sourced and imported algal oil DHA raw materials. Domestic brands with imported algal oil DHA raw materials accounted for 28.5% of the total retail sales value of algal oil DHA products in the PRC in 2023, out of which we accounted for approximately 20.5% in 2023, ranking us the largest domestic brand in terms of retail sales value of algal oil DHA products made from imported raw materials. Leveraging on our success of our algal oil DHA products, we have been marketing other nutritional products such as probiotics, vitamins, multi-nutrients and algal calcium products.

We strive to offer nutritional products made from high quality and safe raw materials. To monitor the quality of our products, we require our suppliers for our algal oil DHA and probiotics products to use key raw materials supplied by DSM Group and the Probiotics Raw Material Supplier, which are reputable suppliers of nutritional products. Such key raw materials would then be processed into our finished nutritional products.

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OUR BUSINESS MODEL

The following diagram illustrates our business model regarding the sales of our major products, namely algal oil DHA and probiotics products, and our main sales channels:



Notes:

- (1) We require our suppliers for our algal oil DHA products to use key raw materials supplied by DSM Group. For details of our purchases of finished algal oil DHA products, please refer to the paragraph headed “Business — Our Purchases — Procurement of products from our suppliers — Algal oil DHA products” in this document.
- (2) We require our suppliers for our probiotics products to use key raw materials supplied by the Probiotics Raw Material Supplier. For details of our purchases of finished probiotics products, please refer to the paragraph headed “Business — Our Purchases — Procurement of products from our suppliers — Probiotics products” in this document.
- (3) This represents our sales through online shopping platforms to our customers. For revenue recognition purpose, the customers ordering through the online shopping platforms are our customers.
- (4) This represents our direct sales to e-commerce companies, which would on-sell our products on online shopping platforms to their customers. For revenue recognition purpose, the e-commerce companies are our customers.
- (5) This represents our sales to regional distributors, which then distribute our products to pharmacies, maternal and children product stores, postpartum care centres, retail stores or their sub-distributors. For revenue recognition purpose, the regional distributors are our customers.

OUR PRODUCTS

During the Track Record Period and up to the Latest Practicable Date, we offered nutritional products, which can be broadly categorised into five main types, namely algal oil DHA, probiotics, vitamins, multi-nutrients and algal calcium products. Our nutritional products were sold under our brands “紐曼思” and “紐曼斯” (in English, “Nemans”) during the Track Record Period. Our nutritional products mainly target pregnant and postpartum women, infants to children. During FY2022, FY2023 and, to a very limited extent, 6M2024, we also sold five milk powder products under the brands licensed by Ausnutria Group and derived insignificant revenue therefrom.

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The following table sets forth the breakdown of our revenue, sales volume and average selling price by types of product during the Track Record Period:

	FY2021				FY2022				FY2023				6M2023				6M2024			
	Revenue		Average selling price		Sales volume		Average selling price		Sales volume		Average selling price		Sales volume		Average selling price		Sales volume		Average selling price	
	RMB'000	%	Unit '000	RMB/Unit	Revenue	%	Unit '000	RMB/Unit	Revenue	%	Unit '000	RMB/Unit	Revenue	%	Unit '000	RMB/Unit	Revenue	%	Unit '000	RMB/Unit
	(Notes (a) & (b))																			
	(Notes (a) & (b))																			
	(Notes (a) & (b))																			
Algal oil DHA products	310,216	91.9	1,347	230.3	340,610	92.7	1,480	230.1	404,148	94.7	1,918	210.7	179,682	93.5	767	234.3	140,471	96.2	668	210.3
— New Zealand DHA Products	247,305	73.2	1,061	233.1	240,136	65.4	1,019	235.7	289,093	67.7	1,401	206.3	133,691	69.6	548	244.0	89,538	61.3	436	205.4
— U.S. DHA Products	55,253	16.4	246	224.6	90,816	24.7	384	236.5	108,957	25.5	469	232.3	42,521	22.1	193	220.3	49,114	33.6	217	226.3
— PRC DHA Products	7,658	2.3	40	191.5	9,658	2.6	77	125.4	6,098	1.5	48	127.0	3,470	1.8	26	133.5	1,819	1.3	15	121.3
Probiotics products	23,834	7.1	171	139.4	19,485	5.3	130	149.9	18,432	4.3	147	125.4	9,908	5.2	79	125.4	4,893	3.3	36	135.9
Vitamins products	1,837	0.5	23	79.9	1,025	0.3	24	42.7	690	0.2	17	40.6	394	0.2	10	39.4	223	0.2	5	44.6
Multi-nutrients products	1,311	0.4	18	72.8	2,011	0.6	24	83.8	1,207	0.3	16	75.4	678	0.4	9	75.3	208	0.1	3	69.3
Algal calcium products	410	0.1	10	41.0	538	0.1	13	41.4	236	0.1	6	39.3	236	0.1	6	39.3	—	—	—	—
Milk powder products	—	—	—	—	3,628	1.0	18	201.6	1,832	0.4	11	166.5	1,178	0.6	6	196.3	291	0.2	1	210.5
Total revenue	337,608	100.0	1,569	—	367,297	100.0	1,689	—	426,545	100.0	2,115	—	192,076	100.0	877	—	146,086	100.0	713	—

Notes:

- Each unit is equivalent to a package of the respective product.
- The sales volume in respect of each product represents the aggregate number of units sold. For each unit sold, the specific product composition and number of product units per package may be different. The average selling price per unit of a particular product is simply an overall indicator determined by the sales volume of different mix of that product during the years/periods.

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The following table sets forth the breakdown of gross profit and gross profit margin by product categories for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Algal oil DHA products	232,226	74.9	259,005	76.0	307,141	76.0	137,818	76.7	103,026	73.3
Probiotics products	11,445	48.0	9,984	51.2	10,704	58.1	6,396	64.6	1,448	29.6
Vitamins products	1,656	90.1	838	81.8	495	71.6	319	81.0	181	81.2
Multi-nutrients products	982	74.9	1,599	79.5	955	79.2	517	76.3	159	76.4
Algal calcium products	289	70.5	381	70.8	155	65.7	161	68.2	—	—
Milk powder products	—	—	1,383	38.1	1,417	77.3	343	29.1	149	51.2
Total gross profit/overall gross profit margin	246,598	73.0	273,190	74.4	320,867	75.2	145,554	75.8	104,963	71.9

During the Track Record Period, our best-selling nutritional products were our algal oil DHA products, the revenue of which amounted to approximately RMB310.2 million, RMB340.6 million, RMB404.1 million, RMB179.7 million and RMB140.5 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, accounting for approximately 91.9%, 92.7%, 94.7%, 93.5% and 96.2% of our total revenue, respectively, for the corresponding years/periods. During the Track Record Period, the sales volume of and thus the revenue from the sales of our algal oil DHA products that are processed overseas, namely New Zealand DHA Products and U.S. DHA Products, were significantly higher than that of our PRC DHA Products. Our Directors are of the view that this underlined the consumer behaviour that products using imported raw materials enjoy popularity among consumers in the maternal and children nutritional product industry in the PRC, according to Frost & Sullivan.

The increase in our revenue from sales of algal oil DHA products from approximately RMB310.2 million for FY2021 to approximately RMB340.6 million for FY2022 was mainly driven by our U.S. DHA Products, which was mainly driven by the significant increase in the sales value of cross-border imported DHA in 2022 as cross-border imported DHA products gained more popularity during the pandemic.

For FY2023, our revenue from sales of algal oil DHA products increased significantly to approximately RMB404.1 million from approximately RMB340.6 million for FY2022, which was mainly driven by the sharp growth in disposable income per capita and retail sales value of nutritional supplement industry in the PRC during 2023 as a result of the easing of COVID-19 in the PRC and the PRC government implementing significant consumption stimulus policies. In addition, we also benefited from the market reaction and heightened safety concerns driven by the release of radioactive water by Japan first started in August 2023, which triggered the consumers to stockpile DHA products that were manufactured before the release.

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For 6M2024, our revenue from sales of algal oil DHA products decreased to approximately RMB140.5 million from RMB179.7 million for 6M2023, which was mainly driven by (i) the effect of stockpiling behaviour by consumers due to the release of radioactive water by Japan in the second half of 2023 which dampened sales in 2024 as the nutritional supplement market faced reduced demand following the spike in 2023; (ii) the economic downturn in the PRC during the first half of 2024. As advised by Frost & Sullivan, the economic downturn had impacted on consumer confidence and spending habits, and as a result the nutritional supplement industry, alongside other non-essential consumer products industries, are directly hit by the economic slowdown as consumers tend to reserve their purchasing power for essential consumer products. Please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Revenue — Revenue by product types and sales channels” in this document for further details of our revenue by products during the Track Record Period.

SALES AND DISTRIBUTION

We have a diversified multi-channel sales network in the PRC consisting of both online and offline sales channels. Our online sales channels include popular online shopping platforms in the PRC such as JD.com, Tmall.com and VIP.com. We sell our products to e-commerce companies, which would on-sell our products on online shopping platforms to their customers, while we also sell our products through online shopping platforms to our customers. Apart from online sales channels, we also sell our products offline to regional distributors, which distribute our products principally to pharmacies, maternal and children product stores, postpartum care centres, retail stores or their sub-distributors. For further details, please refer to the paragraph headed “Business — Sales and distribution” in this document.

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The following table sets forth the breakdown of our revenue, sales volume and average selling price by sales channels during the Track Record Period:

	FY2021				FY2022				FY2023				6M2023				6M2024							
	Revenue		Sales volume		Average selling price		Revenue		Sales volume		Average selling price		Revenue		Sales volume		Average selling price		Revenue		Sales volume		Average selling price	
	RMB'000	%	Unit '000	(Notes (a) & (b))	RMB/Unit		RMB'000	%	Unit '000	(Notes (a) & (b))	RMB/Unit		RMB'000	%	Unit '000	(Notes (a) & (b))	RMB/Unit		RMB'000	%	Unit '000	(Notes (a) & (b))	RMB/Unit	
Online sales channels:																								
Direct sales to e-commerce companies	166,135	49.2	709		234.3		194,838	53.1	844		230.9		236,930	55.5	1,002		236.5		106,176	55.3	446		238.1	
Sales through online shopping platforms to our customers	50,312	14.9	154		325.2		48,347	13.2	151		319.0		56,467	13.2	174		324.5		23,593	12.3	73		322.0	
Others (Note c)	—	—	—		—		—	—	—		—		18,130	4.3	294		61.7		2,604	1.3	19		137.1	
Sub-total	216,447	64.1	863		250.8		243,185	66.3	995		244.4		311,527	73.0	1,470		211.9		132,373	68.9	538		246.0	
Offline sales channels:																								
Sales to regional distributors	115,665	34.3	686		168.6		114,759	31.2	662		173.4		108,523	25.4	624		173.9		53,735	28.0	319		168.4	
Others (Note c)	5,496	1.6	20		274.8		9,353	2.5	32		292.3		6,495	1.5	21		310.8		5,968	3.1	20		298.4	
Sub-total	121,161	35.9	706		171.6		124,112	33.7	694		178.8		115,018	27.0	645		178.4		59,703	31.1	339		176.1	
Total revenue	337,608	100.0	1,569				367,297	100.0	1,689				426,545	100.0	2,115		201.7		192,076	100.0	877		204.9	

Notes:

- (a) Each unit is equivalent to a package of our product.
- (b) The sales volume in respect of each product represents the aggregate number of units sold. For each unit sold, the specific product composition and number of product units per package may be different. The average selling price per unit of a particular product is simply an overall indicator determined by the sales volume of different mix of that product during the years/periods.
- (c) Others include direct sales to retail outlets and miscellaneous sales.

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The following table further sets forth the breakdown of gross profit and gross profit margin by sales channels for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit	Gross profit
	margin	margin	margin	margin	margin	margin	margin	margin	margin	margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(unaudited)			
Online sales channels:										
Direct sales to e-commerce companies	125,839	75.7	147,743	75.8	188,834	79.5	83,125	78.3	71,845	75.6
Sales through online shopping platforms to our customers	40,598	80.8	40,305	83.4	48,091	85.2	19,317	81.9	12,572	82.1
Others (Note)	—	—	—	—	1,280	12.8	1,609	61.8	2,473	33.2
Sub-total	<u>166,437</u>	76.9	<u>188,048</u>	77.3	<u>238,205</u>	77.3	<u>104,051</u>	78.6	<u>86,890</u>	73.7
Offline sales channels:										
Sales to regional distributors	75,756	65.5	77,517	67.5	77,296	68.9	36,832	68.5	16,671	63.1
Others (Note)	<u>4,405</u>	80.1	<u>7,625</u>	81.5	<u>5,366</u>	82.8	<u>4,671</u>	78.3	<u>1,402</u>	76.9
Sub-total	<u>80,161</u>	66.2	<u>85,142</u>	68.6	<u>82,662</u>	69.7	<u>41,503</u>	69.5	<u>18,073</u>	64.0
Total	<u>246,598</u>	73.0	<u>273,190</u>	74.4	<u>320,867</u>	75.2	<u>145,554</u>	75.8	<u>104,963</u>	71.9

Note: Others include direct sales to retail outlets and miscellaneous sales.

For FY2021, FY2022, FY2023, 6M2023 and 6M2024, the majority of our revenue was derived from (i) sales attributable to online sales channels (including direct sales to e-commerce companies and sales through online shopping platforms to our customers), such revenue amounted to approximately RMB216.4 million, RMB243.2 million, RMB311.5 million, RMB132.4 million and RMB117.9 million, respectively, representing approximately 64.1%, 66.3%, 73.1%, 68.9% and 80.7% of our total revenue, respectively; and (ii) sales to regional distributors, such revenue amounted to approximately RMB115.7 million, RMB114.8 million, RMB108.5 million, RMB53.7 million and RMB26.4 million, respectively, accounting for approximately 34.3%, 31.2%, 25.4%, 28.0% and 18.0% of our total revenue, respectively.

OUR CUSTOMERS

During the Track Record Period, our products were generally distributed in the PRC and we mainly sold our products to e-commerce companies, regional distributors as well as customers through online shopping platforms. For FY2021, FY2022, FY2023 and 6M2024, revenue from our five largest customers for each year/period during the Track Record Period, accounted for approximately 64.2%, 68.3%, 65.6% and 74.4% of our total revenue, respectively, and our revenue from our largest customer for each year/period during the Track Record Period accounted for approximately 22.6%, 28.4%, 32.2%, 34.2% of our total revenue, respectively. For further details of our five largest customers for each year/period during the Track Record Period, please refer to the paragraph headed “Business — Our customers” in this document.

SUMMARY

OUR REGIONAL DISTRIBUTORS

Our regional distributors can be divided into three types, namely (i) Type A regional distributors which we expect to have relatively higher sales capabilities and are authorised to promote and distribute our products exclusively but only in their designated distribution regions which are generally first, new first and second-tier cities in the PRC; (ii) Type B regional distributors which we expect to have moderate sales capabilities and are authorised to promote and distribute our products only in their designated distribution regions which are mainly second and third-tier cities in the PRC; and (iii) Type C regional distributors which are authorised to promote and distribute our products in all regions in the PRC except the regions designated to Type A regional distributors. For further details, please refer to the paragraph headed “Business — Sales and distribution — (ii) Regional distributors” in this document.

OUR SUPPLIERS

Our suppliers mainly include (i) suppliers of finished algal oil DHA products, probiotics products, vitamin products, algal calcium products and milk powder products, which were established in the PRC, the U.S. and Hong Kong; (ii) a packaging service provider established in the PRC; and (iii) suppliers of raw materials including algal oil DHA and multi-nutrients, which were established in the PRC. For FY2021, FY2022, FY2023 and 6M2024, purchases from our five largest suppliers for each year/period during the Track Record Period accounted for approximately 90.7%, 92.7%, 94.3% and 92.4% of our total purchases, respectively, and our purchases from our largest supplier for each year/period during the Track Record Period accounted for approximately 56.8%, 42.6%, 49.6% and 48.5% of our total purchases, respectively. For further details of our five largest suppliers for each year/period during the Track Record Period, please refer to the paragraph headed “Business — Our suppliers” in this document.

PRICING POLICY

The price that we offer to our customers is determined by us based on factors including the procurement costs of our raw materials and finished products, the expected profit margins and level of sales, the channel in which we sell and distribute our products, sales and marketing cost, and perceived market demands. Our selling price to our customers which are e-commerce companies and regional distributors is determined by us based on factors such as the years of relationship and negotiation between our Group and them, the quantity of the products being purchased by them and the market trend, which is usually based on a discount to the reference retail price of our products. We have set a reference retail price for each of our products as pricing guideline for sales from regional distributors to retail customers.

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COMPETITIVE LANDSCAPE

According to Frost & Sullivan, the maternal and children algal oil DHA market in the PRC can be divided into products launched by international players and domestic players, where the products of domestic players can be further categorised into products with locally sourced and imported algal oil DHA raw materials. Domestic brands with imported algal oil DHA raw materials accounted for 28.5% of the total retail sales value of algal oil DHA products in the PRC in 2023, out of which we accounted for approximately 20.5% in 2023, ranking us the largest domestic brand in terms of retail sales value of algal oil DHA products made from imported raw materials.

In the maternal and children algal oil DHA industry in the PRC, there are currently around 100 participants which comprise international players and domestic players made from algal oil DHA raw material supplied by overseas suppliers and those supplied by domestic suppliers. Regarding maternal and children algal oil DHA products made from raw material supplied by overseas suppliers among domestic brands in the PRC, the market was shared by approximately 35 players with a limited number of sizable market players, and was considered concentrated for FY2023 in terms of retail sales value. The maternal and children probiotics industry in the PRC is becoming increasingly competitive, with a growing number of companies entering the market. Such market is relatively fragmented with approximately 120 players which have a limited number of sizable market players.

We believe that our long history and established reputation in the industry, high product quality together with our established and diversified sales and distribution network distinguish us from our competitors. Please refer to the section headed “Industry Overview” and the paragraph headed “Business — Competition” in this document for further details on the competitive landscape, growth and entry barriers of the maternal and children algal oil DHA and probiotics industry in the PRC.

COMPETITIVE STRENGTHS

We believe that we have the following competitive strengths including: (i) we have an established market positioning and high degree of brand recognition; (ii) we have a diversified sales and distribution network in the PRC; (iii) we strategically select our suppliers of the key raw materials to be used in our nutritional products; and (iv) we have an experienced and dedicated management team with extensive industry experience. For further details, please refer to the paragraph headed “Business — Our competitive strengths” in this document.

BUSINESS STRATEGIES

Our business objectives are to achieve sustainable growth, increase our market share and strengthen our market position in the nutritional product market in the PRC. In furtherance of these objectives, we plan to adopt the following strategies: (i) intensify our marketing efforts through different marketing means to enhance public awareness of our brands; and (ii) promotion of our products in Hong Kong and expansion of our sales network to Hong Kong. For further details, please refer to the paragraph headed “Business — Our business strategies” in this document.

SUMMARY

RISK FACTORS

Potential investors are advised to carefully read the section headed “Risk Factors” in this document before making any investment decision in the [REDACTED]. Some of the more particular risk factors include the following: (i) we are exposed to concentration risk of sales of finished algal oil DHA products; (ii) we are exposed to concentration risk of our suppliers for the supply of nutritional products; (iii) we do not have absolute control over the quality of the finished algal oil DHA products supplied by Shanghai Trilives and Confidence Group to us; (iv) we are exposed to concentration risk of DSM Group to supply its algal oil DHA raw materials to our suppliers for our finished algal oil DHA products; (v) we may not be able to adequately protect our intellectual property rights and we are involved in intellectual property proceedings as at the Latest Practicable Date; and (vi) we rely on online sales channels to sell and distribute our products.

SUMMARY OF KEY FINANCIAL INFORMATION

Summary of the consolidated statements of profit or loss

	FY2021	FY2022	FY2023	6M2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Revenue	337,608	367,297	426,545	192,076	146,086
Gross profit	246,598	273,190	320,867	145,554	104,963
Losses relating to milk powder products	—	(81,477)	5,468	—	160
Profit before tax	154,125	98,413	194,621	91,181	51,699
Profit for the year/period	119,670	87,522	159,344	77,258	45,281

The increase in our revenue and gross profit during the Track Record Period was mainly contributed by the increase in revenue from the sales of algal oil DHA products. Our overall gross profit margin remained relatively stable at approximately 73.0%, 74.4%, 75.2%, 75.8% and 71.9% for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The decrease in our profit for the year from approximately RMB119.7 million for FY2021 to approximately RMB87.5 million for FY2022 was mainly attributable to the non-recurring incidental losses on assets arising from the sales of milk powder products of approximately RMB81.5 million recognised during FY2022, the details of which are disclosed below. The significant increase in our profit for the year from approximately RMB87.5 million for FY2022 to approximately RMB159.3 million for FY2023 was mainly due to (i) the increase in revenue from sales of our algal oil DHA products; and (ii) the impact of losses relating to milk powder products for FY2022. The decrease in our profit for the period from approximately RMB77.3 million for 6M2023 to approximately RMB45.3 million was mainly due to (i) the decrease in revenue from sales of algal oil DHA products; and (ii) the increase in our promotion expenses during 6M2024 in light of the low market sentiment of the maternal and children algal oil DHA market in the PRC during 6M2024.

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For detailed analysis of our results of operations, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss” in this document.

Non-recurring loss relating to milk powder products

During FY2022, FY2023 and, to a very limited extent, 6M2024, we sold milk powder products under the brands licensed by Ausnutria Group (the “**Milk Powder Brands**”), which were purchased from Ausnutria Group. Our milk powder products comprised five products, including Infant Formula, Stage 1 (“**Stage 1 Formula**”) and four other non-Stage 1 Formulas. The five milk powder products were imported from Australia and New Zealand. Subsequent to our entering into the agreements with Ausnutria Group in December 2021 under which we were subject to minimum purchase commitment, in April 2022, Ausnutria Group was fined for approximately RMB9.6 million by the SAMR after a batch of Stage 1 Formula (but not the non-Stage 1 Formulas) manufactured back in February 2020 was found to contain vanillin (香蘭素) during a sample testing conducted by the SAMR, which was against the national food safety standard of the PRC (the “**Incident**”). The Stage 1 Formula we purchased from Ausnutria Group was not the batch which was found to contain vanillin.

Despite our efforts in marketing and promotion, the sales of our milk powder products was way lower than our expectation due to a series of unforeseen events, including (i) the outbreak of COVID-19 in the PRC leading to prolonged lockdowns during FY2022; (ii) the effect of negative publicity of the Incident was more severe than expected; (iii) the massive outbreak of COVID-19 in the PRC in late 2022; and (iv) the implementation of new national food safety standard of the PRC for milk powder products in February 2023. In November 2022, we entered into a supplemental agreement with Ausnutria Group, pursuant to which, among others, Ausnutria Group agreed to waive our minimum purchase commitment for 2022 and 2023, save that our Group was required to fulfil our purchase orders already placed in January and May 2022.

In October 2023, our Group and Ausnutria Group reached an agreement to terminate all of our agreements with Ausnutria Group relating to milk powder products. Our Directors are of the view that the Incident was an isolated event, and that the unsatisfactory sales performance of our milk powder products was attributable to a series of unforeseen events which were beyond our control. As a result of our purchase commitment with Ausnutria Group, combined with the low sales volume of our milk powder products, we incurred losses of approximately RMB81.5 million for FY2022, of which, (i) we fully wrote down our expired milk powder products in our inventories amounting to approximately RMB17.7 million; (ii) we recognised a provision for inventories loss on milk powder products amounting to approximately RMB20.7 million; (iii) we recognised a provision for loss allowance on deposits paid to Ausnutria Group for fulfilling a portion of our purchase commitment amounting to approximately RMB20.1 million; (iv) we recognised a provision of approximately RMB18.0 million which included the amount to be paid for the milk powder products of approximately RMB13.0 million and the potential compensation to Ausnutria Group amounting to approximately RMB5.0 million in respect of cost incurred by Ausnutria Group for acquiring raw materials for scheduled product of milk powder products; and (v) we recognised a reversal of input VAT of approximately RMB5.0 million.

SUMMARY

For details of the losses relating to the sales of milk powder products, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Other losses, net — Losses relating to milk powder products” in this document.

Adjusted net profit (non-HKFRS measure)

We defined adjusted net profit (Non-HKFRS measure) as net profit for the year adjusted by adding back [REDACTED] expenses. The table below sets forth the adjusted net profit (non-HKFRS measure) and the adjusted net profit margin (non-HKFRS measure) for each respective year during the Track Record Period:

	FY2021 RMB'000	FY2022 RMB'000	FY2023 RMB'000	6M2023 RMB'000 (Unaudited)	6M2024 RMB'000
Profit for the year/period	119,670	87,522	159,344	77,258	45,281
Adjusted: [REDACTED] expenses	<u>10,722</u>	<u>5,951</u>	<u>12,951</u>	<u>5,842</u>	<u>5,317</u>
Adjusted net profit (Non-HKFRS measure) for the year	<u>130,392</u>	<u>93,473</u>	<u>172,295</u>	<u>83,100</u>	<u>50,598</u>
Adjusted net profit margin (Non-HKFRS measure) (%)	38.6%	25.4%	40.4%	43.3%	34.6%

Summary of the consolidated statements of financial position

	As at 31 December			As at 30 June 2024
	2021 RMB'000	2022 RMB'000	2023 RMB'000	RMB'000
Non-current assets	9,045	39,979	30,776	31,054
Current assets	279,767	363,602	439,241	471,792
Current liabilities	86,088	151,678	56,516	41,616
Non-current liabilities	200	4,663	3,425	3,024
Net current assets	193,679	211,924	382,725	430,176
Net assets	<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>

The significant increase in our non-current assets during FY2022 was mainly driven by (i) the increase in our intangible assets which was mainly due to the acquisition of a patent during FY2022; (ii) the increase in our right-of-use assets which was mainly due to the renewal of three offices and additions of two warehouses during FY2022; and (iii) the increase in our deferred tax assets which were mainly attributable to (a) the incidental losses on assets arising from sales of milk powder products; and (b) tax losses. Our net current assets increased over the Track Record Period, which was mainly contributed by our net cash generated from operating activities and the increase in our working capital, and partially offset by our provisions and dividends payables. For detailed analysis of our net current assets, please refer to the paragraph

SUMMARY

headed “Financial Information — Net current assets” in this document. Our net assets increased over the Track Record Period, which was mainly contributed by our net profit, offset by the dividends we declared.

Summary of the consolidated statements of cash flows

	FY2021	FY2022	FY2023	6M2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Net cash generated from operating activities	93,994	44,309	150,568	69,497	32,193
Net cash (used) in/generated from investing activities	(519)	(4,139)	1,572	659	459
Net cash used in financing activities	<u>(29,306)</u>	<u>(8,555)</u>	<u>(83,786)</u>	<u>(1,869)</u>	<u>(1,758)</u>
Net increase in cash and cash equivalents	64,169	31,615	68,354	68,287	30,894
Cash and cash equivalents at beginning of the year/period	92,757	152,656	192,838	192,838	262,560
Effect of exchange rate changes, net	<u>(4,270)</u>	<u>8,567</u>	<u>1,368</u>	<u>1,913</u>	<u>2,153</u>
Cash and cash equivalents at end of the year/period	<u>152,656</u>	<u>192,838</u>	<u>262,560</u>	<u>263,038</u>	<u>295,607</u>

We recorded net cash generated from operating activities for all years presented, which was mainly attributable to our net profit during the Track Record Period. The net cash used in financing activities for FY2021 and FY2023 was mainly driven by our dividends paid. For detailed analysis of our cash flows, please refer to the paragraph headed “Financial Information — Liquidity and capital resources — Cash flows of our Group” in this document.

Key financial ratios

	<u>As at/For the years ended 31 December</u>			<u>As at/For the six months ended 30 June</u>
	2021	2022	2023	2024
Gross profit margin	73.0%	74.4%	75.2%	71.9%
Net profit margin	35.4%	23.8%	37.4%	31.0%
Return on equity	59.1%	35.4%	38.9%	19.8%
Return on total assets	41.4%	21.7%	33.9%	18.0%
Current ratio	3.3	2.4	7.8	11.3
Quick ratio	3.0	1.9	6.7	9.8
Gearing ratio	0.6%	3.0%	1.4%	1.3%
Interest coverage	1,318.3 times	263.4 times	587.2 times	360.0 times

SUMMARY

The decrease in our net profit margin and return on equity for FY2022 and the decrease in our current ratio as at 31 December 2022 was mainly driven by the non-recurring incidental losses on assets arising from the sales of milk powder products. For detailed analysis of our financial ratios, please refer to the paragraph headed “Financial Information — Selected financial ratios” in this document.

IMPACT OF THE OUTBREAK OF COVID-19 ON OUR GROUP

The outbreak of COVID-19 was first reported in December 2019 and expanded across the PRC and globally. On 11 March 2020, it was declared by the World Health Organization that COVID-19 can be characterised as a pandemic due to rapid increase in the number of cases outside the PRC. Since 2020, governments around the world have implemented measures such as city lockdowns, travel restrictions, quarantines and business shutdowns to mitigate the spread of the COVID-19 pandemic.

Impact on our business operations

As our office and warehouses are located in Shanghai, the PRC, all of our staff were required to work from home in March to June 2022, and delivery of our products was suspended during such period. Regarding work from home arrangement, considering that our business model is not labour intensive, our Directors are of the view that this had no material impact on our operation. Regarding suspension of delivery of our products, our Directors consider that the impact was mitigated taking into account the suspension was only temporary and our Group did not otherwise experience material delay in delivery during the Track Record Period.

During the Track Record Period, our Group did not experience substantial shortage of supply of products from our suppliers. During the Track Record Period, we closely monitored the potential impact of lockdown on our inventory level and adjusted our purchase strategy. For example, during FY2022, we significantly increased our purchase of algal oil DHA products due to the large-scale lockdown in Shanghai for COVID-19 outbreak in 2022 to cater for the then uncertainty in terms of supply and timing of delivery for our purchases in respect of algal oil DHA products. In addition, during the Track Record Period, due to travelling restrictions imposed by the relevant governments in response to COVID-19, our managers were unable to physically attend the premises of our overseas suppliers and processing companies for quality control inspection. Instead, our management maintained communications with our overseas suppliers to monitor the processing of our nutritional products. In 2023, after the lifting of COVID-19 travel restrictions, our general manager resumed physical inspection of our overseas suppliers and the processing companies of our nutritional products in New Zealand and the U.S.

Impact on our financial performance and conditions

Our Directors are of the view that the outbreak of COVID-19 had no material adverse impact on our financial performance and conditions. For instance, the sales volume of our algal oil DHA products, our best-selling nutritional products, increased throughout the Track Record Period, from approximately 1.3 million units for FY2021 to approximately 1.5 million units for FY2022 to approximately 1.9 million units for FY2023. Furthermore, our current ratio and quick ratio at each reporting period throughout the Track Record Period were well above 1.0.

SUMMARY

Save as disclosed above and based on the information available to our Group as at the Latest Practicable Date, our Directors confirm that the COVID-19 pandemic did not and is not expected to have any material adverse impact on our business operations and financial performance and conditions.

CONTROLLING SHAREHOLDERS

Immediately following completion of the [REDACTED] and the Capitalisation Issue, and without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the [REDACTED] and any options which may be granted under the Share Option Scheme, Far-East Fortune will directly hold [REDACTED]% of the issued share capital of our Company. Far-East Fortune is wholly owned as to 91% by Mr. Wang, being our founder and our executive Director, Chairman and Chief Executive Officer, and as to 9% by Ms. Cui, being our executive Director and spouse of Mr. Wang. Each of Far-East Fortune, Mr. Wang, and Ms. Cui is regarded as a Controlling Shareholder of our Company under the Listing Rules, and they are collectively regarded as a group of Controlling Shareholders. For further details about our Controlling Shareholders, please refer to the section headed “Relationship with our Controlling Shareholders” in this document.

[REDACTED] STATISTICS

Number of the [REDACTED]	:	[REDACTED] Shares (subject to the [REDACTED])
[REDACTED]	:	Not more than HK\$[REDACTED] per [REDACTED] and expected to be not less than HK\$[REDACTED] per [REDACTED], plus brokerage of 1%, SFC transaction levy of 0.0027%, AFRC transaction levy of 0.00015% and Stock Exchange trading fee of 0.00565% (payable in full on application in Hong Kong dollars and subject to refund)

	Based on an [REDACTED] of HK\$[REDACTED] Per [REDACTED] HK\$	Based on an [REDACTED] of HK\$[REDACTED] Per [REDACTED] HK\$
[REDACTED] <i>(Note 1)</i>	[REDACTED]	[REDACTED]
Unaudited [REDACTED] adjusted consolidated net tangible assets per Share <i>(Note 2)</i>	[REDACTED]	[REDACTED]

Notes:

- The calculation of the [REDACTED] of the Shares is based on the [REDACTED] Shares in issue and to be issued immediately after completion of the [REDACTED], without taking into account of any Shares which may be issued pursuant to the exercise of the [REDACTED] or any options which may be granted under the Share Option Scheme or Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate.

SUMMARY

2. The calculation of the unaudited [REDACTED] adjusted consolidated net tangible assets per Share is based on [REDACTED] Shares expected to be in issue after the completion of the Capitalisation Issue and the [REDACTED]. It has not taken into account of any Shares which may be allotted and issued upon exercise of any options which may be granted under the Share Option Scheme or the [REDACTED], or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandates.

[REDACTED]

We have submitted a filing to the CSRC for application of [REDACTED] of the Shares on the Stock Exchange and the [REDACTED] on 1 January 2024, and obtained [REDACTED] (the “**Notice**”) from the CSRC on 27 June 2024, indicating that we have completed the filing application. A copy of the Notice can be found on the official website of the CSRC. As advised by our PRC Legal Advisers, our Company has completed all necessary filings with the CSRC in the PRC in relation to the [REDACTED] and the [REDACTED].

[REDACTED] EXPENSES

The total amount of [REDACTED] expenses in connection with the [REDACTED], including [REDACTED], is estimated to be approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) (based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range), representing approximately [REDACTED]% of our estimated gross proceeds from the [REDACTED] (based on an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative [REDACTED] range, and assuming the [REDACTED] Option is not exercised). The [REDACTED] expenses of: (i) approximately RMB[REDACTED] million (equivalent to approximately HK\$[REDACTED]) is directly attributable to the issue of the [REDACTED] and is to be accounted for as a deduction from equity in accordance with the relevant financial reporting standard; and (ii) approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) has been or is to be charged to the consolidated statements of profit or loss, of which (a) approximately RMB14.4 million has been charged in profit or loss prior to the Track Record Period; (b) approximately RMB10.7 million, RMB6.0 million, RMB13.0 million and RMB5.3 million have been charged in profit or loss for FY2021, FY2022, FY2023 and 6M2024, respectively; and (c) approximately RMB[REDACTED] is expected to be charged prior to or upon [REDACTED]. Expenses in relation to the [REDACTED] are non-recurring in nature.

LEGAL PROCEEDINGS

Given the importance of the Core Trademarks, our Group looks into the products sold in the markets with a view to preventing similar products from being sold in the market by other competitor(s) under similar brands of our Group’s that would otherwise confuse the customers. Since 2017, our Group has been involved in legal proceedings with certain competitors, notably, Company X and Company Y, regarding some of our Core Trademarks. In addition to civil litigation proceedings, our Group has also been involved in certain administrative proceedings in connection with our trademarks. For details, please refer to the paragraph headed “Business — Legal proceedings” of this document. Up to the Latest Practicable Date, we have been successfully protecting and defending our use of the Core Trademarks.

SUMMARY

In July 2024, Company Z, a company whose shares are listed on the Shenzhen Stock Exchange, instigated legal proceedings against us, among others. Company Z alleged that one of our distributors used the wording “金標藻油”, which Company Z claimed to have an exclusive right to use, on an e-commerce platform including hyperlinks to our products. It is estimated that the court will conclude the pre-trial mediation by the first quarter of 2025 and if trial is to be held, the judgment may be laid down in 2025. For further details of the said proceeding, please also refer to the paragraph headed “Business — Legal proceedings” of this document.

DIVIDENDS

As we are a holding company incorporated under the laws of the Cayman Islands, the payment and amount of any future dividends will depend on the availability of dividends received from our subsidiaries. Any dividends we pay will be determined at the absolute discretion of our Board, taking into account of factors including our actual and expected results of operations, cash flow and financial position, general business conditions and business strategies, expected working capital requirements and future expansion plans, legal, regulatory and other contractual restrictions, and other factors that our Board deems to be appropriate. Our Shareholders may approve, in a general meeting, any declaration of dividends, which must not exceed the amount recommended by our Board.

For FY2021 and FY2022, we declared dividends of approximately RMB61.0 million and RMB51.0 million, respectively, all of which had been settled as at the Latest Practicable Date. Currently, we do not have a formal dividend policy or a pre-determined dividend distribution ratio.

FUTURE PLAN AND USE OF [REDACTED]

We estimate that the [REDACTED] from the [REDACTED] (after deducting [REDACTED] fees and related [REDACTED] expenses payable by us in connection with the [REDACTED], assuming that the [REDACTED] is not exercised and assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED], being the mid-point of the indicative range of the [REDACTED]) will be approximately HK\$[REDACTED]. We intend to apply the [REDACTED] as follows: (i) approximately [REDACTED]% or HK\$[REDACTED] will be used to increase our marketing efforts through different marketing means to enhance public awareness of our brands; and (ii) approximately [REDACTED]% or HK\$[REDACTED] will be used for promoting our products in Hong Kong and expansion of our sales network to Hong Kong.

RECENT DEVELOPMENT

Throughout the Track Record Period, our revenue generated from our online sales channel increased both in terms of amount and proportion to our total revenue. Our Directors believe that online sales channel is a cost-effective and efficient sales channel that enables our products to reach and build up a large customer base. Leveraging on the extensive coverage of and convenience brought by the internet and the evolving means of online sales channels in the PRC, our Group gradually tapped into selling and distributing our nutritional products to private domain distributors.

THIS DOCUMENT IS IN DRAFT FORM, INCOMPLETE AND SUBJECT TO CHANGE AND THAT THE INFORMATION MUST BE READ IN CONJUNCTION WITH THE SECTION HEADED “WARNING” ON THE COVER OF THIS DOCUMENT.

SUMMARY

Our Directors confirm that, save for the expenses in connection with the [REDACTED], up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since 30 June 2024, and there had been no events since 30 June 2024 which would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report.