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### OVERVIEW

We are principally engaged in the marketing, sales and distribution of finished nutritional products in the PRC. During the Track Record Period, we sold 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. Our nutritional products target 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. DSM Group engages in providing solutions in respect of pharmaceuticals, early life nutrition and dietary supplements with market coverage in more than 60 countries such as the PRC, North America, India and Brazil. According to Frost & Sullivan, DSM Group is regarded as the leader in the algal oil DHA market in the PRC, manufacturing over 40% of the raw materials and finished products in the algal oil DHA market in the PRC in 2023 in terms of volume and value. As a proprietary brand owner, we strive to target and market our nutritional products to customers in the PRC, with the view to capturing the market’s 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, the sales 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. The retail sales value of domestic-branded algal oil DHA products made from raw materials imported from overseas accounted for approximately 1.4% of the entire nutritional product industry in the PRC in 2023. Furthermore, domestic brands with imported algal oil DHA raw materials accounted for 28.5% of the total retail sales value of maternal and children 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 the 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 finished 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 the principal raw materials supplied by DSM Group and the Probiotics Raw Material Supplier, which are reputable suppliers of nutritional products. Such principal raw materials would then be processed into our finished nutritional products. The quality of our products is proven by our various awards including the Babytree Brilliant Awards 2020 — Quality National Brand Award\* (Babytree寶寶樹金樹獎 — 2020年度優質國民

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品牌獎) by Babytree (寶寶樹), being a maternity and infant-focused community platform in China, the Children Baby Maternity Expo 2020 — Prestigious Brand Partner Awards (CBME 2020 感恩同行共生未來 — 榮耀品牌伙伴獎) by the Children Baby Maternity Expo (CBME孕嬰童展) and the Parenting Net Mothers’ Reputable Choice 2021\* — Popular Baby Nutritional Product\* (2021年度育兒網橙品清單媽媽口碑之選 — 寶寶用品年度人氣營養品) by the Parenting Net\* (育兒網), being a parenting website in the PRC. We have also received the Cherry Award — Children and Infant Nutritional Product Brand Annual Best Performance Award\* (櫻桃大賞 — 年度嬰幼兒營養品品牌最佳表現力大獎) presented by Myguancha.com (母嬰行業觀察) and Cherry Award Assessment Committee\* (櫻桃大賞評委會) for three consecutive years from 2019 to 2021 and the 8th Cherry Award — Children and Infant Nutritional Product Brand Annual Outstanding Performance Award\* (第八屆櫻桃大賞 — 年度嬰幼兒營養品品牌傑出表現力大獎) in 2022. In 2023, we further received FY2023 Category Captain of the Year\* (2023財年天貓國際品類冠軍營) and FY23 Tmall Global Maternal and Infant Industry Purple Star Thunder Award\* (FY23天貓國際母嬰行業紫曜雷霆獎). For details of our awards and recognitions, please refer to the paragraph headed “Awards and recognitions” in this section.

We sell our products through our diversified sales and distribution network in the PRC, comprising both online and offline channels. We believe that our online sales channels enhance the visibility of our brands and enable our products to be more accessible to potential customers, while the geographical footprints of our offline sales channels allow us to leverage our geographical penetration built up over the years. Our products are available on popular online shopping platforms in the PRC. We sell our products to e-commerce companies which would on-sell our products on online shopping platforms to their customers which are primarily end-consumers, while we also sell our products through online shopping platforms to our customers which are primarily end-consumers. During FY2021, FY2022, FY2023 and 6M2024, we sold our products to 19, 18, 18 and 13 e-commerce companies, respectively. During FY2021, FY2022, FY2023 and 6M2024, we sold our products mainly through two, three, four and four online shopping platforms to our customers, respectively. During the Track Record Period, the online shopping platforms through which a substantial portion of our revenue was derived from included Taobao, Douyin and JD.com. To the best knowledge of our Directors, (i) the e-commerce companies sold our products mainly to individual customers; and (ii) the customers whom we sold our products to them through the online shopping platforms were mainly individual customers. As for our offline sales channels, we appointed regional distributors to market, sell and distribute our products, which then distribute our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors. We strategically select regional distributors with downstream sales network.

Our business has grown steadily over the years. During the Track Record Period, our revenue has grown from approximately RMB337.6 million for FY2021, to approximately RMB367.3 million for FY2022 and to approximately RMB426.5 million for FY2023. For 6M2024, our revenue amounted to approximately RMB146.1 million, representing a decrease of approximately RMB46.0 million from approximately RMB192.1 million for 6M2023. For detailed analysis of our revenue during the Track Record Period, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Revenue” in this document.

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During FY2022 and FY2023, we procured five types milk powder products, which were imported from Australia and New Zealand, from Ausnutria Group. However, our sales performance of the milk powder products during FY2022 and FY2023 was not satisfactory. During FY2022 and FY2023, we procured approximately 407,000 units and 318,000 units of milk powder products from Ausnutria Group, respectively, but despite our efforts in marketing and promotion we only sold approximately 18,000 units and 11,000 units of milk powder products, respectively. As a result, as at 31 December 2022 and 31 December 2023, we recognised a write-down of milk powder products in our consolidated statement of financial position of approximately RMB17.7 million and RMB20.8 million, respectively, and we made a provision for inventories loss on milk powder products in our consolidated statement of financial position of approximately RMB20.7 million and RMB35.9 million, respectively. The initial recognition of the aforesaid write-down and provision during FY2022 had caused an adverse impact on our financial performance for FY2022. For details, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Losses relating to milk powder products” in this document.

According to Frost & Sullivan, the retail sales value of maternal and children nutritional product market in the PRC has grown from approximately RMB60.9 billion in 2018 to approximately RMB101.7 billion in 2023, representing a CAGR of approximately 10.8%, and is expected to reach approximately RMB142.1 billion in 2028, representing a CAGR of approximately 6.9%. Taking into account our established market position, high degree of brand recognition in the PRC and our diversified sales and distribution network in the PRC, we believe that we are well-positioned to capture the expected growth in the maternal and children nutritional product industry in the PRC.

### OUR COMPETITIVE STRENGTHS

Our Directors believe that our Group has the following competitive strengths, which have driven the growth of our business and financial performance:

#### **We have an established market position and high degree of brand recognition in the PRC**

Our Group entered the maternal and children nutritional product market in the PRC back 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 target and market our nutritional products to pregnant and postpartum women, infants to children, catering for their needs in different stages of life. According to Frost & Sullivan, the maternal and children nutritional product industry in the PRC has grown steadily over the years due to the increasing health and nutritional awareness as well as the increasing purchasing power of customers and the Chinese culture of longing for children to thrive. We market our nutritional products under our proprietary brands, namely “紐曼思” and “紐曼斯” (in English, “Nemans”). Our brands “紐曼思”, “紐曼斯” and “Nemans” are registered as trademarks in the PRC and Hong Kong under the name of Numans HK, being our subsidiary incorporated in Hong Kong. For details of our trademarks, please refer to the paragraph headed “Statutory and General Information — 2. Further information about our business — 2.2 Intellectual property rights of our Group” in Appendix IV to this document. This arrangement serves to strengthen our brand image that our nutritional

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products use the principal raw materials supplied by overseas suppliers and that the majority of our nutritional products are processed overseas, thereby enhancing our brand image and boosting the reputation amongst our target consumers in the PRC.

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 maternal and children 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 the success in our algal oil DHA products, we have been promoting other nutritional products such as probiotics, vitamins, multi-nutrients and algal calcium products under our proprietary brands, catering for consumers with different needs and consumption preferences. Over the years, we have received various awards in recognition of the popularity of our nutritional products, such as the Growth Engine Award\* (增長引擎獎) in Tmall Global Double 11 Shopping Festival 2021\* (2021天貓雙11全球狂歡節), the Tmall Children and Infant Food Industry Award 2022\* — Item of the Year Award — Infant Nutritional Products\* (2022年度天貓嬰童食品行業獎 — 年度超級單品獎 — 年度寶寶營養品) FY2023 Category Captain of the Year\* (2023財年天貓國際品類冠軍營). For details of our awards and recognitions, please refer to the paragraph headed “Awards and recognitions” in this section.

According to Frost & Sullivan, the maternal and children nutritional product market in the PRC is expected to continue to expand because of the growing interest in health and wellness, as well as the increasing awareness of the benefits of maternal and children nutritional products. According to Frost & Sullivan, it is forecast that the retail sales value of maternal and children nutritional product market in the PRC will grow from approximately RMB101.7 billion in 2023 to approximately RMB142.1 billion in 2028, representing a CAGR of approximately 6.9%. We believe that our established market position and high degree of brand recognition in the PRC, coupled with our advantage of marketing our brands for over a decade, and our strategy of using the principal raw materials supplied by overseas suppliers, would distinguish us from our competitors and maintain our competitive advantage to capitalise on the growing opportunities in the market.

### **We have a diversified sales and distribution network in the PRC**

During the Track Record Period, our sales and distribution network in the PRC comprised both online and offline channels. Our online sales channels allow customers to purchase our products at anytime from anywhere, and allow our products to reach a wider spectrum of customers from different parts of the PRC. At the same time, in light of the growing prevalence of e-commerce and consumers’ reliance on online information in recent years, our online sales channels serve as channels for providing information about and promoting our nutritional products and our brands. 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

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online shopping platforms to their customers which are primarily end-consumers, while we also sell our products through online shopping platforms to our customers which are primarily end-consumers. For FY2021, FY2022, FY2023 and 6M2024, our revenue derived from online sales channels accounted for approximately 64.1%, 66.3%, 73.0% and 80.7% of our total revenue of the corresponding years/period, respectively. During FY2021, FY2022, FY2023 and 6M2024, we sold our products to 19, 18, 18 and 13 e-commerce companies, respectively. During FY2021, FY2022, FY2023 and 6M2024, we sold our products mainly through two, three, four and four online shopping platforms to our customers, respectively. During the Track Record Period, the online shopping platforms through which a substantial portion of our revenue was derived from included Taobao, Douyin and JD.com.

Apart from online sales channels, we also sell our products offline through regional distributors. As at 30 June 2024, we appointed 17 regional distributors to sell and distribute our products across the PRC. As such, our products can penetrate into the market in various parts of the PRC by leveraging the downstream sales channels of our regional distributors, which then distribute our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors. We manage and monitor our regional distributors, and communicate with them from time to time. We provide product trainings to our regional distributors to ensure that they are familiar with our nutritional products. The geographical footprints of our offline sales channels provide our nutritional products with access to customers in different parts of the PRC, and had accelerated the penetration of our nutritional products in major cities in the PRC.

Our Directors believe that our diversified sales and distribution network in the PRC provides us with a solid foundation for further expanding the sales of our products, thereby enhancing the market recognition of our products and brands. In addition, our diversified sales and distribution network helps reduce our concentration risk in any particular local market.

### **We strategically select our suppliers of the principal raw materials to be used in our algal oil DHA and probiotics products**

We believe that maintaining the quality and safety of the raw materials used in our nutritional products is key to our success. Accordingly, we strive to uphold and maintain our product quality by strategically selecting the overseas suppliers of the principal raw materials to be used in our nutritional products. We strictly require our suppliers to use the principal raw materials supplied by overseas raw material suppliers designated by us. In particular, we require our suppliers for our algal oil DHA products to use the principal raw materials supplied by DSM Group. According to Frost & Sullivan, DSM Group is regarded as the leader in the algal oil DHA market in the PRC, manufacturing over 40% of the raw materials and finished products in terms of volume and value in the algal oil DHA market in the PRC in 2023. Furthermore, we require our suppliers for all of our probiotics products to use the raw materials supplied by the Probiotics Raw Material Supplier, which



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was one of the largest suppliers of probiotics raw materials in the PRC in 2023 accounting for approximately 35% of the total revenue in the market for the supply of probiotics raw materials in the PRC in 2023, according to Frost & Sullivan.

According to Frost & Sullivan, products using imported raw materials enjoy popularity among consumers in the maternal and children nutritional product industry in the PRC. In the past, PRC consumers’ confidence in domestic brands was undermined by a series of scandals involving maternal and children products such as the 2008 Chinese milk scandal. Over years of effort, domestic brands are gradually gaining consumers’ confidence, while the raw materials used by the largest domestic brands are mostly imported from international chemical and nutrition companies. Therefore, finished algal oil DHA products which use the principal raw materials supplied by overseas suppliers and are processed overseas are perceived by PRC consumers as having high quality and enjoy higher level of consumers’ confidence and demands in the PRC.

We believe that strategically selecting the overseas suppliers of the principal raw materials can help assure the quality of our products, instil higher level of consumers’ confidence, and maintain and improve our brand reputation.

### **We have an experienced and dedicated management team with extensive industry experience**

We are led by an experienced and dedicated management team with extensive industry experience and knowledge in the nutritional product market in the PRC, which enables our Group to achieve growth over the years. Mr. Wang, our Chairman, Chief Executive Officer and executive Director, has more than 20 years of experience in enterprise operation and management, and has been managing our Group since our establishment. Mr. An Yong, who is the general manager of Aumay Dairy, has over 17 years of experience in the food industry and is mainly responsible for the overall operations and management of our Group. Other members of our senior management have years of experience in the nutritional product industry or possess relevant management and financial experience. For the biographical details of our executive Directors and senior management, please refer to the section headed “Directors, Senior Management and Employees” in this document.

We believe that the expertise and operational experience of our management team, their relationship with various industry participants and their knowledge of consumer preferences in the PRC would enable our Group to formulate and implement appropriate business strategies, respond promptly to the fast-changing market environment and demands in the PRC nutritional product market, and help us achieve sustainable growth.

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### OUR BUSINESS STRATEGIES

Our business objectives are to achieve sustainable growth, increase our market share and strengthen our market position in the maternal and children nutritional product market in the PRC. In furtherance of these objectives, we plan to adopt the following business strategies:

**1. Intensify our marketing efforts through different marketing means to enhance public awareness of our brands**

We believe that successful branding is the key to our business development. We have developed “紐曼思” and “紐曼斯” (in English, “Nemans”) with high degree of recognition in the PRC. According to Frost & Sullivan, major brands of nutritional products have been investing more and more on marketing and promotion in recent years for strengthening their brand recognition, in particular for online marketing and promotion on different social media platforms and attracting traffic to online sales channels. For example, according to Frost & Sullivan, one of the major brands of nutritional products incurred marketing and promotion expenses which account for approximately 28.9% of the revenue in 2023. There is a correlation between the level of marketing and promotion expenses devoted to online marketing channels and the amount of sales recognised on online channels, provided the right marketing strategies and channels are adopted.

To further enhance the popularity of our nutritional products as well as our brand awareness and image in the PRC, we intend to intensify our marketing efforts, which is expected to support further expansion of our sales and distribution network.

***Opportunities in the maternal and children nutritional product industry in the PRC***

According to Frost & Sullivan, from 2018 to 2023, the market size of the maternal and children nutritional product industry in the PRC steadily increased from approximately RMB60.9 billion in 2018 to approximately RMB101.7 billion in 2023, representing a CAGR of approximately 10.8%. The growth was mainly contributed by the increasing health awareness of consumers and their rising income. As the market matures, it is forecast that the market will continue to grow and achieve approximately RMB142.1 billion in terms of retail sales value by the end of 2028, representing a CAGR of approximately 6.9%. Though the decline in the birth rate may negatively affect the maternal and children nutritional product industry in the PRC, the growing appreciation of the multi-faceted importance of maternal nutrition to the health and development of infants and toddlers is stimulating the demand for maternal and children nutritional products. Meanwhile, parents born in the 1990s and 2000s have taken over as the core customer group of maternal and children nutritional products, which generally emphasises scientific parenting. Thus, spending on maternal and children nutritional products has been increasing substantially over the past decade.

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Since our first launch of DHA products back in 2007, we have been focusing our marketing, sales and distribution mainly in the first, new first and second-tier cities in the PRC. Apart from our Type C regional distributors, during the Track Record Period we mainly sold and distributed our products in the first, new first and second-tier cities in the PRC, such as Beijing, Chongqing, Jinan and Xi'an.

While we strive to maintain our position and market share in the first, new first and second-tier cities, our Directors consider that there are substantial potential and opportunities in the nutritional product industry in certain third and fourth-tier cities in Guangdong Province, Jiangsu Province, Shandong Province, Zhejiang Province and Anhui Province such as Shantou, Jiangmen, Jieyang, Zhanjiang, Zhaoqin, Chaozhou and Qingyuan, etc. (the “**Selected Cities**”). According to Frost & Sullivan, (i) the total market size of nutritional products in the Selected Cities increased impressively from approximately RMB14.3 billion in 2018 to approximately RMB50.3 billion in 2023, representing a CAGR of approximately 28.6% and is expected to reach approximately RMB124.9 billion in 2028, representing a CAGR of approximately 19.9%; (ii) while the annual disposable income per capita in the first and second-tier cities of Guangdong Province, Jiangsu Province, Shandong Province, Zhejiang Province and Anhui Province in 2023 ranged from approximately RMB35,000 to RMB76,000, the annual disposable income per capita in the Selected Cities in 2023 ranged from approximately RMB25,000 to RMB68,000, indicating that there is an overlapping range to a certain extent; and (iii) the nutritional product market in the third and fourth-tier cities is less competitive because the leading brands in the industry historically focused their marketing and sales in the first, new first and second-tier cities in the PRC.

For further details on the potential of the nutritional product market in third and fourth-tier cities in Guangdong Province, Jiangsu Province, Shandong Province, Zhejiang Province and Anhui Province, please refer to the paragraph headed “Industry Overview — Overview of nutritional product industry in the PRC — Market size analysis — Market size analysis of nutritional products in the selected third and fourth-tier cities” in this document.

Since 2020, we engaged Shanghai Yicunxin as our Type C regional distributor. Pursuant to our distribution agreements with our Type C regional distributors, they are allowed to market and distribute our products in all regions in the PRC except for the regions designated to Type A regional distributors. As such, some of our products were sold to the third and fourth-tier cities in the PRC by our Type C regional distributors during the Track Record Period. Given our relatively short period of business relationship with our Type C regional distributors, our Directors consider that the market penetration of our products in the third and fourth-tier cities in the PRC is still under development.



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In view of the aforesaid and to further promote our products, our brand awareness and image and to strengthen our penetration especially in less developed regions which are not yet or insufficiently covered by our existing sales and distribution network, we intend to intensify our marketing efforts through different means to boost up our sales from both online and offline channels.

***Opportunities in the online segment of the maternal and children nutritional product industry***

According to Frost & Sullivan, along with improving internet coverage in the PRC, the total number of internet users increased from approximately 828.5 million in 2018 to approximately 1,092.0 million in 2023, representing a CAGR of approximately 5.7%. Accordingly, the internet penetration rate in the PRC grew from approximately 59.0% in 2018 to approximately 78.7% in 2023. As the PRC strives to boost the development of the internet industry, the deployment and upgrading of network infrastructure is expected to continue to expand. In light of the favourable policy and development plan for the internet industry, the number of internet users in the PRC is projected to reach approximately 1,220.7 million, with a penetration rate increasing to approximately 91.8% in 2028.

Furthermore, according to Frost & Sullivan, driven by the continuous innovation stimulus and upgrading construction of network infrastructure during the past years, the number of mobile internet users in the PRC experienced a rapid increase from approximately 817.0 million in 2018 to approximately 1,092.3 million in 2023 at a CAGR of approximately 6.0%, with the penetration rate of the total internet users rising from approximately 58.1% to 77.5% during the same period. As the supportive and improving environment of mobile internet maintains, and another upcoming bout of infrastructure upgrades for 6G is in progress, the number of mobile internet users is expected to reach approximately 1,280.9 million by the end of 2028 with a penetration rate of the total internet users of approximately 91.7%.

According to Frost & Sullivan, benefiting from the rapid development of the logistics system and e-commerce platforms in the past few years, the online penetration rate of nutritional products increased from approximately 22.0% in 2018 to approximately 39.5% in 2023, and it is expected to increase to approximately 48.7% in 2028. As such, our Directors believe that there is a significant market potential for the sales of our products through online shopping platforms. We also believe that online sales platforms can help maximise the exposure of our brands and the accessibility of our products to consumers across the PRC. We view online sales channels not only important sales platforms but also effective means for brand building and marketing. For FY2021, FY2022, FY2023 and 6M2024, our revenue derived from online sales channels accounted for approximately 64.1%, 66.3%, 73.0% and 80.7% of our total revenue, respectively.

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### *Increasing our marketing efforts for increasing our online sales*

#### *(a) Online marketing, brand and products promotion on social media platforms*

To leverage the advantage of online sales platforms to reach out and promote our brands and products to a larger group of customers, during the Track Record Period, we engaged a marketing company specialising in online marketing to promote our brands and nutritional products on different social media platforms in the PRC, such as WeChat (微信), Xiaohongshu (小紅書), Zhihu (知乎) and bilibili, by (i) formulating different advertising strategies for our brands and products; (ii) identifying new and innovative advertising opportunities and channels; and (iii) coordinating our advertising efforts to ensure our advertisements are presented on a variety of social media platforms and Apps to maximise the coverage and effectiveness of our advertising strategies. Our Directors believe that such efforts can help us reach out to customers who are not yet or insufficiently covered by our existing sales and distribution network, enhance our online sales by hyperlinking to our online sales platforms and offline sales by attracting customers to make physical in-store purchases, and strengthen our brand image and sales performance. Benefited from our online marketing efforts, our revenue derived from online sales channels increased from approximately RMB216.4 million for FY2021 to approximately RMB243.2 million for FY2022 and to approximately RMB311.5 million for FY2023. For 6M2024, our revenue derived from online sales channels amounted to approximately RMB117.9 million.

To maintain our growth in online sales, we plan to continue to adopt this marketing strategy and increase our effort on online marketing especially on social media platforms with an aim to reach out to and connect with customers in different cities and regions in the PRC without boundary. We plan to distribute promotional contents for our products on popular social media platforms and Apps such as Weibo (微博), Xiaohongshu (小紅書) and Douyin (抖音) more frequently. We intend to leverage the social influence of famous KOLs with at least 1 million followers on such social media platforms for online marketing, so as to further increase the exposure and profile of our brands and products. According to Frost & Sullivan, recruiting famous KOLs is a common industry practice for online marketing in the PRC within the nutritional product industry. Famous KOLs can utilise their follower base (at least 1 million followers) to advertise the products to targeted groups of customers, which is considered to be more effective than traditional methods of advertisement for targeting wider and more customer groups and sub-groups and increasing the visibility of our products and our brands. Given the volatility of popularity of the social media platforms and KOLs, we plan to allocate [REDACTED] from the [REDACTED] to engage famous and popular KOLs and social media platforms to market and promote our brands and products.

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We have identified certain famous and popular KOLs on social media platforms focusing on mother or infant related products with follower base exceeding one million followers. We intend to use approximately HK\$[REDACTED] out of the [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) for online marketing, brand and products promotion on social media platforms. The intended scope of marketing and promotion services by the KOLs would cover:

- brand endorsement through social media posts, videos and blog articles;
- product reviews and sharing unboxing experience;
- audience engagement through Q&A sessions, live streams and polls;
- initiating user-generated content such as engaging followers to share their experiences with our brand and products;
- brand storytelling about our brand’s story, values and features;
- guest appearance on podcasts, webinars or other media to discuss our brands and products; and
- niche targeting to cater niches or communities to allow our brand to reach highly targeted audiences.

*(b) Purchase of brand marketing and promotional products of e-commerce companies*

E-commerce companies offer a variety of one-stop brand marketing and promotional products to help brands and retailers quickly attract traffic, acquire new users and enhance brand awareness. These marketing and promotional products allow merchants to direct user traffic to their storefronts. Such marketing and promotional products generally include the following types:

- **Pay for performance (P4P) marketing services:** Merchants primarily bid for keywords that match product or service listings appearing in search results through the online auction system on a cost-per-click (CPC) basis.
- **In-feed marketing services:** Merchants primarily bid to market to groups of customers with similar profiles that match product or service listings appearing in browser results through the online auction system on a cost-per-click (CPC) or cost-per-thousand impression (CPM) basis.
- **Display advertising services:** Merchants can place advertisements on mainstream websites like Tencent and Toutiao. The merchants are charged based on the period during which the advertising services are provided or on the number of times that the advertisement has been displayed based on cost per thousand impressions (CPM).

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- **Third party promotion services:** E-commerce companies collaborate with third party medium and platforms to offer marketing services to merchants. The merchants are charged based on cost-per-sale (CPS). The commissions paid by merchants are based on a percentage of transaction value generated from the online sales platform.

For FY2021, FY2022, FY2023 and 6M2024, we incurred approximately RMB12.6 million, RMB21.4 million, RMB33.8 million and RMB21.6 million, respectively, for purchasing brand marketing and promotional products from the e-commerce companies to promote our products on the online shopping platforms, which accounted for approximately 49.3%, 68.7%, 67.9% and 67.2% of our total promotion expenses, respectively.

Given the increasing popularity of online shopping and customers’ growing attention on online information in recent years, brand marketing and promotional products offered by e-commerce companies are essential marketing tools for online marketing and promotion. According to public records, it is not uncommon that the nutritional product companies would incur a large amount of marketing and promotional expenses, which include expenses for such brand marketing and promotional products in the e-commerce platforms, and such expenses could amount to more than 20% of the revenue of some market players for the year.

We plan to apply approximately HK\$[REDACTED] of our [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) for purchasing brand marketing and promotional products of e-commerce companies for promotion of our brands and products on online shopping platforms. We intend to invest in traffic at online shopping platforms to enhance visibility and priority of our products. In particular, we intend to purchase the services at the online shopping platforms such as (i) keyword bidding to position our products at the top of the search functions; (ii) homepage and category ads at the advertising space on the homepage or important category of the online shopping platforms; (iii) banner ads on the homepage, category pages, or other high-traffic areas of the online sales platforms; (iv) short video ads to showcase our products and capture user attention; and (v) retargeting ads to attract users who previously visited the pages for our products. As confirmed by our Directors, the marketing fees for the above services are generally 10% to 12% of our sales thereon.

### *Intensifying our marketing efforts for expanding our offline sales channels*

During the Track Record Period, we engaged regional distributors to market, sell and distribute our products, which then distributed our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors.

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*(a) Reasons for expanding our offline sales channels despite increasing customers’ reliance on online sales network in recent years*

Despite the increasing trend of online shopping in recent years, our Directors consider that our business strategy to expand our offline sales and distribution network remains necessary due to the following:

- (i) Despite the growth of our revenue generated from online sales channels during the Track Record Period, we also recorded considerable sales via our offline sales channels. For instance, our revenue generated from our offline sales channels amounted to approximately RMB121.2 million, RMB124.1 million, RMB115.0 million and RMB28.2 million for FY2021, FY2022, FY2023 and 6M2024, respectively. This demonstrated that our offline sales channels cannot be entirely replaced by our online sales channels. Our Directors believe that offline sales channels have been the fundamental sales channels of our Group since the commencement of our nutritional product business back in 2007 and will continue to contribute significant revenue to our Group in the foreseeable future.
- (ii) We believe there is a synergy effect that the offline sales could drive an increase in online sales of our nutritional products. Offline distribution network with traditional sales channels such as pharmacies and maternal and children product stores facilitate the establishment and maintenance of customers’ awareness of our brands and products by directly reaching out to our customers. Certain portion of these customers may switch to online shopping for convenience when they have established a well reception to our brands, confidence in and regular consumption of our nutritional products. As such, our Directors believe that the development of online and offline sales of nutritional products goes hand-in-hand, which our strategy to expand our sales and distribution network is expected to drive our online sales in the long run.
- (iii) Even though e-commerce in the PRC maintained rapid growth during the past few years, offline channels such as maternal and children product stores, drug stores and hospitals remain to be vital sales channels for maternal and children nutritional products in the PRC due to the cautious attitude of consumers towards online sales channels for maternal and children products. According to Frost & Sullivan, the offline market size of nutritional products in the PRC is expected to maintain a stable growth from approximately RMB157.4 billion in 2023 to approximately RMB179.2 billion in 2028 at a CAGR of approximately 2.6%. The tangible products in offline physical stores are more likely to give customers a sense of authenticity of our products, and customers can communicate face-to-face with the salespersons and receive immediate feedbacks.



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*(b) Conferences and major trade fairs and industry events*

During the Track Record Period, we co-organised a number of events with our distributors such as conferences and product information seminars for healthcare practitioners, industry players and customers. We invited medical and nutritional scholars, professors, healthcare professionals and practitioners to be the speakers in these conferences and seminars on health, nutritional and disease related topics. Our Directors believe that organising these conferences can help explain the features of nutritional products to medical and health practitioners in the industry and customers, and enhance our brand image. We also believe that these conferences could better and effectively help our regional distributors market and promote our products. As we plan to further promote our brands and products to different regions in the PRC, we intend to continue to organise these conferences and seminars from time to time, in a larger scale and cover more cities in the PRC. We plan to organise approximately 15 to 20 conferences in each of the next three years.

During FY2021, FY2022, FY2023 and 6M2024, we participated in 11, 11, 10 and 13 conferences, major trade fairs and industry events, respectively held in various locations in the PRC, such as Shanghai, Hangzhou, Zhejiang, Jiangsu, Shandong, Henan, Fujian, Shanxi, Guangxi and Anhui. Included in those events were Children Baby Maternity Expo (CBME婴童展) in 2021 and 2023, which were one of the major industry events. As an illustration, the number of attendees at the Children Baby Maternity Expo 2023 reached approximately 100,000 according to the official organiser. For FY2021, FY2022, FY2023 and 6M2024, our costs incurred in those events amounted to approximately RMB1.3 million, RMB1.5 million, RMB3.1 million and RMB1.4 million, respectively. In order to promote our brands and products to potential distributors as well as retail outlets including pharmacies, maternal and children product stores and postpartum care centres, which can then sell and promote our brands and products nationwide, we plan to continue to participate in major trade fairs and industry events of nutritional products in the PRC. We plan to participate and showcase our products in major trade fairs and industry events in different major cities and regions of the PRC such as Beijing, Shanghai, Hangzhou, Zhejiang, Jiangxi, Anhui, Shanxi and Henan etc. in the next three years, which we consider could effectively promote our brands. We also plan to devote more resources to hire sizeable booths at premium location of the exhibition halls with better traffic and to improve our stall design and decoration to attract the attention of attendees. The costs of participating in trade fairs and industry events vary depending on the scale of the event, the location of the event as well as the scale and location of the booth which we plan to set up. We plan to participate in approximately 15 to 20 major trade fairs or industry events in each of the next three years, costs of which comprise rental, design fees and setting up fees of booth and advertising fees. We intend to apply approximately HK\$[REDACTED] of our [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) for organising conferences and participating in major trade fairs and industry events.

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### 2. Promotion of our products in Hong Kong and expansion of our sales network to Hong Kong

According to Frost & Sullivan, given that products using imported raw materials enjoy popularity among customers in the maternal and children nutritional product industry in the PRC, domestic brands setting up offices and stores in Hong Kong may further reinforce the image and impression of imported raw materials and overseas processing of products in the minds of customers. According to Frost & Sullivan, nutritional products which are sold in Hong Kong are perceived by PRC consumers as trustworthy and reliable. Therefore, our Directors believe that having our products promoted and sold in Hong Kong will further boost consumers’ confidence in our products.

In the circumstances, we plan to further strengthen our brand image by promoting our products in Hong Kong and expanding our sales network to Hong Kong. In particular, we plan to:

- (i) set up a retail store in a shopping mall in Central, Hong Kong. Coupled with the fact that we use the principal raw materials supplied by overseas suppliers for our algal oil DHA and probiotics products, we believe that such strategy could further strengthen the international element of our brands. We plan to apply approximately HK\$[REDACTED] of our [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) to finance the setting up of a retail store in Hong Kong. The following table sets forth the breakdown of estimated costs for setting up the retail store in Hong Kong:

	<i>HK\$’000</i>
Annual retail store rental	7,080
Annual salary of retail store staff	2,128
Renovation and set-up costs of retail store	2,655
Licensing fee	<u>10</u>
<b>Total</b>	<b><u><u>11,873</u></u></b>

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We intend to lease a retail store at a monthly rental at HK\$590,000 with floor area of at least 1,000 sq.ft. We also intend to hire new staff for operating our retail store, the details of which are set out below:

Position	Preferred experience	Approximate monthly salary	No. of headcounts	Expected annual cost HK\$'000
Store manager	above 10 years	HK\$55,000	1	660
Sales representatives	3–5 years	Ranging from HK\$33,000– HK\$36,000	3	1,252
Supporting staff	N/A	HK\$18,000	1	216
<b>Total:</b>				<b>2,128</b>

As advised by our Hong Kong legal adviser, pursuant to our Group’s business model and business plan, our Group is required to apply for Registration as Food Importer/Food Distributor issued by the Food and Environmental Hygiene Department.

- (ii) engage an independent marketing agent based in Hong Kong to launch a series of promotional activities for our products in Hong Kong. We plan to apply approximately HK\$[REDACTED] of our [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) to finance such promotional activities in Hong Kong and consultation fees for such independent marketing agent. In selecting the independent marketing agent, we primarily consider the following credentials: (i) its experience in marketing and promoting foreign maternity and children brands in Hong Kong; (ii) its brand portfolio; and (iii) coverage of marketing and promotion services. In particular, the marketing and promotion services by the independent marketing agent would cover:
- television commercial (TVC), covering video production with the involvement of celebrities to be broadcast in TV channels;
  - outdoor print advertising, covering layout design and exhibiting our advertisement at public transport and our outdoor billboards;
  - shop opening event management, covering the selection of celebrities and KOLs, managing public relation and KOL seeding, preparing and monitoring media reports;
  - sponsorship management for sponsorship to TV programmes, nutritionists, celebrities, KOLs, mothers’ sharing groups;

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- digital platform strategic promotion, covering production of videos to be used at various online channels such as social media platforms, video sharing platforms, KOL seeding and parenting platform seeding; and
  - promotion at Baby Expos and other roadshows.
- (iii) set up an office and warehouse to support the operation of our retail store and distribution of our products in Hong Kong. We plan to apply approximately HK\$[REDACTED] of our [REDACTED] from the [REDACTED] (representing approximately [REDACTED]% of the total [REDACTED]) to finance the setting up of an office and warehouse in Hong Kong. The following table sets forth the breakdown of estimated costs for setting up the office and warehouse in Hong Kong:

	<i>HK\$'000</i>
Annual office rental	1,680
Annual salary of office staff	1,032
Renovation and set-up costs of office	4,700
Annual warehouse rental	<u>120</u>
<b>Total</b>	<b><u><u>7,532</u></u></b>

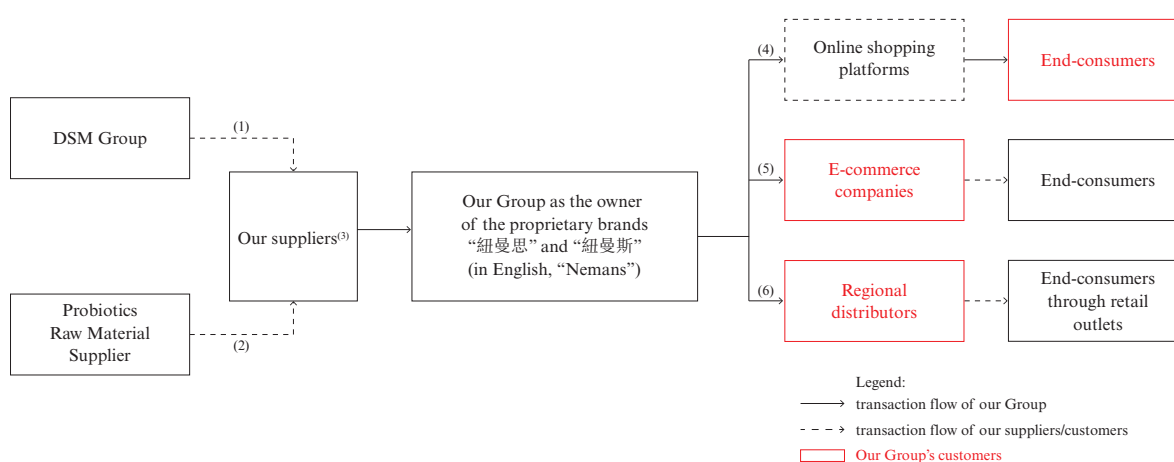
We intend to lease an office and a warehouse at a monthly rental at HK\$140,000 and HK\$10,000, respectively. We also intend to hire new staff for operating our office and warehouse, the details of which are set out below:

Position	Preferred experience	Approximate monthly salary	No. of headcounts	Expected annual cost <i>HK\$'000</i>
Office manager	Above 7 years	HK\$43,000	1	516
Office staff	5 years	HK\$25,000	1	300
Supporting staff	N/A	HK\$18,000	1	<u>216</u>
<b>Total:</b>				<b><u><u>1,032</u></u></b>

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### OUR BUSINESS MODEL

We are principally engaged in the marketing, sales and distribution of 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. 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 the principal raw materials supplied by DSM Group. For details of our purchases of finished algal oil DHA products, please refer to the paragraph headed “Our purchases — Algal oil DHA products” in this section.
- (2) We require our suppliers for our probiotics products to use the principal raw materials supplied by the Probiotics Raw Material Supplier. For details of our purchases of finished probiotics products, please refer to the paragraph headed “Our purchases — Probiotics products” in this section.
- (3) For our algal oil DHA products, we or our direct suppliers would arrange processing companies in New Zealand, the U.S. and the PRC to conduct (i) encapsulation of algal oil DHA raw materials into softgels; (ii) drying of softgels containing algal oil DHA; and (iii) packing the softgels into plastic bottles. For details of our procurement model in New Zealand, the U.S. and the PRC, please refer to the paragraph headed “Our purchases — Algal oil DHA products” in this section.
- (4) This represents our sales through online shopping platforms to our customers which are primarily end-consumers. For revenue recognition purpose, the customers ordering through the online shopping platforms are regarded as our customers.
- (5) This represents our direct sales to e-commerce companies, which would on-sell our products on online shopping platforms to their customers which are primarily end-consumers. For revenue recognition purpose, the e-commerce companies are regarded as our customers.



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- (6) This represents our sales to regional distributors, which would then sell and distribute our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors. For revenue recognition purpose, the regional distributors are regarded as our customers.

Our revenue increased from approximately RMB337.6 million for FY2021 to approximately RMB367.3 million for FY2022 and further increased to approximately RMB426.5 million for FY2023. For 6M2024, our revenue amounted to approximately RMB146.1 million, representing a decrease of approximately RMB46.0 million from approximately RMB192.1 million for 6M2023. For detailed analysis of our revenue, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Revenue” in this document.

Our gross profit margin remained relatively stable at approximately 73.0%, 74.4%, 75.2% and 75.8% for FY2021, FY2022, FY2023 and 6M2023, respectively, and slightly decreased to approximately 71.9% for 6M2024.

## OUR PRODUCTS

During the Track Record Period, we sold our 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 and children. 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. During FY2022, FY2023 and, to a very limited extent, 6M2024, we also sold five types of milk powder products manufactured by and purchased from Ausnutria Group under the brands licensed by it and derived insignificant revenue therefrom. For details of our sales of milk powder products during the Track Record Period, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Losses relating to milk powder products” in this document. Our Directors confirm that our Group will cease to sell milk powder products from the year ending 31 December 2025.

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.

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The following table sets forth the breakdown of our revenue by types of product during the Track Record Period:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Algal oil DHA products	310,216	91.9	340,610	92.7	404,148	94.7	179,682	93.5	140,471	96.2
— <i>New Zealand</i>										
<i>DHA Products</i>	247,305	73.2	240,136	63.4	289,093	67.8	133,691	69.6	89,538	61.3
— <i>U.S. DHA Products</i>	55,253	16.4	90,816	24.7	108,957	25.5	42,521	22.1	49,114	33.6
— <i>PRC DHA Products</i>	7,658	2.3	9,658	2.6	6,098	1.4	3,470	1.8	1,819	1.3
Probiotics products	23,834	7.1	19,485	5.3	18,432	4.3	9,908	5.2	4,893	3.3
Vitamins products	1,837	0.5	1,025	0.3	690	0.2	394	0.2	223	0.2
Multi-nutrients products	1,311	0.4	2,011	0.6	1,207	0.3	678	0.4	208	0.1
Algal calcium products	410	0.1	538	0.1	236	0.1	236	0.1	—	—
Milk powder products	—	—	3,628	1.0	1,832	0.4	1,178	0.6	291	0.2
<b>Total revenue</b>	<b>337,608</b>	<b>100.0</b>	<b>367,297</b>	<b>100.0</b>	<b>426,545</b>	<b>100.0</b>	<b>192,076</b>	<b>100.0</b>	<b>146,086</b>	<b>100.0</b>

For further analysis of our revenue during the Track Record Period, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Revenue” in this document.

The following table sets forth the average selling price of our products per capsule/sachet/can (being the product unit per package) during the Track Record Period:

		FY2021	FY2022	FY2023	6M2024
	Item	RMB/item	RMB/item	RMB/item	RMB/item
Algal oil DHA products	capsule	2.8	2.8	2.8	2.7
Probiotics products	sachet	4.7	5.0	4.3	5.3
Vitamins products	capsule	2.7	1.4	1.3	1.5
Multi-nutrients products	capsule	2.4	2.8	2.5	2.3
Algal calcium products	capsule	1.4	1.4	1.3	—
Milk powder products	can	—	201.6	166.5	210.5

### Algal oil DHA products

According to the FDA, some studies in infants suggest that including DHA in infant formulas may have positive effects on visual function and neural development over the short term. Algal oil DHA is determined to be generally recognised as safe (GRAS) for addition to food by the FDA.

We first launched our DHA products back in 2007. Our algal oil DHA products were our most important product category in terms of sales during the Track Record Period. Our algal oil DHA products consisted of seven products and were processed in New Zealand, the U.S. and, to a lesser extent, the PRC. We require our suppliers for our algal oil DHA products to use the principal raw materials supplied by DSM Group. They take the form of soft capsules and include algal oil DHA as their key ingredient. Algal oil DHA products mainly target pregnant and postpartum women, infants to children, with the aim at enhancing the development of the brain and eyes, as well as the immune system of infants to children, and relieving the symptoms

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of forgetfulness and anxiety of mothers during pregnancy and of postpartum depression after childbirth. Our algal oil DHA products generally have a shelf life of 24 to 36 months from the date of production.

During the Track Record Period, we made changes to the formulations of our U.S. DHA Products and New Zealand DHA Products. Prior to these changes, both product lines included sunflower seed oil as a supplementary ingredient. To the best knowledge of our Directors, sunflower seed oil is rich in linoleic acid and active vitamin E, both of which are essential for human health, and it can enhance the oxidative stability of DHA, thereby helping to preserve the product’s freshness and nutritional value. Our New Zealand DHA Products and U.S. DHA Products contracted to be manufactured after February 2021 and April 2022, respectively, no longer contain sunflower seed oil. The decision to optimise the formulations of our imported algal oil DHA products and transition to a formulation consisting solely of algal oil DHA was primarily driven by our recognition of evolving consumer preferences and the importance of transparency and purity. As advised by Frost & Sullivan, in recent years PRC consumers of DHA products have shown a preference for DHA products that do not contain additional supplementary ingredients, placing greater emphasis on the purity of DHA. In particular, there is a growing demand for DHA products that are perceived as natural and free from additives, and many PRC consumers generally believe that purer DHA products tend to offer better health benefits.

We have obtained authorisation to use the trademarks of DSM Group on the packaging of our algal oil DHA products to indicate that our algal oil DHA products were made from algal oil DHA supplied by DSM Group. For details, please refer to the paragraph headed “Our suppliers — Relationship with DSM Group” in this section.

### **Probiotics products**

According to the Food and Agriculture Organisation of the United Nations and the World Health Organisation, probiotics is defined as “live micro-organisms which when administered in adequate amounts confer a health benefit on the host”. A number of health benefits conferred by the intake of probiotics have been documented including the prevention and treatment of gastrointestinal infections, certain bowel disorders, allergy and urogenital infections, and the modulation of host immunity.

We first launched our probiotics products back in 2010. During the Track Record Period, our probiotics products comprised four products. The probiotics used in such products were supplied by the Probiotics Raw Material Supplier and were mainly processed in Hong Kong. Our probiotics products take the form of solid drinks or powder in the form of sachet which can be easily mixed with food and beverages. The key ingredients of our probiotics products include Bifidobacterium Bb-12 and Lactobacillus rhamnosus LGG, which are certified as New Food Raw Material (新食品原料) by the MOH. Probiotics products are generally consumed by both adults and infants with the aim to improve digestion and boosting immunity. Our probiotics products generally have a shelf life of 24 months from the date of production.

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### **Vitamin products**

According to the FDA, the major function of vitamin D is to help with the absorption of calcium and phosphorus in the small intestine. Vitamin D deficiency can lead to abnormalities in bone metabolism.

During the Track Record Period, our vitamin products consisted of two products. Our vitamin products were mainly processed in the PRC. We first launched our vitamin products in 2012. They take the form of soft capsules and include Vitamin D3 as their key ingredient. Vitamin D is generally consumed by pregnant and postpartum women, as well as adults, children and infants who are in need of Vitamin D aiming at increasing the absorption of calcium and strengthening bones, teeth and immune system. Our vitamin products generally have a shelf life of 24 months from the date of production.

### **Multi-nutrient products**

During the Track Record Period, our multi-nutrient products processed in the PRC consisted of two products. We first launched our multi-nutrient products in 2013. They take the form of softgel or powder and include various kinds of vitamins as their key ingredients. They are offered to pregnant women, infants to children between the age of six months to five years old. They generally have a shelf life of 24 months from the date of production.

### **Algal calcium products**

Our algal calcium products refer to seaweed calcium gel candies sold during the Track Record Period. We first launched our algal calcium products in 2019. Such products were processed in the PRC. The products take the form of gel candies and contain seaweed powder and walnut oil as their key ingredients. Algal calcium products mainly target adults and children who are in need of calcium. Our algal calcium products generally have a shelf life of 24 months from the date of production.

### **Milk powder products**

During FY2022 and FY2023, we procured five types of milk powder products from and manufactured by Ausnutria Group which were imported from Australia and New Zealand. Such milk powder products were sold under the brands licensed by Ausnutria Group. Please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products” in this document for further details about sales of the milk powder products and our relationship with Ausnutria Group. Such milk powder products target infants at different stages, children and adults. They generally have a shelf life of 24 months from the date of production.

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As at the Latest Practicable Date, we offered a total of 14 nutritional products. The following table sets out our products for sale as at the Latest Practicable Date:


Product <sup>(1)</sup>	Location of processing company/ manufacturer <sup>(4)</sup>	Packaging (capsule/g)	Reference retail price <sup>(3)</sup> as at the Latest Practicable Date (RMB/unit)	Main ingredients	Sample product pictures
<b>Algal oil DHA</b>					
DHA Algal Oil (Adult)	New Zealand	30 (capsules)	289	Algal oil DHA, edible gelatin,	
DHA 藻油 (成人型)		60 (capsules)	499	water and glycerine	
					
DHA Algal Oil (Children)	New Zealand	30 (capsules)	189	Algal oil DHA, edible gelatin,	
DHA 藻油 (兒童型)		90 (capsules) <sup>(5)</sup>	466	water and glycerine	
		90 (capsules)	499		
					
					
DHA Algal Oil Softgel (Adult)	U.S. <sup>(2)</sup>	30 (capsules)	159	Algal oil DHA, edible gelatin,	
DHA 藻油軟膠囊 (成人型)		60 (capsules)	399	water and glycerine	
DHA Algal Oil Softgel (Children)	U.S. <sup>(2)</sup>	30 (capsules)	159	Algal oil DHA, edible gelatin,	
DHA 藻油軟膠囊 (兒童型)		90 (capsules)	399	water and glycerine	
					



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Product <sup>(1)</sup>	Location of processing company/ manufacturer <sup>(4)</sup>	Packaging (capsule/g)	Reference retail price <sup>(3)</sup> as at the Latest Practicable Date (RMB/unit)	Main ingredients	Sample product pictures
DHA Algal Oil Softgel (Adult) 藻油 DHA 軟膠囊 (成人型)	PRC	30 (capsules) 60 (capsules)	159 299	Algal oil DHA, gelatin, glycerol and purified water	
DHA Algal Oil Linseed Oil Arachidonic Acid Softgel DHA藻油亞麻籽 油花生四烯酸軟膠囊	PRC	90 (capsules)	299	Algal oil DHA, linseed oil, arachidonic acid, gelatin, purified water, glycerol	
<b>Probiotics</b>					
Probiotics Solid Drink (Adult) 益生菌固體飲料 (成人裝)	Hong Kong	30g	239	Maltodextrin, Bifidobacterium Bb-12, Lactobacillus acidophilus LA-5	
Probiotics Solid Drink (Female only) 益生菌固體飲料 (女性專用)	Hong Kong	7g 30g	159 599	Maltodextrin, Lactobacillus reuteri RC-14, Lactobacillus rhamnosus GR-1	
Probiotics Solid drink (Children) 益生菌固體飲料 (兒童裝)	Hong Kong	30g	269	Maltodextrin, Bifidobacterium Bb-12, Lactobacillus rhamnosus LGG	
Lactic Acid Bacteria Powder 乳酸菌粉劑	PRC	30g	229	Fructose-oligosaccharides, Bifidobacterium animalis Bb-12, Lactobacillus rhamnosus LGG	
<b>Vitamins</b>					
Vitamin D Softgel (Pregnant woman) 維生素D軟膠囊 (孕婦型)	PRC	30 (capsules)	99	Vitamin D3, olive oil, gelatin, glycerine, purified water, corn oil and butylated hydroxytoluene (BHT)	

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Product <sup>(1)</sup>	Location of processing company/ manufacturer <sup>(4)</sup>	Packaging (capsule/g)	Reference retail price <sup>(3)</sup> as at the Latest Practicable Date (RMB/unit)	Main ingredients	Sample product pictures
Vitamin D Softgel (Children) (Age 1-6) 維生素D軟膠囊(兒童型) (1-6歲)	PRC	30 (capsules)	99	Vitamin D3, olive oil, gelatin, glycerine, purified water, corn oil and butylated hydroxytoluene (BHT)	
<b>Multi-nutrients</b> Multivitamin-mineral Softgel 多種維生素礦物質軟膠囊	PRC	30 (capsules)	119	L-calcium ascorbate, Zinc gluconate, Ferrous fumarate, Nicotinic acid, D- $\alpha$ -tocopherol, D-calcium pantothenate, Retinyl acetate, Thiamine nitrate, Riboflavin, Pyridoxine hydrochloride, Sodium selenite, Cyanocobalamin, Folic acid	
Multi-nutrients (Infant) 多維營養素(嬰幼兒型)	PRC	60g	119	Maltodextrin, calcium carbonate, ferrous fumarate, zinc oxide, nicotinic acid, pantothenic acid, Vitamin A, Vitamin B1, Vitamin B2, Vitamin B6, Vitamin B12, Vitamin C, Vitamin D, folic acid, biotin	

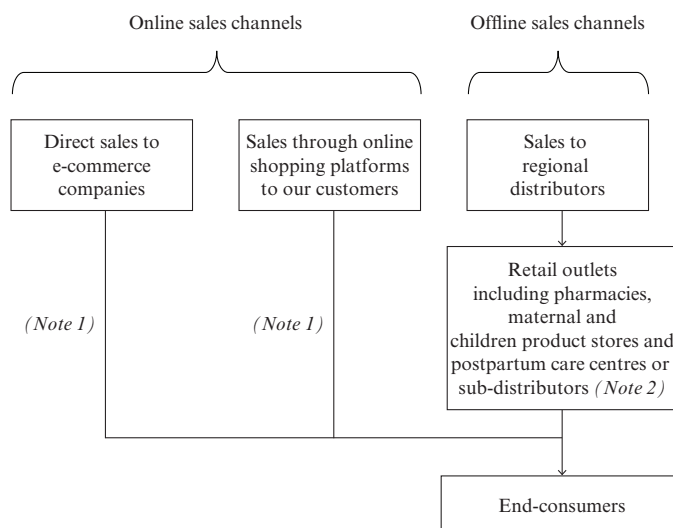
*Notes:*

- (1) Save for our U.S. DHA Products and one type of New Zealand DHA Products, all the products (including algal oil DHA, probiotics, vitamins and multi-nutrients products) were sold under our brands and bear the trademarks “紐曼思” and “Nemans” on their packagings.
- (2) Our U.S. DHA Products were sold under our brand and bear the trademark “Nemans” on the packagings.
- (3) The reference retail price is a pricing guideline for distribution and is subject to changes at the time of promotion.
- (4) The production locations are specified on the packaging of our products.
- (5) This product bears the trademarks “紐曼斯” and “Nemans” on its packaging.

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### SALES AND DISTRIBUTION

The following diagram illustrates our major sales and distribution channels in the PRC:



Notes:

1. To the best knowledge of our Directors, (i) the e-commerce companies sold our products mainly to individual customers; and (ii) the customers whom we sold our products to them through the online shopping platforms were mainly individual customers.
2. We do not prohibit our regional distributors to engage sub-distributors to sell our products. Based on the sales reports provided by our five largest regional distributors for each year/period during the Track Record Period, save for Beijing Aomei Xingchen, none of them engaged sub-distributors to distribute our products during the Track Record Period.

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 which are primarily end-consumers, while we also sell our products through online shopping platforms to our customers which are primarily end-consumers. Apart from online sales channels, we also sell our products offline to regional distributors, which would then sell and distribute our products principally to retail outlets including pharmacies, maternal and children product stores and postpartum care centres, retail stores or to the sub-distributors of the regional distributors. According to Frost & Sullivan, adopting a multi-channel sales network as mentioned above that involves both online and offline sales channels for selling and distributing products is a common practice and norm in the nutritional product industry in the PRC.

Upon receipt of purchase orders from our customers, our logistics department coordinates and arranges for the delivery of products to the designated locations of our customers. While our logistics staff deliver our products directly to our customers within Shanghai, we arrange for delivery of products through express delivery to customers in other areas of the PRC. For sales

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to some e-commerce companies, the finished products processed overseas are delivered to the airports in the PRC designated by our e-commerce companies, and our Group is not responsible for the delivery to any bonded warehouse nor handling any customs clearance.

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

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
<b>Online sales channels:</b>										
Direct sales to e-commerce companies	166,135	49.2	194,838	53.1	236,930	55.5	106,185	55.3	95,092	65.1
Sales through online shopping platforms to our customers	50,312	14.9	48,347	13.2	56,467	13.2	23,584	12.3	15,305	10.5
Others <i>(Note)</i>	—	—	—	—	18,130	4.3	2,604	1.3	7,453	5.1
Sub-total	216,447	64.1	243,185	66.3	311,527	73.0	132,373	68.9	117,850	80.7
<b>Offline sales channels:</b>										
Sales to regional distributors	115,665	34.3	114,759	31.2	108,523	25.5	53,735	28.0	26,413	18.1
Others <i>(Note)</i>	5,496	1.6	9,353	2.5	6,495	1.5	5,968	3.1	1,823	1.2
Sub-total	121,161	35.9	124,112	33.7	115,018	27.0	59,703	31.1	28,236	19.3
<b>Total revenue</b>	<b>337,608</b>	<b>100.0</b>	<b>367,297</b>	<b>100.0</b>	<b>426,545</b>	<b>100.0</b>	<b>192,076</b>	<b>100.0</b>	<b>146,086</b>	<b>100.0</b>

*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%, 73.0%, 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%, 25.5%, 28.0% and 18.1% of our total revenue, respectively. Our regional distributors distribute our products principally to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors, and we have no direct contractual relationship with any of them.

For details of our accounting policy on revenue recognition under each of the sales channels, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Revenue — Revenue recognition under each of the sales channels” in this document.

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### (i) Online sales channels

Since 2011, we have been selling our products on online shopping platforms. 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. During FY2021, FY2022, FY2023 and 6M2024, we sold our products to 19, 18, 18 and 13 e-commerce companies, respectively. During FY2021, FY2022, FY2023 and 6M2024, we sold our products mainly through two, three, four and four online shopping platforms to our customers, respectively. We periodically review the performance of online shopping platforms to decide whether to retain them. Leveraging the rapid development of e-commerce in the PRC as well as the extensive coverage and convenience of the internet, our Directors believe that online sales channels are cost-effective and efficient sales channels that enable our products to reach and build up a large customer base.

We adopt the business strategy of selling our nutritional products to e-commerce companies and through online shopping platforms despite certain online shopping platforms are operated by the same group of e-commerce companies (e.g. Customer A and Customer B). Our Directors are of the view that such business strategy of direct sales to e-commerce companies is compatible with that of our sales through online shopping platforms operated by the same e-commerce companies. According to the Frost & Sullivan Report:

- **Increase our brand exposure.** Selling directly to the e-commerce companies while also being featured on their online shopping platforms can increase overall brand visibility, making it easier for end-customers to discover our brand.
- **Channel differentiation.** By having both channels, our Group can target different target customer segments. Direct sales to e-commerce companies can focus on bulk orders, while sales through online shopping platforms can cater to individual consumers. This differentiation allows both channels to coexist without direct competition necessarily.
- **Unified brand messaging.** Selling at both channels can help our Group maintain consistent branding across all channels, reinforcing our brand identity whether the end-customers buy directly from the e-commerce companies or from us through online shopping platforms.
- **Unique offerings.** By having both channels, our Group can make unique offerings at different channels. For instance, our sales through online shopping platforms can include exclusive sales packages or offers that suit individual customers and differentiate from that sold by the e-commerce companies, thereby attracting a wider audience.
- **Cross-channel analytics.** Selling at both channels can enable our Group to analyse and identify recent market trends and formulate marketing strategies across all channels.



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*(a) Direct sales to e-commerce companies*

We sell our products directly to e-commerce companies, which are regarded as our customers, and they would on-sell our products on online shopping platforms to their customers. Our e-commerce customers include mainly (i) e-commerce companies (such as Customer A and Customer B) which conduct business-to-commercial sales via their own e-commerce sales platforms as well as allowing third parties (such as our Group) to conduct business-to-commercial sales via their e-commerce sales platforms; and (ii) e-commerce companies which only conduct business-to-commercial sales at third party e-commerce sales platforms. For example, Customer D sold our Group’s products to end-consumers in the PRC via Tmall (天貓國際) during the Track Record Period.

We arrange delivery of our products to the locations designated by the e-commerce companies. In particular, during the Track Record Period, our U.S. DHA Products were sold to e-commerce companies and were delivered to the airports in the PRC designated by the e-commerce companies, and our Group was not responsible for the delivery of our products to any bonded warehouse nor handling any customs clearance. Our products are generally sold to the e-commerce companies at a price that would allow moderate level of profit margin to them.

The respective framework sale and purchase agreements between the e-commerce companies and us set out the framework of our cooperation. We may enter into framework sale and purchase agreements with various subsidiaries of an e-commerce company for the sales of our products on different online shopping platforms maintained by them.

The following sets out the principal terms of the framework sale and purchase agreements with the e-commerce companies:

<b>Duration</b>	Typically one year
<b>Minimum purchase requirement</b>	Nil
<b>Sales target</b>	Nil
<b>Gross profit margin guarantee</b>	(for Customer A and Customer B only) We provide gross profit margin guarantee to the e-commerce companies ranging from 5% to 20%, which our Group agrees to reimburse the said customers margins being the difference of a calculated monthly gross profit and the said customers’ actual gross profit.
<b>Pricing</b>	The price of the products shall be agreed by the parties
<b>Payment method and credit terms</b>	Bank transfer with a credit term of typically 7 days after the issue of invoice

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### **Product quality requirements**

The main requirements include:

- (i) products and their packaging should be safe and in compliance with the standards of the industry and the relevant PRC laws and regulations;
- (ii) (for Customer A only) products should be manufactured within six months before delivery;
- (iii) upon delivery, the products shall not have passed more than one-third or half of their shelf life; and
- (iv) products should be properly packaged and labelled, and suitable for delivery and sales.

### **Products return arrangement**

Generally, we only accept return of products with quality issues. However, for Customer A and Customer B only, there are boiler-plate provisions enabling the e-commerce companies to return products (including dead stock) upon request of the e-commerce companies.

### **Conditions for terminating and renewing the agreements**

- 30 to 90 days’ written notice
- Automatic renewal for 90 days to a year after expiry of the agreement
- The e-commerce companies generally have the right to terminate the agreements in certain circumstances, including:
  - (i) our Group supplies fake, smuggled, flawed or parallel import products, products that infringe other’s rights or products recognised as non-compliant under the contract;
  - (ii) our Group ceases to supply products without any valid reason;
  - (iii) our Group is involved in commercial bribery, major lawsuits or significant negative news coverage;
  - (iv) our Group transfers the rights and obligations under the contract to a third party without their approval; or
  - (v) force majeure events.

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Although we have contractual obligation to accept product returns from the e-commerce companies pursuant to the above terms, we believe that the risk of having artificially inflated sales which are not substantiated by actual demands from ultimate end customers and the risk of having excessive inventories stocked in the operator’s warehouse is minimal because:

1. To the best of our Directors’ knowledge, the e-commerce companies usually place orders with us only when the quantity of products at their warehouse is insufficient to satisfy the forecast demands from their customers. Moreover, to the best of our Directors’ knowledge, the customers of the e-commerce companies are mainly individual customers. Therefore, our products usually quickly reach the end customers after the e-commerce companies have purchased from us, without being stuffed in their warehouses for a prolonged period;
2. The e-commerce companies, which are our direct customers, are generally popular online shopping platforms, and some of their holding companies are listed on NASDAQ Stock Market in the U.S. and/or the Stock Exchange. For instance, the holding company of Customer A is a company listed on the NASDAQ Stock Market in the U.S. and the Stock Exchange, and is a leading technology-driven e-commerce company and cloud infrastructure service provider in the PRC. The primary business model of such e-commerce companies is online direct retail sales, where the e-commerce companies acquire products from suppliers and sell them directly to their customers primarily through their websites and mobile Apps. We believe such e-commerce companies are able to analyse consumers’ demand and buying habits and to adopt appropriate marketing strategies and sophisticated inventory management; and
3. Despite the product return provisions in our framework sale and purchase agreements with the e-commerce companies, our Directors confirm that we have not received any reporting of significant amount of product returns during the Track Record Period and up to the Latest Practicable Date. In some cases, as the end customers enjoy the right to return products to the e-commerce companies without stating any reason within seven days of purchase pursuant to the Law of the PRC on the Protection of Consumers’ Rights and Interests (《中華人民共和國消費者權益保護法》), such products might be returned by the e-commerce companies to us since they do not re-sell returned goods to end customers. The percentage of sales returns from the e-commerce companies to our total sales to the e-commerce companies was less than 2.4% for each of FY2021 and FY2022, FY2023 and 6M2024.

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*(b) Sales through online shopping platforms to our customers*

We also sell our products through online shopping platforms to our customers. During the Track Record Period, the online shopping platforms through which a substantial portion of our revenue was derived from included Taobao, Douyin and JD.com. The e-commerce companies, which are the operators of online shopping platforms, provide us the network web space for launching our online stores at their platforms, technical support and software system, and generally charge us an annual fee and technical service fee amounting to a certain percentage over sales proceeds or the transaction amount recorded in the payment system from our customers. The following sets out the typical terms of our cooperation agreements with the e-commerce companies:

<b>Duration</b>	Generally one year
<b>Service provided</b>	<p>The operators usually provide software services in relation to internet information services, including the software system for searching commodities, creating orders, managing transactions and completing payment.</p> <p>They would also display information of our products through their web pages and provide a platform where we can conduct transactions and communicate with our customers.</p>
<b>Service fee</b>	An annual fee plus a real-time debit, which is the technical service fee calculated based on the transaction amount recorded in the payment system.
<b>Termination</b>	<p>In general, each party may terminate the agreement by giving prior written notice (usually 15 or 30 days).</p> <p>The agreement may also be terminated:</p> <ul style="list-style-type: none"><li>— if there is a breach of the agreement on our part to the extent that the cooperation must be terminated as agreed therein or we fail to rectify such breach after being notified by the e-commerce companies within reasonable period for rectification;</li><li>— if we are no longer a legal entity; or</li><li>— if we fail to log into our service account for a significant period.</li></ul>

We are responsible for uploading our product information onto the online stores and maintaining the web pages of our online stores. We also provide customer services and after-sales services to our customers through the online shopping platforms. Our customers make payments through the electronic settlement services provided by the operators upon

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placing an order. We will then arrange for the delivery of the products to our customers. The sales proceeds net the operators’ service fees will be remitted to us promptly. A “regional distributor service fee” may be paid to the relevant regional distributors engaged for the region in which such customers are located to compensate their advertising and marketing efforts in such regions. Such fee is generally calculated with reference to the sales proceeds deducting our service fee, transportation cost, commission and promotional fees paid to the platform operators, cost of the products and the discount rate offered to such distributors.

### (ii) Regional Distributors

As at the Latest Practicable Date, we had a total of 17 regional distributors in the PRC, which then sold and distributed our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors. We consider regional distributors to be our direct customers. Our regional distributors are private companies based in the PRC and are principally engaged in the sales and distribution of maternal and children products.

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. Our distributors sell and distribute our products principally to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors. We do not prohibit our distributors to engage sub-distributors to sell our products. Based on the sales reports provided by our five largest regional distributors for each year/period during the Track Record Period, save for Beijing Aomei Xingchen, none of those five largest regional distributors engaged sub-distributors to distribute our products during the Track Record Period.

The following table sets forth the breakdown of our revenue from regional distributors by city tiers during the Track Record Period:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
First-tier	52,090	45.0	67,293	58.6	54,352	50.1	28,845	53.7	14,284	54.1
New first-tier	42,916	37.1	31,668	27.6	37,612	34.7	16,741	31.2	8,575	32.5
Second-tier	18,841	16.3	14,680	12.8	14,299	13.2	7,260	13.5	3,145	11.9
Third-tier or below	1,818	1.6	1,118	1.0	2,260	2.0	889	1.6	409	1.5
<b>Total revenue from regional distributors</b>	<b>115,665</b>	<b>100.0</b>	<b>114,759</b>	<b>100.0</b>	<b>108,523</b>	<b>100.0</b>	<b>53,735</b>	<b>100.0</b>	<b>26,413</b>	<b>100.0</b>

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

	FY2021				FY2022				FY2023				6M2024							
	Revenue RMB'000	Sales volume Unit'000 (Notes (a) & (b))	Average selling price RMB/Unit	Gross profit margin %	Revenue RMB'000	Sales volume Unit'000 (Notes (a) & (b))	Average selling price RMB/Unit	Gross profit margin %	Revenue RMB'000	Sales volume Unit'000 (Notes (a) & (b))	Average selling price RMB/Unit	Gross profit margin %	Revenue RMB'000	Sales volume Unit'000 (Notes (a) & (b))	Average selling price RMB/Unit	Gross profit margin %				
Type A regional distributors	74,247	423	175.5	49.595	66.8	57,351	311	184.4	40,148	70.0	59,946	328	182.8	44,645	74.5	10,120	53	190.9	6,932	68.5
Type B regional distributors	3,213	16	200.8	2,126	66.2	2,746	14	196.1	1,907	69.4	6,138	24	255.8	4,131	67.3	416	2	208.0	265	63.7
Type C regional distributors	38,205	247	154.7	24,035	62.9	54,662	337	162.2	35,462	64.9	42,439	272	156.0	28,520	67.2	15,877	103	154.1	9,474	59.7
Total	115,665	686	168.6	75,756	65.5	114,759	662	173.4	77,517	67.5	108,523	624	173.9	77,296	71.2	26,413	158	167.2	16,671	63.1

Notes:

- Each unit is equivalent to a package of our product.
- The sales volume in respect of each type of regional distributors 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 is simply an overall indicator determined by the sales volume of different product mix during the years/period.



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For each year/period of the Track Record Period, (i) Type A regional distributors had the highest gross profit margin mainly because our Group was able to charge a higher gross profit margin given their geographic exclusivity; and (ii) Type C regional distributors had the lowest gross profit margin given that Type C regional distributors would be distributing our Group’s products to the third and fourth-tier cities in the PRC (i.e. the markets which our Group strives to enter in) with greater effort.

During the Track Record Period, all of our revenue generated from our regional distributors was from those with recurring orders. Sales are regarded as recurring in nature if the regional distributor concerned purchased more than once from us since the commencement of our business relationships and up to the Latest Practicable Date.

We adopt a regional distributorship model because our Directors believe that this is a cost-effective and common practice in the industry to sell our products to a wider customer base and diversified geographical markets. In particular, our Type A regional distributors are generally expected to have stronger sales capabilities and are relatively more experienced in the nutritional product industry. By engaging them to promote and distribute our products, we can focus our resources on our brand development and managing different distribution channels. We started to engage Type B regional distributors since early 2017 to sell and distribute our products with an aim to penetrate into less developed regions which cannot be covered by the distribution networks of Type A regional distributors. Since 2020, we engaged Shanghai Yicunxin as a Type C regional distributor. Pursuant to our distribution agreements with Shanghai Yicunxin, Shanghai Yicunxin is allowed to promote and distribute our products in all regions in the PRC except the regions designated to Type A regional distributors.

As at 30 June 2024, we engaged 11 Type A regional distributors, four Type B regional distributors and two Type C regional distributors to promote and sell our products.

The table below shows the movements in the number and turnover rate of our regional distributors for the following years/periods:

	FY2021	FY2022	FY2023	6M2024	Subsequent to the Track Record Period and up to the Latest Practicable Date
Number of regional distributors at the beginning of the year/period	32	28	29	26	17
Addition of new regional distributors during the year/period	2	4	4	—	—
Number of regional distributors terminated or not renewed during the year/period	(6)	(3)	(7)	(9)	—
Number of regional distributors at the end of the year/period	<u>28</u>	<u>29</u>	<u>26</u>	<u>17</u>	<u>17</u>
Turnover rate of regional distributors (Note)	18.8%	10.7%	24.1%	34.6%	—

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*Note:* The turnover rate of regional distributors for the relevant year/period represented the number of regional distributors terminated or not renewed during the year/period as a percentage of the number of regional distributors at the beginning of that year/period. According to the Frost & Sullivan Report, the 2023 market turnover rate of regional distributors in the PRC was generally 20%–40% and the turnover rate of our regional distributors in FY2023 was within the industry range.

We review our regional distributors’ performance annually, and we formulate annual sales target with them on an individual basis after taking into account their respective sales level in the prior year and their sales capability with reference to their scale of operations. During FY2021, FY2022, FY2023 and 6M2024, we did not renew or we terminated the engagement of six, three, seven and nine regional distributors, respectively, and the reason for non-renewal or termination was mainly because we found their sales performance not satisfactory for a prolonged period and we did not foresee any improvement of their sales performance in near future.

During 6M2024, due to (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 product market faced reduced demand following the spike in 2023; and (ii) the economic downturn in the PRC during the first half of 2024, the maternal and children nutritional product industry was negatively affected. Certain regional distributors failed to or projected to be unable to meet the sales targets under the distribution agreements. As a result, there were more termination or non-renewal of distribution agreement, and the number of our regional distributors decreased from 26 as at 31 December 2023 to 17 as at 30 June 2024. As at 31 December 2021, 31 December 2022 and 31 December 2023, the number of our regional distributors remained relatively stable.

We require our Type A and Type B regional distributors to make upfront payments before delivery of products to them, while we bill our Type C regional distributors on a monthly basis or require our Type C regional distributors to make upfront payments before delivery of products to it. We recognise our revenue when we delivered the products to our regional distributors, which indicated the risks of and titles to the products have been passed. According to the distribution agreements we entered into with our regional distributors, we set a reference retail price for each of our products as pricing guideline and our regional distributors have no right to return our products to us except when the products or packagings are defective in quality or upon termination of the distribution agreements. Within 30 days after the termination of a distribution agreement, if not more than half of the shelf life of the unsold products has passed, our regional distributors generally can return such products to us which would be stored at our warehouses, and we will refund the purchase price of such products to our regional distributors. Such product return policy is in line with the industry practice, according to Frost & Sullivan. The amount of return from sales to regional distributors for each of FY2021, FY2022, FY2023 and 6M2024 was not more than approximately 2.0% of our total sales to regional distributors, respectively. The products returned from our regional distributors would be classified and recognised as our inventories at the respective purchase prices and the refund amounts would be deducted from cash and bank balances. Meanwhile, the corresponding sales and cost of sales would also be reversed. Our management would estimate the amounts of product returns from customers which are subject to refund liabilities and considered at the end of each reporting period, and any refund liabilities which are considered significant, if any, should be recognised by netting off against the consideration (i.e. revenue recognised).

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As at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, we had 28, 29, 26 and 17 regional distributors, respectively. To the best knowledge of our Directors, among these regional distributors, six groups involving 11 regional distributors (the “**Regional Distributors with Overlapping Personnel**”) have common shareholders, directors or senior management members with other regional distributors of our Group during the Track Record Period. For FY2021, FY2022, FY2023 and 6M2024, our revenue from sales to the Regional Distributors with Overlapping Personnel amounted to approximately RMB27.8 million, RMB23.0 million, RMB17.7 million and RMB2.8 million, respectively, representing approximately 8.2%, 6.3%, 4.1% and 1.9% of our total revenue, respectively. To the best knowledge of our Directors, the reasons for the stakeholders of the Regional Distributors with Overlapping Personnel to use different companies to transact with us were mainly because our regional distributors are restricted under the distribution agreements to sell and distribute our products in their respective designated distribution region only, and our regional distributors are liable to our Group for Unauthorised Distribution committed by their sub-distributors. If the stakeholders want to sell and distribute our products in other regions, they need to incorporate companies in those regions and re-negotiate with us to sign distribution agreements with us.

### **Selection of regional distributors**

We meet with potential new regional distributors by participating in trade fairs and industry events for buyers, manufacturers, distributors and suppliers in the maternal and children nutritional product industry all over the world. For instance, in July 2021 and June 2023, we participated as an exhibitor by setting up our booth in the 21st and 22nd Children Baby Maternity Expo (第21及22屆CBME孕嬰童展) in Shanghai, which were among the world’s largest trade fairs for child, baby and maternity products and services.

Since we distribute our products through regional distributors, in order to maintain an effective distribution network, we adopted an internal selection policy when selecting our regional distributors. We consider the background and credentials of each potential regional distributor and select them based on various factors including their scale of operation, strategy and compatibility with our brands, number of downstream sales channels, growth capability, target customers, market influence and competitiveness in local market, credit worthiness and logistics capabilities.

### **Management of and control over our regional distributors**

We impose various control measures over our regional distributors. For instance, we have designated a geographical area to each regional distributor and prohibit them from conducting sales online. During the Track Record Period, among our Type A regional distributors and Type B regional distributors, we generally maintained a single regional distributor covering each city or region to manage any potential competition amongst our regional distributors. Our regional distributors are authorised to sell and distribute our products within their respective authorised distribution region only, and are not authorised to sell and distribute our products outside their authorised distribution regions. Our regional distributors are also generally not allowed to sell and distribute other products which are the same as, similar to or in competition with our products within their authorised distribution regions.

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Pursuant to our distribution agreements with the regional distributors, our Group is entitled to exercise certain control over our regional distributors, which include restrictions on permitted sales channels and types of products to be sold, prescribed geographical territory and reference retail price as guidance. We conduct ad hoc checks over our regional distributors to assess their compliance with our distribution agreements with them.

To enhance our customers’ knowledge of our products and to better understand their needs and preferences to improve our products and services, our sales and marketing department provides product training to our regional distributors and handles their enquiries, suggestions and complaints. We also visit and communicate with retail outlets from time to time in order to gather market information and understand the demands of our customers.

To ensure our sales to regional distributors reflect genuine market demand and mitigate the risk of cannibalisation among our regional distributors, we have adopted certain measures, the details of which are set out in the paragraph headed “Measures to mitigate the risks of cannibalisation and channel stuffing — Mitigation of the risk of cannibalisation among regional distributors” in this section.

### ***Control over sub-distributors***

We do not prohibit our regional distributors to engage sub-distributors to sell our products. Based on the sales reports provided by our five largest regional distributors for each year/period during the Track Record Period, save for Beijing Aomei Xingchen, none of those five largest regional distributors engaged sub-distributors to sell and distribute our products during the Track Record Period. We do not have any direct contractual relationship with the downstream sub-distributors of our regional distributors. However, our regional distributors are obliged to ensure the compliance of their downstream sub-distributors with the obligations under the distribution agreements with us. We conduct ad hoc checking on the internet and at retail stores over the distribution of our products in the PRC, and if we discover any non-compliance, the defaulting regional distributors shall be responsible and shall be subject to penalties. We also encourage our regional distributors to report Unauthorised Distribution by other regional distributors.

According to our distribution agreements with the regional distributors, we reserve our right to request our regional distributors to provide us with a report on their sales results and market promotion at least once a month.

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We have measures to avoid inventory accumulation by the regional distributors. The title of our products are transferred to the regional distributors upon our delivery of products, and the amount of unsold inventory held by them is not verified by us. However, we monitor the purchase orders of our regional distributors and we hold discussions with our regional distributors when there is significant variation in their demands in order to better understand market demands for our products and to prevent artificial sales which are not supported by the ultimate end customers’ demand. On the other hand, our Directors believe that our Type A and Type B regional distributors have no commercial rationale to accumulate inventory since (i) we generally require upfront payments for our products from Type A and Type B regional distributors before delivery of products and inventory accumulation may cause them cash flow pressure; (ii) any accumulation of inventory of our products by our Type A and Type B regional distributors would incur additional operating costs (such as warehousing and shelf-space fees); (iii) the regional distributors may return the products to our Group only when such products or packagings are defective in quality or upon termination of distribution agreement; (iv) given that our products typically have a shelf life of 24 to 36 months from the date of manufacturing, inventory accumulation may expose them to the risk of writing off expired inventories; and (v) the minimum purchase volume condition per purchase order is imposed only for the purpose of avoiding unnecessary transportation costs for tiny orders. According to the distribution agreements with our Type C regional distributors, we would arrange for the delivery of our products to their customers directly. Therefore, there is no risk of accumulation of inventory by the Type C regional distributors. Based on (i) the amount of return from sales to regional distributors for each of FY2021, FY2022, FY2023 and 6M2024 which was not more than approximately 2% of our total sales to regional distributors, respectively; (ii) the sales reports provided by our five largest regional distributors for each year/period during the Track Record Period in which their customers were mainly retail stores; and (iii) the average inventory turnover days at our regional distributors was less than 47 days for each year/period during the Track Record Period, our Directors are of the view that there are genuine demands from regional distributors for our products and that the likelihood of inventory accumulation by our regional distributors is minimal.

In respect of our Type A regional distributors, considering that they are authorised to promote and distribute our products exclusively in their respective designated distribution regions, we would pay compensation to our Type A regional distributors in respect of our sales through online shopping platforms to our customers in the designated distribution regions of the relevant Type A regional distributors.

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### Distribution agreements

We generally enter into framework distribution agreements with our distributors under which our regional distributors make purchases on a per-order basis. The principal terms of the distribution agreements are summarised as follows:

	Type A regional distributors	Type B regional distributors	Type C regional distributors
<b>Duration</b>	<ul style="list-style-type: none"> <li>Approximately 12 months.</li> </ul>		
<b>Geographic or other exclusivity</b>	<ul style="list-style-type: none"> <li>Geographically exclusive within an authorised distribution region.</li> </ul>	<ul style="list-style-type: none"> <li>Generally only one regional distributor within a region.</li> </ul>	<ul style="list-style-type: none"> <li>All regions in the PRC except the regions designated to Type A regional distributors.</li> <li>Regions designated to Type B regional distributors with our consent. <i>(Note 1)</i></li> </ul>
	<ul style="list-style-type: none"> <li>The regional distributor is generally not allowed to sell and distribute other products which are the same as, similar to or in competition with our products.</li> </ul>		
<b>Rights and obligations of the parties</b>	<ul style="list-style-type: none"> <li>The regional distributor is obliged to sell and promote our products within the authorised distribution region in accordance with the terms of the agreement.</li> <li>Our Group is responsible for delivering quality products and handling complaints on product quality.</li> </ul>		
<b>Sales and pricing policies</b>	<ul style="list-style-type: none"> <li>The regional distributor has discretion in deciding its downstream sales and distribution channels, save that it is not allowed to sell our products online.</li> <li>Fixed selling price for sales to the regional distributor and reference retail price as pricing guideline for sales to retail customers.</li> </ul>		
<b>Products return arrangements</b>	<ul style="list-style-type: none"> <li>Upon delivery, the regional distributor should examine the type, quantity, quality and packaging of our products and inform us of any defects immediately, followed by written notice within three or five days. If there is any defect of products, we will arrange for return of products.</li> <li>If we acknowledge any complaint from the regional distributor or its customers on product quality, we will arrange for return of products.</li> </ul>		
<b>Any minimum purchase volume</b>	<ul style="list-style-type: none"> <li>Our Group will not accept order unless certain minimum purchase volume is met.</li> </ul>		<ul style="list-style-type: none"> <li>No minimum purchase volume.</li> </ul>
<b>Payment and credit terms</b>	<ul style="list-style-type: none"> <li>Payment before delivery.</li> <li>Security deposit has to be paid following the execution of the distribution agreement.</li> </ul>		<ul style="list-style-type: none"> <li>Monthly billing with credit terms of two months or payment before delivery.</li> </ul>



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	Type A regional distributors	Type B regional distributors	Type C regional distributors
<b>Sales targets</b>	<ul style="list-style-type: none"> <li>Annual and quarterly sales targets.</li> <li>If the annual sales amount exceeds the annual sales target, the regional distributors would be entitled to a sales bonus. If the annual sales target is not met, we may levy penalties on the regional distributor. (Note 2)</li> </ul>	<ul style="list-style-type: none"> <li>Average monthly sales target.</li> </ul>	<ul style="list-style-type: none"> <li>Annual sales target, which is much higher than those of other regional distributors.</li> <li>If the annual sales amount exceeds the annual sales target, the regional distributor would be entitled to certain sales rebate.</li> </ul>
<b>Sales reports</b>	<ul style="list-style-type: none"> <li>We have the right to request reports from the regional distributor on its sales results and market promotion at least once a month to monitor its sales performance.</li> </ul>		
<b>Right to terminate by the regional distributor</b>	<ul style="list-style-type: none"> <li>If the market conditions are not satisfactory, subject to our approval, the regional distributor may terminate the agreement by one-month written notice.</li> </ul>		
<b>Right to terminate by us</b>	<ul style="list-style-type: none"> <li>By one-month written notice.</li> <li>If the regional distributor fails to meet the sales target for a prolonged period of time.</li> </ul>		
<b>Right to terminate by both</b>	<ul style="list-style-type: none"> <li>By mutual agreement.</li> <li>30 days after a notice issued by the notifying party to the defaulted party for remedy of the default.</li> </ul>		
<b>Right to renewal</b>	<ul style="list-style-type: none"> <li>If either party does not wish to renew the agreement upon its expiry, it should notify the other party in writing 30 days before the expiry of the agreement.</li> </ul>		

*Notes:*

- (1) In 2020, when we entered into the distribution agreement with the Type C regional distributor, we invited our Type B regional distributors to declare the names of the retail stores to which they distributed our products. We would not give consent to the Type C regional distributor to market, sell or distribute our products to the retail stores declared as customers by our Type B regional distributors, unless such retail stores do not record any sales of our products for three consecutive months.
- (2) For FY2021, FY2022, FY2023 and 6M2024, the aggregate amount of penalty levied on our regional distributors for failing to meet the annual sales targets was approximately RMB0.8 million, nil, RMB1.7 million and nil, respectively. Our management considered whether to charge the penalty on the regional distributors in accordance with the terms of the distribution agreements taking into account the deviation from the sales target, our business relationship with the regional distributor which fails to meet the sales target and any extraordinary factors affecting the sales of the regional distributor. For FY2022, some of our regional distributors failed to meet their annual sales targets. However, we did not charge the regional distributors the penalties having considered our relationship with the regional distributors and the then market conditions as affected by COVID-19.

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Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, save for Unauthorised Distribution, none of our regional distributors have breached any material terms of the distribution agreements.

### ***Engaging Shanghai Yicunxin as our Type C regional distributor***

#### ***Background of Shanghai Yicunxin and our Group***

As disclosed above, during the Track Record Period, our Type A and Type B regional distributors mainly sold and distributed our products in first, new first and second-tier cities, such as Beijing, Chongqing, Jinan, Xi'an etc. Eyeing the potential in the market for nutritional products in the third and fourth-tier cities in the PRC, our Group strives to extend our distribution networks to cities that had not been covered by our Type A and Type B regional distributors. However, it would take time and costs to engage and manage new regional distributors if our Group is to engage separate regional distributors for each of the third and fourth-tier cities in the PRC. In April 2020, we engaged Shanghai Yicunxin as our Type C regional distributor, and some of our products were sold to the third and fourth-tier cities in the PRC by Shanghai Yicunxin during the Track Record Period.

Shanghai Yicunxin was established in the PRC in 2019. It principally engages in selling and distributing nutritional products to maternal and children product stores, pharmacies, postpartum care centres and other retail stores throughout the PRC. The ultimate beneficial owner of Shanghai Yicunxin held interest in another PRC company, and Far-East Fortune (being our Controlling Shareholder) was one of the founders of Shanghai Yicunxin with 25% equity interest but has disposed of such interest in October 2020.

#### ***Loan to Shanghai Yicunxin prior to the Track Record Period***

Prior to the Track Record Period, our Group entered into a loan agreement with Shanghai Yicunxin, pursuant to which our Group agreed to grant a loan in the principal amount of RMB5 million to Shanghai Yicunxin for a period of nine months at an interest rate of 4.35% per annum. A total loan amounts of RMB2 million and RMB3 million were released by our Group to Shanghai Yicunxin in April 2020, and the principal was fully repaid on 31 December 2020. In view of the relatively short loan term (i.e. less than a year) and the satisfactory sales performance accomplished by Shanghai Yicunxin during the relevant period, our Group agreed to waive the interest to be charged on the loan balance, pursuant to a supplemental agreement between our Group and Shanghai Yicunxin. As confirmed by our Directors, the above-mentioned loan was granted by our Group to facilitate the start-up of Shanghai Yicunxin having considered that Shanghai Yicunxin could sell and distribute our products in the third and fourth-tier cities in the PRC.

Save for the former shareholding by Far-East Fortune as disclosed above, our loan to Shanghai Yicunxin as disclosed above and our business relationship with Shanghai Yicunxin as our Type C regional distributor, our Group, our Directors, our Controlling Shareholders and their respective associates have no other relationship with Shanghai Yicunxin, its shareholders, directors and their respective associates.

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### *Reasons for different arrangement with Shanghai Yicunxin as our Type C regional distributor*

We engaged Shanghai Yicunxin as our Type C regional distributor which had different arrangement for the following reasons:

- the objective of engaging Shanghai Yicunxin is to extend our distribution networks to cities (in particular, third and fourth-tier cities) that were not covered by our Type A and Type B regional distributors. However, establishing and managing new regional distributors for each of these cities across the PRC would involve both time and costs. As our Group lacked existing distribution networks in these cities, the popularity and reputation of our products was generally lower in these areas. Furthermore, our Directors are of the view that the purchasing power of consumers in Shanghai Yicunxin’s target markets is relatively lower. Consequently, Shanghai Yicunxin would need to spend greater efforts to promote our products. Imposing a minimum purchase volume might discourage Shanghai Yicunxin to cooperate with our Group;
- Shanghai Yicunxin sold and distributed our products to numerous cities in the PRC during the Track Record Period, and those cities are dispersed across the PRC. Moreover, the selling price to Shanghai Yicunxin is generally lower when compared to the Type A and Type B regional distributors. Our Directors are of the view that implementing direct delivery to Shanghai Yicunxin’s customers can ensure that our products are delivered to the intended market, and effectively mitigate the risk of distribution in unauthorised regions by Shanghai Yicunxin; and
- our Directors believe that such arrangement would encourage and facilitate the promotion of the brands of our Group in the third and fourth-tier cities in the PRC, hence beneficial to the interest of our Group.

### *Our revenue from Shanghai Yicunxin during the Track Record Period*

Our revenue from Shanghai Yicunxin amounted to approximately RMB38.2 million, RMB54.7 million, RMB42.3 million and RMB13.2 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing approximately 11.3%, 14.9%, 9.9% and 9.0% of our total revenue, respectively. Despite Shanghai Yicunxin commenced business relationship with us in 2020, it has become our largest regional distributor for each year/period during the Track Record Period mainly because Shanghai Yicunxin is a Type C regional distributor in which it is authorised by us to sell and distribute our products in all regions in the PRC (except the regions designated to our Type A regional distributors).

During the Track Record Period and up to the Latest Practicable Date, we have not identified any material non-compliance with the terms and conditions of our distribution agreements that was not rectified in a timely manner by our regional distributors.

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### Our five largest regional distributors

The tables below set out the details of our five largest regional distributors for each year/period during the Track Record Period:

#### FY2021

Regional Distributor	Type of regional distributor	Principal business	Type of products purchased	Business relationship since	Credit term/ payment method	Our sales to the regional distributors for the year	
						(RMB'000)	(% of our total revenue)
1. Shanghai Yicunxin	Type C regional distributor	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional products	2020	Two months/ bank transfer	38,205	11.3
2. Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional products	2007	Upfront payment/bank transfer	20,213	6.0
3. Shanxi Xidi Trading Co., Ltd.* (陝西地商貿有限責任公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Xi'an and Xianyang	All of our nutritional products	2007	Upfront payment/bank transfer	9,153	2.7
4. Shandong Youjian Food Co., Ltd.* (山東優健食品有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Jinan	All of our nutritional products	2018	Upfront payment/bank transfer	8,134	2.4
5. Beijing Aomei Xingchen	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Northeastern and North China	All of our nutritional products	2007	Upfront payment/bank transfer	5,715	1.7
<b>Five largest regional distributors in aggregate</b>						<b>81,420</b>	<b>24.1</b>
All other customers						256,188	75.9
<b>Total revenue</b>						<b>337,608</b>	<b>100.0</b>

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### FY2022

Regional Distributor	Type of regional distributor	Principal business	Type of products purchased	Business relationship since	Credit term/ payment method	Our sales to the regional distributors for the year	
						(RMB'000)	(% of our total revenue)
1. Shanghai Yicunxin	Type C regional distributor	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/ bank transfer	54,662	14.9
2. Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional and milk powder products	2007	Upfront payment/bank transfer	11,193	3.0
3. Shanxi Xidi Trading Co., Ltd.* (陝西西地商貿有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Xi'an and Xianyang	All of our nutritional and milk powder products	2007	Upfront payment/bank transfer	8,164	2.2
4. Shandong Youjian Food Co., Ltd.* (山東優健食品有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Jinan	All of our nutritional and milk powder products	2018	Upfront payment/bank transfer	5,405	1.5
5. Shanxi Qianbairun Pharmaceutical Co., Ltd.* (山西乾佰潤醫藥有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Taiyuan	All of our nutritional and milk powder products	2014	Upfront payment/bank transfer	4,371	1.2
Five largest regional distributors in aggregate						83,795	22.8
All other customers						283,502	77.2
Total revenue						367,297	100.0

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### FY2023

Regional Distributor	Type of regional distributor	Principal business	Type of products purchased	Business relationship since	Credit term/ payment method	Our sales to the regional distributors for the year	
						(RMB'000)	(% of our total revenue)
1. Shanghai Yicunxin	Type C regional distributor	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/ bank transfer	42,276	9.9
2. Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional and milk powder products	2007	Upfront payment/bank transfer	14,835	3.5
3. Shanxi Xidi Trading Co., Ltd.* (陝西西地商貿有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Xi'an and Xianyang	All of our nutritional products	2007	Upfront payment/bank transfer	8,366	2.0
4. Shanxi Qianbairun Pharmaceutical Co., Ltd.* (山西乾佰潤醫藥有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Taiyuan	All of our nutritional products	2014	Upfront payment/bank transfer	5,637	1.3
5. Beijing Aomei Xingchen	Type A regional distributor	PRC company engaging in the distribution of nutritional products in Northeastern and North China	All of our nutritional products and milk powder products	2007	Upfront payment/bank transfer	5,574	1.3
Five largest regional distributors in aggregate						76,688	18.0
All other customers						349,857	82.0
Total revenue						426,545	100.0



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### 6M2024

Regional Distributor	Type of regional distributor	Principal business	Type of products purchased	Business relationship since	Credit term/ payment method	Our sales to the regional distributors for the period	
						(RMB'000)	(% of our total revenue)
1. Shanghai Yicunxin	Type C regional distributor	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/ bank transfer	13,169	9.0
2. Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional products	2007	Upfront payment/bank transfer	2,841	1.9
3. Hunan NiceLife Health Technology Co., Ltd.* (湖南奈斯奈芙健康科技有限公司)	Type C regional distributor	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional products	2023	Upfront payment/bank transfer	2,708	1.9
4. Shanxi Qianbairun Pharmaceutical Co., Ltd.* (山西乾佰潤醫藥有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Taiyuan	All of our nutritional products	2014	Upfront payment/bank transfer	1,275	0.9
5. Shandong Youjian Food Co., Ltd.* (山東優健食品有限公司)	Type A regional distributor	A PRC company engaging in the distribution of nutritional products in Jinan	All of our nutritional products	2018	Upfront payment/bank transfer	1,241	0.8
Five largest regional distributors in aggregate						21,234	14.5
All other customers						124,852	85.5
Total revenue						146,086	100.0

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### Relationship with our regional distributors

Our relationship with our regional distributors is that of seller and buyer, rather than principal and agent, as we do not control the actual business operations of our regional distributors beyond the contractual obligations stipulated in the distribution agreements. Save for product liability, all significant risks and rewards of ownership of our products are transferred to our regional distributors upon delivery of our products, at which point we recognise our revenue.

To the best of the knowledge of our Directors, (i) save for the relationship with Shanghai Yicunxin and Hunan NiceLife Health Technology Co., Ltd.\* (湖南奈斯奈芙健康科技有限公司) as disclosed below, all of our regional distributors during the Track Record Period were independent third parties; (ii) none of them was wholly-owned or majority controlled by our current or former employees; (iii) none of them was our supplier during the Track Record Period; (iv) none of them had traded under or used our brands during the Track Record Period save for the marketing, sales and distribution of our branded products; and (v) apart from a loan of RMB5.0 million to Shanghai Yicunxin during the year ended 31 December 2020, which was fully repaid in the same year, none of them had received any material advance or financial assistance from our Group during the Track Record Period.

The ultimate beneficial owner of Shanghai Yicunxin held interest in another PRC company, in which Far-East Fortune (being our Controlling Shareholder) was one of the founders with 25% equity interest but has disposed of such interest in October 2020. For details, please refer to the paragraph headed “Sales and distribution — (ii) Regional distributors — Engaging Shanghai Yicunxin as our Type C regional distributor” in this section.

An ultimate beneficial owner directly and indirectly holding 38% equity interest in Hunan NiceLife Health Technology Co., Ltd.\* (湖南奈斯奈芙健康科技有限公司) was a former employee of our Group.

During the Track Record Period, our gross profit margin for Shanghai Yicunxin was comparable with the other Type C regional distributor.

We believe that our distribution network is not easily replicable because it is achieved through a long-term process of searching for, identifying, negotiating with, selecting and managing qualified regional distributors in different regions across the country. Our sales mechanism also requires a highly effective internal management system to control and support our distribution network. Over the years, we have also developed pricing strategies to incentivise our regional distributors with moderate level of profit margins.

### MEASURES TO MITIGATE THE RISKS OF CANNIBALISATION AND CHANNEL STUFFING

Our products are sold through various sales channels so as to reach the end-consumers in different geographic locations in the PRC and on different platforms in a cost-effective manner. We adopt several measures to mitigate the risk of cannibalisation within and across our sales channels.

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### **Mitigation of the risk of cannibalisation among regional distributors**

To ensure our sales to our regional distributors reflect genuine market demand of our products and to mitigate the risk of cannibalisation among our regional distributors, we have adopted the following measures:

- (a) our regional distributors are restricted under the distribution agreements to sell and distribute our products in their respective designated distribution region only. During the Track Record Period, for our Type A regional distributors and Type B regional distributors, we generally maintained a single distributor covering each city or region to manage any potential competition amongst our regional distributors;
- (b) pursuant to the distribution agreements between our regional distributors and us, we prohibit our regional distributors to engage in online sales to sell and distribute our products;
- (c) in 2020, when we entered into the distribution agreement with the Type C regional distributor, we invited our Type B regional distributors to declare the names of the retail stores to which they distributed our products. We would not give consent to the Type C regional distributor to market, sell or distribute our products to the retail stores declared as customers by our Type B regional distributors, unless such retail stores do not record any sales of our products for three consecutive months;
- (d) we conduct ad hoc checking on the internet and at retail stores to identify Unauthorised Distribution by our regional distributors. We also encourage our regional distributors to report Unauthorised Distribution by other regional distributors;
- (e) if we discover that a regional distributor has conducted Unauthorised Distribution, we have the right to repurchase the products from the market and levy penalties on that regional distributor, to suspend our delivery of products to that regional distributor, or to terminate the distributorship in case of repeated and serious breaches. The amount of penalties shall include (i) the repurchase price of the products identified and repurchased; (ii) the related transportation costs for repurchasing the products from the market; and (iii) fines, while the repurchase price and fines are subject to increment, in case of repeated breaches identified within the same year. For each of FY2021, FY2022, FY2023 and 6M2024, the sum of penalties levied on our regional distributors in relation to the Unauthorised Distribution during the relevant periods were approximately RMB352,000, RMB374,000, RMB164,000 and RMB205,000, respectively.

For each of FY2021, FY2022, FY2023 and 6M2024, the total amounts of penalties levied by us on our regional distributors over the amounts of our total sales to our regional distributors are not constant because:

1. the related transportation costs for repurchasing the products from the market vary depending on the transportation distance and location of the relevant market;

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2. there is a timing difference between the sales to our regional distributors and the repurchase of the products and levying of penalties; and
  3. the repurchase price of the products and fines are subject to increments in case of repeated breaches identified within the same year.
- (f) we set the reference retail price of our products as pricing guideline for our regional distributors;
- (g) we have clear products return policy, pursuant to which regional distributors shall only be entitled to return our products when the products or packagings are defective in quality or upon termination of the distribution agreements where not more than half of the shelf life of the unsold products has passed;
- (h) we keep track of any potential competition among our regional distributors by communicating with them from time to time; and
- (i) in order to mitigate the cannibalisation risk that our regional distributor sells and distributes our products to a sub-distributor in a region which overlaps with another existing regional distributor of ours, we have adopted the following measures:
- under the distribution agreements, our regional distributors, whether by themselves or their sub-distributor, are prohibited to sell and distribute our products outside their respective designated distribution region;
  - our products are printed with a regional code to identify the designated area for sale, which enables us to track Unauthorised Distribution by the sub-distributor; and
  - under the distribution agreements, our regional distributors are also liable to our Group for Unauthorised Distribution committed by their sub-distributors.

### **Mitigation of the risk of cannibalisation among different sales channels**

According to Frost & Sullivan, maternal and children nutritional product companies often engage distributors for the distribution of their products due to the vast territory in the PRC while some companies also sell their products directly through both online and offline channels.

In line with the market practice in the industry, we sell and distribute our products through various sales channels to cater for consumers with different spending behaviours and to strengthen our brand recognition. Our Directors believe that cannibalisation across different sales channels is contained through our control measures. For example, our regional distributors are not allowed to sell our products online to avoid competition with our online sales channels. We evaluate the sales performance of our different sales channels to assess the market demand of our products and spending behaviour of our consumers, and monitor if there is any sign of cannibalisation.

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In addition, we adopted the following measures to avoid overlapping of customers of our regional distributors. For example, our regional distributors are restricted under the distribution agreements to sell and distribute our products in their respective designated distribution region only, and our regional distributors are liable to our Group for Unauthorised Distribution committed by their sub-distributors. During the Track Record Period, for our Type A and Type B regional distributors, we generally maintained a single distributor covering each city or region to manage any potential competition amongst our regional distributors. In addition, our sales personnel routinely requests and reviews the sales reports from the regional distributors.

Our Directors believe that all the above measures are effective in mitigating the risk of inventory accumulation by our regional distributors and cannibalisation among regional distributors within the same sales channel and among different sales channels. With our cannibalisation strategies, our Directors were not aware of, and believe that there would not be, any material accumulation of our products by us or by our regional distributors that had or would have any material adverse impact on our business, financial conditions or results of operations during the Track Record Period and in the future, respectively.

### **Mitigating the risk of cannibalisation between the e-commerce companies and our Group for selling our Group’s products on the same online shopping platforms**

As disclosed in the paragraph headed “Sales and distribution — (i) Online sales channels” in this section, we sell our nutritional products to e-commerce companies and through online shopping platforms in which we and the e-commerce companies would be selling our products on the same online shopping platforms operated by those e-commerce companies.

Our Directors believe that the customer base of our Group’s online stores is distinct from that of e-commerce companies, even though both are hosted on the same online shopping platforms. For instance, our online stores are designated as the official stores of our Group. According to Frost & Sullivan, customers of our official online stores are generally our loyal supporters or those who require absolute guarantee of product authenticity and origin of the stock. In addition, we offer exclusive promotional activities at our online stores, such as during “Double 11” or “Double 12” sales festivals, along with free gifts and bundled offerings that set us apart from those offered by the e-commerce companies. Moreover, we implement a pricing strategy to monitor the overall competitiveness of our product prices at our online store when compared to those sold by e-commerce companies. Our Directors believe that all the above measures are effectively in mitigating the risk of cannibalisation between the e-commerce companies and our Group for selling our Group’s products on the same online shopping platforms.

### **Internal control measures to mitigate the risk of channel stuffing**

We have adopted several internal control measures to prevent channel stuffing, which primarily include (a) for sales to e-commerce companies, our sales personnel would from time to time and no less than bi-annually contact the e-commerce companies to check for any irregular sales orders (such as repeated or substantial orders) placed by any individual online purchaser; (b) for sales through online shopping platforms, our sales personnel would regularly obtain and review the sales reports from the e-commerce companies; and (c) for sales to regional

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distributors, our sales personnel routinely requests sales reports from the regional distributors from time to time and no less than bi-annually to verify the following: (i) the quantity of products sold by our Group; (ii) the quantity of products sold by regional distributors to their retail customers or sub-distributors (if applicable); and (iii) the inventory levels of products held by the regional distributors as at each quarter and in case of any significant discrepancies between the quantity of products held by the regional distributors and our sales volume to them, our sales personnel would investigate the reasons thereof and clarify with the relevant regional distributors. Furthermore, leveraging the retail customer data provided in the sales reports from regional distributors, we conduct ad hoc site visits to retail outlets to validate the availability of our products for sale and to identify any Unauthorised Distribution conducted by the regional distributors.

Our Directors are of the view that the risk of channel stuffing is low during the Track Record Period, having considered:

- (a) the average inventory turnover days at our regional distributors was less than 47 days for each year/period during the Track Record Period; and
- (b) in respect of e-commerce companies:
  - (i) we monitor the information about the inventory turnover days of our products from the back-end database of the e-commerce companies. For instance, the average inventory turnover days at major e-commerce company customers was generally less than 60 days; and
  - (ii) under our framework sale and purchase agreements with Customer A and Customer B, they can return our products (including dead stock) to us upon request. As such, there is no commercial rationale for Customer A and Customer B to engage in channel stuffing of our products. Customer A and Customer B are our major e-commerce company customers which contributed a substantial portion of our revenue from sales to e-commerce companies during the Track Record Period. For FY2021, FY2022, FY2023 and 6M2024, the aggregate revenue from Customer A and Customer B constituted approximately 89.8%, 80.5%, 75.8% and 74.9% of our revenue from direct sales to e-commerce companies, 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. To the best knowledge and understanding of our Directors, our regional distributors sold and distributed our products to retail outlets including pharmacies, maternal and children product stores and postpartum care centres or to the sub-distributors of the regional distributors, whereas e-commerce companies sold our products to their customers which are primarily end-consumers. During the Track Record Period, a majority of our sales were made to e-commerce companies and regional distributors. We have maintained long business relationship with our five largest customers for each year/period during the Track Record Period ranging from three to 16 years.



## BUSINESS

For FY2021, FY2022, FY2023 and 6M2024, our 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% and 34.2% of our total revenue, respectively.

The following table sets out the details of our five largest customers for each year/period during the Track Record Period:

### FY2021

	Customer	Principal business	Types of products purchased	Business relationship since	Credit term/payment method	Our sales to the customers for the year	
						(RMB'000)	(% of our total revenue)
1.	Customer A (Note 1)	Singapore, Hong Kong and PRC subsidiaries of a company listed on the New York Stock Exchange in the United States and the Stock Exchange providing online transaction services	Algal oil DHA, probiotics and vitamin products	2011	Seven to 30 days/bank transfer	76,287	22.6
2.	Customer B (Note 2)	PRC and Hong Kong subsidiaries of a company listed on the NASDAQ Stock Market in the United States and the Stock Exchange providing online shopping platform services	Algal oil DHA, probiotics, vitamins and multi-nutrient products	2012	Seven days/telegraphic transfer	72,861	21.6
3.	Shanghai Yicunxin	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional products	2020	Two months/bank transfer	38,205	11.3
4.	Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional products	2007	Upfront payment/bank transfer	20,213	6.0
5.	Shanxi Xidi Trading Co., Ltd.* (陝西西地商貿有限公司)	A PRC company engaging in the distribution of nutritional products in Xi'an and Xianyang	All of our nutritional products	2007	Upfront payment/bank transfer	9,153	2.7
Five largest customers in aggregate						216,719	64.2
All other customers						120,889	35.8
Total revenue						337,608	100.0

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## BUSINESS

### FY2022

	Customer	Principal business	Types of products purchased	Business relationship since	Credit term/payment method	Our sales to the customers for the year	
						(RMB'000)	(% of our total revenue)
1.	Customer B (Note 2)	PRC and Hong Kong subsidiaries of a company listed on the NASDAQ Stock Market in the United States and the Stock Exchange providing online shopping platform services	Algal oil DHA, probiotics, vitamins and multi-nutrient products	2012	Seven days/telegraphic transfer	104,151	28.4
2.	Shanghai Yicunxin	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/bank transfer	54,662	14.9
3.	Customer A (Note 1)	Singapore, Hong Kong and PRC subsidiaries of a company listed on the New York Stock Exchange in the United States and the Stock Exchange providing online transaction services	Algal oil DHA, probiotics and vitamin products	2011	Seven to 30 days/bank transfer	52,706	14.3
4.	Customer D	A company incorporated in the Marshall Islands engaged in, amongst others, online sales of nutritional products	Algal oil DHA and vitamin products	2020	Upfront payment/bank transfer	28,203	7.7
5.	Chongqing Yinghaole Trading Co., Ltd.* (重慶嬰浩樂貿易有限公司)	A PRC company engaging in the distribution of nutritional products in Chongqing	All of our nutritional and milk powder products	2007	Upfront payment/bank transfer	11,193	3.0
Five largest customers in aggregate						250,915	68.3
All other customers						116,382	31.7
Total revenue						367,297	100.0

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## BUSINESS

### FY2023

	Customer	Principal business	Types of products purchased	Business relationship since	Credit term/payment method	Our sales to the customers for the year	
						(RMB'000)	(% of our total revenue)
1.	Customer B (Note 2)	PRC and Hong Kong subsidiaries of a company listed on the NASDAQ Stock Market in the United States and the Stock Exchange providing online shopping platform services	Algal oil DHA, probiotics and multi-nutrient products	2012	Seven days/telegraphic transfer	137,180	32.2
2.	Customer A (Note 1)	Singapore, Hong Kong and PRC subsidiaries of a company listed on the New York Stock Exchange in the United States and the Stock Exchange providing online transaction services	Algal oil DHA, probiotics and vitamin products	2011	Seven to 30 days/bank transfer	42,322	9.9
3.	Shanghai Yicunxin	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/bank transfer	42,276	9.9
4.	Customer D	A company incorporated in the Marshall Islands engaged in, amongst others, online sales of nutritional products	Algal oil DHA and probiotics products	2020	Upfront payment/bank transfer	40,205	9.4
5.	Shanghai Yumin Cultural Communication Co., Ltd.* (上海昱敏文化傳播有限公司)	A PRC company engaging in, amongst others, online sales of nutritional products	Algal oil DHA, probiotics and vitamin products	2023	5 days/bank transfer	17,729	4.2
Five largest customers in aggregate						279,712	65.6
All other customers						146,833	34.4
Total revenue						426,545	100.0

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6M2024

	Customer	Principal business	Types of products purchased	Business relationship since	Credit term/payment method	Our sales to the customers for the period	
						(RMB'000)	(% of our total revenue)
1.	Customer B (Note 2)	PRC and Hong Kong subsidiaries of a company listed on the NASDAQ Stock Market in the United States and the Stock Exchange providing online shopping platform services	Algal oil DHA, probiotics and multi-nutrient products	2012	Seven days/telegraphic transfer	49,996	34.2
2.	Customer A (Note 1)	Singapore, Hong Kong and PRC subsidiaries of a company listed on the New York Stock Exchange in the United States and the Stock Exchange providing online transaction services	Algal oil DHA, probiotics and vitamin products	2011	Seven to 30 days/bank transfer	21,205	14.5
3.	Customer D	A company incorporated in the Marshall Islands engaged in, amongst others, online sales of nutritional products	Algal oil DHA and probiotics products	2020	Upfront payment/bank transfer	18,383	12.6
4.	Shanghai Yicunxin	A PRC company engaging in the distribution of nutritional products throughout the PRC	All of our nutritional and milk powder products	2020	Two months/bank transfer	13,169	9.0
5.	Shanghai Yumin Cultural Communication Co., Ltd.* (上海昱敏文化傳播有限公司)	Engaging in, among others, technology development, exhibition display services and e-commerce	Algal oil DHA, probiotics and vitamin products	2023	5 days/bank transfer	6,047	4.1
Five largest customers in aggregate						108,800	74.4
All other customers						37,286	25.6
Total revenue						146,086	100.0

Notes:

- During the Track Record Period, we sold our products to ten members in the group of Customer A, and we regarded Customer A as our customer. We also sold our products through one online shopping platform of Customer A to our customers.
- During the Track Record Period, we sold our products to four members in the group of Customer B, and we regarded Customer B as our customer. We also sold our products through one online shopping platform of Customer B to our customers.

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All of our five largest customers for each year/period during the Track Record Period are independent third parties. None of our Directors, their close associates, or any Shareholder who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date had any interest in any of our five largest customers for each year/period during the Track Record Period.

During the Track Record Period, we also incurred promotion expenses payable to Customer A and Customer B, which relates to brand marketing and promotional products of such customers which are e-commerce companies maintaining online shopping platforms.

For FY2021, FY2022, FY2023 and 6M2024, the revenue derived from sales to Customer A amounted to approximately RMB76.3 million, RMB52.7 million, RMB42.3 million and RMB21.2 million, respectively, representing approximately 22.6%, 14.3%, 9.9% and 14.5% of our total revenue, respectively; while our promotion expenses to Customer A amounted to approximately RMB2.9 million, RMB2.5 million, RMB4.6 million and RMB2.1 million, respectively, representing approximately 11.3%, 8.1%, 9.2% and 6.6% of our total promotion expenses, respectively.

For FY2021, FY2022, FY2023 and 6M2024, the revenue derived from sales to Customer B amounted to approximately RMB72.9 million, RMB104.2 million, RMB137.2 million and RMB50.0 million, respectively, representing approximately 21.6%, 28.4%, 32.2% and 34.2% of our total revenue, respectively; while our promotion expenses to Customer B amounted to approximately RMB9.3 million, RMB16.2 million, RMB21.9 million and RMB13.1 million, respectively, representing approximately 36.5%, 51.9%, 44.1% and 40.8% of our total promotion expenses, respectively.

During the Track Record Period and up to the Latest Practicable Date, we had no dispute with Customer A and Customer B which would have had a material impact on our business, financial condition or results of operations. For details of the promotion expenses to Customer A and Customer B, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Selling and distribution expenses and administrative and other operating expenses” in this document.

### **Reliance analysis on our five largest customers for each year/period during the Track Record Period**

Our Directors are of the view that:

- (i) our Group had material reliance on Customer A and Customer B; and
- (ii) our Group did not have any material reliance on the other five largest customers for each year/period during the Track Record Period, namely, Shanghai Yicunxin, Chongqing Yinghaole Trading Co., Ltd.\* (重慶嬰浩樂貿易有限公司); Shanxi Xidi Trading Co. Ltd.\* (陝西西地商貿有限責任公司), Customer D and Shanghai Yumin Cultural Communication Co., Ltd.\* (上海昱敏文化傳播有限公司).

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***(a) Reliance on Customer A and Customer B***

Our revenue from Customer A constituted approximately 22.6%, 14.3%, 9.9% and 14.5% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively, whereas our revenue from Customer B constituted approximately 21.6%, 28.4%, 32.2% and 34.2% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively. According to Frost & Sullivan, Customer A and Customer B are among the largest e-commerce companies in the PRC, and as such it is not uncommon for brand owners or sellers of nutritional products in the PRC to have material reliance on Customer A and Customer B and it is not commercially realistic for our Group to diversify our reliance.

***(b) Why our Group does not consider ourselves to have material reliance on the rest of the five largest customers for each year/period during the Track Record Period***

Our Directors are of the view that our revenue from the rest of the five largest customers for each years/period during the Track Record Period was not significant. For instance:

- (a) for Shanghai Yicunxin, our revenue from which constituted approximately 11.3%, 14.9%, 9.9% and 9.0% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively;
- (b) for Chongqing Yinghaole Trading Co. Ltd.\* (重慶嬰浩樂貿易有限公司), our revenue from which only constituted approximately 6.0% and 3.0% of our total revenue for FY2021 and FY2022, respectively, and it was not a five largest customer for each of FY2023 and 6M2024;
- (c) for Shanxi Xidi Trading Co. Ltd.\* (陝西西地商貿有限責任公司), our revenue from which only constituted approximately 2.7% of our total revenue for FY2021, and it was not a five largest customer for each of FY2022, FY2023 and 6M2024;
- (d) for Customer D, our revenue from which constituted approximately 7.7%, 9.4% and 12.6% of our total revenue for FY2022, FY2023 and 6M2024, and it was not a five largest customer for FY2021;
- (e) for Shanghai Yumin Cultural Communication Co., Ltd.\* (上海昱敏文化傳播有限公司), our revenue from which only constituted 4.2% and 4.1% of our total revenue for FY2023 and 6M2024, respectively, and it was not a five largest suppliers for FY2021 and FY2022; and
- (f) to the best of our Directors’ knowledge, the above-mentioned customers do not have any common directors or shareholders and hence in the unfortunate event that we have any dispute with any one of them, the other customers will unlikely be affected.

## BUSINESS

### OUR PURCHASES

During the Track Record Period, we procured our algal oil DHA and probiotics products from our direct suppliers that are established in the PRC, Hong Kong and the U.S., and we require our suppliers for our algal oil DHA and probiotics products to use the principal raw materials supplied by DSM Group and the Probiotics Raw Material Supplier, respectively. Our direct suppliers also processed or arranged processing companies to process such principal raw materials into finished algal oil DHA and probiotics products. For some of our products processed in the PRC, we procured the principal raw materials for our suppliers to arrange for the processing of such raw materials into finished products.

According to the Frost & Sullivan Report, it is not uncommon for our direct suppliers with business akin to our Group to process or arrange processing companies to process key materials into our algal oil DHA and probiotics products. For instance, other nutritional product companies also (i) utilise algal oil DHA raw materials supplied by algal oil DHA raw materials suppliers and engage processing companies in New Zealand and the U.S. to produce algal oil DHA products; and (ii) procure algal oil DHA products from suppliers in the PRC, which in turn import those products that were processed by processing companies in the U.S. As such, Frost & Sullivan is of the view that our Group’s procurement and production arrangement aligns with established industry norms, leveraging external processing expertise to ensure product quality and efficiency.

The following table sets forth the breakdown of our purchases by nature for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Product costs	64,728	77.3	150,048	84.0	117,695	86.0	58,153	85.2	32,695	78.6
Raw materials	3,926	4.7	8,083	4.5	3,782	2.8	3,141	4.6	2,351	5.7
Packaging costs	9,792	11.7	15,849	8.9	11,785	8.6	4,555	6.7	4,935	11.9
Others	5,264	6.3	4,735	2.6	3,552	2.6	2,428	3.5	1,604	3.8
<b>Total purchases</b>	<b>83,710</b>	<b>100.0</b>	<b>178,715</b>	<b>100.0</b>	<b>136,814</b>	<b>100.0</b>	<b>68,277</b>	<b>100.0</b>	<b>41,585</b>	<b>100.0</b>

The following table sets forth the breakdown of our product costs by type of products for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Algal oil DHA products	58,263	90.0	101,440	67.6	82,240	69.9	23,642	40.6	30,414	93.0
— New Zealand DHA Products	47,559	73.5	76,220	50.8	67,802	57.6	22,635	38.9	20,160	61.7
— U.S. DHA Products	10,704	16.5	25,220	16.8	14,438	12.3	1,007	1.7	10,254	31.3
Milk powder products	—	—	41,556	27.7	30,116	25.6	30,116	51.8	—	—
Others <sup>(Note)</sup>	6,465	10.0	7,052	4.7	5,339	4.5	4,395	7.6	2,281	7.0
<b>Total product costs</b>	<b>64,728</b>	<b>100.0</b>	<b>150,048</b>	<b>100.0</b>	<b>117,695</b>	<b>100.0</b>	<b>58,153</b>	<b>100.0</b>	<b>32,695</b>	<b>100.0</b>

*Note:* Others include probiotics, vitamins, multi-nutrients and algal calcium products.



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For FY2021, FY2022, FY2023, 6M2023 and 6M2024, the total cost of purchases for our PRC DHA Products amounted to approximately RMB1.6 million, RMB2.0 million, RMB0.7 million, RMB0.1 million and RMB0.5 million, respectively.

### **Algal oil DHA products**

During the Track Record Period, our finished algal oil DHA products were processed in New Zealand, the U.S. and, to a lesser extent, the PRC. The processing of algal oil DHA raw materials into our finished algal oil DHA products mainly encompasses (1) encapsulation of algal oil DHA raw materials into softgels; (2) drying of softgels containing algal oil DHA; and (3) packing of softgels into plastic bottles.

We require our suppliers for our algal oil DHA products to use algal oil DHA raw materials supplied by DSM Group. DSM Group engages in providing solutions in respect of pharmaceuticals, early life nutrition and dietary supplements with market coverage in more than 60 countries such as the PRC, North America, India and Brazil. According to Frost & Sullivan, DSM Group is regarded as the leader in the algal oil DHA market in the PRC, manufacturing over 40% of the raw materials and finished products in the algal oil DHA market in the PRC in 2023 in terms of volume and value.

### ***Procurement models of New Zealand DHA Products and U.S. DHA Products***

As a proprietary brand owner, our Group’s procurement is sales-driven and our Group’s procurement channels and arrangements are primarily driven by our sales channels and demand.

According to Frost & Sullivan, branded products that are processed overseas can reach consumers in the PRC through two different models, namely the general trade (大貿) model and the cross-border e-commerce (跨境電商零售進口) model. General trade entails the import of branded products that are processed overseas with both the buyer and seller being in the PRC. For instance, PRC individual end-consumers can purchase our New Zealand DHA Products, which are imported into the PRC by Shanghai Trilives (established in the PRC), in retail outlets or on e-commerce platforms in the PRC. On the other hand, the cross-border e-commerce model involves the sale of branded products on e-commerce platforms that transcend national boundaries. For instance, PRC individual end-consumers can only purchase our U.S. DHA Products on e-commerce platforms in the PRC, where the sellers (i.e. cross-border e-commerce enterprise) on such platforms are incorporated overseas.

As advised by the PRC Legal Advisers:

- (i) According to Circular on Improving the Oversight of Retail Imports in Cross-Border E-Commerce (Shang Cai Fa No. 486 [2018]) (《關於完善跨境電子商務零售進口監管有關工作的通知》(商財發[2018]486號)), “cross-border e-commerce enterprise” (跨境電商企業) means an overseas-registered enterprise which sells cross-border e-commerce retail imports to domestic consumers on a cross-border basis, and is the owner of the goods. In other words, the cross-border e-commerce enterprise that sells products imported under the cross-border e-commerce model on online e-commerce platforms needs to be an overseas-registered enterprise;

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- (ii) According to the Circular on the Improvement of Tax Policies on Cross-Border E-Commerce Retail Imports (Cai Guan Shui No.49 [2018]) (《關於完善跨境電子商務零售進口稅收政策的通知》(財關稅[2018]49號)), the single transaction limit and annual transaction quota (the “**Quota**”) for purchasing products that are imported under the cross-border e-commerce model is RMB5,000 and RMB26,000, respectively, per person. In other words, there is a limit for which a PRC individual end-consumer can purchase products imported under the cross-border e-commerce model per transaction and per annum;
- (iii) The cross-border e-commerce model does not involve tariff, whereas products imported under the general trade model are subject to tariff imposed by the PRC government; and
- (iv) The goods purchased under the cross-border e-commerce model can only be sold in the PRC online (but not offline) whereas there is no such restriction for products that are imported under the general trade model.

Our finished algal oil DHA products that are processed overseas include New Zealand DHA Products and U.S. DHA Products, and we adopted different procurement models for them during the Track Record Period:

- (a) We adopted the general trade model for our New Zealand DHA Products. Under this model, our PRC subsidiary, Rujian International, procured the New Zealand DHA Products imported by Shanghai Trilives (which is located in the PRC), which were in turn procured from the New Zealand Processing Company. Shanghai Trilives handled the customs clearance. The New Zealand DHA Products that are imported by the general trading model were sold under our Group’s online and offline channels during the Track Record Period; and
- (b) We adopted the cross-border e-commerce model for our U.S. DHA Products. Under this model, our Seychelles subsidiary Numans Sales procured the U.S. DHA Products directly from Confidence Group (which is located in the U.S.) and sold the U.S. DHA Products to overseas-registered e-commerce companies (which on-sold on e-commerce platforms in the PRC), in which the U.S. DHA Products were despatched from Confidence Group to the bonded warehouses of the e-commerce companies. Our Group was not responsible for handling any customs clearance, and instead, the e-commerce platform operators which sold our Group’s products to end-customers are responsible for submitting relevant personal information to handle customs clearance. The U.S. DHA Products that are imported under the cross-border e-commerce model were only sold under our Group’s online channel (direct sales to e-commerce companies) during the Track Record Period.

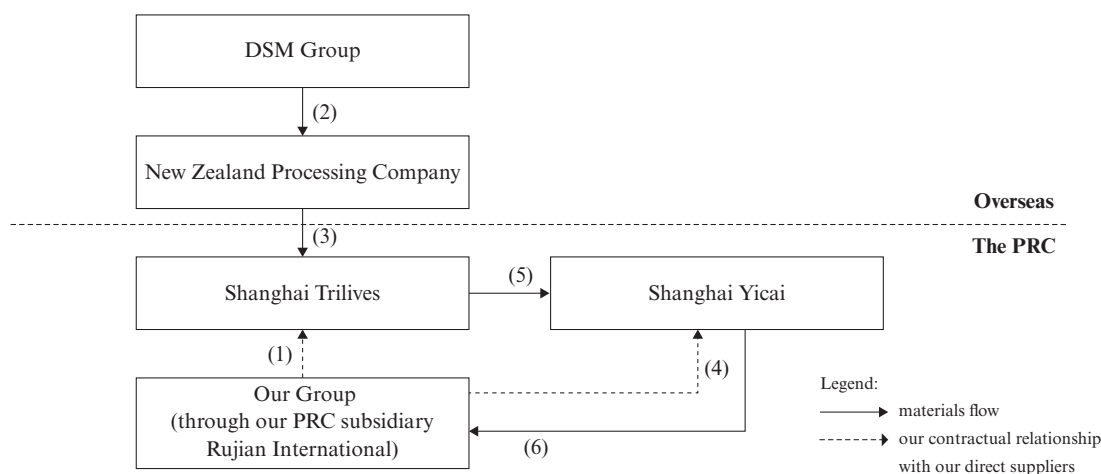
## BUSINESS

### *Allocation of procurement between New Zealand and the U.S.*

Having considered the sino-U.S. trade conflict and that the tariffs imposed by the PRC government on products imported from the U.S. is higher than the products imported from New Zealand, our executive Directors decided to adopt the general trade model for New Zealand DHA Products. As advised by our PRC Legal Advisers, the tariffs imposed by the PRC government on finished algal oil DHA products imported from the U.S. and New Zealand was 27% and 20%, respectively, as at the Latest Practicable Date. Despite the cross-border e-commerce model does not involve tariff, our Group cannot only adopt cross-border e-commerce model because (i) under the cross-border e-commerce model, there are restrictions on our Group’s sales channels. For instance, our Group cannot sell our algal oil DHA products by offline channels that are procured under the cross-border e-commerce model; and (ii) there is an annual quota of RMB26,000 in respect of each person can spend on purchasing products that are imported from the cross-border e-commerce model, and thus our Group adopted the general trade model for our New Zealand DHA Products.

#### *(a) Procurement of New Zealand DHA Products*

The procurement/production flow of our New Zealand DHA Products from Shanghai Trilives during the Track Record Period is illustrated below:



Notes:

- (1) We (through our PRC subsidiary Rujian International) procure New Zealand DHA Products from Shanghai Trilives. Pursuant to the sale and purchase agreements entered into between Shanghai Trilives and our Group, the finished algal oil DHA products supplied by Shanghai Trilives shall be made from algal oil DHA raw materials supplied by DSM Group.
- (2) Shanghai Trilives arranges for the New Zealand Processing Company to conduct (1) encapsulation of algal oil DHA raw materials into softgels; (2) drying of softgels containing algal oil DHA; and (3) packing of softgels into plastic bottles. The New Zealand Processing Company liaises with and procures algal oil DHA raw materials from DSM Group as per our requirements imposed on Shanghai Trilives.

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## BUSINESS

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- (3) Shanghai Trilives imports the bottled finished algal oil DHA products from the New Zealand Processing Company to the PRC, handles the customs clearance and engages third party laboratories to conduct quality test.
- (4) We procure packaging materials for the packaging of the bottled finished algal oil DHA products from Shanghai Yicai.
- (5) Shanghai Trilives delivers the bottled finished algal oil DHA products to Shanghai Yicai for packaging and affixing anti-counterfeit labels on the products. As we adopt the general trade model for our New Zealand DHA Products and purchase our New Zealand DHA Products from the New Zealand Processing Company through Shanghai Trilives (which is onshore), the affixation of anti-counterfeit labels is also conducted onshore by Shanghai Yicai (which is a PRC company).
- (6) Shanghai Yicai delivers the finished algal oil DHA products with packaging and anti-counterfeit labels to our warehouses in Shanghai, the PRC.

Shanghai Trilives is a company established in the PRC in 2013, which principally engages in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products. For details of the background of Shanghai Trilives and our relationship with Shanghai Trilives, please refer to the paragraphs headed “Our suppliers — Background of Shanghai Trilives” and “Our suppliers — Our relationship with Shanghai Trilives” in this section.

Shanghai Yicai is a company established in the PRC in 2011 and is a packaging material supplier in the PRC. For details of our relationship with Shanghai Yicai, please refer to the section headed “Our suppliers” in this section.

The New Zealand Processing Company is an independent third party. It is a subsidiary of a multinational food and drink processing conglomerate corporation headquartered in Switzerland and listed on the SIX Swiss Exchange. The New Zealand Processing Company was incorporated in New Zealand, and principally engages in the research, development, manufacture, packaging and sales of nutritional products, mainly in the form of softgel, hardshell, tablet and powder. The New Zealand Processing Company operates a factory in Auckland, New Zealand. In August 2022, we signed a tripartite framework agreement with Shanghai Trilives and the New Zealand Processing Company, pursuant to which Shanghai Trilives committed to engage the New Zealand Processing Company to process finished algal oil DHA products for us for a term of ten years. Save as disclosed above, there was/is no past or present relationship between our Group and the New Zealand Processing Company.

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*Commercial rationale for our Group to procure New Zealand DHA Products from Shanghai Trilives*

Our commercial rationale for procuring New Zealand DHA Products from Shanghai Trilives is set out below:

- (i) in order to qualify as imported finished products, our algal oil DHA products shall be manufactured overseas with finished packaging. Given that Shanghai Trilives has the capability to identify suitable overseas processing companies to process our finished algal oil DHA products according to our specifications, such as the New Zealand Processing Company, we engaged Shanghai Trilives to arrange the New Zealand Processing Company to produce finished algal oil DHA products overseas for importation into the PRC;
- (ii) Shanghai Trilives is capable of providing technical know-how and handling various time-consuming and burdensome processes. For instance, Shanghai Trilives is responsible for preparing export and import declaration forms and arranging customs clearance procedures. As advised by the PRC Legal Advisers, the key requirements and procedures involved in customs clearance include:
  - 1. According to the PRC Food Safety Law (《中華人民共和國食品安全法》), Measures for the Administration of Import and Export Food Safety (《中華人民共和國進出口食品安全管理辦法》) and the Administration Measures on the Registration of Overseas Manufacturers of Imported Food (《中華人民共和國進口食品境外生產企業註冊管理規定》), overseas manufacturers which intend to export DHA algal oil to the PRC must register with the General Administration of Customs and obtain a “China Registration Number” (在華註冊編號). The overseas manufacturers must continuously meet registration requirements during the validity period and label their products with the registration number on the packaging. In the case of our procurement model of our New Zealand DHA Products and probiotics products, the New Zealand Processing Company and Pharmtech have fulfilled the registration requirements by registering with the General Administration of Customs and obtaining the “China Registration Number”. Confidence Group is not required to register given that our U.S. DHA Products were imported to the PRC through bonded warehouses, which were then delivered to the e-commerce companies, under the cross-border e-commerce model.

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2. According to the Measures for the Administration of Import and Export Food Safety, food importers must file (備案) with the customs at their place of residence. The initial filing materials include the filing application form, documents reflecting the organisational structure related to food safety, a description of the food types and storage locations, and explanations if the importer has engaged in food import, processing, and sales within the past two years. In the case of our procurement model of our New Zealand DHA Products and probiotics products, Shanghai Trilives and the domestic processing companies have filed (備案) with the PRC customs.
3. The importer is required to register with the PRC Customs and submit declaration materials, including the sample labels and their translations of the imported food, the goods list, a certificate of conformity, and an official quarantine (health) certificate from the exporting country or region.
4. The PRC customs will assess the conformity of imported food according to relevant laws and regulations. If it meets the requirements, the PRC customs will issue an “Entry Goods Inspection and Quarantine Certificate” (《入境貨物檢驗檢疫證明》). Non-conforming goods may be destroyed, returned or undergo technical treatment under customs supervision.
5. The importer is also required to fill in each column of the customs declaration form in accordance with the Instructions of the Customs of the PRC for Completing the Customs Declaration Forms for the Import and Export of Goods (《中華人民共和國海關進出口貨物報關單填制規範》), and submit the electronic data and the accompanying documents to the PRC customs, including commercial documents such as contracts, invoices, transport documents, packing lists, licences and attached documents required for import and export, and other documents specified by the General Administration of Customs.
6. According to the Customs Law of the PRC (《中華人民共和國海關法》), the importer must pay taxes within fifteen days from the date of issuance of the tax payment notice by the PRC customs.

Considering the various requirements and procedures as set out above, our Directors are of the view that having Shanghai Trilives to handle customs clearance is more beneficial than if our Group needs to handle it by ourselves.



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Furthermore, Shanghai Trilives is also responsible for (a) arranging domestic logistics services overseas and importation from overseas to the PRC; (b) liaising with the New Zealand Processing Company regarding the production schedules and manufacturing arrangement; (c) arranging quality testing by independent third party laboratory; and (d) trouble shooting for issues arisen during the procurement and production process;

- (iii) we are required to pay 40% upfront payment upon our placing of orders with Shanghai Trilives and the remaining are to be settled after importation of products (which are normally a few months after placing of orders), delivery of products and receipt of sanitary certificate; whereas in other circumstances we may be required to pay 100% upfront payment to our suppliers upon placing of orders;
- (iv) Shanghai Trilives could help our Group minimise the risk of foreign exchange rate fluctuations since our Group does not need to settle our payment with Shanghai Trilives in foreign currencies; and
- (v) Shanghai Trilives could help our Group mitigate the risk arising from any potential changes in the PRC laws and regulations in respect of nutritional products. Pursuant to our agreements with Shanghai Trilives, Shanghai Trilives is responsible for ensuring that the products supplied by it shall comply with the relevant requirements for imported food and the national regulations and corporate standards as well as requirements specified by the labels on the plastic bottles. In case there is any change in the PRC laws and regulations in respect of nutritional products and the products supplied by Shanghai Trilives are unable to complete customs clearance, Shanghai Trilives shall refund the upfront payment to us.

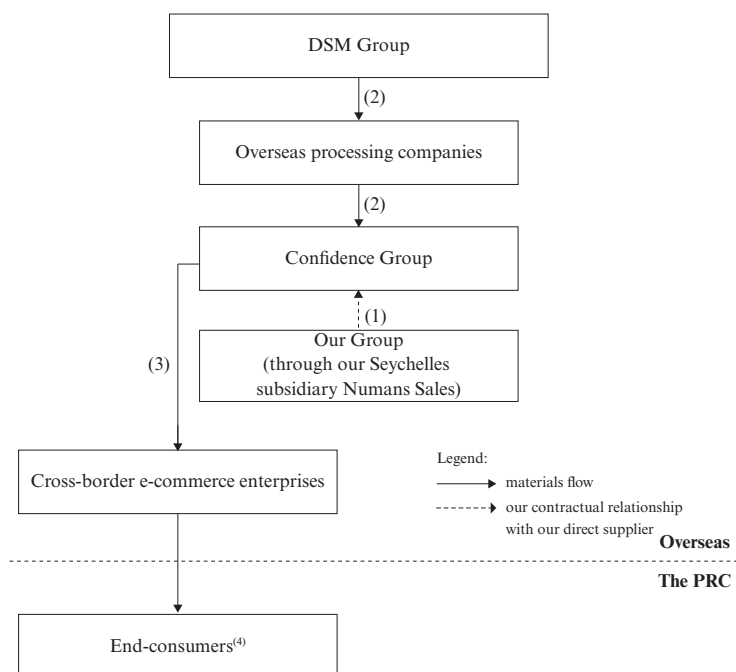
### ***(b) Procurement of U.S. DHA Products***

During the Track Record Period, we procured our U.S. DHA Products from Confidence Group. During the Track Record Period, our U.S. DHA Products were sold to e-commerce companies and were delivered to the airports in the PRC designated by the e-commerce companies, and our Group was not responsible for delivery of our U.S. DHA Products to any bonded warehouse nor handling any customs clearance.



## BUSINESS

The procurement/production flow of our U.S. DHA Products from Confidence Group during the Track Record Period is illustrated below:



Notes:

- (1) We (through our Seychelles subsidiary Numans Sales) procure our U.S. DHA Products from Confidence Group. Pursuant to the procurement contracts entered into between Confidence Group and our Group, the finished algal oil DHA products supplied by Confidence Group shall be made from algal oil DHA supplied by DSM Group.
- (2) Confidence Group as the direct supplier of our Group engages in value-added activities such as sourcing management, liaison of production schedules with the overseas processing companies and conducting laboratory tests of the algal oil DHA softgels from the overseas processing companies for our Group. Confidence Group as our direct supplier arranges for third party processing companies located in the U.S. to conduct (1) encapsulation of algal oil DHA raw materials into softgel; and (2) drying of softgel containing algal oil DHA, while the packing of softgels into plastic bottles takes place at the production facilities of Confidence Group. Such third party processing companies liaise with and procure algal oil DHA raw materials from DSM Group as per our requirements imposed on Confidence Group.
- (3) Our U.S. DHA Products are sold to cross-border e-commerce enterprises which are e-commerce companies. Our Group arranges for the finished algal oil DHA products to be delivered to the airports in the PRC designated by the e-commerce companies, and our Group is not responsible for the delivery of our products to any bonded warehouse nor handling any customs clearance. As we adopt the cross-border e-commerce model for our U.S. DHA Products and purchase our U.S. DHA Products directly from Confidence Group (which is offshore) which would then be directly delivered to the cross-border e-commerce enterprises, the U.S. DHA Products we purchase from Confidence Group are finished products.
- (4) The cross-border e-commerce enterprises sell our U.S. DHA Products to the end-customers on e-commerce platforms. The e-commerce platform operators which sold our Group’s products to end-customers are responsible for submitting relevant personal information to handle customs clearance.

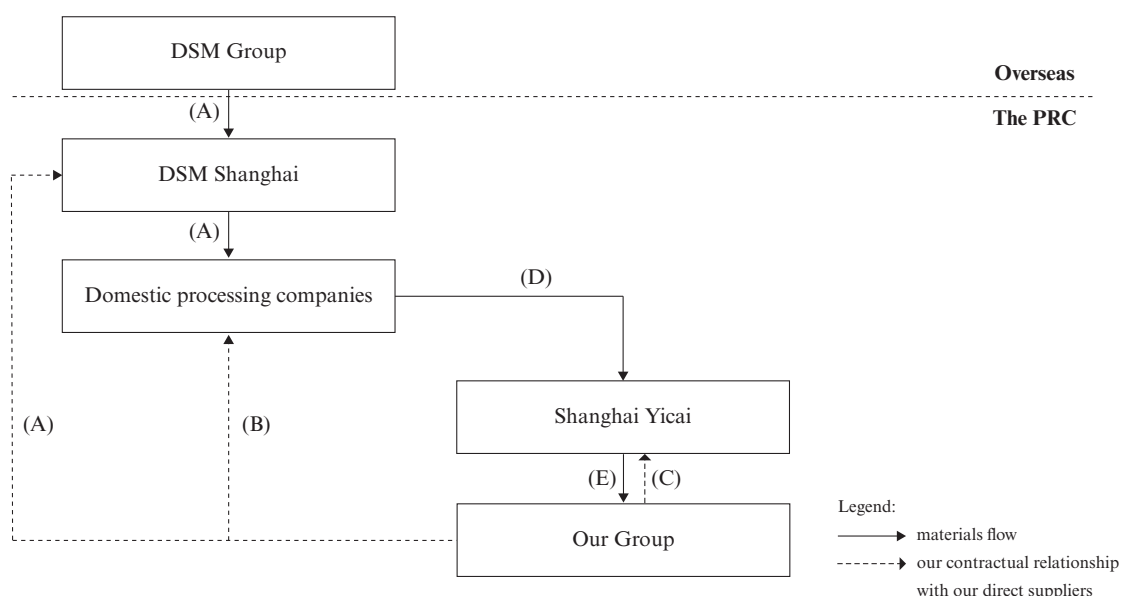
## BUSINESS

Confidence Group is an independent third party. It includes two private companies incorporated in the U.S. in 2008 and 2013 respectively under common control and management, and principally engages in nutraceutical research and development, production and marketing of nutritional products. To our Directors’ best knowledge, besides being engaged in the manufacture of our U.S. DHA Products, Confidence Group also manufactures and distributes more than other 50 dietary supplement products.

### *(c) Procurement of PRC DHA Products*

Apart from finished algal oil DHA products which were processed overseas, during the Track Record Period, we have also, to a lesser extent, procured finished algal oil DHA products processed by domestic processing companies in the PRC.

The procurement/production flow of our PRC DHA Products during the Track Record Period is illustrated below:



#### *Notes:*

- (A) We liaise with and procure algal oil DHA raw materials supplied by DSM Group through DSM Shanghai. Such algal oil DHA raw materials are delivered to the domestic processing companies in the PRC engaged by us for processing into our finished algal oil DHA products.
- (B) We engage the domestic processing companies to conduct (1) encapsulation of algal oil DHA raw materials into softgel; (2) drying of softgel containing algal oil DHA; and (3) packing the softgels into plastic bottles.
- (C) We procure packaging materials for the packaging of the bottled finished algal oil DHA products from Shanghai Yicai.
- (D) The domestic processing companies deliver the bottled finished algal oil DHA products to Shanghai Yicai for packaging and affixing anti-counterfeit labels on the products. As the processing of our PRC DHA Products takes place onshore, the affixation of anti-counterfeit labels is also conducted onshore by Shanghai Yicai (which is a PRC company).

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- (E) Shanghai Yicai delivers the finished algal oil DHA products with packaging and anti-counterfeit labels to our warehouses in Shanghai, the PRC.

DSM Shanghai consists of two companies established in the PRC in 1995 and 2004, respectively, which are within the same group of companies with DSM Group. For details of our relationship with DSM Group, please refer to the paragraph headed “Our suppliers — Relationship with DSM Group” in this section.

In respect of our PRC DHA Products, our direct suppliers are DSM Shanghai (for algal oil DHA raw materials), the domestic processing companies (for processing services) and Shanghai Yicai (for packaging materials and packaging and anti-counterfeit labels affixing services). Unlike our Group’s procurement models in the U.S. and New Zealand, our Group directly procure the algal oil DHA raw materials and packaging materials ourselves for our PRC DHA Products. This is because:

- (i) DSM Shanghai is also located in the PRC, in which our Group can deal and liaise directly with for procuring algal oil DHA raw materials;
- (ii) apart from being the suppliers of our imported algal oil DHA products, Confidence Group/Shanghai Trilives also carry out value-added activities including handling the sourcing management and liaison of production schedule for our Group; and
- (iii) like our Group, the domestic processing companies and Shanghai Yicai are also located in the PRC. As such, it is not essential that our Group requires the abovementioned value-added activities as in the case of our Group’s procurement models in the U.S. and New Zealand.

### **Probiotics products**

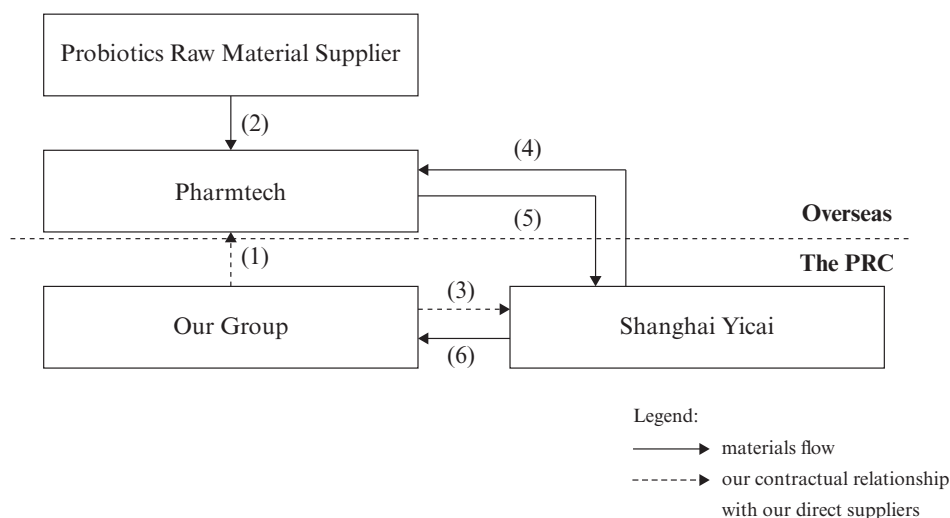
During the Track Record Period, we mainly procured our probiotics products from Pharmtech, which was responsible for the processing of our finished probiotics products. We require Pharmtech to use principal raw materials supplied by the Probiotics Raw Material Supplier. The processing of principal raw materials into our finished probiotics products encompasses (i) mixing of probiotics with maltodextrin; and (ii) packing of probiotics products into the sachets and boxes.

The Probiotics Raw Material Supplier is an independent third party. It is a large food cultures and dairy enzymes producer, and a leading manufacturer of probiotics which sells its products in more than 140 countries. According to its latest annual report, its revenue amounted to over EUR1,300 million for its financial year ended 31 August 2023. It was listed on Nasdaq OMX Copenhagen until it merged with another company listed on NASDAQ OMX Copenhagen in January 2024.

Pharmtech is an independent third party. It is a company incorporated in Hong Kong which engages in the processing of basic pharmaceutical products. Pharmtech operates processing facilities in Hong Kong and holds Food Factory Licence under the Public Health and Municipal Services Ordinance (Cap. 132 of the Laws of Hong Kong).

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The procurement flow of finished probiotics products, which are processed and packaged in Hong Kong is illustrated below:



*Notes:*

- (1) We mainly procure our probiotics products from Pharmtech.
- (2) We negotiate with the Probiotics Raw Material Supplier on a per-order basis for the principal raw materials of our probiotics products, which are then procured by and delivered to Pharmtech for production. Pharmtech is responsible for the processing of our finished probiotics products. We require Pharmtech to use the principal raw materials supplied by the Probiotics Raw Material Supplier for our probiotics products.
- (3) We procure packaging materials for the packaging of the finished probiotics products from Shanghai Yicai.
- (4) We arrange for the delivery of the packaging materials to Pharmtech for packaging the finished probiotics products.
- (5) We arrange for the delivery of the finished probiotics products with packaging to Shanghai Yicai to affix the anti-counterfeit labels on the products.
- (6) Shanghai Yicai arranges to deliver the finished probiotics products with packaging and anti-counterfeit labels to our warehouses in Shanghai, the PRC.

Our commercial rationale for procuring the principal raw materials of our probiotics products through Pharmtech instead of from the Probiotics Raw Material Supplier directly is mainly because Pharmtech can provide one-stop services from procurement, processing of probiotics into our finished probiotics products to conducting tests, which enables our Group to focus our resources on our brand development and managing different distribution channels.

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### **Vitamins, multi-nutrients and algal calcium products**

During the Track Record Period, we mainly procured our finished vitamins, multi-nutrients and algal calcium products from processing companies in the PRC. We then engaged Shanghai Yicai, which is a packaging company in the PRC, to affix anti-counterfeit labels on our finished vitamins, multi-nutrients and algal calcium products and deliver such finished products to our warehouses in Shanghai, the PRC.

### **OUR SUPPLIERS**

We mainly procure finished products from our suppliers, and our direct suppliers shall be responsible for processing or arranging processing companies to process our products. During the Track Record Period, we procured finished algal oil DHA and probiotics products from our direct suppliers established in the PRC, the U.S. and Hong Kong. For some of our products processed in the PRC, we procured the principal raw materials for our suppliers and our suppliers shall arrange for the processing of such raw materials into our finished products.

We generally purchase from our suppliers on an order-by-order basis, and enter into procurement contracts and/or place purchase orders with our suppliers, specifying in the procurement contracts or purchase orders the products to be procured, specifications the quantity, unit price pricing terms, payment terms, our quality requirements and delivery arrangement. Products processed in the PRC are normally delivered to us within 60 days from the placing of orders. For finished products processed overseas, it normally takes around three to six months from the placing of orders to the delivery.

We are required to pay deposits to our suppliers for purchases. As at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, our deposits paid to suppliers amounted to approximately RMB26.6 million, RMB24.8 million, RMB39.1 million and RMB17.4 million, respectively. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had not experienced incidents where our Group was unable to recover the deposits paid to our suppliers, whether due to our failure to fulfil our procurement contracts and/or purchase orders or liquidity problems of our suppliers.

During the Track Record Period, our major direct and indirect suppliers included (a) DSM Group and the Probiotics Raw Material Supplier as the suppliers of the principal raw materials of our algal oil DHA and probiotics products, respectively; (b) processing companies in New Zealand, the U.S., Hong Kong and the PRC to handle the processing of our algal oil DHA and/or probiotics products; and (c) Shanghai Trilives, through which we procured our New Zealand DHA Products (being our most significant product category in terms of revenue contribution during the Track Record Period).

We generally select our suppliers based on the quality of products or services, product safety, business reputation, production scale, supply stability, years of relationship and pricing.

We implement measures to ensure the quality and safety of the raw materials that are used in our products. Our suppliers for our finished algal oil DHA products are required to use the algal oil DHA raw materials supplied by DSM Group. DSM Group is regarded as the leader in the algal oil DHA market in the PRC, manufacturing over 40% of the raw materials and

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finished products in terms of volume and value in the algal oil DHA market in the PRC in 2023, according to Frost & Sullivan. Our suppliers for our finished probiotics products are required to use probiotics supplied by the Probiotics Raw Material Supplier, a company, which was one of the largest suppliers of probiotics raw materials in the PRC, accounting for approximately 35% of the total revenue in the supply of probiotics raw materials in the PRC in 2023, according to Frost & Sullivan. According to Frost & Sullivan, products using imported raw materials enjoy popularity among consumers in the maternal and children nutritional product industry in the PRC. In the past, PRC consumers’ confidence in domestic brands was undermined by a series of scandals involving maternal and children products such as the 2008 Chinese milk scandal. Over years of effort, domestic brands are gradually gaining consumers’ confidence, while the raw materials used by the largest domestic brands are mostly imported from international chemical and nutrition companies. Therefore, finished algal oil DHA products which use the principal raw materials supplied by overseas suppliers and are processed overseas are perceived by PRC consumers as having high quality and enjoy higher level of consumers’ confidence and demand in the PRC. As we are authorised to print the trademarks of DSM Group on the packagings of our algal oil DHA products, our Directors believe that consumers can be assured that imported raw materials are used in our products through the printing of the trademarks of the supplier of the raw materials on the packagings of our algal oil DHA products, thereby improving our brand image and recognition in the industry.

During the Track Record Period, as we adopted the general trade model for our New Zealand DHA Products, we procured our New Zealand DHA Products through Shanghai Trilives. For commercial rationale and thus the selection criteria for selecting Shanghai Trilives as our supplier, please refer to the paragraph headed “Our purchases — Commercial rationale for our Group to procure New Zealand DHA Products from Shanghai Trilives” in this section.

In selecting the overseas processing companies for our algal oil DHA and probiotics products, we primarily focus on assessing whether (i) the processing companies possess either GMP or equivalent industry qualifications or food production licences to ensure that the products processed by them meet the required industry standards; and (ii) the relevant laws and regulations as well as import procedures can be complied with when our products are imported into the PRC. Before we place an order with the overseas processing companies and Shanghai Trilives, we will consider the pricing, whether our requirement for product specifications, quality and safety can be fulfilled and whether the products can satisfy the PRC import requirements and be delivered on time. For details of the key requirements and procedures involved in customs clearance, please refer to the paragraph headed “Our purchases — Commercial rationale for our Group to procure New Zealand DHA Products from Shanghai Trilives” in this section. To ensure the quality and regulatory compliance of imported goods, we also require our suppliers to produce the relevant product test reports, import declaration forms and sanitary certificates for our inspection and record. For domestic processing companies, we require them to possess either GMP or equivalent industry qualifications, as well as business licences and food production licences issued by the relevant PRC authorities.

For further details of our enhanced internal control measures for selecting suppliers, please refer to the paragraph headed “Litigation in the U.S. involving Confidence Group — Enhanced internal control measures by our Group for selecting suppliers” in this section.

## BUSINESS

For FY2021, FY2022, FY2023 and 6M2024, our 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. We have maintained stable business relationships with our five largest suppliers for each year/period during the Track Record Period. Save for Ausnutria Group from whom we commenced to procure our milk powder products in 2022, we have established business relationship of six to 12 years with our five largest suppliers for each year/period during the Track Record Period.

The following tables set out the details of our five largest suppliers for each year/period during the Track Record Period:

### FY2021

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
						(RMB'000)	(% of our total purchases)
1.	Shanghai Trilives	A PRC company engaging in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products	New Zealand DHA Products	2013	Advance payment of 40% of the contract sum within seven business days upon signing of contract; 40% of balance payable upon arrival of products at a Chinese port and before Customs declaration by Shanghai Trilives; 10% of balance payable within seven business days upon delivery of products to our warehouse and our confirmation of quantity and packaging quality; 10% of balance payable upon our receipt of sanitary certificate/bank transfer	47,559	56.8
2.	Confidence Group	Two U.S. companies under common control and management engaging in nutraceutical research and development, production and marketing of nutritional products	U.S. DHA Products	2017	50% of amount payable within ten business days upon signing of contract; 50% balance to be paid seven business days before delivery of products/ telegraphic transfer	10,704	12.8
3.	Shanghai Yicai	A PRC company manufacturing packaging materials and providing packaging services	Packaging services	2011	30% advance payment; balance is payable within seven business days upon delivery/bank transfer	9,248	11.0



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## BUSINESS

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
						(RMB'000)	(% of our total purchases)
4.	Pharmtech	A Hong Kong company principally engaging in manufacturing Chinese medicines, herbal, food and natural health products, packaging services, testing services and supply chain logistics services	Finished probiotics products which are processed in Hong Kong	2012	100% advance payment/telegraphic transfer	6,250	7.5
5.	Subsidiaries of DSM Group	Two companies established in Shanghai engaging in the sale and distribution of raw materials for nutritional products	Raw materials for PRC DHA Products and raw materials for multi-nutrient products	2012	100% advance payment or 30 days upon delivery/bank transfer	2,178	2.6
<b>Five largest suppliers in aggregate</b>						<b>75,939</b>	<b>90.7</b>
All other suppliers						7,771	9.3
<b>Total purchases</b>						<b>83,710</b>	<b>100.0</b>

## FY2022

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
						(RMB'000)	(% of our total purchases)
1.	Shanghai Trilives	A PRC company engaging in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products	New Zealand DHA Products	2013	Advance payment of 40% of the contract sum within seven business days upon signing of contract; 40% of balance payable upon arrival of products at a Chinese port and before Customs declaration by Shanghai Trilives; 10% of balance payable within seven business days upon delivery of products to our warehouse and our confirmation of quantity and packaging quality; 10% of balance payable upon our receipt of sanitary certificate/bank transfer	76,220	42.6

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## BUSINESS

Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
					(RMB'000)	(% of our total purchases)
2.	Ausnutria Group	A group of companies, the holding company of which is listed on the Main Board of the Stock Exchange which principally engages in (i) the dairy industry with activities ranging from R&D, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries; and (ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia	Milk powder products	2021	80% of the amount payable within one week upon signing of contract; balance is payable before collection of products/ bank transfer	41,556 23.3
3.	Confidence Group	Two U.S. companies under common control and management engaging in nutraceutical research and development, production and marketing of nutritional products	U.S. DHA Products	2017	50% of amount payable within ten business days upon signing of contract; 50% balance to be paid seven business days before delivery of products/ telegraphic transfer	25,219 14.1
4.	Shanghai Yicai	A PRC company manufacturing packaging materials and providing packaging services	Packaging services	2011	30% advance payment; balance is payable within seven business days upon delivery/bank transfer	15,590 8.7
5.	Pharmtech	A Hong Kong company principally engaging in manufacturing Chinese medicines, herbal, food and natural health products, packaging services, testing services and supply chain logistics services	Finished probiotics products which are processed in Hong Kong	2012	100% advance payment/telegraphic transfer	7,052 4.0
Five largest suppliers in aggregate					165,637	92.7
All other suppliers					13,078	7.3
Total purchases					178,715	100.0

## BUSINESS

### FY2023

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
						(RMB'000)	(% of our total purchases)
1.	Shanghai Trilives	A PRC company engaging in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products	New Zealand DHA Products	2013	Advance payment of 40% of the contract sum within seven business days upon signing of contract; 40% of balance payable upon arrival of products at a Chinese port and before Customs declaration by Shanghai Trilives; 10% of balance payable within seven business days upon delivery of products to our warehouse and our confirmation of quantity and packaging quality; 10% of balance payable upon our receipt of sanitary certificate/bank transfer	67,802	49.6
2.	Ausnutria Group	A group of companies, the holding company of which is listed on the Main Board of the Stock Exchange principally engages in (i) the dairy industry with activities ranging from R&D, milk collection, processing, production, packaging, marketing and distribution of infant formula and other dairy products to customers in the PRC, the Netherlands, Australia and other overseas countries; and (ii) R&D, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia	Milk powder products	2021	80% of the amount payable within one week upon signing of contract; balance is payable before collection of products/bank transfer	30,116	22.0
3.	Confidence Group	Two U.S. companies under common control and management engaging in nutraceutical research and development, production and marketing of nutritional products	U.S. DHA Products	2017	50% of amount payable within ten business days upon signing of contract; 50% balance to be paid seven business days before delivery of products/telegraphic transfer	14,438	10.5

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## BUSINESS

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the year	
						(RMB'000)	(% of our total purchases)
4.	Shanghai Yicai	A PRC company manufacturing packaging materials and providing packaging services	Packaging services	2011	30% advance payment; balance is payable within seven business days upon delivery/bank transfer	11,342	8.3
5.	Pharmtech	A Hong Kong company principally engaging in manufacturing Chinese medicines, herbal, food and natural health products, packaging services, testing services and supply chain logistics services	Finished probiotics products which are processed in Hong Kong	2012	100% advance payment/ telegraphic transfer	5,339	3.9
Five largest suppliers in aggregate						129,037	94.3
All other suppliers						7,777	5.7
Total purchases						136,814	100.0

## 6M2024

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the period	
						(RMB'000)	(% of our total purchases)
1.	Shanghai Trilives	A PRC company engaging in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products	New Zealand DHA Products	2013	Advance payment of 40% of the contract sum within seven business days upon signing of contract; 40% of balance payable upon arrival of products at a Chinese port and before Customs declaration by Shanghai Trilives; 10% of balance payable within seven business days upon delivery of products to our warehouse and our confirmation of quantity and packaging quality; 10% of balance payable upon our receipt of sanitary certificate/bank transfer	20,161	48.5
2.	Confidence Group	Two U.S. companies under common control and management engaging in nutraceutical research and development, production and marketing of nutritional products	U.S. DHA Products	2017	50% of amount payable within ten business days upon signing of contract; 50% balance to be paid seven business days before delivery of products/telegraphic transfer	10,254	24.7

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## BUSINESS

	Supplier	Principal business	Types of materials/ products/services supplied	Business relationship since	Credit term/payment method	Our purchases from the suppliers for the period	
						(RMB'000)	(% of our total purchases)
3.	Shanghai Yicai	A PRC company manufacturing packaging materials and providing packaging services	Packaging services	2011	30% advance payment; balance is payable within seven business days upon delivery/bank transfer	4,882	11.7
4.	Pharmtech	A Hong Kong company principally engaging in manufacturing Chinese medicines, herbal, food and natural health products, packaging services, testing services and supply chain logistics services	Finished probiotics products which are processed in Hong Kong	2012	100% advance payment/ telegraphic transfer	2,281	5.5
5.	Subsidiaries of DSM Group	Two companies established in Shanghai engaging in the sale and distribution of raw materials for nutritional products	Raw materials for PRC DHA Products and raw materials for multi-nutrient products	2012	100% advance payment or 30 days upon delivery/ bank transfer	846	2.0
Five largest suppliers in aggregate						<b>38,424</b>	<b>92.4</b>
All other suppliers						3,161	7.6
Total purchases						<b>41,585</b>	<b>100.0</b>

All of our five largest suppliers for each year/period during the Track Record Period are independent third parties. None of our Directors, their close associates, or any Shareholder who, to the best knowledge of our Directors, owns more than 5% of the issued share capital of our Company as at the Latest Practicable Date had any interest in any of our five largest suppliers for each year/period during the Track Record Period.

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## BUSINESS

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### **Reliance analysis on our direct and indirect suppliers**

The following sets forth the reliance analysis on our direct and indirect suppliers:

#### ***(a) Reliance on DSM Group (including DSM Shanghai) and Probiotics Raw Material Supplier***

Finished algal oil DHA products and probiotics products are our Group’s major products which in aggregate constituted approximately 99.0%, 98.0%, 99.0% and 99.5% of our total revenue for FY2021, FY2022, FY2023 and 6M2024, respectively. In addition, the source and quality of the raw materials used in our products are of paramount importance. The algal oil DHA raw materials of our finished algal oil DHA products were all sourced from DSM Group (including DSM Shanghai) and the probiotics raw materials of our finished probiotics products were all sourced from the Probiotics Raw Material Supplier. As such, our Directors are of the view that our Group has material reliance on DSM Group (including DSM Shanghai) and the Probiotics Raw Material Supplier.

According to Frost & Sullivan, DSM Group is regarded as the leader in the algal oil DHA market in the PRC, manufacturing over 40% of the raw materials and finished products in terms of volume and value in the algal oil DHA market in the PRC in 2023, while the Probiotics Raw Material Supplier is one of the largest suppliers of probiotics raw materials in the PRC in 2023, accounting for approximately 35% of the total revenue in the market for the supply of probiotics raw materials in the PRC in 2023. Considering the market position of DSM Group and the Probiotics Raw Material Supplier, Frost & Sullivan is of the view that it is an industry norm for brand owner of algal oil DHA products and probiotics products like our Group to have material reliance on the principal raw material suppliers like DSM Group and the Probiotics Raw Material Supplier, and it is not commercially realistic for our Group to diversify our reliance. Considering our Group’s relationship with DSM Group (including DSM Shanghai) and the Probiotics Raw Material Supplier over the years, our Directors confirm that our Group currently has no intention to cease sourcing the raw materials for our algal oil DHA and probiotics products from DSM Group (including DSM Shanghai) and the Probiotics Raw Material Supplier, respectively. In the unforeseen and unlikely event that our Group is required to look for alternative raw materials suppliers readily available in the market offering raw materials at similar price, terms and product quality, our Directors are of view that our Group is able to do so having considered that the raw materials of other algal oil DHA and probiotics brands in the nutritional product market have raw material suppliers other than DSM Group (including DSM Shanghai) and Probiotics Raw Material Supplier as advised by Frost & Sullivan. As advised by Frost & Sullivan, there are other alternative raw materials suppliers in the market to our existing supply chain, in particular (i) there are approximately dozens of algal oil DHA raw materials suppliers worldwide; and (ii) there are hundreds of probiotic raw material suppliers worldwide.

#### ***(b) Reliance on Shanghai Trilives, Confidence Group and the New Zealand Processing Company***

During the Track Record Period, our revenue was substantially contributed by sales of our New Zealand DHA Products and U.S. DHA Products. For FY2021, FY2022, FY2023 and 6M2024, the revenue contribution by sales of our New Zealand DHA Products/U.S. DHA Products in aggregated accounted for approximately 73.2%/16.4%, 65.4%/24.7%, 67.8%/25.5% and 61.3%/33.6% of our total revenue, respectively, and the purchases from

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Shanghai Trilives/Confidence accounted for approximately 56.8%/12.8%, 42.6%/14.1%, 49.6%/10.5% and 48.5%/24.7% of our Group’s total purchases, respectively. As disclosed in the paragraph headed “Our purchases — Algal oil DHA products” in this section, (i) in respect of our New Zealand DHA Products, we only purchased from the New Zealand Processing Company through Shanghai Trilives; and (ii) in respect of our U.S. DHA Products, we only purchased directly from Confidence Group. As such, our Directors are of the view that our Group has material reliance on Shanghai Trilives, Confidence Group and the New Zealand Processing Company.

We first commenced our business relationship with Shanghai Trilives and Confidence Group in 2013 and 2017, respectively. Our Directors confirmed that since the commencement of our working relationship with Shanghai Trilives and Confidence Group, there has been no material delay in delivery by or material dispute with Shanghai Trilives and Confidence Group. It was because of the smooth collaboration between our Group, Shanghai Trilives and Confidence Group down the years that our Group has maintained a long-term working relationship with each of them and continued to collaborate with Shanghai Trilives and Confidence Group without looking for other substituting contract manufacturing service providers/processing companies. In addition, we signed a tripartite framework agreement with Shanghai Trilives and the New Zealand Processing Company in August 2022 for a term of ten years, the details of which are disclosed in the paragraph headed “Our agreements with Shanghai Trilives” in this section. We also signed a framework agreement with Confidence Group in August 2022 for a term of ten years, the details of which are disclosed in the paragraph headed “Our agreements with Confidence Group” in this section. As advised by Frost & Sullivan, other high profile nutritional product companies also have reliance on their suppliers for finished products, thus it is an industry norm for our Group to have reliance on a single set of suppliers for each location in our supply chain for consistency of product quality and more efficient procurement chain and quality control management.

To the best knowledge of our Directors, (i) Shanghai Trilives and Confidence Group also have reliance on our Group having considered the number of years of working relationship with us and our market position as the largest domestic brands in terms of retail sales value of algal oil DHA products made from imported raw materials according to Frost & Sullivan; and (ii) the New Zealand Processing Company has no commercial reason not to accept the orders from Shanghai Trilives for processing our algal oil DHA products given the amount of our purchases from Shanghai Trilives during the Track Record Period. As such, our Directors are of the view that our reliance on Shanghai Trilives, Confidence Group and the New Zealand Processing Companies is mutual.

Although Shanghai Trilives, Confidence Group and the New Zealand Processing Company are key strategic partners in our procurement chain, our procurement department actively researches on and looks for alternative suppliers which can offer products and services at terms, price, and quality comparable to those offered by our existing suppliers. According to Frost & Sullivan, there are other alternative suppliers in the market to our existing supply chain, in particular (i) in New Zealand, there are approximately 20 companies that can provide contract processing services for algal oil DHA; (ii) in the U.S., there are nearly a hundred nutrition product manufacturers that can offer algal oil DHA processing services; and (iii) approximately tens of thousands of importers in the PRC are well-positioned in the market to handle



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businesses similar to Shanghai Trilives. To mitigate the risks associated with our reliance on these existing suppliers, our procurement department maintains a list of readily available alternative suppliers, and has held discussions with the identified alternative suppliers with an aim to ensure that our Group can maintain a stable supply of algal oil DHA products without any significant difficulty. To the best knowledge of our Directors, these alternative suppliers are not bound by exclusive agreements that would hinder them from sales to our Group, and they are prepared and willing to supply the required algal oil DHA products should our Group’s relationships with existing suppliers face interruptions or termination.

In view of the above, our Directors are of the view that (i) in the unforeseen event our collaboration with Shanghai Trilives, Confidence Group or the New Zealand Processing Company ceases, it may cause temporary disruption to our Group’s operations but it is not expected to materially affect our Group’s sustainability in the long run; and (ii) the risk associated with our reliance on existing suppliers is manageable.

For further analysis on our reliance with Shanghai Trilives, please refer to the paragraph headed “Reliance on Shanghai Trilives is not expected to affect our long-term sustainability” in this section below.

***(c) Why we consider our Group not to have material reliance on Ausnutria Group***

Ausnutria Group was the supplier of our Group’s milk powder product during the Track Record Period. Despite the purchases from which constituted approximately 23.3% and 22.0% of the our total purchases for FY2022 and FY2023, respectively, our Group has terminated all of its agreements with Ausnutria Group in October 2023 and our Group had no plan to resume milk powder business in the near future as disclosed in the paragraph headed “Financial Information — Other (losses)/gains, net — Termination of the agreements with Ausnutria Group” in this document.

***(d) Why we consider our Group not to have reliance on the rest of the five largest supplier for each year/period during the Track Record Period***

Our Directors are of the view that our purchases from the rest of the five largest supplier for each year/period during the Track Record Period were not significant. For instance (i) for Pharmtech, our purchases from which only constituted approximately 7.5%, 4.0%, 3.9% and 5.5% of our total purchases for FY2021, FY2022, FY2023 and 6M2024, respectively; and (ii) for Shanghai Yicai, our purchases from which only constituted approximately 11.0%, 8.7%, 8.3% and 11.7% of our total purchases for FY2021, FY2022, FY2023 and 6M2024, respectively.

**Major terms of the agreements with our suppliers for processing and packaging services**

The prices charged by our suppliers are generally subject to our negotiation with them and adjustment of raw materials and manufacturing/processing costs from time to time. We have not been subject to material price increases by our major suppliers during the Track Record Period, and we believe that in the event of material increase in price, we are able to transfer the price increase to our customers by raising the prices of our products.

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For details of how our Group enters into procurement contracts and/or places purchase orders with our suppliers, please refer to the paragraph headed “Our suppliers” in this section.

Duration	Typically one year
Purchase price and minimum purchase commitment	The agreements generally include terms regarding unit price, specifications of the products, costs of packaging materials, service fees and delivery costs. We may be required to purchase a minimum quantity per order from the suppliers.
Payment method	Bank transfer or telegraphic transfer
Credit term	Certain percentage of purchase amount payable upon signing of contract, arrival of goods at a Chinese port and/or delivery of the products; or 100% advance payment.
Quality assurance and product return	<p>The quality of products delivered to us by our supplier should meet the requirements set out in the agreement and the standards of the relevant PRC laws and regulations. Our supplier is also obliged to conduct product testing or provide us with product test reports issued by a third party.</p> <p>We have the right to return and exchange products supplied by our suppliers if there is any defect in product quality. We may engage a qualified third party to conduct product testing and if the products are found defective, we are generally entitled to a full refund.</p>
Compliance with laws and regulations	Our suppliers and us must comply with all applicable standards, laws and regulations in relation to various aspects such as product quality and the advertising and promotion of the products.
Delivery cost	Our suppliers are responsible for the delivery costs in general.
Termination	The contract can generally be terminated by either party by providing up to six months’ notice to the other party. In some agreements, either party can terminate the agreements immediately if there is any breach of material terms of the agreements. In some cases, we have the right to terminate the agreement if the products manufactured by our suppliers are found to be defective in quality by a third party.

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant difficulties in identifying alternative suppliers, nor experience any material dispute with our suppliers, any disruption, shortage or delay in the supply of our raw materials or finished goods which may materially and adversely affect our operations and financial conditions.

**Background of Shanghai Trilives**

For FY2021, FY2022, FY2023 and 6M2024, Shanghai Trilives was our largest supplier and our purchases from it accounted for approximately 56.8%, 42.6%, 49.6% and 48.5% of our total purchases, respectively. Shanghai Trilives is a company established in the PRC in 2013 engaging in imported food and nutraceutical material distribution in the PRC and the provision of contract manufacturing services for import and export products. It is an independent third party and its shareholders and directors have no relationship with our Directors and Controlling Shareholders. According to Frost & Sullivan, the market share of Shanghai Trilives in the imported algal oil DHA product market in the PRC was approximately 15.0% in 2023.

**Our relationship with Shanghai Trilives**

We have a long history of business relationship with Shanghai Trilives since 2013. During the Track Record Period, Shanghai Trilives was our direct supplier for our New Zealand DHA Products. As confirmed by our Directors, in 2013, we were introduced to Shanghai Trilives through a raw material supplier. For the commercial rationale to purchase finished products from Shanghai Trilives, please refer to the paragraph headed “Our purchases — Commercial rationale for our Group to procure New Zealand DHA Products from Shanghai Trilives” in this section.

**Our agreements with Shanghai Trilives**

The salient terms of the agreements are set forth below:

Term	One year
Products to be procured	Finished algal oil DHA products
Payment terms	<ul style="list-style-type: none"><li>• Advance payment of 40% of the contract sum within seven business days upon signing of contract;</li><li>• 40% of balance payable upon arrival of products at a Chinese port and before customs declaration by Shanghai Trilives;</li><li>• 10% of balance payable within seven business days upon delivery of products to our warehouses and our confirmation of quantity and packaging quality;</li><li>• 10% of balance payable upon our receipt of sanitary certificate</li></ul>

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Packaging	Shanghai Trilives shall be responsible for and delivering plastic bottles to the New Zealand Processing Company.
Confidentiality	Both parties have the obligation to keep the design of the plastic bottles, transaction prices and other cooperation details confidential. In particular, Shanghai Trilives shall indemnify our loss resulting from its disclosure of our products’ formula or prices to other third parties.
Renewal	No express provision
Other terms	Shanghai Trilives guarantees that the products supplied by it shall comply with the relevant market access requirements for imported food. It also warrants the reliability and the safety of the products, which shall comply with national regulations and corporate standards as well as requirements specified by the labels on the plastic bottles.

To ensure that the New Zealand Processing Company would use algal oil DHA raw materials supplied by DSM Group in our New Zealand DHA Products, our Group entered into a product quality guarantee agreement in July 2020 with Shanghai Trilives, pursuant to which:

- (i) Shanghai Trilives should enhance the supervision and examination on the New Zealand Processing Company, covering the processing process, quality control, warehousing, logistics as well as import and export, in order to ensure that the finished algal oil DHA products are produced with raw materials designated by our Group, including algal oil DHA supplied by DSM Group;
- (ii) if the New Zealand Processing Company has used any raw materials from any suppliers other than those designated by our Group, our Group has the right to claim against Shanghai Trilives;
- (iii) our Group has the right to request Shanghai Trilives to conduct, or provide full assistance to our Group for conducting, supervision and examination on the manufacturing of our products at the New Zealand Processing Company, including the right to (a) conduct onsite examination of the manufacturing facilities of the New Zealand Processing Company regularly or on an ad hoc basis; (b) request Shanghai Trilives to provide documents or materials which can prove the origin of the raw materials used by the New Zealand Processing Company; and (c) conduct verification with the ultimate raw material supplier (i.e. DSM Group); and
- (iv) if Shanghai Trilives breaches the product quality guarantee agreement, our Group has the right to refuse payment to Shanghai Trilives or demand refund from Shanghai Trilives, depending on the circumstances, and request Shanghai Trilives to pay our Group liquidated damages of US\$200,000. If our Group faces any complaint, report, litigation, arbitration, administrative penalty and any possible legal proceedings for the reason that the raw materials of the finished algal oil DHA products processed by the New Zealand Processing Company are not those designated by our Group,

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Shanghai Trilives should be responsible for all claims for damages against our Group and compensate our Group for all other losses that we may suffer. If the aforesaid reason is one of the reasons leading to the legal proceeding(s) faced by our Group, Shanghai Trilives may still be responsible for compensating our Group for part of the damages and other losses suffered by our Group according to the actual situation.

We signed a tripartite framework agreement with Shanghai Trilives and the New Zealand Processing Company in August 2022 for a term of ten years, the salient terms of which include (i) our Group shall procure New Zealand DHA Products from Shanghai Trilives; and (ii) Shanghai Trilives engages the New Zealand Processing Company to process the New Zealand DHA Products. The tripartite framework agreement does not set out substantive contractual terms of procurement, for example, the intended or minimum purchase volume per annum, any quantitative procurement commitment, the indicative price range or the delivery arrangement. Instead, it was purported to demonstrate the parties’ mutual intention to collaborate in the long term.

### **Reliance on Shanghai Trilives is not expected to affect our long-term sustainability**

Our Directors believe that our reliance on Shanghai Trilives would not affect our business operations, prospects and sustainability after taking into account the following reasons:

#### ***We have maintained a long and stable relationship with Shanghai Trilives***

We have a long history of business relationship with Shanghai Trilives since 2013 and have maintained good relationship with it. Throughout years of cooperation, Shanghai Trilives has provided stable and reliable supply of products to us. Our Directors confirm that our Group has not encountered any material delay in the import and delivery of products by Shanghai Trilives and is not aware of any financial liquidity problem since the commencement of our business relationship with Shanghai Trilives. We enter into a sale and purchase agreement with Shanghai Trilives for the procurement of our products annually. In August 2022, we signed an agreement with Shanghai Trilives and the New Zealand Processing Company, pursuant to which Shanghai Trilives committed to engage the New Zealand Processing Company to process finished algal oil DHA products for us for a term of ten years. This indicated the parties’ intention and willingness to maintain a long-term business relationship with us. Our Directors believe that it is unlikely that Shanghai Trilives will terminate the cooperation with our Group in the near future which may affect our business operations and financial position.

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*We have continuously identified potential alternative suppliers*

As we are not contractually bound to procure from Shanghai Trilives exclusively, we maintain flexibility in the selection of our suppliers. According to Frost & Sullivan, there is a large number of suppliers who are capable of providing finished algal oil DHA products which are processed overseas for the PRC market. We identify such potential alternative suppliers from time to time and explore business opportunities with them. As at the Latest Practicable Date, we had liaised with two alternative suppliers (“**Alternative Suppliers**”) which were established in the PRC in 2015 and 2016, respectively. Both of them engage in the import and export of raw materials of food products. Their shareholders and directors are independent third parties to our Group and have no relationship with our Directors and Controlling Shareholders. Our Directors had considered, among others, the quality and safety of the finished algal oil DHA products they can provide, price, lead time, and their capability to comply with the laws and legal procedures of the importation of finished products. Our Directors were satisfied that they were capable of providing us with quality finished algal oil DHA products and our Group had signed a framework agreement with one of them. Given Shanghai Trilives’ reliability and good and long term business relationship with us, our Directors do not intend to shift to other suppliers unless we are unable to procure from Shanghai Trilives with terms favourable and acceptable to us. However, in the event that Shanghai Trilives ceases its business relationship with us for any reason, we believe that we would be able to readily purchase similar products from the Alternative Suppliers at comparable costs, and our business operations will not be materially affected.

According to Frost & Sullivan, our practice of engaging Shanghai Trilives to source and import finished algal oil DHA products for us from overseas countries is consistent with the industry norm and common market practice, having considered: (i) sourcing and importing finished algal oil DHA products require technical know-how and effort in handling various time-consuming and burdensome processes, including (a) liaising with various parties overseas for raw materials procurement; (b) liaising with the New Zealand Processing Company regarding the production schedules and manufacturing arrangement; (c) arranging quality testing by independent third party laboratory; (d) trouble shooting for issues arisen during the procurement; (e) preparing export and import declaration forms and arranging customs clearance procedures; and (f) arranging domestic logistics services overseas and importation from overseas to the PRC; and (ii) leading brands of nutritional products usually focus on their resources on brand development and managing different distribution channels and would usually outsource the sourcing management and importation of nutritional products to the PRC.

Based on (i) the grounds stated above; (ii) there has not been any dispute, disagreement, litigation, complaint or any other factors between Shanghai Trilives and our Group which may hinder our ongoing business relationship; (iii) confirmation from Frost & Sullivan that the business operations between our Group and Shanghai Trilives are consistent with common market practice and industry norm, and there are potential alternative suppliers providing comparable services similar to Shanghai Trilives in the market; and (iv) the fact that our Group has a contingency plan to engage the Alternative Suppliers in the event that Shanghai Trilives terminates its cooperation with us, our



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Directors are of the view that (a) there are no material indications suggesting that the relationship between our Group and Shanghai Trilives will materially adversely change or be terminated in the foreseeable future; and (b) our Group has demonstrated its ability to find alternative suppliers to replace Shanghai Trilives, and is and will be able to effectively mitigate its exposure to any material adverse changes to or termination of the relationship with Shanghai Trilives.

Pursuant to the framework agreement that we entered into with one of the Alternative Suppliers, for a term of ten years, such Alternative Supplier shall (i) procure raw materials from overseas raw material suppliers for use in our products according to our instructions; (ii) handle importation and commodity inspection declaration procedures; and (iii) prepare product test reports, import declaration forms and sanitary certificates. There is no minimum purchase requirement under such framework agreement.

Furthermore, in order to secure a stable processing capacity of our finished algal oil DHA products that are processed overseas as an alternative to the New Zealand Processing Company through Shanghai Trilives, we have entered into framework agreements with two other processing companies in the U.S. (“**Alternative Processing Companies**”) for a term of 10 years, under which the processing companies shall produce finished algal oil DHA products using raw materials supplied by our designated suppliers. There is no minimum purchase requirement under such framework agreements. One of the Alternative Processing Companies was established in the U.S. in 2006 and engages in the manufacture of softgels for nationwide retailers and household supplement brands while the other engages in the manufacture and packaging of OTC drugs and nutritional products such as vitamins and minerals, herbs and botanicals as well as sports nutrition products. Their shareholders and directors are independent third parties to our Group and have no relationship with our Directors and Controlling Shareholders. Further, the Alternative Suppliers and the Alternative Processing Companies are independent from each other and do not have any relationship between them.

### **Our agreements with Confidence Group**

To ensure that Confidence Group/the overseas processing companies would use algal oil DHA supplied by DSM Group in our U.S. DHA Products, our Group entered into a product quality guarantee agreement in December 2019 with Confidence Group, pursuant to which:

- (i) Confidence Group should enhance the supervision and examination on the overseas processing companies, covering the processing process, quality control, warehousing, logistics as well as import and export, in order to ensure that the finished algal oil DHA products are produced with raw materials designated by our Group, including algal oil DHA raw materials supplied by DSM Group;
- (ii) if the overseas processing companies have used any raw materials from any suppliers other than those designated by our Group, our Group has the right to claim against Confidence Group;



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- (iii) our Group has the right to request Confidence Group to conduct, or provide full assistance to our Group for conducting, supervision and examination on the manufacturing of our products at the overseas processing companies, including the right to (a) conduct onsite examination of the manufacturing facilities of the overseas processing companies regularly or on an ad hoc basis; (b) request Confidence group to provide documents or materials which can prove the origin of the raw materials used by the overseas processing companies; and (c) conduct verification with the ultimate raw material supplier (i.e. DSM Group); and
- (iv) if Confidence Group breaches the product quality guarantee agreement, our Group has the right to refuse payment to Confidence Group or demand refund from Confidence Group, depending on the circumstances, and request Confidence Group to pay our Group liquidated damages of US\$200,000. If our Group faces any complaint, report, litigation, arbitration, administrative penalty and any possible legal proceedings for the reason that the raw materials of the finished algal oil DHA products processed by the overseas processing companies are not those designated by our Group, Confidence Group should be responsible for all claims for damages against our Group and compensate our Group for all other losses that we may suffer. If the aforesaid reason is one of the reasons leading to the legal proceeding(s) faced by our Group, Confidence Group may still be responsible for compensating our Group for part of the damages and other losses suffered by our Group according to the actual situation.

We signed a framework agreement with Confidence Group in August 2022 for a term of ten years, the salient terms of which include that our Group shall procure U.S. DHA Products from Confidence Group. The framework agreement does not set out substantive contractual terms of procurement, for example, the intended or minimum purchase volume per annum, any quantitative procurement commitment, the indicative price range or the delivery arrangement. Instead, it was purported to demonstrate the parties’ mutual intention to collaborate in the long term.

### **Relationship with DSM Group**

Our Group has been using the trademarks of DSM Group on the packaging of our algal oil DHA products since 2012. Our Group first entered into a trademark licensing agreement with DSM Group in 2018, pursuant to which DSM Group granted to us a non-exclusive right to use its trademarks on our algal oil DHA products in accordance with certain terms and conditions. According to the trademark licensing agreements, we agree to use the trademarks of DSM Group on the packaging of our algal oil DHA products. Under such agreements, (i) we are obliged to, on an annual basis, supply DSM Group with samples of each of our products which contain raw materials provided by DSM Group and copies of all packaging, labelling, advertising, promotional or other materials, which employ its trademarks directly or indirectly; and (ii) DSM Group may at any time examine and take samples of any of our products in connection with the use of its trademarks. If DSM Group determines that any such samples does not contain algal oil DHA supplied by DSM Group, it shall notify us and we shall immediately desist from using its trademarks in connection with our products. Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not received any

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notice from DSM Group requesting us to desist from using its trademarks. We have successfully renewed the trademark licensing agreement with DSM Group in April 2020, March 2023 and March 2024.

Salient terms of the latest trademark licensing agreement are as follows:

Date of agreement	4 March 2024
Validity period	Until 1 March 2025 unless terminated by the parties. The agreement may be terminated by either party by (i) giving the other party six months written notice of termination for any reason or (ii) giving the other party written notice with immediate effect if the other party, after given written notice of breach of the agreement by the terminating party, fails to cure such breach within one month after receiving such written notice of breach from the terminating party.
Major terms	<p>(a) DSM Group grants to us a non-exclusive, limited right to use the trademarks solely on or in connection with our algal oil DHA products in the PRC, including Hong Kong.</p> <p>(b) We agree that we will use the trademarks only (1) on or in connection with our products which contain raw materials provided by DSM Group; (2) when the conditions for use as set forth in guidelines devised by DSM Group are met; and (3) when the only source of the ingredients being used to grant us the rights to use the trademarks is supplied by DSM Group.</p> <p>(c) We shall supply DSM Group with, on an annual basis, samples of each of our products which contain raw materials provided by DSM Group and copies of all packaging, labelling, advertising, promotional or other material, which employs its trademarks, directly or indirectly. We further agree that DSM Group may at any time examine and take samples of any of our products in connection with which its trademarks are used or are to be used by us. If DSM Group determines that any such samples does not contain raw materials provided by DSM Group, it will so notify us and we shall immediately desist from using its trademarks in connection with our products.</p>

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- (d) We agree to secure the prior written approval of DSM Group of any and all of our packaging, labelling, advertising, promotional or other materials which contain, bear, display or employ its trademarks, directly or indirectly.

Consideration	The licence fee for the trademarks shall be considered covered by the purchase price paid for the raw materials provided by DSM Group, and therefore no separate licence fee shall be due.
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Given the long term trademark licensing arrangement between our Group and DSM Group, our Directors confirm that they do not foresee any difficulties in renewing the trademark licensing agreement with DSM Group when the latest agreement expires.

### LITIGATION IN THE U.S. INVOLVING CONFIDENCE GROUP

In May 2019, the U.S. Department of Justice on behalf of the FDA filed a litigation (the “**U.S. Litigation**”) in the United States against Confidence, U.S.A., Inc. (“**Confidence USA**”) (which is a member of Confidence Group) and its management members. The FDA alleged that Confidence USA failed to comply with the FDA’s Good Manufacturing Practices (“**cGMP**”) regulations in the preparation, packaging, and holding of its dietary supplement products, thereby rendering such product adulterated in violation of the Federal Food, Drug and Cosmetic Act of the U.S. (the “**FD&C Act**”). The allegedly adulterated foods at issue were described generally as dietary supplements produced in New York and sold by Confidence USA throughout the U.S., with the raw materials received from outside of New York used in the manufacturing of such dietary supplements. As stated in the judgment of the U.S. Litigation dated 28 January 2021 (the “**Judgment**”), under the FD&C Act, dietary supplement is deemed to be adulterated if it has been “prepared, packed, or held under conditions that do not meet current good manufacturing practice regulations”.

As at the Latest Practicable Date, the U.S. Litigation had been fully adjudicated and concluded by the U.S. court.

### Temporary suspension and resumption of operation

In March 2021, the U.S. court entered into an injunction (the “**Injunction**”) against Confidence USA that, amongst others, prohibited Confidence USA from operating the business until an independent cGMP expert be retained by Confidence USA and that the expert, among other things, certified in a report to be submitted to the FDA that Confidence USA has corrected all violations and is in compliance with all cGMP requirements. Confidence USA appointed a cGMP auditor (the “**cGMP Auditor**”) for this purpose.

Subsequently, the FDA was satisfied that Confidence USA has satisfied the requirements set forth in the Injunction and may therefore resume operations. As such, Confidence USA has resumed its operation in June 2021 (i.e. three months after the Injunction). Our Directors confirmed that no products or orders of our Group were affected by the abovementioned suspension of operations of Confidence USA.

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### **Subsequent cGMP audit reports of Confidence USA**

Apart from the abovementioned suspension of operations, the Injunction also required Confidence USA to undergo additional independent cGMP audits every six months, for five years from the date of the Injunction (i.e. at least until 2026) and at least once every calendar thereafter. Confidence USA must submit reports for such audits to the FDA. The results of those periodic audits must indicate that Confidence USA remains in compliance with cGMP regulations, otherwise it must correct the non-compliance within certain period of time. The FDA may also conduct its own inspections at any time to confirm such compliance. Confidence USA’s failure to conduct and report the required periodic audits, any findings of regulatory non-compliance observed during such audits or during an FDA inspection, or any other failure to comply with the terms of the Injunction may result in further administrative and/or judicial proceedings against Confidence USA which could lead to another shutdown of its business operations and other penalties.

Based on the semi-annual cGMP audit reports subsequent to the date of the Injunction (the “**cGMP Audit Reports**”), the cGMP Auditor has reviewed the operational activities performed by Confidence USA in the manufacture, packaging and distribution of dietary supplement products and opined that Confidence USA was in compliance with the relevant cGMP regulations. As confirmed by Confidence USA, subsequent to its resumption of operation following the Injunction (i) the FDA has not conducted an inspection on Confidence USA; and (ii) no further action was taken by the FDA.

### **The U.S. Litigation has been fully adjudicated and concluded by the U.S. court**

Having reviewed, among other things, (i) the Judgment; (ii) the relevant court documents and FDA correspondence relating to the U.S. Litigation; and (iii) the cGMP Audit Reports and conducted a site visit at Confidence USA, the U.S. Legal Counsel is of the view that:

- (i) Confidence USA satisfied the FDA as to its cGMP compliance in or about June 2021, such that the Injunction no longer prohibited Confidence USA from conducting its business and providing the dietary supplement products to our Group;
- (ii) it does not appear that any adverse action has been taken against Confidence USA by the FDA since the Injunction;
- (iii) the U.S. Litigation has been concluded, subject to the ongoing requirement of the Injunction (i.e. undergoing additional independent cGMP audits every six months for five years from the date of the Injunction and then annually thereafter); and
- (iv) Confidence USA has complied in material respects with the Injunction permitting it to continue its business operations with respect to manufacturing of dietary supplements.

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### **Involvement of Confidence Group in the processing of our U.S. DHA Products and our Group’s rectifications**

The processing of algal oil DHA raw materials into our U.S. DHA Products mainly included (i) encapsulation of algal oil DHA raw materials into softgel; (ii) drying of the softgels containing the algal oil DHA; and (iii) packaging of the softgels into plastic bottles.

As far as our U.S. DHA Products are concerned, during the Track Record Period, Confidence Group arranged third-party processing companies located in the U.S. for (a) encapsulation of algal oil DHA raw materials into softgels; and (b) drying of the softgels containing the algal oil DHA, while the packing of the softgels into the plastic bottles took place at the production facilities of Confidence Group. Such third-party processing companies, which are located in the U.S., procured the algal oil DHA raw materials from DSM Group.

Upon becoming aware of the U.S. Litigation, we immediately formed an internal committee comprising Mr. Wang (our Chairman, Chief Executive Officer and executive Director), Mr. An Yong (our general manager), Ms. Sun Mei (our financial manager) and Mr. Wang Kan (our head of external trade) and took the following actions:

- (i) we held regular conference calls and online meetings with Confidence USA to understand the allegations against Confidence USA;
- (ii) we inquired with Confidence USA for the root causes of the U.S. Litigation;
- (iii) we reviewed the Judgment and noted that the products based on traditional Chinese medicine were the subject of the majority of the FDA’s violation findings, which was not the algal oil DHA products supplied by Confidence Group to us;
- (iv) we reviewed our sales forecast and our inventory level in respect of our finished algal oil DHA products to assess the impact of any shortage of supply to meet our demand; and
- (v) we inquired with Confidence USA for their actions taken to mitigate the recurrence of similar incident in the future.

Despite that Confidence Group was only involved in the packaging of our U.S. DHA Products during the Track Record Period, our Directors considered at the material time that there was a need to diversify the source of our finished algal oil DHA products that are processed overseas. In view of the Sino-U.S. trade conflict at the material time and the increased tariffs imposed by the PRC government on products imported from the U.S., we explored to tap into cross-border e-commerce model for procurement. For details of our cross-border e-commerce model, please refer to the paragraph headed “Our purchases — Algal oil DHA products” in this section. As a result, our Group approached Shanghai Trilives (from which we purchased our U.S. DHA Products prior to the Track Record Period) and requested it to recommend an alternative processing company/factory which is located outside the U.S., and Shanghai Trilives proposed the New Zealand Processing Company to us. We commenced our

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procurement from New Zealand in September 2019 under the general trade model in which we procure our New Zealand DHA Products manufactured by the New Zealand Processing Company from Shanghai Trilives.

For details of background of Shanghai Trilives and our procurement model in New Zealand, please refer to the paragraphs headed “Our suppliers — Background of Shanghai Trilives” and “Our purchases — (a) Procurement of New Zealand DHA Products” in this section, respectively.

### **Enhanced internal control measures by our Group for selecting suppliers**

Following the U.S. Litigation, our Group has implemented the enhanced internal control measures for selecting our direct and indirect suppliers for our finished algal oil DHA products, including:

- (i) conducting a site visit of the processing companies by our senior management or an independent professional party to monitor their production processes;
- (ii) obtaining and reviewing evidence of cGMP compliance such as cGMP certificate and cGMP audit reports;
- (iii) obtaining and reviewing the production and quality control manuals of the processing companies; and
- (iv) conducting background checks of the processing companies by our senior management or an independent professional party.

### **Views of our Directors and the Sole Sponsor**

Given that (a) at the material time the process of the encapsulation of the algal oil DHA raw materials into softgels was not conducted at the production facilities of Confidence Group but the production facilities of third-party processing companies and these third-party processing companies have obtained the relevant cGMP accreditation; (b) Confidence USA managed to resume its operation shortly after the Injunction; and (c) our Group had already established procurement model of New Zealand DHA Products at the material time, our Directors consider that our Group was not materially and adversely affected by the U.S. Litigation.

The Sole Sponsor concurred with the views of our Directors that our Group was not materially and adversely affected by the U.S. Litigation, having considered the following additional factors:

- (a) according to the Judgment, the subject of the majority of the FDA’s violation findings was products based on traditional Chinese medicine, which do not concern the algal oil DHA products supplied by Confidence Group to our Group;



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- (b) as disclosed in the Judgment, Confidence USA retained a consulting firm to assist Confidence USA with cGMP compliance, and the consulting firm concluded after its inspection in 2020 that the activities performed by Confidence USA in the manufacture of dietary supplement products are in conformance with the regulations;
- (c) as disclosed in the Judgment, Confidence USA took many remedial measures after being informed of the government’s intention to litigate, which included implementing recommendations of its third-party cGMP compliance consultant;
- (d) the U.S. Legal Counsel is of the view that the U.S. Litigation has been concluded, subject to the ongoing requirements of the Injunction (i.e. undergoing additional independent cGMP audits every six months for five years from the date of the Injunction and then annually thereafter);
- (e) according to the cGMP Audit Reports, the operational activities performed by Confidence USA in the manufacture, packaging and distribution of dietary supplement products and opined that Confidence USA was in compliance with the relevant cGMP regulations; and
- (f) Confidence USA satisfied the FDA as to its cGMP compliance in or about June 2021, such that the Injunction no longer prohibited Confidence USA from conducting its business and supplying U.S. DHA Products to our Group.

## INVENTORY CONTROL AND MANAGEMENT

Our finished products that are processed in New Zealand and Hong Kong are delivered to and stored in our warehouses in Shanghai after being packaged into packing boxes and affixed with anti-counterfeit labels by Shanghai Yicai. For our products processed in the PRC, our raw materials are delivered to the domestic processing companies in the PRC for processing, then to Shanghai Yicai for packaging and affixing anti-counterfeit labels, and the finished products are delivered to our warehouses in Shanghai by Shanghai Yicai. Our products that are processed in the U.S. were sold to e-commerce companies and were delivered to the airports in the PRC designated by the e-commerce companies, and such products would not be delivered to and stored in our warehouses. During the Track Record Period, all our warehouses were located in Shanghai, the PRC and were leased from an independent third party.

We adopt weighted average cost method to calculate the cost of our inventories. For details of our accounting policy on inventories, please refer to Note 3 to the Accountants’ Report. We strive to maintain an inventory level that is sufficient for our sales for around three to six months for our products on average. During the Track Record Period, we responded to the then uncertainty in terms of supply and timing of delivery for our purchases brought by the outbreak of COVID-19. During the second quarter of FY2022, there was a large-scale lockdown in Shanghai due to COVID-19 outbreak in which it was uncertain at the material time whether a further lockdown with similar scale would recur, and we significantly increased our purchases during FY2022.



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We have an electronic system to record and monitor the inventory level to minimise the risk of accumulation of inventory. We typically inspect the inventory list of the warehouses every week and conduct physical sample stocktake of our inventories every month, and a full physical stocktake every half year, during which damaged and close-to-expire inventories are identified. For inventories which will expire within six months, we will arrange for sales and promotional campaigns to promote sales. Our Directors confirm that our Group had not experienced material shortage of inventory during the Track Record Period.

Our net inventories amounted to approximately RMB24.5 million, RMB69.4 million, RMB62.3 million and RMB63.0 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively, and our inventory turnover days was approximately 98.1 days, 269.0 days, 215.2 days and 279.7 days (annualised) for FY2021, FY2022, FY2023 and 6M2024, respectively. To better manage our inventory level and inventory turnover days, we have implemented the following enhanced inventory management policy:

- (i) our sales department would conduct sales forecast for at least the coming six months based on factors including (i) historical sales volume; (ii) discussion with our customers as to recent trends of market demand; and (iii) industry news;
- (ii) our sales department and procurement team would have regular meetings to monitor whether we have sufficient inventory to meet the expected upcoming demand of our products so as to determine when and at what quantity we need to make our purchase orders; and
- (iii) our procurement team would inquire our suppliers from time to time of their upcoming production capacity and production schedule so as to plan the timing for making our purchase orders.

For details of our inventories and analysis of our inventory days during the Track Record Period, please refer to the paragraph headed “Financial Information — Description of certain line items in the consolidated statements of financial position — Inventories” 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.

## SEASONALITY

Our Directors are of the view that our business does not exhibit any significant seasonal fluctuations.

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### RESEARCH AND DEVELOPMENT

As we source finished products from our product suppliers, we did not incur any material research and development expenses during the Track Record Period.

### MARKETING AND PROMOTIONAL ACTIVITIES

Our sales and marketing department is responsible for devising marketing strategy and plans to promote our products. During the Track Record Period, we promoted our brands and products through online shopping platforms, maternity and child websites, celebrities and bloggers, participating in exhibitions and conferences, and sponsoring academic conferences and seminars targeting the consumers of our products.

Also, we engage our regional distributors to sell and distribute and promote our products in their respective authorised distribution regions in the PRC. In general, we would bear the expenses for all online marketing and promotional activities as well as some offline marketing and promotional activities in relatively large scale (such as participating in exhibitions like Children Baby Maternity Expo (CBME孕婴童展) in different locations in the PRC) to promote our brands, products and corporate image, while our regional distributors would bear the expenses for local small scale events (such as conferences and product information seminars for consumers). We have adopted the following measures to regulate the marketing and promotion of our products and brands by our regional distributors: (i) we generally provide our corporate and product information to our regional distributors for their preparation of promotional materials. According to the distribution agreements we entered into with our regional distributors, the promotional materials to be published by them to the public shall be consistent with the information provided by us, and we reserve the right to request them to submit the promotional materials to us for prior review and approval; (ii) we also reserve the right to claim economic compensation from them with respect to any disputes and compensation caused by the publication of unauthorised product information; (iii) we provide product trainings and updates to our regional distributors from time to time; and (iv) our sales and marketing staff maintain contact with our regional distributors and handle their enquiries on product promotion on a timely basis. We would conduct random physical inspection of the events hosted by our regional distributors and ad hoc internet searches to inspect their promotional materials.

As for our major online sales channels, our sales and marketing department maintains and updates our product portfolio and specifications on various online shopping platforms, handles online sales, formulates and implements online promotional activities. We usually organise promotional events from time to time on particular dates which are the PRC's major shopping festivals such as “18 June”, “Double 11” and “Double 12” which help boost the sales of our products.

To meet potential new customers and distributors and to promote our brands and our products, we participate in exhibitions from time to time. For instance, in 2020, 2021 and 2023, we participated in the annual Children Baby Maternity Expo (CBME孕婴童展) held in Shanghai as exhibitor by setting up our booth. In 2021 and 2022, we also participated in the Dongxiao China Summit\* (動銷中國峰會) organised by China Baby Industry (中童傳媒) in various provinces in the PRC.

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During the Track Record Period, we engaged marketing companies to arrange to distribute contents in respect of our brands and products through celebrities on the internet and their official accounts accessible by the public on various popular social media platforms in the PRC such as Douyin, Xiaohongshu, WeChat and Weibo etc.

In addition, during the Track Record Period, we had sponsored various live streaming events and professional conferences such as conferences for medical and health practitioners, and product information seminars for professionals or industry players.

### AWARDS AND RECOGNITIONS

Our Group has received a number of awards over the years which include the following:

Name of award	Year	Issuer of the award
Parenting Net Mothers’ Reputable Choice in 2015 — Popular Pregnancy Preparatory Product* (2015年度育兒網媽媽口碑之選 — 年度人氣備孕用品)	2015	Parenting Net* (育兒網), a parenting website in the PRC
2017 Product Quality Award — Golden Wheat Awards* (2017年度母嬰類品質類大獎 — 金麥獎)	2017	Taobao World Media Co., Ltd. (淘寶天下傳媒有限公司)
Consumers’ Favourite Nutritional Product Brand* (消費者最喜愛的營養品品牌)	2017	Leyou Babies to Kids (樂友孕嬰童)
2019 Nutrition Box TOP 10 Award* (2019營養盒子嘉選 — TOP10大獎)	2019	Xinyingyang* (新營養)
The 5th Cherry Award — Children and Infant Nutritional Product Brand Annual Best Performance Award* (第五屆櫻桃大賞 — 年度嬰兒營養品品牌最佳表現力大獎)	2019	Myguancha.com (母嬰行業觀察) and Cherry Award Assessment Committee* (櫻桃大賞評委會)
The 6th Cherry Award — Children and Infant Nutritional Product Brand Annual Best Performance Award* (第六屆櫻桃大賞 — 年度嬰幼兒營養品品牌最佳表現力大獎)	2020	Myguancha.com (母嬰行業觀察)
China Children Industry Award — Annual Best Brand Award* (中國嬰童產業原點獎 — 年度最佳品牌力獎)	2020	China Children Industry Award Committee* (中國嬰童產業原點獎組委會)

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Name of award	Year	Issuer of the award
Children Baby Maternity Expo 2020 — Prestigious Brand Partner Awards (CBME2020感恩同行共生未來 — 榮耀品牌伙伴獎)	2020	Children Baby Maternity Expo (CBME孕嬰童展)
Babytree Brilliant Awards 2020 — Quality National Brand Award* (Babytree寶寶樹金樹獎 — 2020年度優質國民品牌獎)	2020	Babytree (寶寶樹), a maternal and infant social platform
China Nutritional Products Ginkgo Award — Industry-wide Sales Prize* (中國營養品銀杏獎 — 行業全域營銷獎)	2021	Beijing Yunxuan Zhongtong Culture Media Co., Ltd.* 北京雲宣中童文化傳媒有限公司 and Maternal and Infant Nutritional Products Commentary* 《母嬰營養品評論》
Parenting Net Mothers’ Reputable Choice 2021 — Popular Baby Nutritional Product* (2021年度育兒網橙品清單媽媽口碑之選 — 寶寶用品年度人氣營養品)	2021	Parenting Net* (育兒網), a parenting website in the PRC
Parenting Net Mothers’ Reputable Choice 2021 — Popular Maternal Medicine/ Nutritional Product* (2021年度育兒網橙品清單媽媽口碑之選 — 媽媽用品年度人氣藥品營養品)	2021	Parenting Net* (育兒網), a parenting website in the PRC
Tmall Global Double 11 Shopping Festival 2021 — Growth Engine Award* (2021天貓雙11全球狂歡節 — 增長引擎獎)	2021	Tmall (天貓商城)
Babytree Brilliant Awards 2021 — Reputable Choice Award* (Babytree寶寶樹金樹獎 — 2021年度專業口碑獎)	2021	Babytree (寶寶樹), a maternal and infant social platform
China Children Industry Award — Annual Best Brand Award* (中國嬰童產業原點獎 — 年度最佳品牌獎)	2021	China Children Industry Award Committee* (中國嬰童產業原點獎組委會) and Beijing Yunxuan Zhongtong Culture Media Co., Ltd.* 北京雲宣中童文化傳媒有限公司

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Name of award	Year	Issuer of the award
Mothers’ Net Reputable Choice of Maternal and Infant Brands 2021 — Baby category — Reputable Brand Awards* (媽媽網 2021母嬰品牌口碑榜 — 寶寶類目 • 口碑品質獎)	2021	Mothers’ Net* (媽媽網)
The 7th Cherry Award — Children and Infant Nutritional Product Brand Annual Best Performance Award* (第七屆櫻桃大賞 — 年度嬰幼兒營養品品牌最佳表現力大獎)	2021	Myguancha.com (母嬰行業觀察) and Cherry Award Assessment Committee* (櫻桃大賞評委會)
China Nutritional Products Ginkgo Award 2022 — Industry Leader Award* (中國營養品銀杏獎 — 2022年度行業引領獎)	2022	Beijing Yunxuan Zhongtong Culture Media Co., Ltd.* 北京雲宣中童文化傳媒有限公司 and Maternal and Infant Nutritional Products Commentary* 《母嬰營養品評論》
Tmall Children and Infant Food Industry Award 2022 — Item of the Year Award — Infant Nutritional Products* (2022年度天貓嬰童食品行業獎 — 年度超級單品獎 — 年度寶寶營養品)	2022	Tmall (天貓商城)
The 8th Cherry Award — Children and Infant Nutritional Product Brand Annual Outstanding Performance Award* (第八屆櫻桃大賞 — 年度嬰幼兒營養品品牌傑出表現力大獎)	2022	Myguancha.com (母嬰行業觀察) and Cherry Award Assessment Committee* (櫻桃大賞評委會)
FY2023 Category Captain of the Year* (2023財年天貓國際品類冠軍營)	2023	Tmall (天貓國際)
FY23 Tmall Global Maternal and Infant Industry Purple Star Thunder Award* (FY23天貓國際母嬰行業紫曜雷霆獎)	2023	Tmall (天貓國際)

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### EMPLOYEES

We had a total of 44 employees as at the Latest Practicable Date, most of them are based in Shanghai, the PRC. Set out below is a breakdown of our workforce by function:

Function	Number of employees
Executive Directors and senior management	9
Sales and marketing	13
Accounting and finance	2
Administration and human resources	4
Logistics	16
<b>Total</b>	<b>44</b>

We recruit our employees through different recruitment channels such as posting job openings online. We generally enter into individual employment contracts with each of our employees. The remuneration package of our employees includes basic salary, year-end bonus which is determined based on the years of service. We make contributions for our employees towards five categories of social insurance, including pension, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance in accordance with the PRC social insurance system, as well as housing provident fund in compliance with the relevant PRC laws and regulations.

We provide induction training to all new recruits and departmental training to our employees to enhance their knowledge towards our internal policies, products, market trends and health and safety. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material dispute with our employees or disruption to our operations due to labour dispute and we had not experienced any difficulty in the recruitment and retention of employees.

### TRANSFER PRICING ARRANGEMENT BETWEEN NUMANS SALES AND OUR PRC SUBSIDIARIES

During the Track Record Period, our PRC subsidiaries, namely, Gold Nemans, Aumay Dairy, Rujian International and Hontat Nutritional (collectively, the “**PRC Subsidiaries**”) provided sales support and administrative services to Numans Sales, i.e. our Seychelles subsidiary. Numans Sales is our subsidiary responsible for purchase and sales under our Group’s cross-border e-commerce model. For instance, during the Track Record Period, Numans Sales procured U.S. DHA Products and sold the same to e-commerce companies. For details of our cross-border e-commerce model, please refer to the paragraph “Our purchases — Algal oil DHA products” in this section. As Numans Sales did not have office and employees during the Track Record Period, the PRC Subsidiaries provided sales support and administrative services to Numans Sales and charged Numans Sales service fees. For FY2021,



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FY2022, FY2023 and 6M2024, the service fee (the “**Service Fee**”) charged to Numans Sales amounted to approximately RMB0.3 million, RMB1.0 million, RMB1.1 million and RMB0.6 million, respectively.

We have engaged our Tax Adviser to review the transactions between Numans Sales and the PRC Subsidiaries during the Track Record Period by benchmarking the profit margin ranges derived from comparable companies. Given the functional profile of the parties involved in the transactions, the transactional net margin method was selected as an appropriate transfer pricing analysis methodology. Our Tax Adviser advised that the Service Fee complied with the arm’s length principle and as such the transfer pricing arrangement complied with the relevant PRC tax laws.

### 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 from 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 outbreak, 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.



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### **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 during 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.

Saved 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 will not have material adverse impact on our business operations and financial performance and conditions.

### **IMPACT OF SINO-U.S. TRADE CONFLICT ON OUR GROUP**

During the Track Record Period, we adopted the cross-border e-commerce model for our U.S. DHA Products. Under this model, our Seychelles subsidiary Numans Sales procured the U.S. DHA Products directly from Confidence Group (which is located in the U.S.), in which the U.S. DHA Products were imported from Confidence Group through bonded warehouses, which were then delivered to the e-commerce companies. Our Group was not responsible for handling any customs clearance. The U.S. DHA Products that are imported under the cross-border e-commerce model were only sold under our Group’s online channel during the Track Record Period. As advised by our PRC Legal Advisers, the cross-border e-commerce model does not involve tariff. As such, our Directors are of the view the Sino-U.S. trade conflict did not have a material adverse impact on our Group. For the associated risk of Sino-U.S. trade conflict, please refer to the paragraph headed “Risk Factors — We procure our U.S. DHA Products directly from the U.S. and any regulatory changes as a result of the Sino-U.S. trade conflict may have a material adverse impact on us.” in this document.

### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS**

#### **Governance structure**

Sound corporate governance forms the foundation of our operations. We believe that establishing and implementing sound environmental, social and governance (“ESG”) principles and practices will help enhance the investment value of an enterprise and provide long-term returns to our stakeholders. The Board has the overall responsibility of overseeing sustainability issues related to our operations and strategy. By setting a strategic direction, the Board sets a clear vision and strategy that guides the ESG measures or systems, reflecting our core values. Our Board will adopt the following approaches to identify, manage and review material ESG issues:

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

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

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

To ensure a better implementation system is in place, an ESG working group has been set up at the management level. The ESG working group, currently composed of Mr. An Yong, Ms. Meng Yao and Mr. Wang Kan who are the members of the senior management of our Group, continued to deal with ESG-related issues. The ESG working group is responsible for discussing our ESG issues and continuing to ensure that appropriate and effective ESG policies and measures are in place, and reporting the ESG performance of our Group and discussing the potential improvement of the ESG policies and measures with the Board. It also assists current risk management, which is designed to meet our specific business needs and minimise risk exposure. The working group sets ESG goals and reviews its progress in achieving the goals to check whether there are areas for improvement. Additionally, through analysing the situation of our Group, the working group will suggest new ideas and bring attention to issues, as well as offer solutions that can be applied in our Group. We set and review the environmental goals through the process of our Board meetings, collect feedback from different stakeholders to understand their views on our environmental performance, and ensure the feasibility of the goals. We will evaluate our actual business operation annually and assess how the actual situation of our business can affect our environment. Goals will be adjusted according to the change in the situation of our business. For the biographical details of our senior management, please refer to the section headed “Directors, Senior Management and Employees” in this document.

### **Potential climate risk on our business operation and financial performance**

A warming planet creates a wide range of risks for business, from disrupted supply chains to rising insurance costs to labour challenges. With the increasing threat of climate change and the associated physical damage, change in market perception and shift in preference of the public towards more environmentally friendly products and services, the financial, reputational and strategic risk implications are becoming increasingly prominent. Climate change will undoubtedly be of increasing concern to our Group and industry as a whole for the foreseeable future. We have identified the following risks that climate change poses.

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Governed by our risk management policy, a set of systematic risk management practices has been put in place to ensure that the financial and operational functions, compliance mechanisms, material control and risk management operate efficiently. Our Board and ESG working group are responsible for evaluating and determining our ESG risks and ensuring that appropriate and effective ESG risk management and internal control systems are in place. We recognise ESG risks and engage in appropriate environmental practices. We comply with the laws and regulations covering environmental protection, as well as adopting measures to achieve more efficient use of resources, increased energy conservation, and waste reduction.

An ESG risk assessment was conducted based on assessing the possibility and impact of each identified risk into three levels: high, medium and low. Risks are then classified into three overall risk levels, high, medium and low based on the possibility and impact ratings.

<b>Risk levels</b>	<b>Definition of the overall risk levels</b>
High	Risks at this level may have serious consequences. There will highly likely be some impacts on our Group and hindrances for our Group to achieve strategic goals.
Medium	Risks at this level may have serious consequences, but they are less likely to occur. Conversely, the consequences could be minor in nature, but the probability of occurrence is higher.
Low	Risks at this level have limited harm and consequences for our Group to achieve its strategic goals, and the probability of occurrence is low.

### ***Physical risks***

Climate change affects all regions around the world. Extreme weather events, such as typhoons, storm surges and rainstorms, will hinder and disrupt our production, transportation and ultimately our revenue. Continuous extreme weather may affect the growth of the plants and the stock of marine life which may affect the stability of the supply of the raw materials of our products and also may affect the composition of the nutrient of the raw materials. As a result, this situation may affect the stability of product supply and product quality. Furthermore, we also foresee an increase in the frequency of blackouts due to the heavy load on the electricity grid caused by climate change, which may lead to unpredictable disturbances to our operations.

### ***How to mitigate physical risks***

During extreme weather events, employees are advised to remain in a safe place until it is safe to resume normal activities. We continue to enhance internal awareness and training for our employees regarding climate risk so that the ability of our Group to cope with the negative impacts of extreme weather can be strengthened. Furthermore, we adopt industry best practices according to the potential climate-related risks identified, which aims to improve energy efficiency throughout our operation. All employees are encouraged to focus on the daily procedure to achieve the objective of climate change mitigation.

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### *Transition risks*

Transition risk refers to the financial risk related to the process of adjustment towards a lower-carbon economy which can be prompted by, for example, changes in climate policy, technological changes, or a change in market sentiment.

Tightened environmental policies increase the cost of fulfilling such requirements. It might also raise the operating costs, insurance costs and penalties for non-compliance.

Substitution of existing technology and equipment with lower emissions or resource-saving options to comply with the new energy and sustainability standards incur investment and maintenance costs.

A change in customer or user behaviour and preferences leads to a loss in customer and income if there is a failure to meet stakeholders’ expectations on climate risk management and goals.

The change in customer or user preferences may increase the chance of receiving negative stakeholder feedback about our existing products. It may affect the reputation of our Group.

### *How to mitigate transition risks*

To mitigate the transition risks, we pay attention to stakeholders’ preferences on climate-related performance and disclosure and ensure transparent communication with stakeholders, and adjust the marketing strategies of our products where appropriate.

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Climate-related Risk	Timeframe	Potential financial impacts	Likelihood	Impact
<b>Physical Risks</b>				
Extreme weather	Short term	Climate change affects all regions around the world. Extreme weather events, such as typhoons, storm surges and rainstorms, will hinder and disrupt our production, transportation and ultimately our revenue.	Low	Low
Extreme weather	Long term	Continuous extreme weather may affect the growth of the plants and the stock of marine life which may affect the stability of the supply of the raw materials of our products and also may affect the composition of the nutrient of the raw materials. As a result, this situation may affect the stability of product supply and product quality. Furthermore, we also foresee an increase in the frequency of blackouts due to the heavy load on the electricity grid caused by climate change, which may lead to unpredictable disturbances to our operations.	Low	Low
<b>Transition Risks</b>				
Tightening of climate-related policies	Short term	Tightened environmental policies increase the cost of fulfilling such requirements. It might also raise the operating costs, insurance costs and penalties for non-compliance.	Low	Low

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<b>Climate-related Risk</b>	<b>Timeframe</b>	<b>Potential financial impacts</b>	<b>Likelihood</b>	<b>Impact</b>
<b>Cost to transition to lower emissions technology</b>	Short term	Substitution of existing technology and equipment with lower emissions or resource-saving options to comply with the new energy and sustainability standards incur investment and maintenance costs.	Low	Low
<b>Changing customer behaviour</b>	Long term	A change in customer or user behaviour and preferences leads to a loss in customer and income if there is a failure to meet stakeholders’ expectations on climate risk management and goals.	Low	Low
<b>Reputation risk</b>	Long term	The change in customer or user preferences may increase the chance of receiving negative stakeholder feedback about the existing products and services. It may affect the reputation of our Group.	Low	Low

### ***Opportunities***

We understood that there is growing preference for clean, pollution-free and healthy nutritional products in the PRC, and our finished algal oil DHA and probiotics products continuously use raw materials supplied by leading algal oil DHA and probiotics raw materials suppliers which took into account sustainability issues in their businesses, it is an opportunity for our business to grow by adapting our marketing strategies in the long term.

### **ESG policies**

We are committed to working on the environmental, health and safety, employment, supply chain issues that our operations affect, and to working with our stakeholders to promote sustainable development in the industry in which we operate. We endeavour to ensure compliance with all applicable national and local safety, health, labour and environmental obligations. We have implemented an ESG policy, which provides guidelines to manage our environmental, social and climate-related issues, and our Board will constantly update the policy in response to the environmental, social and climate-related changes.

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### *Environmental policy*

As we principally engaged in marketing, selling and distributing nutritional products in the PRC and did not operate any production facilities by ourselves, we consider that we did not impose any material threats to the environment during our business operations. Nevertheless, we endeavour to comply with all applicable environmental laws and regulations during our business operations. During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements that results in prosecution or conviction being brought against us. Our business nature did not incur any significant amount of cost for compliance with applicable environmental requirements.

As part of our environmental policy, we have set the following commitments:

- Become carbon neutral in 2050
- Compliance with global and local environmental laws and regulations
- Continuous improvement in environmental and resource management
- Enhance employees’ awareness of resource-saving and environmental protection

Besides, we also have set some environmental targets in order to improve our environmental performance continuously:

- Reduce greenhouse gas emissions intensity, including Scope 1, 2 and 3, by 30% within ten years, with 2021 as the base year;
- Reduce energy consumption intensity by 30% within ten years, with 2021 as the base year;

Since no significant amount of waste was produced by our business operations, no such target was set. However, we will continue to manage the existing resource use reduction policies in the long term. The energy and greenhouse gas (“GHG”) emission intensities of 2022 remain unchanged compared with 2021. We did not produce a large amount of GHG emissions and consume a large amount of energy.

### *Measures to achieve GHG emissions and energy consumption reduction targets*

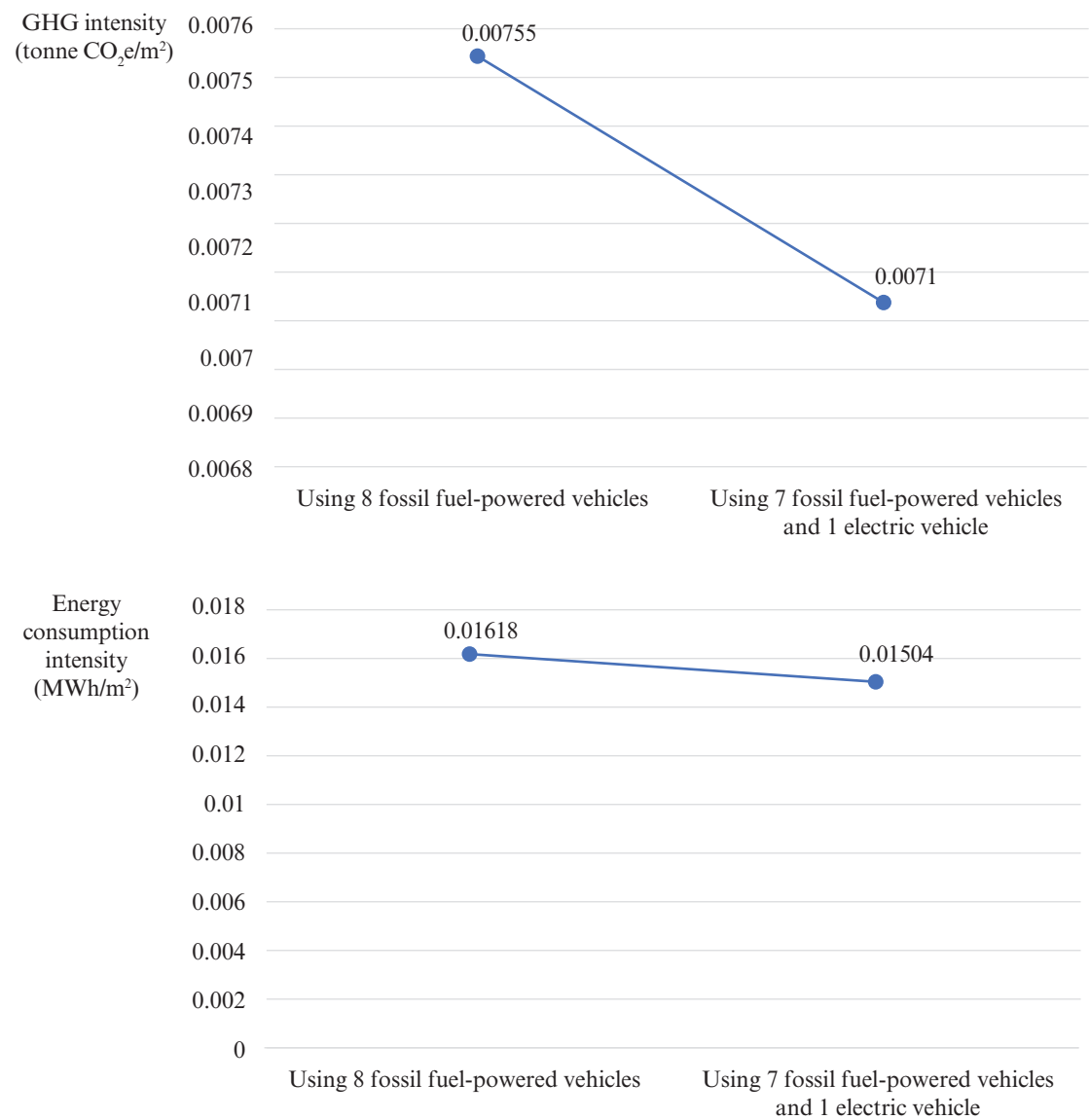
We target to reduce 30% of GHG emissions and energy consumption intensities within ten years, with 2021 as the base year. The outlined targets are prepared based on the following rationales and assumptions.

It is predicted that the proportion of the electricity generated by adopting renewable energy from the electricity grid will gradually increase in the future. The emission factor of the electricity grid in the PRC decreased by around 9 to 10% between 2018 and 2023. By projecting a 10% reduction in emission factor every five years, we anticipate at least 20% decrease in emission factor within ten years.



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Besides, in alignment with the trend of shifting towards electric vehicles as replacements for traditional fossil fuel-powered vehicles in the PRC, we foresee a transition towards electric vehicle adoption within our operations. By replacing each fossil fuel-powered vehicle with an electric vehicle, we anticipate a reduction in energy consumption intensity of approximately 7 to 8% and a decrease in GHG emission intensity of approximately 5 to 6%. With this gradual pace of electric vehicle adoption, we are highly confident in transitioning all existing vehicles to electric vehicles, thus establishing our targets for energy consumption and GHG reduction at a 30% decrease within ten years.



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### *Use of resources*

We have also adopted the following measures to enhance the effective use of various types of resources:

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

### *Emissions management and energy efficiency*

In order to promote energy efficiency, we have adopted the following measures:

- Encourage the adoption of energy-efficient machinery, system and equipment in the procurement process
- Avoid unnecessary vehicle use and maintain the vehicles regularly
- Maintain the room temperature at 24–25 degree Celsius
- Turn off the unnecessary electrical equipment and lights

*Note:* There were no significant annual costs derived from the compliance with applicable rules and regulations during the Track Record Period and up to the Latest Practicable Date.

During Track Record Period, we did not incur any material costs in relation to our compliance with applicable environmental requirements in the PRC. We estimate that our annual cost of compliance going forward will be consistent with our scale of operation.

During the Track Record Period and up to the Latest Practicable Date, we did not record any material non-compliance with applicable environmental requirements in the PRC that resulted in prosecution, conviction, penalty or administrative sanction being brought against or imposed upon us.

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### *Social policy*

#### *Human resources*

Equal Opportunity applies to all aspects of employment. We are committed to the principle of equal opportunities for all employees and candidates regardless of their gender, race, nationality, marital status, disability, religious belief, sexual orientation or any other characteristic protected under the law. Promotion and job opportunities as well as their remuneration, benefits and welfare packages are offered to existing employees and suitable candidates based on the assessment of the work performance of all individuals on merit, qualifications and abilities, and suitability for the position. Our policies regarding employees’ rest time and dismissal are formulated in accordance with the relevant national laws and regulations.

We recognise the benefit of a diversity of Board members and we have adopted a Board diversity policy, please refer to the paragraph headed “Directors, Senior Management and Employees — Board diversity policy” in this document for further details. In order to further promote gender diversity within our Group, we endeavour to ensure that there is gender diversity during the recruitment of employees at mid to senior level and provide training and long-term development opportunities to our female staff members, hence there will be a pipeline of female senior management and potential successors to our Board.

#### *Occupational health and safety*

We strive to provide and maintain a safe and healthy working environment whilst complying with all applicable laws and regulations. These include, but are not limited to the following:

- Law of the PRC on the Prevention and Treatment of Occupational Diseases
- Work Safety Law of the PRC

We arrange occupational health and safety training for employees and inspect the working environment, fire-fighting facilities and first-aid equipment regularly. The work-related injury records are managed by the administrative department. The administrative department is responsible for inspecting work-related injury cases and formulating and evaluating the work-related injury monitoring policy regularly.

#### *Product quality and safety*

We have established a comprehensive product quality management system to ensure our nutritional products are safe to all consumers’ health. We strictly monitor the quality of raw materials used in the production process. We conduct inspections at our suppliers and the processing companies of our nutritional products as and when necessary. The site visit would include a physical examination of the processing process for our nutritional products. During the site visit, we would observe and check that no unauthorised substances are added to our nutritional products, and that there is no adulteration in our nutritional products. In addition, we would check the batch numbers of the raw materials used in the production against the

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certificate of analysis issued by the ultimate raw material suppliers, where applicable. If we identify any issues related to the production process, use of raw materials, or product quality, we would directly and promptly report them to our Board. We would also arrange for independent laboratory tests.

If the purchased finished products do not match the specifications or quantities stated in the purchase agreements and/or purchase orders, or if they do not meet our requirements, our logistics and warehousing department will refuse to accept the goods and notify the procurement department to communicate with our suppliers.

If the materials are received and found to be non-compliant during the inspection process, we would prepare a recall application form and submit it for approval by our Directors. After receiving the approved recall application form, our general manager and head of external trade are responsible for contacting the suppliers to discuss the recall arrangements. Besides, we also have established a comprehensive complaint handling procedure to ensure we understand the customers’ concerns on the products.

### *Supply chain management*

In order to manage our supply chain, our purchasing department is responsible for evaluating the price, the standard of product quality, business condition and environmental and social corporate responsibility of the new suppliers regularly in order to ensure the product and service quality of the suppliers.

During the Track Record Period and up to the Latest Practicable Date, we cooperated with over 35 suppliers, including 2 from Hong Kong, 1 from USA and over 30 from the PRC.

We expect our suppliers to engage in good sustainability practices, such as raising employees’ environmental awareness, encouraging energy conservation, promoting waste reduction, and providing a safe and risk-free working environment. We assess the quality of products and services of the new suppliers and update the list of approved suppliers regularly. In addition, when purchasing goods and services, environmental and social factors are part of the consideration besides technical capabilities and price competitiveness. A standardised procurement management flow, including selection, hiring, evaluation, management and monitoring of suppliers, has been established to track the performance of suppliers regularly. We evaluate the performance of the suppliers annually and conduct certificate checking regularly in order to maintain the products and services quality, and their compliance with environmental and social standards. Underperformers will be removed from the list to ensure all suppliers achieve our minimum standard.

Besides, we have also adopted a green procurement policy which stipulates the purchased products and services which cause minimal damage to the environment. Environmentally friendly and energy-saving products are preferred when purchasing commonly used items for daily business operations.

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We maintain positive communication among all of our suppliers in order to maintain environmentally friendly and sustainable value chain for our business. We strive to reuse and recycle packaging materials and avoid unnecessary energy consumption. With our efforts on energy and resource saving and good sustainable cooperation with all of our suppliers, we believe that the negative environmental impacts derived from our business and value chain are minimal.

### *Anti-corruption*

We regard knowledge and compliance with laws and regulations as the foundation of our business. Our Group requires that all employees shall conform to the Law Against Unfair Competition of the PRC, Criminal Law of the PRC, and other laws, regulations and regulatory documents related to commercial bribery.

We have formulated anti-fraud, anti-bribery and anti-money laundering policies. We understand that employees may potentially face corruption-related situations when dealing with customers, suppliers or contractors during business operations, and thus the policies provide guidelines to employees for seeking advice on proper actions.

We have established a whistle-blowing policy which encourages employees to report suspected misconduct cases through various channels such as telephone, letters and emails. Any suspicious issues reported will be followed up and investigated by the Board, and the process of the investigation will be kept confidential. The whistle-blowers are protected in reporting and investigation procedures which are free from unfair treatment and victimisation.

### **Environment performance and metrics**

The energy consumption of our Group is as follows:

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
Petrol (MWh)	98.70	86.14	61.15
Diesel (MWh)	5.12	3.55	3.60
Electricity (MWh)	96.64	88.52	95.35
<b>Total Energy consumption (MWh)</b>	<b>200.46</b>	<b>178.21</b>	<b>160.10</b>
<b>The energy consumption intensity (MWh/m<sup>2</sup>)</b>	<b>0.02</b>	<b>0.02</b>	<b>0.02</b>

The GHG emissions of our Group are shown in the following table:

	<b>FY2021</b>	<b>FY2022</b>	<b>FY2023</b>
Scope 1 (tCO <sub>2</sub> e)	23.07	19.94	19.36
Scope 2 (tCO <sub>2</sub> e)	56.15	51.43	54.38
Scope 3 (tCO <sub>2</sub> e)	0.74	0.78	1.02
<b>The total amount of GHG emissions (tCO<sub>2</sub>e)</b>	<b>79.96</b>	<b>72.15</b>	<b>74.75</b>
<b>The GHG emissions intensity (tCO<sub>2</sub>e/m<sup>2</sup>)</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>

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*Note:* Pursuant to Appendix 2 of “How to Prepare an ESG Report” set out by Hong Kong Exchanges and Clearing Limited, Scope 1 greenhouse gas emissions refer to direct emissions from the mobile sources that are owned or controlled by our Group, whereas Scope 2 greenhouse gas emissions refer to energy indirect emissions resulting from the generation of purchased or acquired electricity within our Group. Scope 3 greenhouse gas emissions refer to electricity used for processing fresh water and sewage by government department or third parties.

## INTERNAL CONTROL AND RISK MANAGEMENT

Our Directors are responsible for the formulation of and overseeing the implementation of the internal control measures and the effectiveness of risk management system, which is designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

We have engaged an independent internal control consultant (“**Internal Control Consultant**”) to review our internal control and risk management systems so that we could improve our overall internal control system. The internal control review covered areas including corporate governance, financial reporting and operation controls. During the period between March to May 2023, our Internal Control Consultant conducted initial internal control review, and also conducted a follow-up review in November 2023.

The Internal Control Consultant is satisfied that there are no material deficiencies in the adequacy and effectiveness of our Group’s internal control systems. The Internal Control Consultant has also reviewed and assessed our entering into and termination of milk powder business, and has made certain recommendations in order to mitigate the risks of any substantial loss to be suffered by our Group in the event that our Group intends to commence any business in new products with material financial commitment or enter into any significant business contracts in the ordinary course of our business. For details, please refer to the paragraph headed “Financial Information — Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products — Recommendations by the Internal Control Consultant” in this document.

### Corporate governance

In accordance with the applicable laws and regulations, we have established procedures for developing and maintaining internal control systems covering areas such as corporate governance, operation management, compliance matters and financial reporting for our needs. We believe that our internal control systems and current procedures are sufficient in terms of comprehensiveness, practicability and effectiveness. In particular, we have adopted the following internal control measures to enhance our corporate governance:

- (1) our Board includes three independent non-executive Directors and one non-executive Director to ensure transparency in management and fairness in business decisions and operations. The independent non-executive Directors and non-executive Director contribute to the enhancement of corporate value by providing advice and oversight based on their extensive administrative experience and specialised knowledge;
- (2) our Directors deliberate risk management related policies and procedures and review the effectiveness and adequacy of risk management activities annually;

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- (3) we have strengthened our internal audit system to ensure the appropriate functioning of the risk management and operation oversight systems. We have established the Audit Committee which comprises three independent non-executive Directors to review and monitor the effectiveness of our financial control, internal control and risk management systems. We also intend to engage an internal control consultant to review our internal control system on an annual basis to ensure that effective internal control procedures are in place;
- (4) our Directors have attended a training session on 8 June 2023 conducted by our legal advisers as to Hong Kong laws on, among other things, the obligations, on-going corporate governance requirements and the duties of directors of a company listed on the Stock Exchange; and
- (5) we have appointed Caitong International Capital Co., Limited as our compliance adviser to advise us on compliance matters in relation to the Listing Rules.

### **Risk management**

Our Directors are responsible for overall risk management and control of our business and review the effectiveness of our risk management system from time to time to ensure that it properly addresses and is adequate to monitor and control, to the extent feasible, various risks faced by our Group following our business growth and expansion. We have in place the following risk management system to manage our operational risks:

- Our Board is in charge of the overall risk control of our Group. Any significant business decision involving material risks are reviewed, analysed and approved at the Board level to ensure a thorough examination of the associated risks at our highest corporate governance body.
- We have different departments responsible for each key fields of our operations including marketing and brand promotion, sales and customer service, accounting and finance, administration and human resources, and logistics. Our senior management member Mr. An Yong is in charge of supervising different departments and monitoring the overall business operations of our Group. We have established procedures and policies setting out clear reporting lines and responsibilities with a view to facilitating efficient communications among our Board, our senior management and different departments.
- Our Audit Committee is responsible for, among others, maintaining a satisfactory control environment and an effective system of internal control (including any arrangements for internal audit) and reviewing our financial information, by monitoring the integrity of our financial statements and annual reports and accounts, half-year reports and, if prepared for publication, quarterly reports, and reviewing significant financial reporting judgments contained in them.



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We have adopted various internal policies and procedures for our employees in respect of different aspects of our business process based on our operational needs. To ensure compliance culture is embedded into everyday workflow and to set the expectations for individual behaviour across the organisation. We also provide both in-house and external trainings to our employees in order to enhance their industry knowledge to manage our operational risks.

### KEY INTERNAL CONTROL MEASURES RELATING TO OUR PRODUCTS

#### Authenticity of algal oil DHA raw materials used

For our algal oil DHA products, all processing companies of our algal oil DHA products are required to use algal oil DHA raw materials supplied by DSM Group. To ascertain that the algal oil DHA raw materials used in our algal oil DHA products were sourced from DSM Group, we have adopted the following internal control measures to ensure the authenticity of algal oil DHA raw materials used:

- (i) Our procurement and international trade manager or our general manager would conduct site visits to the processing companies at least twice per annum to observe their production process. In particular, our manager would check the certificate of analysis issued by DSM Group (which would be signified by the mark “life’sDHA”) in respect of the algal oil DHA raw materials to be used for that production batch, and ascertain that the particular batch of algal oil DHA raw materials is indeed used throughout that production batch.
- (ii) Our procurement department would check the details contained in the purchase documents by the processing companies to DSM Group against the certificate of analysis issued by DSM Group (which would be signified by the mark “life’sDHA”) to ensure that the algal oil DHA raw materials are sourced from DSM Group.
- (iii) Our procurement department would independently verify with DSM Group as to the authenticity of certificates of analysis issued by DSM Group as provided by the processing companies (applicable to our New Zealand DHA Products and U.S. DHA Products, where the processing companies are responsible for procuring algal oil DHA raw materials directly from DSM Group).
- (iv) Our procurement department would liaise with and procure algal oil DHA raw materials supplied by DSM Group through DSM Shanghai, and arrange such raw materials to be delivered to the domestic processing companies in the PRC (applicable to our PRC DHA Products, where we procure algal oil DHA raw materials directly from DSM Group).
- (v) Our procurement department would review the production batch records and ascertain that the key ingredients being used carry the mark “life’sDHA” owned by DSM Group, and sight for the review and approval trails by the manufacturing supervisor and quality control personnel of the processing companies.

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- (vi) We entered into a product quality guarantee agreement with Shanghai Trilives in September 2019 to ensure that the New Zealand Processing Company would use algal oil DHA raw materials supplied by DSM Group in our New Zealand DHA Products.
- (vii) We entered into a product quality guarantee agreement with Confidence Group in December 2019 to ensure that the processing companies would use algal oil DHA raw materials supplied by DSM Group in our U.S. DHA Products.

### **Authenticity of our algal oil DHA products**

For our finished algal oil DHA products processed in different jurisdictions (i.e. New Zealand DHA Products, U.S. DHA Products and PRC DHA Products), we have adopted different internal control measures to ensure the authenticity of our algal oil DHA products as follows:

- (a) in respect of New Zealand DHA Products, as we adopt the general trade model and purchase our New Zealand DHA Products from the New Zealand Processing Company through Shanghai Trilives (which is onshore), for each batch of production, as part of our inventory acceptance procedures, our Group would physically inspect the finished New Zealand DHA Products for their authenticity by checking, among other things, the logistics documents and the packaging of the finished products.
- (b) in respect of U.S. DHA Products, we engage third party logistics service providers for transportation and delivery of our U.S. DHA Products to the bonded warehouses of e-commerce companies in the PRC, in which the logistics service providers would check for us whether the packaging of the goods appear to be our U.S. DHA Products. In addition, we can ensure their authenticity having considering:
  - (i) our procurement department would check the information submitted to customs against the product information (such as product description, value, quantity and invoice/contract number);
  - (ii) our authorisation as the goods owner is required for the U.S. DHA Products to be admitted by bond warehouse; and
  - (iii) our e-commerce customers would alert us if the goods delivered to their bond warehouse by Confidence Group are not our U.S. DHA Products.
- (c) in respect of PRC DHA Products, as the processing of our PRC DHA Products takes place onshore, for each batch of production, as part of our inventory acceptance procedures, we would physically inspect the finished PRC DHA Products for their authenticity by checking, among other things, the logistics documents and the packaging of the finished products.

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### Quality control of our algal oil DHA products

We do not have our own processing facilities, and we procure our algal oil DHA products from our suppliers. We have implemented the following quality control measures over our algal oil DHA products:

- (a) We strictly require all processing companies to possess either GMP or equivalent industry qualifications or food production licences to ensure that the products processed by them meet the required industry standards.
- (b) Our procurement and international trade manager or our general manager shall be responsible for inspecting our suppliers and the processing companies of our algal oil DHA products at least twice per annum. During the inspection, our manager would (1) review the GMP or equivalent industry qualifications or food production licences of the suppliers and/or the processing companies; (2) inspect the processing facilities and make enquiries as to any quality concerns; (3) physically observe the production process with particular attention on whether there is any risk of unauthorised substances being added to our algal oil DHA products and whether there is any risk of adulteration in our algal oil DHA products; (4) inspect the algal oil DHA raw materials stored at site to see if they correspond with the certificate of analysis issued by DSM Group; and (5) randomly select ten samples of algal oil DHA products for conducting our independent laboratory test by our designated and qualified laboratory with particular focus on the DHA content and whether the finished algal oil DHA products were contaminated by microorganism or toxics such as solvent residual and lead.

During the Track Record Period, due to travelling restrictions imposed by the relevant governments in response to COVID-19 outbreak, our managers were unable to physically attend the premises of our overseas suppliers and processing companies. 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 in New Zealand and the U.S. During the Track Record Period, we conducted six site visits to our overseas suppliers and processing companies, all of which were conducted after lifting of travelling restrictions due to COVID-19.

- (c) As we market, sell and distribute nutritional products under our proprietary brands by adopting an OEM model, we designated the suppliers for the key ingredients to ensure the quality of our products. Such designated suppliers for the key ingredients are reputable overseas suppliers. For instance, our suppliers for our algal oil DHA products are required to use algal oil DHA supplied by DSM Group which is a renowned overseas supplier in the industry.

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- (d) For each batch of production, our procurement department would obtain and review the production batch records from the processing companies, in particular, our procurement department would:
  - (i) check the certificate of analysis issued by DSM Group (which would be signified by the mark “life’sDHA”) as well as the purchase documents to DSM Group by the processing company to ascertain the algal oil materials that were sourced from DSM Group ingredients;
  - (ii) review the production batch records and sight for the review and approval trails by the manufacturing supervisor and quality control personnel of the processing company; and
  - (iii) review the laboratory test report and check, among others, (1) the volume of DHA content; and (2) whether there was any contamination by microorganism or toxics such as solvent residual and lead.
- (e) Our procurement department would select at least four batches of production per annum and select ten samples from each selected batch of production to conduct an independent laboratory test by our designated and qualified laboratory with particular focus on the DHA content and whether the finished algal oil DHA products were contaminated by microorganism or toxics such as solvent residual and lead, and compare the results with that of the processing company.
- (f) We only accept products that meet the specification and quality standards as required by us. If the packages and descriptions of the products are not in line with the purchase order, we will notify the suppliers as soon as possible for product return.

As confirmed by our Directors, our Group did not receive any material complaint from our customers in relation to the quality and safety of our products or any complaint from governmental authorities regarding allegations about the quality and safety of our products during the Track Record Period and up to the Latest Practicable Date.

The Sole Sponsor is of the view that the above quality controls measures of our Company are adequate and effective in monitoring our product quality and the source of our raw materials, having considered:

- (i) during the Track Record Period and up to the Latest Practicable Date, our products had not been subject to any investigation, product recall or material customer’s complaints relating to quality issues;
- (ii) our Group is positioned as a proprietary brand owner, with our primary focus to promote our brands and to explore sales channels to sell our nutritional products. Our Group outsources the processing for producing our nutritional products to independent third parties. Our quality control measures encompass direct (i.e. through selection of processing companies, conducting site visits and independent laboratory tests) and indirect (through reviewing production records of the processing

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companies to ascertain the source of our raw materials and that the processing companies have conducted quality control reviews and laboratory tests on our nutritional products) measures;

- (iii) as the processing companies for our products are all independent third parties and not a member of our Group, in the event of any quality issue arises, we can more easily switch to other processing companies. As such, the processing companies will be driven to adhere to high degree of quality control in order to secure orders for our products;
- (iv) we maintain multiple processing companies for our primary products, namely algal oil DHA products. Hence, those processing companies will compete in terms of quality control to secure orders for our products;
- (v) our Company’s independent internal control consultant has reviewed the above quality control measures and is of the view that they are adequate and effective;
- (vi) our capability in maintaining high degree of quality control over our products is demonstrated by the fact that DSM Group, being the ultimate raw materials supplier of our algal oil DHA products (i.e. our major products during the Track Record Period in terms of revenue and sales volume), authorised us to print the trademarks of DSM Group on the packagings of our algal oil DHA products to indicate that our algal oil DHA products were made from algal oil DHA supplied by DSM Group, and such authorisation has not been revoked or withdrawn since 2012; and
- (vii) according to Frost & Sullivan, we are the largest domestic brand in terms of retail sales value of algal oil DHA products made from imported raw materials. If there are quality issues with our algal oil DHA products, our Group would not have achieved such a market share.

### **Authenticity and quality control of our probiotics products**

We have adopted several internal control measures to ensure the authenticity and quality of the probiotics products of our Group. Our procurement and international trade manager or our general manager shall be responsible for inspecting the processing company as and when necessary. During the inspection, our manager would (1) check the packaging of the probiotics raw materials as to whether the certificate of analysis number is consistent with our Group’s record, and to ascertain that the source is the Probiotics Raw Material Supplier; (2) observe the production procedures by the processing company involve the checking of specification of the probiotics raw materials; and (3) physically examine the production process with particular attention on whether the formula adopted by the processing company conforms with the formula provided by our Group and whether there is any risk of unauthorised substances being added to our probiotics products. In addition, for each batch of production, our procurement department would obtain and review the certificate of analysis issued by the Probiotics Raw Material Supplier and purchase orders to the Probiotics Raw Material Supplier by the processing company to ascertain the probiotics raw materials were sourced from the Probiotics Raw Material Supplier. Furthermore, on a sampling basis, we would conduct an independent laboratory test by our designated and qualified laboratory.

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### **Protection of our intellectual property rights**

As a proprietary brand owner, our Directors are of the view that protection of our intellectual property rights, in particular our Core Trademarks, is paramount to our Group’s operations. Our Group has implemented the following enhanced internal control measures to protect our intellectual property rights:

- (a) In respect of our Core Trademarks, we would make applications far in advance prior to the expiry date such that we would have sufficient time to successfully extend the validity of the relevant trademarks. In addition, we would register defensive trademarks, which include (i) similar trademarks with our registered Core Trademarks but in different sub-class(es) which are not core to our operation; and/or (ii) similar trademarks with our registered Core Trademark in different classes. Furthermore, we would dispute unused trademarks and/or invaliding trademarks registered by other trademark owners.
- (b) Our sales department would conduct desktop checks on major e-commerce platforms on a quarterly basis and discuss with our regional distributors on whether there are other products in the markets that may infringe our brands and trademarks. In addition, we also engage third-party agents and legal advisers to conduct checks on a monthly basis on whether there are any applicants applying for trademark registration which may infringe our brands and registered trademarks on our behalf.
- (c) We assigned Ms. Meng Yao, head of legal department of our Group, to monitor on a quarterly basis any infringement or other unauthorised use of our intellectual property rights by cross-checking with our sales department, third-party agents and legal advisers. We shall take action to defend our rights if we notice such infringement. Ms. Meng would also keep track of the status of our registered intellectual property rights on a quarterly basis and we shall renew our trademarks as and when required if the trademarks are about to expire. Please refer to the section headed “Directors, Senior Management and Employees” in this document regarding the qualifications and experience of Ms. Meng.
- (d) In the event we identify or become aware of any actual or potential infringement of our brands and registered trademarks, we would first approach the counterparty and request for cessation of infringement, and would proceed to legal actions if the infringement persists. In the event we identify or become aware of any trademark registration which may infringe our brands and registered trademarks, we will take administrative proceedings to object or strike out such applications.

The Sole Sponsor is of the view that the above enhanced internal control measures of our Company are adequate and effective in protecting our intellectual property rights, having considered:

- (i) our Company’s independent internal control consultant has reviewed the above enhanced internal controls and is of the view that they are adequate and effective;



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- (ii) as confirmed with a legal adviser in the PRC specialising in intellectual property practice, our internal control measures by way of legal proceedings (whether civil or administrative), renewing Core Trademarks, applying for registration of defensive trademarks and challenging others’ defensive trademarks are common measures in protecting an enterprise’s intellectual property rights;
- (iii) our Company has been successfully protecting and defending the use of intellectual property rights over our Core Trademarks throughout our term of operation. For instance, for litigation proceedings related to the infringement of our Core Trademarks: (i) for cases initiated against our Group, either the plaintiffs withdrew their claims or the courts ruled in favour of our Group; and (ii) for cases we initiated against other parties, the courts also ruled in favour of our Group; and
- (iv) the amount of our revenue from sales of algal oil DHA products under our brands during the Track Record Period was substantial, at approximately RMB310.2 million, RMB340.6 million, RMB404.1 million and RMB140.5 million for FY2021, FY2022, FY2023 and 6M2024, respectively, which demonstrates the effectiveness of enhancing the brand awareness of our brands to our customers.

**Internal control measures to enable end-customers can identify our Group’s products from that of our competitors**

We have adopted the following internal control measures to ensure that the end-customers can identify our Group’s products from that of our competitors:

- (a) Our products are consistently branded under “紐曼思” and “紐曼斯” (in English, “Nemans”).
- (b) We have developed a strong and distinctive brand identity by maintaining the same packaging design of our products throughout the Track Record Period and up to the Latest Practicable Date.
- (c) The photos of our product’s packaging are clearly displayed on our online stores.
- (d) In respect of our algal oil DHA products which were the most significant product in terms of revenue contribution during the Track Record Period, our Group was authorised by DSM Group to print the trademarks of DSM Group on the packaging to indicate that our algal oil DHA products were made from algal oil DHA raw materials supplied by DSM Group. For example, the packagings of our algal oil DHA products bear the trademark of DSM Group called “life’sDHA”.
- (e) We have adopted enhanced internal control measures to protect our intellectual property rights as disclosed above in order to prevent brand confusion and infringement of our brand.
- (f) We regularly circulate guidelines to our online and offline customers to educate end consumers on identifying the key features of our products and differentiating them from our competitors’ products.



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### LICENCE, PERMITS AND APPROVALS

As at the Latest Practicable Date, we have obtained and maintained the following certificates, licences, permits and approvals that are specific and material to our business operations:

Licence/approval/ permit/certificate	Purpose	Holder	Date of first grant/ filing	Expiry date
Food Operation Licence (食品經營許可證)	Conduct business in food selling	Rujian International Aumay Dairy	24 June 2021 14 October 2020	23 June 2026 13 October 2025
Filing for food operation for selling pre-packaged food only (食品經營僅銷售預包 裝食品備案)	Sales of pre-packaged food	Gold Nemans Hontat Nutritional	23 June 2022 20 June 2022	23 June 2027 No expiry date
Certificate of Registration of Customs Declaration Entities of the PRC (中華人民共和國海關 報關單位註冊登記證 書)	Import and export of goods	Gold Nemans	13 November 2017	Long term
Filing of Entry-Exit Inspection and Quarantine Enterprises (出入境檢驗檢疫報檢 企業備案表)	Complete the application formalities of customs inspection	Gold Nemans	25 October 2017	No expiry date
Customs declaration unit filing at the China International Trade Single Window (中國國際貿易單一窗 口海關報關單位備案)	Import and export of goods	Rujian International Hontat Nutritional Aumay Dairy	13 May 2010 3 November 2017 2 March 2018	Long term Long term Long term
GS1 China Membership Licence (中國商品條 碼系統成員證書)	Create GS1 identification keys	Rujian International Gold Nemans	2 September 2024 16 September 2021	2 September 2026 16 September 2025

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<b>Licence/approval/ permit/certificate</b>	<b>Purpose</b>	<b>Holder</b>	<b>Date of first grant/ filing</b>	<b>Expiry date</b>
Certificate of Approval for Health Supplement Product (國產保健食品註冊證 書)	Approval of our DHA Algal Oil Softgel (Adult) products processed in the PRC as qualified and approved health supplement products	Gold Nemans	7 May 2015	2 December 2025
	Approval of our Algal Oil Colostrum Softgel (Children) products processed in the PRC as qualified and approved health supplement products	Gold Nemans	2 March 2015	2 December 2025
	Approval of our DHA Algal Oil Linseed Oil Arachidonic Acid Softgel products processed in the PRC as qualified and approved health supplement products	Gold Nemans	16 June 2023	15 June 2028

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, to the best of their knowledge and belief, (i) we had obtained all necessary approvals, permits, licences and certificates that are material to our business operations; (ii) we had not been subject to non-renewal or conditional renewal of material licences and permits from the relevant government authorities; and (iii) we had not violated any laws and regulations in the PRC.

## LEGAL COMPLIANCE

According to our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable laws and regulations in the PRC in all material aspects.

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### LEGAL PROCEEDINGS

#### Our Group’s civil litigation proceedings involving some of our Core Trademarks

##### *A. Background of trademark-related dispute with Company X and its affiliated company, Company Y*

###### *The 2017 Action (as defined below) and its main objectives*

Our primary products, namely algal oil DHA products sold and marketed under the brands “紐曼思” (formerly known as “紐曼斯DHA”) and “Nemans”, are categorised under Class 29 of Trademark International Classification of Goods and Services, namely “edible aquatic plant extracts” (食用水生植物提取物). Our brands are protected by some of the Core Trademarks. In 2017, we discovered that the sales of products bearing brand and trademark which were similar to “紐曼思” (“**Company X’s**”) on an e-commerce platform, thereby, in our Group’s opinion, infringed upon our registered trademark rights. Therefore, our Group initiated civil proceedings against the manufacturers and sellers of such products, including Company X and Company Y (the “**2017 Action**”).

###### *Results of the 2017 Action (concluded in 2020)*

The final ruling on the 2017 Action was in favour of our Group. The court recognised the similarity between our Group’s products and Company X’s, both of which fell under Class 29 of Trademark International Classification of Goods and Services, and Company X’s trademark was found to be similar to that of our Group, causing infringement of our trademark rights. Consequentially, the defendants were ordered to bear civil liability for, amongst others, ceasing the infringement, mitigating the impact of such infringement, and compensating for our losses. The Shanghai Intellectual Property Court laid down the final judgment in June 2019, which is the final and conclusive ruling for the 2017 Action.

###### *Development subsequent to the 2017 Action*

Following the conclusion of the 2017 Action, Company X and its affiliates did not cease to infringe our trademarks. To the best knowledge of our Company, they continued to use “紐曼斯” or similar variants in the promotion and marking on e-commerce platforms and their product packaging, which may cause confusion among consumers to mistakenly believe that there is a specific connection with our Group and our products. In the opinion of our Group, Company X and its affiliates have not only seriously infringed our trademark rights, but also engaged in unfair competition with us.

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Against such background, we initiated other legal proceedings against them. This case was tried for the first instance, the second instance and the retrial, and the final judgment was also in favour of our Group against the defendant. The court held that Company X has infringed our trademark rights, and that Company X should bear the civil liability to, amongst others, cease the infringement, mitigate the impact and compensate for the losses.

Set out below are the background and outcome of the legal proceedings:

Reference number	Relevant Court	Duration of the proceedings	To whom our Group is against	Outcome and principal ruling by the relevant court
1.	上海市浦東新區人民法院 (Shanghai Pudong New Area People's Court*)  上海知識產權法院 (Shanghai Intellectual Property Court*)  上海市高級人民法院 (Shanghai High People's Court*)	2020–2024	(1) Company X (2) Company Y	The final ruling was in favour of our Group.  1. During the period when Gold Nemans enjoys the exclusive right to the registered trademarks No. 7310618 “紐曼斯” and No. 7815357 “紐曼思”, the defendants shall immediately cease the infringement of the exclusive rights to the registered trademarks, by, amongst others on the online webstores and product packaging, from the date of the judgment taking effect.  2. The defendants shall immediately cease the unfair competition behaviour of false propaganda on the online webstores from the date the judgment taking effect.  3. The defendants shall compensate the plaintiff, i.e., Gold Nemans' economic losses.
2.	上海市浦東新區人民法院 (Shanghai Pudong New Area People's Court*)  上海知識產權法院 (Shanghai Intellectual Property Court*)  上海市高級人民法院 (Shanghai High People's Court*)	2020–2024	Company X	The final ruling was in favour of our Group.  1. During the period when the plaintiff Gold Nemans enjoys the exclusive right to use the registered trademarks No. 7310618 “紐曼斯” and No. 7815357 “紐曼思”, Company X shall immediately cease to infringe the plaintiff Gold Nemans' exclusive right to use the registered trademarks No. 7310618 “紐曼斯” and No. 7815357 “紐曼思” from the date the judgment taking effect.  2. The defendant shall compensate the plaintiff, i.e., Gold Nemans' economic losses.

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Reference number	Relevant Court	Duration of the proceedings	To whom our Group is against	Outcome and principal ruling by the relevant court
3.	杭州鐵路運輸法院 (Hangzhou Railway Transport Court*)	2023	Certain distributors of Company X	The final ruling was in favour of our Group.  1. The defendants shall immediately cease to infringe the exclusive rights of Gold Nemans to the registered trademarks No. 7310618 “紐曼斯” and No. 7815357 “紐曼思”.  2. The defendants shall compensate the plaintiff i.e., Gold Nemans for economic losses.
4.	上海市浦東新區人民法院 (Shanghai Pudong New Area People’s Court*)  上海知識產權法院 (Shanghai Intellectual Property Court*)	2021-2024	Company X	The final ruling was in favour of our Group.  The first instance court ruled against Company X that its behaviour constituted business defamation and false propaganda, and the appeal from Company X was rejected in second instance trial.

### B. Our Group company as defendant in civil proceedings

Despite the final and conclusive judgment in favour of us in the 2017 Action, Company X and Company Y initiated actions against, amongst others, our Group, challenging our use of some of our Core Trademarks. The trademarks which were subject to disputes under civil litigations involved (1) trademark 紐曼思 under registration no. #7815357; (2) trademark 紐曼斯 under registration no. #7310618; and (3) trademark 紐曼思 under registration no. #7549283 (as respectively disclosed in item 8, item 13 and item 63 of the trademark as referred to in the paragraph headed “Statutory and General Information — 2. Further information about our business — 2.2 Intellectual property rights of our Group — (a) Trademarks” in Appendix IV to this document). Set out below are the background and the latest development on these legal proceedings. All the cases below were concluded and their claims were rejected.

Reference number	Relevant Court	Duration of the proceedings	By whom our Group is being sued	Outcome and principal ruling from the court
5.	湖北省武漢市中級人民法院 (Hubei Wuhan Intermediate People’s Court*)  湖北省高級人民法院 (Hubei High People’s Court*)	2020–2021	Company Y	Results of the first instance trial: As the court has sought Company Y’s consent to segregate the case but Company Y did not reply, the court ruled against Company Y.  Results of the second instance trial: The court ruled against the appeal and upheld the original ruling.  No appeal action has been taken by Company Y.

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Reference number	Relevant Court	Duration of the proceedings	By whom our Group is being sued	Outcome and principal ruling from the court
6.	湖北省武漢市中級人民法院 (Hubei Wuhan Intermediate People's Court*)  湖北省高級人民法院 (Hubei High People's Court*)	2022-2023	(1) Company X (2) Company Y	The ruling was in favour of our Group. The court rejected the claims made by Company X and Company Y in both the first instance and second instance trial.
7.	浙江省杭州市餘杭區人民法院 (Yuhang District People's Court of Hangzhou of Zhejiang Province*)  浙江省杭州市中級人民法院 (Hangzhou Intermediate People's Court of Zhejiang Province*)  浙江省高級人民法院 (Zhejiang High People's Court*)	2020-2023	Company Y	The ruling was in favour of our Group. The court rejected the claims made by Company Y in all instances.
8.	安徽省合肥高新技術產業開發區人民法院 (Hefei High-Tech Industry Development Zone People's Court of Anhui Province*)  安徽省合肥高新技術產業開發區人民法院 (Hefei High-Tech Industry Development Zone People's Court of Anhui Province*)	2023	Company X	Company X withdrew the case.
9.	上海市浦東新區人民法院 (Shanghai Pudong New Area People's Court*)	2023-2024	(1) Company X (2) Company Y	Company X and Company Y withdrew the case.

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### C. Ongoing civil litigations as at the Latest Practicable Date

Subsequent to the conclusion of the 2017 Action, Company X and certain manufacturers, agents, and distributors did not cease the infringement, and continued to produce and/or sell products under brands and business names which are similar to our trademarks. Apart from suing Company X, we also sent legal letters to certain manufacturers, agents, and distributors of Company X’s products (the “**Related Entities**”), demanding them to cease infringing our trademark rights. We further initiated the following civil proceedings against some manufacturers, agents, and distributors for infringement. Set out below are the background and the latest development on these legal proceedings:

Reference number	Relevant Court	Duration of the proceedings	To whom our Group is against	Outcome/The Latest Development
10.	廣州知識產權法院 (Guangzhou Intellectual Property Court*)	Since 2023	Company X and two Related Entities	First trial held in March 2024. As at the Latest Practicable Date, the judgment is pending. It is estimated that the judgment will be laid down in a few months’ time.
11.	廣東省廣州市白雲區人民法院 (Baiyun District People’s Court of Guangzhou of Guangdong Province*)	Since 2023	Four Related Entities	The court ruled in favour of our Group in the first instance of trial. Our Group is considering appeal to, amongst others, additional compensation from the defendants.
12.	浙江省杭州市蕭山區人民法院 (Xiaoshan District People’s Court of Zhejiang Province*)	Since 2023	Two Related Entities	As at the Latest Practicable Date, the trial date is yet to be fixed. It is estimated that trial will be held in a few months’ time and the judgment will be laid down in 2025.
13.	北京市西城區人民法院 (Beijing Xicheng People’s Court*)  北京知識產權法院 (Beijing Intellectual Property Court*)	Since 2023	Company X, Company Y and three Related Entities	The court ruled in favour of our Group in the first instance of trial. Our Group is only seeking appeal to, amongst others, additional compensation from the defendants.

### Administrative proceedings involving some of our Core Trademarks

In addition to initiating civil litigation proceedings, as a means of protecting and defending our trademark rights, we challenge the trademark applications of competitors or to invalidate the trademarks registered by our competitors through administrative proceedings. We believe such administrative proceedings practices and strategies are commonly adopted by brand owners.

In view of the nature of the administrative proceedings, our Company has expected and acknowledged that some of the administrative actions undertaken by our Group may fail and some actions undertaken by our competitors in administrative proceedings may



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succeed. Our Company believes that our stance to vigorously defend its intellectual property rights, in particular, the Core Trademarks have to be conveyed to our competitors in a clear and unambiguous manner.

Set out below are the background and the latest development on these administrative proceedings:

Reference number	Relevant Court	Trademark in Dispute	Trademark owner	Outcome/Latest Status
14.	北京知識產權法院 (Beijing Intellectual Property Court*)  北京市高級人民法院 (Beijing High People's Court*)  北京市高級人民法院 (Beijing High People's Court*)	No. 7310618 紐曼斯	Numans HK	While the first instance court rejected our Group's claim, the second instance court supported the appeal by our Group. The retrial court rejected the retrial application of Company Y and therefore the case was concluded where our Group succeeded in defending its trademark from invalidation.
15.	北京知識產權法院 (Beijing Intellectual Property Court*)	No. 7815357 紐曼思	Numans HK	The plaintiff (being an individual)'s case was rejected by the court. The plaintiff did not lodge appeal and our Group has successfully defended the trademark from being invalidated.
16.	北京知識產權法院 (Beijing Intellectual Property Court*)  北京市高級人民法院 (Beijing High People's Court*)	No. 22360185 紐曼斯	Company X	According to the judgment, the authority supported our Group's claim and ordered the China National Intellectual Property Administration to make a new ruling in connection with the invalidation of the trademark in dispute. Company X has lodged an appeal with a view to overturning the decision.

### Other ongoing litigation as at the Latest Practicable Date

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 judgment will be laid down in 2025 after the trial is held in late December 2024. Our Directors expect that such proceedings should have no material adverse impact on our Group's business operation and financial condition.

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of any liabilities and penalties which may arise as a result of any outstanding litigations or claims against Group on or before the date on which

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the [REDACTED] becomes unconditional. Further details on the Deed of Indemnity are set out in the paragraph headed “Statutory and General Information — E. Other information — 4.1. Estate duty, tax and other indemnities” in Appendix IV to this document.

Our Directors confirm that, as at the Latest Practicable Date, save as disclosed hereinabove, we had not been involved in any actual or threatened arbitration, litigation or administrative proceedings which had or could be expected to have a material adverse impact on our reputation, business, results of operations and financial condition.

Our Directors are of the view that the previous civil and administrative proceedings had no material adverse impact on our business, results of operations and financial condition, given that our Company has been successfully protecting and defending the use of intellectual property rights over the Core Trademarks in the litigation proceedings throughout our term of operation. For instance, for litigation proceedings related to the infringement of our Core Trademarks: (i) for cases initiated against our Group, the courts ruled in favour of our Group; and (ii) for cases we initiated against other parties, the courts also ruled in favour of our Group. Regarding administrative proceedings where Company X attempted to challenge the validity of the use of our Group’s Core Trademarks, their attempts have been unsuccessful throughout, and as advised by the PRC legal advisers, their similar challenges in the future is unlikely to succeed. In the unlikely event that their attempts succeed in administrative proceeding, our Group will exhaust our resources to further appeal to the court to overturn such decisions vigorously. Further, our Group may consider using other registered trademarks in the unlikely event that such appeal is unsuccessful. As advised by the PRC legal advisers, our Group shall be continue to succeed in the ongoing cases involving Core Trademarks. Our Directors also considered that, given our Group has successfully renewed the validity period of the Core Trademarks, there are no material legal impediments for our Company to continue to protect our Core Trademarks through renewal of the validity of the Core Trademarks when the validity period comes close to the expiry period. As a further cover to ensure the Core Trademarks will not be subject to challenge when they are about to renew upon expiry, it is our Company’s strategy to register additional trademarks which bear same wording, description and/or pronunciation and are in same class in advance to their expiry.

Please also refer to the paragraph headed “Risk Factors — Risks Relating to our business — 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.” in this document regarding the relevant risk factor associated with our Group civil litigations and administrative proceedings involving our Group’s trademarks.

To further protect our intellectual property rights, we were the registered owner of over 50 trademarks which are material to the operation of our Group as at the Latest Practicable Date. Please refer to the paragraph headed “Statutory and General Information — 2. Further information about our business — 2.2. Intellectual property rights of our Group” in Appendix IV to this document for further details of our trademarks. For details of our internal control measures to protect our intellectual property rights, please refer to the paragraph headed “Key internal control measures relating to our products — Protection of our intellectual property rights” in this section.

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The Sole Sponsor is of the view that our outstanding legal proceedings with Company X and Company Y do not affect our suitability for [REDACTED] of our Company under Rule 8.04 of the Listing Rules, having considered:

- (i) our Company has been successfully protecting and defending the use of intellectual property rights over our Core Trademarks throughout our term of operation. For instance, for litigation proceedings related to the infringement of our Core Trademarks: (i) for cases initiated against our Group, the courts ruled in favour of our Group; and (ii) for cases we initiated against other parties, the courts also ruled in favour of our Group;
- (ii) we have engaged sizable law firms to advise on our litigation strategies and handled the legal proceedings;
- (iii) as disclosed above, our Company has adopted enhanced internal controls to protect our intellectual property rights, which we consider to be adequate, effective and are common measures in protecting an enterprise’s intellectual property rights; and
- (iv) as disclosed above, our Company’s internal control measures to protect our intellectual property rights are mainly by way of legal proceedings (whether civil or administrative), renewing Core Trademarks, applying for registration of defensive trademarks and challenging others’ defensive trademarks. As such, it is common that our Group is involved in legal proceedings.

### **Distinguishing our algal oil DHA products from the products of Company X**

The packagings of our algal oil DHA products contain distinct and identifiable features, which serve to help our end-customer to distinguish our products from the products of Company X, as follows:

1. As disclosed in the paragraph headed “Our suppliers — Relationship with DSM Group” in this document, during the Track Record Period, our Group was authorised by DSM Group to print the trademarks of DSM Group on the packagings of our algal oil DHA products to indicate that our algal oil DHA products were made from algal oil DHA raw materials supplied by DSM Group. For example, the packaging of our algal oil DHA products bear the trademark of DSM Group called “life’sDHA”.
2. During the Track Record Period, our major algal oil DHA products in terms of revenue and sales volume are New Zealand DHA Products and U.S. DHA Products, in which their location of origin is clearly set out in the packagings. To the best knowledge of our Directors, the products of Company X are not manufactured in New Zealand or the U.S.

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### PROPERTIES

#### Owned properties

As at the Latest Practicable Date, we owned the following properties:

Location	Owner	Gross floor area (sq.m.)	Use of the property	Period of use
1–202, Building 15, Yangguang 100 Guoji Xincheng, 21 Yangguang New Road, Huaiyin District, Jinan, Shandong, PRC	Rujian International	155.81	Dormitory	17 August 2017 to 12 July 2074
1–207, Building 15, Yangguang 100 Guoji Xincheng, 21 Yangguang New Road, Huaiyin District, Jinan, Shandong, PRC	Rujian International	13.3	Dormitory	17 August 2017 to 12 July 2074

The foregoing properties are used by us for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As at 30 June 2024, we had no single property interest with a carrying amount of 15% or more of our total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all of our interests in land or buildings.

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### Leased properties

As at the Latest Practicable Date, we leased the following properties from independent third parties:

Location	Gross Use of the floor area property (sq.m.)	Monthly rental Term (RMB)
Room B2, 2nd Floor, Block B, No. 501 Jingang Road, Pudong New District, Shanghai, PRC <sup>(Note)</sup>	1,432 Warehouse and office	82,758 10 February 2024 to 9 February 2026
Room C1, 1st Floor, Block C, No. 501 Jingang Road, Pudong New District, Shanghai, PRC <sup>(Note)</sup>	893 Warehouse and office	57,040 1 April 2023 to 31 March 2025
Room D2B, 2nd Floor, Block D, No. 501 Jingang Road, Pudong New District, Shanghai, PRC <sup>(Note)</sup>	515 Warehouse and office	28,196 1 April 2023 to 31 March 2025
Room 204, Block 18, No. 502 Qianyu Road, Chenjia Town, Chongming District, Shanghai, PRC <sup>(Note)</sup>	11.4 Office	416.1 1 January 2024 to 31 December 2024
2nd Floor, Block 8, No. 706 Wuxing Road, Pudong New District, Shanghai, PRC	273.514 Office	40,000 1 March 2022 to 28 February 2027
Room 303, Block 18, No. 502 Qianyu Road, Chenjia Town, Chongming District, Shanghai, PRC <sup>(Note)</sup>	11.4 Office	416.1 1 January 2024 to 31 December 2024
3rd Floor, Block 8, No. 706 Wuxing Road, Pudong New District, Shanghai, PRC	300.364 Office	44,000 1 March 2022 to 28 February 2027

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Location	Gross Use of the floor area property (sq.m.)	Monthly rental Term (RMB)
1st Floor, Block 8, No. 706 Wuxing Road, Pudong New District, Shanghai, PRC	310.644 Office	45,000 1 March 2022 to 28 February 2027
Room 223, Block 9, No. 502 Qianyu Road, Chenjia Town, Chongming District, Shanghai, PRC <sup>(Note)</sup>	13.7 Office	500 1 January 2024 to 31 December 2024

*Note:* As at the Latest Practicable Date, the lease agreements had not been registered with the relevant housing authorities. As advised by our PRC Legal Advisers, the non-registration of the lease agreements would not affect the validity of the lease agreements and we are entitled to use the lease properties according to the lease agreements. However, as advised by our PRC Legal Advisers, the relevant authorities might order us to rectify the non-registration and we may be subject to a maximum administrative penalty of RMB10,000 for each unregistered lease agreement if we do not rectify it within the specified time limit. As advised by our PRC Legal Advisers, provided that we could rectify the non-registration within specific time limit, the chance for us to be imposed of such administrative penalty is low. As at the Latest Practicable Date, no administrative penalty was imposed on us for non-registration of lease agreements.

## INTELLECTUAL PROPERTY

Details of our intellectual property rights are set out in the paragraph headed “Statutory and General Information — 2.2 Intellectual property rights of our Group” in Appendix IV to this document. Save as disclosed in the paragraph headed “Legal proceedings” in this section, as at the Latest Practicable Date, our Directors were not aware of (i) any claims in relation to infringement of intellectual property rights by any third party; (ii) any threatened material proceedings or claims relating to intellectual property rights against us; and (iii) any material infringement of our intellectual property rights. We believe we have taken reasonable measures to prevent infringement of our intellectual property rights.

## INSURANCE

As at the Latest Practicable Date, we had maintained insurance coverage in relation to our business that is adequate and customary for our industry and in compliance with the laws and regulations applicable to us. We are obliged to provide and have provided social insurance for our employees as required by the relevant PRC laws and regulations. We also maintain insurance including property all risks insurance and motor vehicle insurance. We were not aware of any material claim on any insurance policies maintained by us during the Track Record Period and up to the Latest Practicable Date.

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## BUSINESS

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### COMPETITION

According to Frost & Sullivan, the market size of the maternal and children algal oil DHA products made from algal oil DHA raw materials supplied by overseas suppliers among domestic brands in the PRC in terms of retail sales value was approximately RMB3,208.8 million in 2023. This specific market was considered concentrated for FY2023 in terms of retail sales value. We competed with approximately 35 players in the market, and a limited number of which were sizeable market players who had leading market positions. These leading players who had formed stable contracts with world-famous algal oil DHA suppliers displayed strong market presence in the PRC and benefited from the established reputation and recognition of their products. There are multiple entry barriers for new market players to establish business presence in the maternal and children algal oil DHA industry in the PRC such as the stringent regulatory system over nutritional products in general and the varied product quality which may cause consumers to be reluctant or more cautious towards taking algal oil DHA. 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 maternal and children 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. We believe that this is attributable to our long history and established reputation in the industry, high product quality together with our established and diversified sales and distribution network.

As for the maternal and children probiotics market in the PRC, it is relatively fragmented because of the presence of numerous players with varying sizes, specialisation and financial resources. The players compete based on factors such as price, quality, innovation, reputation, and distribution. The competition among the companies may force them to reduce their product prices, which negatively affects their margins and market growth. The market has witnessed frequent mergers, acquisitions, and strategic alliances in recent years. Some industry participants extensively invest in research and development to enhance their product portfolio and gain market share. At the same time, other players use online sales, multi-level marketing, and distribution networks to increase their competitive advantage. Overall, the competition in the maternal and children probiotics industry in the PRC is expected to continue to intensify and fragment as more companies enter the market and seek to differentiate themselves through product innovation, marketing strategies, and partnerships with healthcare providers.

Please refer to the section headed “Industry Overview” 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.