
FINANCIAL INFORMATION

You should read this section in conjunction with our audited consolidated financial statements as at and for the years ended 31 December 2021, 31 December 2022 and 31 December 2023 and the six months ended 30 June 2024 as set out in the Accountants’ Report, together with the accompanying notes. The Accountants’ Report has been prepared in accordance with HKFRSs. You should read the Accountants’ Report in its entirety and not merely rely on the information contained in this section.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please also refer to the sections headed “Risk Factors” and “Forward-looking Statements” in this document.

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. During FY2022, FY2023 and, to a very limited extent, 6M2024, we also sold milk powder products and derived insignificant revenue therefrom.

During the Track Record Period, algal oil DHA products were our major revenue contributor. Our revenue from the sales of algal oil DHA products accounted for approximately 91.9%, 92.7%, 94.7%, 93.5% and 96.2% of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. Our revenue increased from approximately RMB337.6 million for FY2021 to approximately RMB367.3 million for FY2022 and further increased significantly 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. Our gross profit margin remained relatively stable at approximately 73.0%, 74.4%, 75.2%, 75.8% and 71.9% for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. Our profit for the year decreased from approximately RMB119.7 million for FY2021 to approximately RMB87.5 million for FY2022 as the increase in our revenue from FY2021 to FY2022 was outweighed by the losses relating to milk powder products of approximately RMB81.5 million recognised during FY2022. For FY2023, our profit for the year amounted to approximately RMB159.3 million, representing a significant increase of approximately RMB71.8 million from approximately RMB87.5 million for FY2022 primarily due to the abovementioned losses relating to milk powder products recognised during FY2022. For 6M2024, our profit for the period amounted to

FINANCIAL INFORMATION

approximately RMB45.3 million, representing a decrease of approximately RMB32.0 million from approximately RMB77.3 million for 6M2023 primarily driven by the decrease in revenue.

BASIS OF PRESENTATION

Our Company is an exempted company incorporated in the Cayman Islands with limited liability on 21 January 2019. Pursuant to the Reorganisation, which was completed on 28 March 2019, our Company became the holding company of the companies now comprising our Group. For further details, please refer to the paragraph headed “History, Reorganisation and Group Structure — Reorganisation” in this document.

The companies now comprising our Group were under the control of Mr. Wang, being one of our Controlling Shareholders, before and after the Reorganisation. Accordingly, the financial information for FY2021, FY2022, FY2023, 6M2023 and 6M2024 has been prepared on a consolidated basis by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

The financial information has been prepared in accordance with HKFRSs. These principles have been consistently applied throughout the Track Record Period.

The historical financial information has been prepared under the historical cost basis.

SIGNIFICANT FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Our results of operations and financial performance have been and will continue to be affected by a number of factors, which primarily include the following:

Economic cycle and spending power of end-consumers

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. As our nutritional products are non-essential consumer products, the demand and sales of our products are subject to the economic cycle of the PRC and the resulting spending power of end-consumers.

For instance, according to the Frost & Sullivan Report, with COVID-19 largely behind and the PRC government introducing extensive consumption stimulus policies, the sales of consumer goods saw a substantial boost in growth in 2023, however, the momentum slowed down in 2024 due to the impact of the global economic downturn, coupled with a domestic economic slowdown in the PRC, as well as the tapering off of pent-up consumer demand. In 2024, consumer spending was negatively affected by the economic downturn, as evidenced by total retail sales of consumer goods in the PRC, which amounted to approximately RMB23.6 trillion in the first half of 2024, reflecting a modest increase of only approximately 3.7% compared to the same period in 2023. In comparison, retail sales in the first half of 2023 had risen by 8.2% from the first half of 2022. In the first half of 2024, the per capita disposable income of residents

FINANCIAL INFORMATION

nationwide was RMB20,733, representing a growth of 5.4%. In the first half of 2023, the per capita disposable income was RMB19,672, reflecting a year-on-year real growth of 5.8%. In effect, our revenue increased significantly from approximately RMB367.3 million for FY2022 to approximately RMB426.5 million for FY2023, while our revenue decreased from approximately RMB192.1 million for 6M2023 to approximately RMB146.1 million for 6M2024.

Ability to maintain our established market position and strong brand recognition

Our Directors are of the view that the growth of our historical sales was mainly driven by the increasing recognition of our brands. During the Track Record Period and as at the Latest Practicable Date, we operated our business under our proprietary brands, namely “紐曼思” and “紐曼斯” (in English, “Nemans”). In particular, our algal oil DHA products were our major product contributing to most of our revenue during the Track Record Period. According to Frost & Sullivan, we were one of the largest local brands in terms of retail sales value of maternal and children algal oil DHA products made from algal oil DHA raw materials supplied by overseas suppliers and took up a market share of approximately 20.5% in 2023. We believe that brand recognition plays an important role in influencing consumers’ decisions in purchasing our nutritional products. We believe that our continued success will depend largely on our ability to maintain and enhance the value of our brands. If we are unable to maintain or increase our brand recognition, the demand for our nutritional products, and thus the purchase orders from or purchase volume for our customers, may decrease, which in turn could adversely affect our results of operations.

Ability to maintain the quality of our nutritional products

We sell 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 suppliers adopt an OEM model to manufacture and/or affix labels of our brands on our nutritional products. We believe that the quality of our nutritional products is crucial to ability in maintaining and increasing our brand recognition. If our nutritional products are found or reported to have quality issues, such as including prohibited ingredients, our brand recognition would be adversely affected which would also adversely affect our results of operations. In addition, we may have to recall our nutritional products and write off the obsolete inventories, which would adversely affect our results of operations and financial conditions. In addition, our nutritional products are subject to shelf life. For instance, our algal oil DHA products generally have a shelf life of 24 to 36 months from the date of production. If we cannot sell our nutritional products before the expiry of the shelf life, we may have to write off the slow-moving inventories, which would adversely affect our results of operations and financial conditions.

Fluctuation in our cost of sales

During the Track Record Period, our costs of inventories was the largest component of our cost of sales. For FY2021, FY2022, FY2023 and 6M2024, our costs of inventories amounted to approximately RMB89.2 million, RMB91.0 million, RMB103.8 million and RMB40.4 million, respectively, representing approximately 98.0%, 96.7%, 98.3% and 98.2% of our total cost of sales, respectively. Any increase in our cost of inventories would negatively impact our

FINANCIAL INFORMATION

profitability if we are unable to effectively transfer the increased cost resulting from such price increase to our customers through increasing the selling price of our products.

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of purchase costs on our total purchases during the Track Record Period, assuming the fluctuation of our purchase costs to be 5% and 10% with other variables remained constant:

	Increase/decrease in our total purchases			
	FY2021	FY2022	FY2023	6M2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Hypothetical fluctuation of purchase costs				
Hypothetical increase/decrease of 5%	± 3,236	± 7,502	± 5,885	± 1,635
Hypothetical increase/decrease of 10%	± 6,473	± 15,005	± 11,770	± 3,270

Change in our product mix and profit margins

For FY2021, FY2022, FY2023 and 6M2024, our gross profit margin was approximately 73.0%, 74.4%, 75.2% and 71.9%, respectively. Our Group’s operating results are affected by our product mix as gross profit margin varies with different products. Our gross profit margin would be adversely affected if the percentage contribution from our algal oil DHA products decreases, or if their gross profit margin decreases. Our Group’s ability to maintain and increase our gross profit margin depends on the intensity of market competition, market supply and demand, product quality and the costs of our inventories. If we fail to maintain our competitive strengths, we may lose our current market share in our principal product lines and our revenue may decrease, which may have a material adverse effect on our business, financial conditions and results of operations.

Coverage of our sales and distribution network

During the Track Record Period, we sold our nutritional products through online and offline sales channels.

In terms of online sales channels, we mainly generated our revenue from direct sales to e-commerce companies, which contributed revenue of approximately RMB166.1 million, RMB194.8 million, RMB236.9 million and RMB95.1 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing approximately 49.2%, 53.1%, 55.5% and 65.1% of our total revenue, respectively. We sell our products directly to e-commerce companies, which are regarded as our customers and would on-sell our products through online shopping platforms to their customers. On the other hand, we also sell our products through online shopping platforms to our customers. Our results of operations would be adversely affected if the e-commerce companies reduce their orders or decrease the purchase volume of their orders to us due to failure to on-sell our products, or alternatively, if our nutritional products cannot be sold through online shopping platforms, for example, due to changes in laws and regulations or customer behaviour.

FINANCIAL INFORMATION

In terms of offline sales channels, we mainly generated our revenue from sales to regional distributors, which contributed revenue of approximately RMB115.7 million, RMB114.8 million, RMB108.5 million and RMB26.4 million for FY2021, FY2022, FY2023 and 6M2024, respectively, representing approximately 34.3%, 31.2%, 25.5% and 18.1% of our total revenue, respectively. As at the Latest Practicable Date, we had a total of 17 regional distributors in the PRC, 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. Our regional distributors can be divided into three types, namely (i) Type A regional distributors which we expect to have relatively higher sales capabilities and are authorised to promote and distribute our products exclusively but only in their designated distribution regions which are generally first, new first and second-tier cities in the PRC; (ii) Type B regional distributors which we expect to have moderate sales capabilities and are authorised to promote and distribute our products only in their designated distribution regions which are mainly second and third-tier cities in the PRC; and (iii) Type C regional distributors which are authorised to promote and distribute our products in all regions in the PRC except the regions designated to Type A regional distributors. For details, please refer to the paragraph headed “Business — Sales and distribution — (ii) Regional distributors” in this document. Although we generally manage regional distributors’ sales of our products, in respect of, *inter alia*, minimum sales target, designated distribution region and reference retail price through the terms of distribution agreements that we enter with them, we cannot assure you that our regional distributors will not breach the distribution agreements or will fully comply with their obligations thereunder. As we may not be able to monitor our regional distributors effectively to ensure efficient sales of our products to the end customers and cannot track in real-time the sales of our products and the inventory level of our regional distributors, there is no assurance that their sales activities will always be carried out up to our expected sales target and service standard.

As such, our results of operations depend to a significant extent on our ability to expand and manage our sales and distribution network.

APPLICATION OF HKFRSs

For the purpose of the preparation of the historical financial information, we have consistently applied all those new/revised HKFRSs that are relevant to our operations and are effective throughout the Track Record Period.

Our Group has not yet applied newly established/amended HKFRSs which are related to our Group and have already been issued but are not yet effective.

CRITICAL AND MATERIAL ACCOUNTING POLICY INFORMATION

We have identified certain accounting policies which are material to the preparation and presentation of the financial information in accordance with HKFRSs. The determination of these accounting policies is fundamental to our financial positions and results of operations, and requires us to make critical judgments and estimation, further information on which is set forth in the paragraph headed “Critical accounting judgments and estimates” in this section.

FINANCIAL INFORMATION

Revenue recognition

Revenue from contracts with customers within HKFRS 15

Nature of goods or services

The nature of the goods or services provided by our Group is sales of nutritional products.

Identification of performance obligations

At contract inception, our Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

- (a) a good or service (or a bundle of goods or services) that is distinct; or
- (b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

- (a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and
- (b) our Group’s promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

Timing of revenue recognition

Revenue is recognised when (or as) our Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

Our Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

- (a) the customer simultaneously receives and consumes the benefits provided by our Group’s performance as our Group performs;
- (b) our Group’s performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or
- (c) our Group’s performance does not create an asset with an alternative use to our Group and our Group has an enforceable right to payment for performance completed to date.

FINANCIAL INFORMATION

If a performance obligation is not satisfied over time, our Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, our Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Revenue from sales of nutritional products is recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered to customers and the title is passed.

Transaction price: significant financing components

When the contract contains a significant financing component (i.e. the customer or our Group is provided with a significant benefit of financing the transfer of goods or services to the customer), in determining the transaction price, our Group adjusts the promised consideration for the effects of the time value of money. The effect of the significant financing component is recognised as an interest income or interest expense separately from revenue from contracts with customers in profit or loss.

Our Group determines the interest rate that is commensurate with the rate that would be reflected in a separate financing transaction between us and our customer at contract inception by reference to, where appropriate, the interest rate implicit in the contract (i.e. the interest rate that discounts the cash selling price of the goods or services to the amount paid in advance or arrears), the prevailing market interest rates, our Group’s borrowing rates and other relevant creditworthiness information of the customers of our Group.

Our Group has applied the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for the effect of the significant financing component if the period of financing is one year or less.

Variable consideration

If the consideration promised in a contract includes a variable amount, our Group estimates the amount of consideration to which we will be entitled in exchange for transferring the promised goods or services to a customer. The variable consideration is estimated by using either the expected-value or the most-likely-amount method whichever is better to predict the entitled amount. The estimated variable consideration is then included in the transaction price only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised of the contract will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(i) Marketing incentives

Our Group’s marketing incentives include penalty imposed on and incentives offered to its selected customers. Included in our marketing incentives, there are gross profit margin guarantees, trade discounts, volume-based rebates and penalty, and/or other price incentives (together, the “**Marketing Incentives**”). Our Group estimates the Marketing Incentives using the expected-value method and assesses whether the estimated variable consideration is constrained

FINANCIAL INFORMATION

with reference to the customers’ historical records on volume-based rebates and penalty, other marketing incentives entitlement and accumulated purchases to date. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

(ii) Refund liabilities

Our Group grants customers with the right to return the products. At the point of sale, a refund liability and a corresponding adjustment to revenue are recognised for those products expected to be returned. At the same time, our Group recognises a right to returned goods asset and a corresponding adjustment to cost of sales in respect of the right to recover the product when customers exercise their right of return. With reference to our historical experience and our expectation of future returns as adjusted for current relevant information, our Group estimates the number of returns using the expected-value method and assesses whether the estimated variable consideration is constrained. Any significant estimation variances will be analysed and taken into consideration in the current estimation and assessment. Typically, the estimated consideration is not constrained.

During the Track Record Period, there are no significant product return from customers which is subject to refund liabilities.

Principal versus agent

When another party is involved in providing goods or services to a customer, our Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. our Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. our Group is an agent).

Our Group is a principal if we control the specified goods or service before that goods or service is transferred to a customer.

Our Group is an agent if our performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, our Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When our Group acts as an agent, we recognise revenue in the amount of any fee or commission to which we expect to be entitled in exchange for specified goods or services to be provided by the other party.

Our Group is acting as a principal as we control the nutritional products before the goods are transferred to our customers and our performance obligation is to transfer those goods to our customers.

FINANCIAL INFORMATION

Contract assets and contract liabilities

If our Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or our Group has a right to an amount of consideration that is unconditional, before our Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is our Group’s right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

For our business of sales of nutritional products, the right to an amount of consideration becomes unconditional only when the consideration is billed subsequent to customers’ acceptance on promised goods and the amount of consideration are confirmed between our Group and our customers. During the Track Record Period, contract assets are recognised in regard to the unbilled revenue.

Contract liabilities in relation to the refundable receipts in advance are reported under “Other Payables”.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as a deduction from the carrying amount of the relevant asset and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Intangible assets

Intangible assets with indefinite useful lives are not amortised. The useful life of an intangible asset with an indefinite life is reviewed at the end of each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from being indefinite to finite is accounted for on a prospective basis.

Impairment assessments for intangible assets are set out in the accounting policy “Impairment of other assets” below.

Patent

The initial cost of acquiring a patent is capitalised. Patent with indefinite useful lives is carried at cost less accumulated impairment losses.

FINANCIAL INFORMATION

Leases

Our Group assesses whether a contract is, or contains, a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Our Group as lessee

Our Group applies the recognition exemption to short-term leases and low-value asset leases. Lease payments associated with these leases are recognised as an expense on a straight-line basis over the lease term.

Our Group has elected not to separate non-lease components from lease components, and accounts for each lease component and any associated non-lease components as a single lease component.

Our Group accounts for each lease component within a lease contract as a lease separately. Our Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and, where applicable, the aggregate stand-alone price of the non-lease components.

Amounts payable by our Group that do not give rise to a separate component are considered to be part of the total consideration that is allocated to the separately identified components of the contract.

Our Group recognises a right-of-use asset and a lease liability at the commencement date of the lease.

The right-of-use asset is initially measured at cost, which comprises:

- (a) the amount of the initial measurement of the lease liability;
- (b) any lease payments made at or before the commencement date, less any lease incentives received;
- (c) any initial direct costs incurred by our Group; and
- (d) an estimate of costs to be incurred by our Group in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Depreciation is provided on a straight-line basis over the shorter of the lease term and the estimated useful lives of the right-of-use asset (unless the lease transfers ownership of the

FINANCIAL INFORMATION

underlying asset to our Group by the end of the lease term or if the cost of the right-of-use asset reflects that our Group will exercise a purchase option (if any) — in which case depreciation is provided over the estimated useful life of the underlying asset) as follows:

Leased properties	2 to 5 years
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The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date of the contract.

The lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- (a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) variable lease payments that depend on an index or a rate;
- (c) amounts expected to be payable under residual value guarantees;
- (d) exercise price of a purchase option if our Group is reasonably certain to exercise that option; and
- (e) payments of penalties for terminating the lease, if the lease term reflects our Group exercising an option to terminate the lease.

The lease payments are discounted using the interest rate implicit in the lease, or where it is not readily determinable, the incremental borrowing rate of the lessee.

Subsequently, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured using a revised discount rate when there are changes to the lease payments arising from a change in the lease term or the reassessment of whether our Group will be reasonably certain to exercise a purchase option.

The lease liability is remeasured by using the original discount rate when there is a change in the residual value guarantee, the in-substance fixed lease payments or the future lease payments resulting from a change in an index or a rate (other than floating interest rate). In case of a change in future lease payments resulting from a change in floating interest rates, our Group remeasures the lease liability using a revised discount rate.

Our Group recognises the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. If the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, our Group recognises any remaining amount of the remeasurement in profit or loss.

FINANCIAL INFORMATION

A lease modification is accounted for as a separate lease if:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

When a lease modification is not accounted for as a separate lease, at the effective date of the lease modification,

- (a) our Group allocates the consideration in the modified contract on the basis of relative stand-alone price as described above;
- (b) our Group determines the lease term of the modified contract;
- (c) our Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate over the revised lease term;
- (d) for lease modifications that decrease the scope of the lease, our Group accounts for the remeasurement of the lease liability by decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease and recognising any gain or loss relating to the partial or full termination of the lease in profit or loss; and
- (e) for all other lease modifications, our Group accounts for the remeasurement of the lease liability by making a corresponding adjustment to the right-of-use asset.

Our Group has applied the practical expedient provided in Amendments to HKFRS 16: *COVID-19-Related Rent Concessions beyond 30 June 2021* and does not assess whether eligible rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modification. Our Group accounts for any change in lease payments resulting from the rent concession the same way it would account for the change applying HKFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- (c) there is no substantive change to other terms and conditions of the lease.

FINANCIAL INFORMATION

Our Group has applied the practical expedient consistently to all eligible rent concessions with similar characteristics and in similar circumstances.

Financial instruments

Financial assets

Recognition and derecognition

Financial assets are recognised when and only when our Group becomes a party to the contractual provisions of the instruments and on a trade date basis.

A financial asset is derecognised when and only when (i) our contractual rights to future cash flows from the financial asset expire; or (ii) we transfer the financial asset and either (a) we transfer substantially all the risks and rewards of ownership of the financial asset, or; (b) we neither transfer nor retain substantially all the risks and rewards of ownership of the financial asset but we do not retain control of the financial asset.

If our Group retains substantially all the risks and rewards of ownership of a transferred financial asset, our Group continues to recognise the financial asset. If our Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, our Group recognises the financial asset to the extent of our continuing involvement and an associated liability for amounts we may have to pay.

Financial assets (except for trade and other receivables without a significant financing component which are initially measured at their transaction price) are initially recognised at their fair value plus, in the case of financial assets not carried at fair value through profit or loss (“FVPL”), transaction costs that are directly attributable to the acquisition of the financial assets. Such trade and other receivables are initially measured at their transaction price.

On initial recognition, a financial asset is classified as (i) measured at amortised cost; (ii) debt investment measured at fair value through other comprehensive income (“FVOCI”); (iii) equity investment measured at FVOCI; or (iv) measured at FVPL.

The classification of financial assets at initial recognition depends on our Group’s business model for managing the financial assets and the financial asset’s contractual cash flow characteristics. Financial assets are not reclassified subsequent to their initial recognition unless our Group changes our business model for managing them, in which case all affected financial assets are reclassified on the first day of the first interim reporting period following the change in the business model.

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

- (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

FINANCIAL INFORMATION

- (ii) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses arising from impairment, derecognition or through the amortisation process are recognised in profit or loss.

Our Group’s financial assets at amortised cost include trade and other receivables, contract assets and cash and cash equivalents.

Financial liabilities

Recognition and derecognition

Financial liabilities are recognised when and only when our Group becomes a party to the contractual provisions of the instruments.

A financial liability is derecognised when and only when the liability is extinguished, that is, when the obligation specified in the relevant contract is discharged, cancelled or expires.

Classification and measurement

Financial liabilities are initially recognised at their fair value plus, in the case of financial liabilities not carried at FVPL, transaction costs that are direct attributable to the issue of the financial liabilities.

Our Group’s financial liabilities include trade and other payables and dividends payables. All financial liabilities, except for financial liabilities at FVPL, are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

Impairment of financial assets

Our Group recognises loss allowances for expected credit losses (“ECL”) on financial assets that are measured at amortised cost. Except for the specific treatments as detailed below, at each reporting date, our Group measures a loss allowance for a financial asset at an amount equal to the lifetime ECL if the credit risk on that financial asset has increased significantly since initial recognition. If the credit risk on a financial asset has not increased significantly since initial recognition, our Group measures the loss allowance for that financial asset at an amount equal to 12-month ECL.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument.

For financial assets, a credit loss is the present value of the difference between the contractual cash flows that are due to an entity under the contract and the cash flows that the entity expects to receive.

FINANCIAL INFORMATION

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of a financial instrument while 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Where ECL is measured on a collective basis, the financial instruments are grouped based on the following one or more shared credit risk characteristics:

- (i) past due information;
- (ii) nature of financial instruments;
- (iii) nature of collateral (if any);
- (iv) nature, size and industry of debtors;
- (v) geographical location of debtors; and
- (vi) external credit risk ratings (if available).

Loss allowance is remeasured at each reporting date to reflect changes in the financial instrument’s credit risk and loss since initial recognition. The resulting changes in the loss allowance are recognised as an impairment gain or loss in profit or loss with a corresponding adjustment to the carrying amount of the financial instrument.

Definition of default

Our Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that our Group may not receive the outstanding contractual amounts in full if the financial asset meets any of the following criteria:

- (i) information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including our Group, in full (without taking into account any collaterals held by our Group); or
- (ii) there is a breach of financial covenants by the counterparty.

Irrespective of the above analysis, our Group considers that default has occurred when a financial asset is more than 90 days past due unless our Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Assessment of significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, our Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, our Group considers both

FINANCIAL INFORMATION

quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. In particular, the following information is taken into account in the assessment:

- the debtor’s failure to make payments of principal or interest on the due dates;
- an actual or expected significant deterioration in the financial instrument’s external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- actual or expected changes in the technological, market, economic or legal environment that have or may have a significant adverse effect on the debtor’s ability to meet its obligation to our Group.

Irrespective of the outcome of the above assessment, our Group presumes that the credit risk on a financial instrument has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Notwithstanding the foregoing, our Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

Low credit risk

A financial instrument is determined to have low credit risk if:

- (i) it has a low risk of default;
- (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

Our Group’s cash and cash equivalents are determined to have low credit risk.

Simplified approach of ECL

For trade receivables and contract assets without significant financing components or otherwise for which our Group applies the practical expedient not to account for the significant financing components, our Group applies a simplified approach in calculating ECL. Our Group recognises a loss allowance based on lifetime ECL at each reporting date based on our historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

FINANCIAL INFORMATION

The expected loss rate used is calculated for each categorised customers’ portfolio based on actual credit loss experience over the past years and adjusted for current and forward-looking factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and our Group’s estimate on future economic conditions over the expected lives of trade receivables and contract assets.

Credit-impaired financial asset

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Write-off

Our Group writes off a financial asset when our Group has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof. Our Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities under our Group’s procedures for recovery of amounts due, taking into account legal advice, if appropriate. Any subsequent recovery is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

FINANCIAL INFORMATION

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Impairment of other assets

At the end of each reporting period, our Group reviews internal and external sources of information to assess whether there is any indication that our Group’s intangible assets, property, plant and equipment, right-of-use assets and our Company’s investment in a subsidiary may be impaired or impairment loss previously recognised no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, our Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or the cash-generating unit is reduced to its recoverable amount. Impairment losses are recognised as an expense in profit or loss immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or the cash-generating unit that would have been determined had no impairment loss been recognised in prior periods. Reversal of impairment loss is recognised as income in profit or loss immediately.

Provision

Provision is recognised when our Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the period in which the expenditures are incurred. Provision is reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where our Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

FINANCIAL INFORMATION

Present obligations arising under onerous contracts are recognised and measured as a provision. Onerous contracts are considered to exist where our Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Our Group recognises any impairment loss that has occurred on assets used in fulfilling the contract before a separate provision for onerous contracts are established.

Taxation

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each reporting period between the tax bases of assets and liabilities and their carrying amounts. However, any deferred tax arising from initial recognition of goodwill; or other asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences is not recognised.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Deferred tax is provided on temporary differences arising from an investment in a subsidiary, except where the timing of the reversal of the temporary differences is controlled by our Group and it is probable that the temporary difference will not reverse in the foreseeable future.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of our financial information requires our management to make judgments, estimates and assumptions that affect the application of our accounting policies, reported amounts of assets, liabilities, income, expenses and disclosures. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

FINANCIAL INFORMATION

Key sources of estimation uncertainty:

(i) Useful lives of property, plant and equipment and right-of-use assets

The management of our Group determines the estimated useful lives of our Group’s property, plant and equipment and right-of-use assets based on the historical experience of the actual useful lives of the relevant assets of similar nature and functions. The estimated useful lives could be different as a result of technical innovations which could affect the related depreciation charges included in profit or loss.

(ii) Impairment of intangible assets, property, plant and equipment and right-of-use assets

The management of our Group determines whether our Group’s intangible assets, property, plant and equipment and right-of-use assets are impaired when an indication of impairment exists. This requires an estimation of the recoverable amount of intangible assets, property, plant and equipment and right-of-use assets, which is equal to the higher of fair value less costs of disposal and value in use. Estimating the value in use requires the management to make an estimate of the expected future cash flows from intangible assets, property, plant and equipment and right-of-use assets and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Any impairment will be charged to profit or loss.

(iii) Estimation and constraint of variable consideration

The sales contracts include rights to return/refund, gross profit margin guarantees, volume-based rebates and penalty and/or other marketing incentives that give rise to variable consideration. In estimating the variable consideration, our Group applies either the expected-value or the most-likely-amount method whichever better predicts the entitled amount.

Our Group determines that using the expected-value method by categorising variable considerations into rights to return/refund, gross profit margin guarantees, volume-based rebates and penalty and/or other marketing incentives is appropriate to estimate the variable consideration, considering the factors of (i) large number of contracts that have similar characteristics; and (ii) there are more than one thresholds for respective categories of variable considerations contained in the contract.

Before including any estimated amount of variable consideration in the transaction price, our Group considers whether it is constrained based on the historical experience, business forecast and the current economic conditions.

FINANCIAL INFORMATION

(iv) Provision for inventories loss

The management of our Group reviews the inventory ageing analysis periodically and where applicable, makes allowances for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. Our Group carries out the inventory review on a product-by-product basis and makes allowances at the end of each reporting period by reference to management’s estimation of the net realisable value based on the latest market prices and current market conditions.

(v) Loss allowance for ECL

The management of our Group estimates the loss allowances for trade and other receivables and contract assets by using various inputs and assumptions including risk of a default and expected loss rates. The estimation involves high degree of uncertainty which is based on our Group’s historical information, existing market conditions as well as forward-looking estimates at the end of each reporting period. Where the expectation is different from the original estimate, such difference will impact the carrying amount of trade and other receivables and contract assets.

(vi) Income taxes

Significant estimates are required in determining the provision for income taxes and deferred taxation. There are transactions and calculations for which the ultimate tax determination is uncertain where the final tax outcome of these matters may be different from the amounts that were initially recorded and such differences will affect the income tax and deferred tax provision in the period in which such determination is made.

(vii) Provision for onerous contracts

Our management recognises the provision for onerous contracts with our best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

FINANCIAL INFORMATION

RESULTS OF OPERATIONS

The consolidated statements of profit or loss during the Track Record Period are summarised below, which are extracted from the Accountants’ Report:

	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>6M2023</u>	<u>6M2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(Unaudited)	
Revenue	337,608	367,297	426,545	192,076	146,086
Cost of sales	<u>(91,010)</u>	<u>(94,107)</u>	<u>(105,678)</u>	<u>(46,522)</u>	<u>(41,123)</u>
Gross profit	246,598	273,190	320,867	145,554	104,963
Other income	8,505	11,793	13,474	10,375	12,755
Other (losses)/gains, net	(7,906)	(84,369)	390	(2,042)	(344)
Selling and distribution expenses	(63,808)	(79,002)	(102,578)	(44,852)	(48,083)
Administrative and other operating expenses	(18,425)	(16,873)	(24,249)	(11,836)	(12,131)
Interests on lease liabilities	(117)	(375)	(332)	(176)	(144)
[REDACTED] expenses	<u>(10,722)</u>	<u>(5,951)</u>	<u>(12,951)</u>	<u>(5,842)</u>	<u>(5,317)</u>
Profit before tax	154,125	98,413	194,621	91,181	51,699
Income tax expenses	<u>(34,455)</u>	<u>(10,891)</u>	<u>(35,277)</u>	<u>(13,923)</u>	<u>(6,418)</u>
Profit for the year/period	<u><u>119,670</u></u>	<u><u>87,522</u></u>	<u><u>159,344</u></u>	<u><u>77,258</u></u>	<u><u>45,281</u></u>

Non-HKFRS financial measure

To supplement our consolidated financial statements which are presented in accordance with HKFRSs, we also presented the adjusted net profit (non-HKFRS measure) and adjusted net profit margin (non-HKFRS measure) as additional financial measures, which are not required by, or presented, in accordance with HKFRSs. We believe that the presentation of non-HKFRS financial measures when shown in conjunction with the corresponding HKFRS financial measures provides useful information to potential investors and management in facilitating a comparison of our operating performance from period to period. Such non-HKFRS financial measures allow potential investors to consider matrices used by our management in evaluating our performance.

The use of non-HKFRS financial measures has limitations as an analytical tool, and investors should not consider these in isolation from, or as a substitute for, or superior, to analysis of our results of operations or financial condition as reported under HKFRSs. In addition, the non-HKFRS financial measures may be defined differently from similar terms used by other companies.

We adjusted for certain items as our non-HKFRS financial measures, in order to provide potential investors with an overall and fair understanding of our core operating results and financial performance, especially in making period-to-period comparisons of, and assessing the profile of, our operating and financial performance. [REDACTED] expenses are mainly expenses related to the [REDACTED] and are added back because they were incurred only for the purposes of the [REDACTED].

FINANCIAL INFORMATION

Adjusted net profit (non-HKFRS measure)

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

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

PRINCIPAL COMPONENTS OF THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

During the Track Record Period, our revenue was mainly derived from the sales of 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. During FY2022, FY2023 and, to a very limited extent, 6M2024, we also derived insignificant revenue from the sales of milk powder products.

Our revenue increased from approximately RMB337.6 million for FY2021 to approximately RMB367.3 million for FY2022 and further increased significantly 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.

FINANCIAL INFORMATION

Revenue by products

The following table sets forth the breakdown of our revenue, sales volume and average selling price by types of product for the years/ periods indicated:

	FY2021					FY2022					FY2023					6M2023					6M2024				
	Revenue		Sales volume		Average selling price	Revenue		Sales volume		Average selling price	Revenue		Sales volume		Average selling price	Revenue		Sales volume		Average selling price	Revenue		Sales volume		Average selling price
	RMB'000	%	Unit'000	(Notes (a) & (b))	RMB/Unit	RMB'000	%	Unit'000	(Notes (a) & (b))	RMB/Unit	RMB'000	%	Unit'000	(Notes (a) & (b))	RMB/Unit	RMB'000	%	Unit'000	(Notes (a) & (b))	RMB/Unit	RMB'000	%	Unit'000	(Notes (a) & (b))	RMB/Unit
Algal oil DHA products	310,216	91.9	1,347		230.3	340,610	92.7	1,480		230.1	404,148	94.7	1,918		210.7	179,682	93.5	767		234.3	140,471	96.2	668		210.3
— New Zealand DHA Products	247,305	73.2	1,061		233.1	240,136	63.4	1,019		235.7	289,093	67.8	1,401		206.3	133,691	69.6	548		244.0	89,538	61.3	436		205.4
— U.S. DHA Products	55,253	16.4	246		224.6	90,816	24.7	384		236.5	108,957	25.5	469		232.3	42,521	22.1	193		220.3	49,114	33.6	217		226.3
— PRC DHA Products	7,658	2.3	40		191.5	9,658	2.6	77		125.4	6,098	1.4	48		127.0	3,470	1.8	26		133.5	1,819	1.3	15		121.3
Probiotics products	23,834	7.1	171		139.4	19,485	5.3	130		149.9	18,432	4.3	147		125.4	9,908	5.2	79		125.4	4,893	3.3	36		135.9
Vitamins products	1,837	0.5	23		79.9	1,025	0.3	24		42.7	690	0.2	17		40.6	394	0.2	10		39.4	223	0.2	5		44.6
Multi-nutrients products	1,311	0.4	18		72.8	2,011	0.6	24		83.8	1,207	0.3	16		75.4	678	0.4	9		75.3	208	0.1	3		69.3
Algal calcium products	410	0.1	10		41.0	538	0.1	13		41.4	236	0.1	6		39.3	236	0.1	6		39.3	—	—	—		—
Milk powder products	—	—	—		—	3,628	1.0	18		201.6	1,832	0.4	11		166.5	1,178	0.6	6		196.3	291	0.2	1		291.0
Total	337,608	100.0	1,569			367,297	100.0	1,689			426,545	100.0	2,115			192,076	100.0	877			146,086	100.0	713		

Notes:

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

FINANCIAL INFORMATION

Revenue by sales channels

The following table sets forth the breakdown of our revenue, sales volume and average selling price by sales channels for the years/ periods indicated:

	FY2021				FY2022				FY2023				6M2023				6M2024			
	Revenue	Sales volume	Average selling price		Revenue	Sales volume	Average selling price		Revenue	Sales volume	Average selling price		Revenue	Sales volume	Average selling price		Revenue	Sales volume	Average selling price	
	RMB'000	Unit '000	RMB/Unit	%	RMB'000	Unit '000	RMB/Unit	%	RMB'000	Unit '000	RMB/Unit	%	RMB'000	Unit '000	RMB/Unit	%	RMB'000	Unit '000	RMB/Unit	%
	(Notes (a) & (b))	(Notes (a) & (b))	(Notes (a) & (b))		(Notes (a) & (b))	(Notes (a) & (b))	(Notes (a) & (b))		(Notes (a) & (b))	(Notes (a) & (b))	(Notes (a) & (b))		(Notes (a) & (b))	(Notes (a) & (b))	(Notes (a) & (b))		(Notes (a) & (b))	(Notes (a) & (b))	(Notes (a) & (b))	
Online sales channels:																				
Direct sales to e-commerce companies	166,135	49.2	709	234.3	194,838	53.1	844	230.9	236,930	55.5	1,002	236.5	106,185	55.3	446	238.1	95,092	65.1	410	231.9
Sales through online shopping platforms to our customers	50,312	14.9	154	326.7	48,347	13.2	151	320.2	56,467	13.2	174	324.5	23,584	12.3	73	323.1	15,305	10.5	47	325.6
Others (Note c)	—	—	—	—	—	—	—	—	18,130	4.3	294	61.7	2,604	1.3	19	137.1	7,453	5.1	91	81.9
Sub-total	216,447	64.1	863	250.8	243,185	66.3	995	244.4	311,527	73.0	1,470	211.9	132,373	68.9	538	246.0	117,850	80.7	548	215.1
Offline sales channels:																				
Sales to regional distributors	115,665	34.3	686	168.6	114,759	31.2	662	173.4	108,523	25.5	624	173.9	53,735	28.0	319	168.4	26,413	18.1	158	167.2
Others (Note c)	5,496	1.6	20	274.8	9,353	2.5	32	292.3	6,495	1.5	21	309.3	5,968	3.1	20	298.4	1,823	1.2	7	260.4
Sub-total	121,161	35.9	706	171.6	124,112	33.7	694	178.8	115,018	27.0	645	178.3	59,703	31.1	339	176.1	28,236	19.3	165	171.1
Total	337,608	100.0	1,569		367,297	100.0	1,689		426,545	100.0	2,115		192,076	100.0	877		146,086	100.0	713	

Notes:

- Each unit is equivalent to a package of our product.
- The sales volume in respect of each sales channel 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/periods.
- Others include direct sales to retail outlets and miscellaneous sales.

For details of our sales channels, please refer to the paragraph headed “Business — Sales and distribution” in this document.

FINANCIAL INFORMATION

Revenue by product types and sales channels

The following table sets forth the breakdown of our revenue by product types and sales channels 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:										
Online sales channels:										
— Direct sales to e-commerce companies	154,220	45.7	183,893	50.1	225,609	52.9	100,864	52.5	92,154	63.1
— Sales through online shopping platforms to our customers	45,460	13.5	43,855	11.9	52,913	12.3	21,288	11.1	14,257	9.8
— Others (Note)	—	—	—	—	17,967	4.3	2,587	1.3	7,176	4.9
Offline sales channels:										
— Sales to regional distributors	105,306	31.2	103,798	28.3	101,627	23.8	49,263	25.6	25,191	17.3
— Others (Note)	5,230	1.5	9,064	2.4	6,032	1.4	5,680	3.0	1,693	1.1
Sub-total	310,216	91.9	340,610	92.7	404,148	94.7	179,682	93.5	140,471	96.2
Probiotics products:										
Online sales channels:										
— Direct sales to e-commerce companies	11,777	3.5	9,890	2.7	10,745	2.5	4,979	2.6	2,936	2.0
— Sales through online shopping platforms to our customers	3,802	1.1	3,570	1.0	2,687	0.6	1,840	1.0	802	0.5
— Others (Note)	—	—	—	—	163	0.0	10	0.0	277	0.2
Offline sales channels:										
— Sales to regional distributors	8,111	2.4	5,801	1.5	4,444	1.1	2,832	1.5	759	0.5
— Others (Note)	144	0.1	224	0.1	393	0.1	247	0.1	119	0.1
Sub-total	23,834	7.1	19,485	5.3	18,432	4.3	9,908	5.2	4,893	3.3
Vitamins products:										
Online sales channels:										
— Direct sales to e-commerce companies	98	0.0	58	0.0	38	0.0	—	—	—	0.0
— Sales through online shopping platforms to our customers	396	0.1	216	0.1	214	0.1	110	0.0	91	0.1
Offline sales channels:										
— Sales to regional distributors	1,263	0.4	724	0.2	424	0.1	271	0.2	121	0.1
— Others (Note)	80	0.0	27	0.0	14	0.0	13	0.0	11	0.0
Sub-total	1,837	0.5	1,025	0.3	690	0.2	394	0.2	223	0.2

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FINANCIAL INFORMATION

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Multi-nutrients products:										
Online sales channels:										
— Direct sales to e-commerce companies	40	0.0	974	0.3	486	0.1	304	0.2	2	0.0
— Sales through online shopping platforms to our customers	654	0.2	705	0.2	626	0.2	317	0.2	155	0.1
— Others (Note)	—	—	—	—	—	0.0	1	0.0	—	0.0
Offline sales channels:										
— Sales to regional distributors	590	0.2	313	0.1	91	0.0	48	0.0	51	0.0
— Others (Note)	27	0.0	19	0.0	4	0.0	8	0.0	—	0.0
Sub-total	1,311	0.4	2,011	0.6	1,207	0.3	678	0.4	208	0.1
Algal calcium products:										
Online sales channels:										
— Direct sales to e-commerce companies	—	—	—	—	—	0.0	—	—	—	—
— Sales through online shopping platforms to our customers	—	—	—	—	4	0.0	6	0.0	—	0.0
— Others (Note)	—	—	—	—	—	0.0	1	0.0	—	0.0
Offline sales channels:										
— Sales to regional distributors	395	0.1	524	0.1	216	0.1	223	0.1	—	0.0
— Others (Note)	15	0.0	14	0.0	16	0.0	6	0.0	—	0.0
Sub-total	410	0.1	538	0.1	236	0.1	236	0.1	—	0.0
Milk powder products:										
Online sales channels:										
— Direct sales to e-commerce companies	—	—	23	0.0	52	0.0	38	0.0	—	0.0
— Sales through online shopping platforms to our customers	—	—	1	0.0	23	0.0	23	0.0	—	0.0
— Others (Note)	—	—	—	—	—	0.0	5	0.0	—	0.0
Offline sales channels:										
— Sales to regional distributors	—	—	3,599	1.0	1,721	0.4	1,098	0.6	291	0.2
— Others (Note)	—	—	5	0.0	36	0.0	14	0.0	—	0.0
Sub-total	—	—	3,628	1.0	1,832	0.4	1,178	0.6	291	0.2
Total	337,608	100.0	367,297	100.0	426,545	100.0	192,076	100.0	146,086	100.0

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

FINANCIAL INFORMATION

During the Track Record Period, algal oil DHA products were our major revenue contributor. Our revenue from the sales of algal oil DHA products accounted for approximately 91.9%, 92.7%, 94.7%, 93.5% and 96.2% of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The sales of the rest of our other nutritional products contributed an insignificant portion to our revenue, for instance:

- our revenue from the sales of probiotics products accounted for approximately 7.1%, 5.3%, 4.3%, 5.2% and 3.3% of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively;
- our revenue from the sales of vitamins products accounted for approximately 0.5%, 0.3%, 0.2%, 0.2% and 0.2% of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively;
- our revenue from the sales of multi-nutrients products accounted for approximately 0.4%, 0.6%, 0.3%, 0.4% and 0.1% of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively;
- our revenue from the sales of algal calcium products accounted for approximately 0.1%, 0.1%, 0.1%, 0.1% and nil of our total revenue for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively; and
- during FY2022, FY2023 and, to a very limited extent, 6M2024, we sold milk powder products and generated revenue of approximately RMB3.6 million, RMB1.8 million and RMB0.3 million, respectively. For details of our sales of milk powder products, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products” in this section.

Algal oil DHA products

According to the Frost & Sullivan Report, owing to consumption upgrading and growing awareness over algal oil DHA, the maternal and children algal oil DHA market in the PRC has experienced continuous growth over the past five years from 2018 to 2023, with the retail sales value of which rising from approximately RMB5,733.5 million in 2018 to approximately RMB11,259.0 million in 2023, representing a CAGR of approximately 14.5%. In particular, the retail sales value of the maternal and children algal oil DHA market in the PRC increased from approximately RMB9,121.7 million for 2021 to approximately RMB9,833.2 million for 2022, and further increased to approximately RMB11,259.0 million for 2023. According to the Frost & Sullivan Report, the growth in expected retail sales value of the maternal and children DHA market in the PRC is expected to slow down in 2024 at approximately RMB11,563.0 million.

FINANCIAL INFORMATION

The following table sets forth our purchase volume and sales volume in respect of algal oil DHA products for the years/period indicated:

	FY2021		FY2022		FY2023		6M2024	
	Purchase		Purchase		Purchase		Purchase	
	volume	Sales volume	volume	Sales volume	volume	Sales volume	volume	Sales volume
	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000	Units '000
Algal oil DHA products	1,253	1,347	2,182	1,480	1,784	1,918	726	668

For FY2021, FY2022, FY2023 and 6M2024, our total sales volume of algal oil DHA products amounted to approximately 1.3 million units, 1.5 million units, 1.9 million units and 0.7 million units, respectively. During the same years/period, our total purchase volume amounted to approximately 1.3 million units, 2.2 million units, 1.8 million units and 0.7 million units, respectively. 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, and our purchase volume well exceeded our sales volume for FY2022 in respect of algal oil DHA products. As a result, we recorded a significant increase in our inventories in respect of algal oil DHA products from approximately RMB12.4 million as at 31 December 2021 to approximately RMB49.8 million as at 31 December 2022. During FY2023, we continued to utilise our surplus inventories, and our inventories in respect of algal oil DHA products decreased from approximately RMB49.8 million as at 31 December 2022 to approximately RMB40.8 million as at 31 December 2023. For detailed analysis of our inventories, please refer to the paragraph headed “Description of certain line items in the consolidated statements of financial position — Inventories” in this section.

During the Track Record Period, the sales volume of and thus the revenue from the sales of our algal oil DHA products that were processed overseas, namely our New Zealand DHA Products and U.S. DHA Products, were significantly higher than that of our PRC DHA Products. Our Directors are of the view that this underlined the consumer behaviour that products using imported raw materials enjoy popularity among consumers in the maternal and children nutritional product industry in the PRC, according to Frost & Sullivan.

As disclosed in the paragraph headed “Business — Our purchases — Algal oil DHA products” in this document, during the Track Record Period we adopted the general trade (大貿) model for our New Zealand DHA Products and adopted the cross-border e-commerce (跨境電商零售進口) model for our U.S. DHA Products. As the goods purchased under the cross-border e-commerce model can only be sold in the PRC online (but not offline), we only sold our U.S. DHA Products to e-commerce companies while we sold our New Zealand DHA Products in all of our sales channels. In addition, there are single transaction limit of RMB5,000 and annual transaction quota of RMB26,000 for purchasing products (i.e. our U.S. DHA Products) that are imposed by cross-border e-commerce model per person. As a result of the foregoing, the sales volume of and thus the revenue from the sales of our New Zealand DHA Products was higher than that of our U.S. DHA Products during the Track Record Period.

FINANCIAL INFORMATION

The increase in our revenue from sales of algal oil DHA products from approximately RMB310.2 million for FY2021 to approximately RMB340.6 million for FY2022 was mainly driven by our U.S. DHA Products, the revenue from which increased from approximately RMB55.3 million for FY2021 to approximately RMB90.8 million for FY2022 and the sales volume of which increased from approximately 246,000 units for FY2021 to approximately 384,000 units for FY2022. We adopted the cross-border e-commerce model for our U.S. DHA Products. According to the Frost & Sullivan Report, the cross-border e-commerce model is a relatively new import model in the PRC market in recent years, and thus it has a greater potential for growth as compared to traditional general trade model. Since cross-border imported DHA products are generally perceived by PRC consumers as foreign-made products for foreign markets, and because cross-border e-commerce model does not involve tariffs, the selling prices are usually more competitive. As a result, cross-border imported DHA products began to gain popularity among PRC consumers. This consumer behaviour was particularly pronounced during the COVID-19 pandemic, driving a significant increase in the retail sales value of cross-border imported DHA products in 2022, in which we benefited from it and recorded a significant increase in our sales and revenue from U.S. DHA Products.

For FY2023, our revenue from sales of algal oil DHA products increased significantly to approximately RMB404.1 million from approximately RMB340.6 million for FY2022. Such increase of approximately 18.6% was in line with the retail sales value of the maternal and children algal oil DHA product industry in respect of domestic players (with raw materials supplied by overseas suppliers) in the PRC, which increased by approximately 18.7% from RMB2,704.1 million in 2022 to RMB3,208.8 million in 2023. According to the Frost & Sullivan Report, with COVID-19 largely behind in the PRC and the PRC government implementing significant consumption stimulus policies, (i) the growth in disposable income per capita in the PRC witnessed a sharper increase from 2022 to 2023 (i.e. from approximately RMB36.9 thousands to approximately RMB39.2 thousands) as compared to that from 2021 to 2022 (from approximately RMB35.1 thousands to RMB36.9 thousands); and (ii) the growth in retail sales value of nutritional product industry in the PRC also witnessed a sharper increase from 2022 to 2023 (i.e. from approximately RMB235.8 billion to RMB260.1 billion) as compared to that from 2021 to 2022 (from approximately RMB212.4 billion to RMB235.8 billion). As the largest domestic brand in terms of retail sales value of algal oil DHA products made from imported raw materials according to the Frost & Sullivan Report, we benefited from the market growth during FY2023. In addition, benefiting from the market reaction and heightened safety concerns driven by the release of radioactive water by Japan first started in August 2023, we recorded more revenue in the second half of FY2023 than in the first half of FY2023. According to the Frost & Sullivan Report, the release of radioactive water from Fukushima, Japan, raised concerns about its potential impact on marine ecosystems, and as a result the overall retail sales value of maternal and children nutritional product industry in the PRC increased. For instance, in addition to extensive media reporting in the PRC, the PRC government has published official statements and taken actions such as imposing stricter import regulations on marine products from Japan. Furthermore, according to Frost & Sullivan, the release of radioactive water by Japan raised concerns not only on fish oil DHA but also algal oil DHA. This apprehension stems from the consumers’ perception that such contamination could impact algae, which consumers commonly believe may absorb various nutrients and substances from their marine environment, and that algae as primary producers in aquatic ecosystems may accumulate

FINANCIAL INFORMATION

contaminants, potentially affecting the quality and safety of algal oil DHA products. The above safety concerns have triggered the consumers to stockpile DHA products that were manufactured before the release of radioactive water.

For 6M2024, our revenue from sales of algal oil DHA products decreased to approximately RMB140.5 million from approximately RMB179.7 million for 6M2023. Such decrease was mainly driven by (i) the effect of stockpiling behaviour by consumers due to the release of radioactive water by Japan in the second half of 2023 which dampened sales in 2024 as the maternal and children 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 according to the Frost & Sullivan Report. The economic downturn in the PRC in 2024 slowed down the growth of the PRC maternal and children algal oil DHA product industry. The retail sales value of the maternal and children algal oil DHA product industry in respect of domestic players (with raw materials supplied by overseas suppliers) remained relatively flat at approximately RMB3,208.8 million and RMB3,388.0 million in 2023 and 2024, respectively, according to the Frost & Sullivan Report. This marks a significant contrast to the rapid growing trend in the previous years, in which the retail sales value of the maternal and children algal oil DHA product industry in respect of domestic players (with raw materials supplied by overseas suppliers) increased significantly by approximately 14.0% from approximately RMB2,371.7 million in 2021 to approximately RMB2,704.1 million in 2022 and further increased by approximately 18.7% to approximately RMB3,208.8 million in 2023. In addition, per capita consumer expenditure nationwide only rose by approximately 6.8% from the first half of 2023 to the first half of 2024, marking a slowdown in growth as compared to the increase of approximately 8.4% from the first half of 2022 to the first half of 2023. As advised by Frost & Sullivan, this sharp decline underscores the impact of the economic downturn on consumer confidence and spending habits, and as a result the maternal and children nutritional product industry, alongside other non-essential consumer products industries, are directly hit by the economic slowdown as consumers tend to reserve their purchasing power for essential consumer products. Moreover, as advised by Frost & Sullivan, under the temporary economic downturn in the PRC in 2024, consumers tend to opt for more economic and affordable algal oil DHA products as alternatives, which led to a heavier negative impact on the sales performance of brands, including ours, that have a higher average product price in algal oil DHA products. For instance, the sales volume of premium brand algal oil DHA products (domestic brands with raw materials supplied by overseas suppliers) in the PRC is anticipated to decline by approximately 17.2% from 272.1 million capsules in 2023 to 225.3 million capsules in 2024, and subsequently rebound by 14.6% to 258.2 million capsules in 2025. In contrast, the sales volume of mass market algal oil DHA products (domestic brands with raw materials supplied by overseas suppliers) in the PRC is anticipated to grow by 20.9% from 475.0 million capsules in 2023 to 574.3 million capsules in 2024, and further increase by 10.1% to 632.2 million capsules in 2025. While the selling prices of our algal oil DHA products and those of other premium brands have remained relatively stable, the substantial decline in sales volume has adversely impacted the revenue of our Group and other premium brands in 2024. Brand owners of algal oil DHA products in the PRC typically refrain from reducing their reference retail price during temporary economic downturns due to strategic pricing considerations. Our Directors consider that lowering prices could potentially signal a downgrade in market positioning to end-consumers, making it challenging for them to accept future price increases, further complicating price positioning. Therefore, despite the decline in sales volume during the temporary economic

FINANCIAL INFORMATION

downturn in 2024, premium brands, including ours, have opted for price stability to maintain their perceived value in the market. According to the Frost & Sullivan Report, in the PRC, algal oil DHA products (domestic brands with raw materials supplied by overseas suppliers) priced at above RMB5.0 per capsule are categorised as premium, while those priced at RMB5.0 or below per capsule fall into the mass market category. With an average price of RMB5.4 per capsule, our algal oil DHA products hold a higher market positioning. Furthermore, there are approximately 70% domestic brands (with raw materials supplied by overseas suppliers) of algal oil DHA products in the PRC that are more economic and affordable in terms of average product price than ours (i.e. at RMB5.4 per capsule). For instance, according to the Frost & Sullivan Report, other international brands and domestic brands (with raw materials supplied by overseas suppliers) of algal oil DHA products that have higher average product price than us also suffered decrease in revenue in 2024.

Revenue recognition under each of the sales channels

As disclosed in the paragraph headed “Critical and material accounting policy information — Revenue recognition” in this section above, our Group recognises revenue when our Group satisfies a performance obligation by transferring control of our products to our customers. The following table sets forth the summary of our revenue recognition policy by major sales channels:

	Direct sales to e-commerce companies	Sales through online shopping platforms to our customers	Sales to regional distributors
Online or offline	Online	Online	Offline
Approximate percentage of revenue contribution during the Track Record Period	FY2021: 49.2% FY2022: 53.1% FY2023: 55.5% 6M2024: 65.1%	FY2021: 14.9% FY2022: 13.2% FY2023: 13.2% 6M2024: 10.5%	FY2021: 34.3% FY2022: 31.2% FY2023: 25.5% 6M2024: 18.1%
Customers of our Group	E-commerce companies	Customers ordering through the online shopping platforms	Regional distributors
Role of our Group (from the perspective of our revenue recognition)	Principal	Principal	Principal
Role of the counterparty (from the perspective of our Group)	Principal of the e-commerce companies’ customers	Service provider of our Group. The service provider provides an online shopping platform for our Group to sell our products	Principal of the regional distributors’ customers
Pricing determination	Generally determined by the e-commerce companies ^(Note)	Our Group	Regional distributors
Inventory risk (upon the products are sold by our Group)	E-commerce companies	Customers ordering through online shopping platforms	Regional distributors

FINANCIAL INFORMATION

	Direct sales to e-commerce companies	Sales through online shopping platforms to our customers	Sales to regional distributors
Timing of revenue recognition	At the time when we deliver our products	At the time when we deliver our products	At the time when we deliver our products
Basis of amount of revenue recognised	Gross, net of Market Incentives	Gross	Gross, net of Market Incentives
Party who is primarily responsible for providing the products (from the prospective of our revenue recognition)	Our Group	Our Group	Our Group

Note: To the best knowledge of our Directors, in determining the retail price of our products, the e-commerce companies generally take into account factors such as (i) their marketing strategy; (ii) the recommended retail price suggested by our Group; and (iii) the pricing of our products sold at the online stores operated by our Group.

Cost of sales

Cost of sales included costs of inventories and transportation charge. The following table sets forth the breakdown of our cost of sales by nature for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Costs of inventories	89,173	98.0	91,011	96.7	103,847	98.3	45,027	96.8	40,385	98.2
Transportation charge	1,837	2.0	3,096	3.3	1,831	1.7	1,495	3.2	738	1.8
Total cost of sales	91,010	100.0	94,107	100.0	105,678	100.0	46,522	100.0	41,123	100.0

Costs of inventories mainly include cost of purchasing finished products, work-in-progress, raw materials and packaging costs.

The following table sets forth the breakdown of our cost of sales by 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	77,990	85.7	81,605	86.7	97,007	91.8	41,864	90.0	37,445	91.1
Probiotics products	12,389	13.6	9,501	10.1	7,728	7.3	3,512	7.5	3,445	8.4
Vitamins products	181	0.2	187	0.2	195	0.2	75	0.2	42	0.1
Multi-nutrients products	329	0.4	412	0.4	252	0.2	161	0.3	49	0.1
Algal calcium products	121	0.1	157	0.2	81	0.1	75	0.2	—	—
Milk powder products	—	—	2,245	2.4	415	0.4	835	1.8	142	0.3
Total cost of sales	91,010	100.0	94,107	100.0	105,678	100.0	46,522	100.0	41,123	100.0

Our cost of sales increased from approximately RMB91.0 million for FY2021 to approximately RMB94.1 million for FY2022, and further increased to approximately RMB105.7 million for FY2023. Such increase was in line with our increase in revenue.

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FINANCIAL INFORMATION

For 6M2024, our cost of sales amounted to approximately RMB41.1 million, representing a decrease of approximately RMB5.4 million from approximately RMB46.5 million for 6M2023. Such decrease was in line with our decrease in revenue.

Gross profit and gross profit margin

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

	FY2021		FY2022		FY2023		6M2023		6M2024	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Algal oil DHA products	232,226	74.9	259,005	76.0	307,141	76.0	137,818	76.7	103,026	73.3
— New Zealand DHA Products	184,993	74.8	182,247	75.9	219,286	75.9	102,822	76.9	65,437	73.1
— U.S. DHA Products	41,940	75.9	70,300	77.4	83,668	76.8	32,679	76.9	36,372	74.1
— PRC DHA Products	5,293	69.1	6,458	66.9	4,187	68.7	2,317	66.8	1,217	66.9
Probiotics products	11,445	48.0	9,984	51.2	10,704	58.1	6,396	64.6	1,448	29.6
Vitamins products	1,656	90.1	838	81.8	495	71.7	319	81.0	181	81.2
Multi-nutrients products	982	74.9	1,599	79.5	955	79.1	517	76.3	159	76.4
Algal calcium products	289	70.5	381	70.8	155	65.7	161	68.2	—	—
Milk powder products	—	—	1,383	38.1	1,417	77.3	343	29.1	149	51.2
Total gross profit/overall gross profit margin	246,598	73.0	273,190	74.4	320,867	75.2	145,554	75.8	104,963	71.9

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

	FY2021		FY2022		FY2023		6M2023		6M2024	
	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin	Gross profit	Gross margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Online sales channels:										
Direct sales to e-commerce companies	125,839	75.7	147,743	75.8	188,834	79.7	83,125	78.3	71,845	75.6
Sales through online shopping platforms to our customers	40,598	80.7	40,305	83.4	48,091	85.2	19,317	81.9	12,572	82.1
Others (Note)	—	—	—	—	1,280	7.1	1,609	61.8	2,473	33.2
Sub-total	166,437	76.9	188,048	77.3	238,205	76.5	104,051	78.6	86,890	73.7
Offline sales channels:										
Sales to regional distributors	75,756	65.5	77,517	67.5	77,296	71.2	36,832	68.5	16,671	63.1
Others (Note)	4,405	80.1	7,625	81.5	5,366	82.6	4,671	78.3	1,402	76.9
Sub-total	80,161	66.2	85,142	68.6	82,662	71.9	41,503	69.5	18,073	64.0
Total	246,598	73.0	273,190	74.4	320,867	75.2	145,554	75.8	104,963	71.9

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

FINANCIAL INFORMATION

Our gross profit increased from approximately RMB246.6 million for FY2021 to approximately RMB273.2 million for FY2022, and further increased to approximately RMB320.9 million for FY2023. Such increase was in line with our revenue growth for the corresponding years. For 6M2024, our gross profit amounted to approximately RMB105.0 million, representing a decrease of approximately RMB40.6 million from approximately RMB145.6 million for 6M2023. Such decrease was in line with our decrease in revenue.

The gross profit margin of our products is primarily affected by our selling price and cost of finished products. Gross profit margin of our sales channels is generally affected by various factors such as cost incurred in each sales channel and sales discounts rate we offered. Our Marketing Incentives offered to our customers are determined by us based on factors such as the years of relationship, the prevailing market condition and whether our customers are the end customers.

Gross profit margin of sales through online sales channels was the highest among all sales channels mainly due to the lower discount rate granted to the online sales channels as we had to face our customers directly through the provision of customer services and after-sales services to our customers on the online shopping platforms. The gross profit margin of sales to regional distributors was the lowest among all sales channels mainly due to the higher discount rate granted to the regional distributors considering the relatively higher cost involved in offline sales channels, for example, the regional distributors would need to conduct promotion of our products in their respective designated distribution regions.

Our overall gross profit and gross profit margin were mainly contributed by algal oil DHA and probiotics products, whereas the contribution from our other remaining products was insignificant.

Our overall 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. In particular, our gross profit margin of algal oil DHA products remained relatively stable at approximately 74.9%, 76.0%, 76.0% and 76.7% for FY2021, FY2022, FY2023 and 6M2023, respectively, and slightly decreased to approximately 73.3% for 6M2024. The slight decrease in our overall gross profit margin for 6M2024 was primarily driven by the decrease in gross profit margin for direct sales to e-commerce companies mainly in respect of algal oil DHA products, which was mainly due to a lower selling price. As disclosed above, there was an economic downturn in the PRC during the first half of 2024 according to Frost & Sullivan, which led to fierce price competition. During the Track Record Period, our U.S. DHA Products had the highest gross profit margin within our algal oil DHA products category, followed by New Zealand DHA Products and PRC DHA Products. As disclosed in the paragraph headed “Business — Our purchases — Algal oil DHA products” in this document, during the Track Record Period, we adopted the cross-border e-commerce (跨境電商零售進口) model for our U.S. DHA Products and as advised by our PRC Legal Advisers, the cross-border e-commerce model does not involve tariff.

FINANCIAL INFORMATION

For our probiotics products, our gross profit margin increased from approximately 51.2% for FY2022 to approximately 58.1% for FY2023, which was mainly because during FY2023 we sold more probiotics products to e-commerce companies and less to regional distributors than in FY2022. Our Directors believe that our brand is generally recognised among consumers in the PRC primarily for our algal oil DHA products, while our probiotics products are comparatively less well-known. With a view to increasing the market share of our probiotics products, during 6M2024, as part of our sales of algal oil DHA products to our Type C regional distributors, we strategically provided to them on a complimentary basis some of our probiotics products as gifts for their promotional sales of our algal oil DHA products. As a result, our gross profit margin for probiotics products decreased significantly to approximately 29.6% for 6M2024 from approximately 64.6% for 6M2023. According to Frost & Sullivan, it is not uncommon for brand owners to adopt such bundle offer strategy to promote products that are less recognised by consumers within the brand owners’ product portfolio.

Other income

The following table sets forth the breakdown of our other income for the years indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Government grants	7,565	89.0	9,308	78.9	10,966	81.4	9,268	89.4	10,776	84.5
Interest income	477	5.6	718	6.1	2,187	16.2	852	8.2	1,554	12.2
Compensation from litigation claims	—	—	1,306	11.1	60	0.5	—	—	—	—
Compensation income from customers	352	4.1	374	3.2	164	1.2	158	1.5	205	1.6
Others	111	1.3	87	0.7	97	0.7	97	0.9	220	1.7
Total other income	8,505	100.0	11,793	100.0	13,474	100.0	10,375	100.0	12,755	100.0

Our other income mainly included government grants, compensation from litigation claims, compensation income from customers and interest income. Our other income amounted to approximately RMB8.5 million, RMB11.8 million, RMB13.5 million, RMB10.4 million and RMB12.8 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

Government grants

Government grants represented fiscal supports by the relevant government authorities to our subsidiaries which carried out their businesses in designated tax incentive zones in Shanghai, the PRC. There was no unfulfilled condition or contingency relating to the government grants.

Interest income

The significant increase in our interest income of approximately RMB1.5 million from approximately RMB0.7 million for FY2022 to approximately RMB2.2 million for FY2023 was mainly due to the increase in our bank balance and interest rate.

FINANCIAL INFORMATION

Compensation from litigation claims

During FY2022, our Group recognised compensation from litigation claims of approximately RMB1.3 million involving our subsidiary Gold Nemans in respect of our registered trademarks.

Compensation from customers

Compensation from customers represented penalty levied on customers for Unauthorised Distribution which were prohibited under the distribution agreements entered into between our regional distributors and our Group.

Other (losses)/gains, net

The following table sets forth the breakdown of our other (losses)/gains, net, for the years/periods indicated:

	<u>FY2021</u> <i>RMB'000</i>	<u>FY2022</u> <i>RMB'000</i>	<u>FY2023</u> <i>RMB'000</i>	<u>6M2023</u> <i>RMB'000</i> (unaudited)	<u>6M2024</u> <i>RMB'000</i>
Write-down of inventories (excluding milk powder products)	(5,910)	(2,909)	(3,689)	(388)	(389)
Provision for inventories (excluding milk powder products)	—	—	(2,155)	—	—
(Losses)/gains relating to milk powder products:	—	(81,477)	5,468	—	160
<i>Write-down of milk powder products</i>	—	(17,699)	—	—	—
<i>(Provision for)/reversal of inventories loss on milk powder products</i>	—	(20,687)	415	—	142
<i>Provision for loss allowance on deposits paid to Ausnutria Group</i>	—	(20,149)	—	—	—
<i>(Provision for)/reversal of onerous contracts</i>	—	(17,952)	5,000	—	—
<i>Changes in input VAT arising from (reversal of) provision for inventories loss on milk powder products</i>	—	(4,990)	53	—	18
(Provision for)/reversal of loss allowances on trade receivables, net	(1,538)	61	(174)	(1,214)	(246)
Write-down of other receivables	—	(4)	(207)	(29)	—
Exchange (loss)/gain, net	(458)	50	1,163	(404)	131
Loss on disposal of property, plant and equipment, net	—	(90)	(16)	(7)	—
Total other (losses)/gains, net	<u>(7,906)</u>	<u>(84,369)</u>	<u>390</u>	<u>(2,042)</u>	<u>(344)</u>

FINANCIAL INFORMATION

Write-down of inventories (excluding milk powder products)

We wrote down our inventories (excluding milk powder products) mainly due to expiry of shelf life, obsolesce or scrapped packaging. The write-down of inventories (excluding milk powder products) during the Track Record Period was mainly in respect of algal oil DHA and probiotics products.

Losses relating to milk powder products

During FY2022, FY2023 and, to a very limited extent, 6M2024, we sold milk powder products, which were purchased from and manufactured by Ausnutria Group, under the brands licensed by Ausnutria Group (the “**Milk Powder Brands**”). Our milk powder products comprised five types of products, namely (i) Infant Formula, Stage 1 (“**Stage 1 Formula**”); (ii) Follow Up Formula, Stage 2; (iii) Growing Up Formula, Stage 3; (iv) Organic Children Formula; and (v) High Calcium Low Fat Milk Powder. The five types of milk powder products we purchased from Ausnutria Group were imported from Australia and New Zealand.

Ausnutria Group consists of a group of companies, the holding company of which is listed on the Stock Exchange. Ausnutria Group is headquartered in the PRC and is principally engaged in (i) the dairy industry with activities ranging from research and development, 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) research and development, production, marketing and distribution of nutrition products to customers principally located in the PRC and Australia. According to the annual report of Ausnutria Group, its revenue amounted to over RMB7.7 billion for the year ended 31 December 2022. Ausnutria Group possesses nine factories in the PRC, the Netherlands, Australia and New Zealand, and has a diversified product portfolio including, amongst others, infant formula, toddler formula and adult formula. Save for Ausnutria Group being a supplier of our Group, Ausnutria Group and its shareholders and directors are independent third parties and have no past or present relationships (including, but not limited to, employment, trust, financing, or family relationship) with our Group, our Directors, shareholders, senior management or any of their respective associates.

In April 2022, the SAMR announced that a batch of Stage 1 Formula (but not the non-Stage 1 Formulas) under the Milk Powder Brands manufactured back in February 2020 was found to contain vanillin (香蘭素) (the “**Incident**”) during a sample testing conducted by the SAMR, which was against the national food safety standard of the PRC. Vanillin is a chemical most widely used as a flavouring agent in food, including dairy products. As a result of the Incident, Ausnutria Group was required to recall the batch of Stage 1 Formula involved and was fined for approximately RMB9.6 million by the relevant local administration for market regulation.

The Stage 1 Formula we purchased from Ausnutria Group was not the batch which was found to contain vanillin.

FINANCIAL INFORMATION

Background of our collaboration with Ausnutria Group

In or around September 2021, we understood that Ausnutria Group was looking for a business partner to distribute milk powder products under its brands in the PRC. Our Directors believed that, having considered the following, it would be beneficial to our business to expand our product portfolio to milk powder products and thus we commenced negotiations with Ausnutria Group:

1. As 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, catering for their needs in various stages of life. Our Directors believed that the target consumer group of milk powder products overlapped with those of our algal oil DHA products;
2. Our Directors believed that leveraging on our existing established sales and distribution network for our nutritional products, we had the capability and resources to sell and distribute milk powder products;
3. According to Frost & Sullivan, there are strong consumers’ preference towards milk powder products imported from Australia and New Zealand, which are generally perceived to be of high quality, safe and reliable; and
4. Our Directors conducted a market research on the milk powder products in the PRC, and understood that (i) the overall milk powder market was expected to benefit from the three-child policy announced in May 2021; (ii) the proportion of children aged 3+ was expected to increase; and (iii) the total sales value of milk powder in the PRC increased from approximately RMB3,310 million in 2019 to approximately RMB4,800 million in 2020 to approximately RMB6,350 million in 2021. Based on the historical growth of the sale value of milk powder in the PRC, our Directors at the material time expected the milk powder market in the PRC will continue to grow.

The Incident

During the course of negotiation, in or around December 2021, the management of Ausnutria Group verbally informed us that Ausnutria Group was notified by the SAMR of the Incident during a sample testing conducted by the SMAR. At that time, both Ausnutria Group and our Group were not contemplating any severe penalty on Ausnutria Group in connection with the Incident, nor the extent of the negative publicity arising from the Incident. Having evaluated the following considerations and conducted various internal discussions amongst our Directors and senior management, we considered that the Incident was an isolated event, and continued to finalise our negotiations with Ausnutria Group:

1. The outcome of the Incident at the material time was not yet sealed. In addition, there was no record of similar previous incidents involving Ausnutria Group. According to Ausnutria Group, it has been engaging in the production of milk formula since 2003. Before the Incident, we were not aware of any allegation that stage 1 infant formula supplied by Ausnutria Group contained vanillin.

FINANCIAL INFORMATION

2. The Incident only involved Stage 1 Formula, whereas our contemplated collaboration with Ausnutria Group also involved non-Stage 1 Formulas. As discussed above, vanillin is commonly found in dairy products and is allowed in stage 2 or above formula under the national standard in the PRC. As such, we believed that the impact (if any) on the brand image of the Milk Powder Brands would be limited to stage 1 infant formula, and the impact on the sales of stage 2 or above formula and adult milk powder products (if any) would be minimal.
3. We attained understanding of the nature and usage of vanillin. Vanillin is a chemical most widely used as a flavouring agent in food, including dairy products. According to the section headed “Scientific Interpretation of Vanillin” in the Food Safety Analysis Compilation (2014–2018) (《食品安全分析解析彙編(2014–2018)》), based on data accumulated in toxicological experiments, it is believed that the rational use of vanillin is safe, and, as a food additive, vanillin has passed a standardised and scientific food safety risk assessment, and it is believed that vanillin used in accordance with relevant standards will not cause harm to human health.

According to the then applicable National Food Safety Standard — Standards for Uses of Food Additives (National Standard 2760–2014)* (食品安全國家標準食品添加劑使用標準) promulgated by the National Health and Family Planning Commission (which had been dissolved and relevant functions and powers are change to the SAMR), vanillin was allowed to be used in formula for infants and toddlers aged 6–12 months (which corresponds to stage 2 or above formula) within the prescribed limit, while its use is prohibited in formula for infants aged 0–6 months (which corresponds to stage 1 formula).

4. Based on our previous site visit to the manufacturing facilities of Ausnutria Group, we were not aware of apparent flaw in Ausnutria Group’s production process.
5. We conducted a feasibility study for selling and distributing milk powder products supplied by Ausnutria Group, and it was considered that such plan was commercially and legally feasible.
6. We assessed the background of Ausnutria Group (as disclosed above), and our Directors were of the view that Ausnutria Group is a reputable and established market player in milk powder products with years of experience.

Original agreements with Ausnutria Group

In December 2021, we entered into agreements with Ausnutria Group whereby:

- (i) the initial term of collaboration was five years;
- (ii) we are required to pay a purchase deposit of 80% of the purchase amount for each batch of purchase and the remaining balance upon despatch;

FINANCIAL INFORMATION

- (iii) we shall be subject to an annual minimum purchase volume for aggregate purchase volume of stage 1 to stage 3 formula under the Milk Powder Brands. If we failed to reach the minimum purchase volume, we shall compensate Ausnutria Group for the loss suffered by Ausnutria Group based on the deficit to the minimum purchase volume;
- (iv) Ausnutria Group granted to us a world-wide exclusive right to distribute milk powder products under the Milk Powder Brands, including infant formula, children formula and adult milk powder products; and
- (v) Ausnutria Group would supply milk powder products under the Milk Powder Brands to us.

After entering into our agreements with Ausnutria Group, we have conducted the following activities in preparation for selling and distributing milk powder products:

- (a) regularly communicated with Ausnutria Group regarding production schedule and details of our purchase;
- (b) organised a conference with our regional distributors in January 2022 to discuss marketing and promotion strategies of our milk powder products; and
- (c) engaged marketing companies to promote our milk powder products through online social media platforms and various offline marketing events.

Remedial actions taken by Ausnutria Group and our Group

Upon being notified by Ausnutria Group in April 2022 that Ausnutria Group was fined by the SAMR in relation to the Incident, 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:

1. Despite there was a lock down in Shanghai due to COVID-19 at the material time, we held regular conference calls and online meetings with Ausnutria Group to understand the remedial actions taken by Ausnutria Group.
2. We inquired with Ausnutria Group for the root cause of Incident. According to Ausnutria Group, the relevant batch of milk powder products was manufactured at its production facilities located in Australia. Before the Incident, such production facilities manufactured both stage 1 infant formula which is not allowed in the PRC to contain vanillin, as well as other milk powder products which vanillin is allowed. The production facilities would arrange cleaning of the machinery when it switched the products to be manufactured. Vanillin was not intentionally added in the batch of stage 1 infant formula concerned in the Incident. The Incident was believed to have arisen because the production facilities have been used to manufacture other products with vanillin and hence there might be residue of vanillin of the previous batch of products remained in the production pipelines and containers of the production

FINANCIAL INFORMATION

facilities, and mixed into the batch of stage 1 infant formula concerned. In the circumstances, according to Ausnutria Group, Ausnutria Group was not intentional in mixing vanillin into those stage 1 infant formula.

3. We inquired with Ausnutria Group for their remedial actions. According to Ausnutria Group, the batch of stage 1 infant formula concerned was recalled by the end of December 2021 and none of those batch of stage 1 formula was on sale in the market. Ausnutria Group arranged testing of the other batches of its stage 1 infant formula, and no vanillin was found and satisfied the national food safety standard of the PRC.
4. We inquired with Ausnutria Group for their actions taken to ensure similar incident will not occur in the future. According to Ausnutria Group, after the Incident, it has enhanced its internal control measures to prevent vanillin to be accidentally mixed into its stage 1 infant formula, including improvement of the factory management system, adjusting and optimising the cleaning procedures for switching products to be produced, further strengthening the risk monitoring and management of its products. Furthermore, after the Incident, Ausnutria Group designated production lines for production of stage 1 infant formula and such production lines shall not be used for producing other milk powder products which vanillin is used, aiming to completely eliminate any source of vanillin residue in the production lines for stage 1 infant formula.
5. We discussed with those e-commerce companies and regional distributors which we negotiated with in respect of collaboration of purchasing our milk powder products. Based on our discussion with them, they were of the view that the impact of the Incident was likely to be short-term.

Following a series of discussion among our internal committee, in or around May 2022, we commenced our negotiation with Ausnutria Group, and the management of Ausnutria Group orally agreed, to relieve our minimum purchase commitment for 2022 and 2023 and at the same time the minimum purchase commitment beyond was to be further assessed and agreed. Subsequent to that, our Group actively followed up with Ausnutria Group to finalise the written supplemental agreement. As the relevant personnel of Ausnutria Group had been away on business trip, our Group and Ausnutria Group eventually reached a supplemental agreement in November 2022, pursuant to which:

- (i) Ausnutria Group agreed to waive our minimum purchase commitment for 2022 and 2023, save that our Group was required to fulfil our purchase orders already placed in January and May 2022;
- (ii) in respect of the orders already placed by our Group, our Group was required to pay 60% of the purchase amount by 31 December 2022 and the remaining balance within seven days upon delivery; and
- (iii) our Group was required to compensate Ausnutria Group for the costs incurred by Ausnutria Group for acquiring raw materials for scheduled production of milk powder products.

FINANCIAL INFORMATION

In addition, we have also conducted the following activities to promote our milk powder products notwithstanding Ausnutria Group agreed to waive the minimum purchase commitment for 2022 and 2023:

- (a) participated in various exhibitions to promote our milk powder products;
- (b) engaged marketing companies to further intensify promotion of our milk powder products, for example, through attracting online traffic in popular social media platforms in the PRC such as Xiaohongshu, WeChat and Weibo; and
- (c) rolled out special sales offers such as “buy two get one free” offer to stimulate our sales volume.

Unforeseen events affecting our sales of milk powder products

Despite our efforts in marketing and promotion, the sales of our milk powder products was way lower than our expectation. The following table sets forth the breakdown of our sales and purchase of milk powder products by types of milk powder products for the years/period indicated:

	FY2022		FY2023		6M2024	
	RMB'000	Unit '000	RMB'000	Unit '000	RMB'000	Unit '000
Stage 1 Formula	9,024	89	7,613	82	—	—
Non-Stage 1 Formulas	32,532	318	22,503	236	—	—
Total purchase of milk powder products	41,556	407	30,116	318	—	—
	FY2022		FY2023		6M2024	
	RMB'000	Unit '000	RMB'000	Unit '000	RMB'000	Unit '000
Stage 1 Formula	551	2	236	1	43	—*
Non-Stage 1 Formulas	3,077	16	1,596	10	248	1
Total sales of milk powder products	3,628	18	1,832	11	291	1

* Represent unit less than 1,000.

Our Directors are of the view that the lack of fruition of the sales of our milk powder products was mainly attributable to the following unforeseen events:

- (a) ***Outbreak of COVID-19 in the PRC leading to prolonged lockdowns during FY2022:*** Shortly after we commenced selling and distributing the milk powder products, there were various rounds of outbreak of COVID-19 in the PRC leading to prolonged lockdowns in various cities in the PRC, in particular the PRC government imposed lockdown in Shanghai from March to June 2022. According to Frost & Sullivan, due to inconvenience for procuring essentials during lockdown, consumers are less willing to change their essential products. As a result, we considered that the marketing

FINANCIAL INFORMATION

strategies by our Group and our distributors resulted in minimal promotional effects for the milk powder products in the first half of 2022 and the sales of milk powder products was much lower than expected.

- (b) ***The effect of negative publicity of the Incident was more severe than expected:*** The SAMR announced the Incident as well as the penalty on Ausnutria Group on 2 April 2022. Ausnutria Group issued a declaration explaining the background of the Incident and measures adopted by it on the same day, with an intention to reduce the impact of the Incident on the brand image of the Milk Powder Brands. However, unforeseeably, negative publicity about the stage 1 infant formula under the Milk Powder Brands was more serious than expected, and the negative impact extended to all products of the Milk Powder Brands. Our Group considered that such serious level of negative publicity was resulted from the increasing awareness of safety of formula after the release of the new national food safety standard of the PRC for milk powder products (“**New National Standard**”) in early 2021.
- (c) ***The massive outbreak of COVID-19 in the PRC in late 2022:*** In late 2022 and early 2023, having considered that the negative publicity of the Incident had started to cool down, we have implemented a series of promotion strategies for the milk powder products (including promotion by KOLs), aiming to increase the sales of the milk powder products in late FY2022. However, sales of milk powder products remained much lower than expected. Our Directors consider that this was mainly due to another massive outbreak of COVID-19 in the PRC in December 2022 and consumers are less willing to change their essential products.
- (d) ***Implementation of New National Standard in February 2023:*** The New National Standard was released in early 2021 and become effective from 22 February 2023. According to Frost & Sullivan, as at June 2024, 390 series under 89 dairy companies have passed the registration of the new national standard, and currently 69 series of imported milk powder have passed the new national standard, accounting for approximately 17.7% of the new national standard products. In particular, the Milk Powder Brands had not obtained the accreditation. While milk powder products manufactured before 22 February 2023 could be legally sold in the PRC within its shelf life, consumers considered accreditation under the New National Standard to be an indication of quality and safety of the milk powder products according to Frost & Sullivan, our sales of milk powder products remained low in early 2023.

Disposal of our milk powder products

Our milk powder products have a shelf life of 24 months. According to the framework distribution agreements with our regional distributors, the milk powder products supplied by our Group shall be manufactured within eight months before delivery. Upon delivery, the products shall not have passed more than one-third of their shelf life.

FINANCIAL INFORMATION

During FY2022 and FY2023, considering that we were unable to sell some of our milk powder products which no longer satisfy the requirements on shelf life as aforementioned to our regional distributors, we disposed of some of our milk powder products to an independent third party, which recycled the milk powder products to poultry feeds in February 2023. In addition, during FY2023, we donated some of our milk powder products. The following table sets forth the breakdown of our milk powder products disposed of and donated by types of milk powder products for the year indicated:

	Recycled			Donated		
	FY2022	FY2023	6M2024	FY2022	FY2023	6M2024
	Unit '000	Unit '000	Unit '000	Unit '000	Unit '000	Unit '000
Stage 1 Formula	46	10	—	—	25	1
Non-Stage 1 Formulas	134	23	—	—	90	58
Total disposal of milk powder products	180	33	—	—	115	59

The following table sets forth the breakdown of our milk powder products in inventories as at the dates indicated:

	As at 31 December 2022	As at 31 December 2023	As at 30 June 2024
	Unit '000	Unit '000	Unit '000
Stage 1 Formula	41	87	86
Non-Stage 1 Formulas	168	281	222
Total milk powder products in inventories	209	368	308

As at 31 December 2022, 31 December 2023 and 30 June 2024, all the milk powder products in our inventories had been either fully written down or provided for.

Financial impact

As a result of our purchase commitment with Ausnutria Group, combined with the low sales volume of our milk powder products, we incurred losses of approximately RMB81.5 million for FY2022, of which, (i) we fully wrote down our expired milk powder products in our inventories amounting to approximately RMB17.7 million; (ii) we recognised a provision for inventories loss on milk powder products amounting to approximately RMB20.7 million; (iii) we recognised a provision for loss allowance on deposits paid to Ausnutria Group for fulfilling a portion of our purchase commitment amounting to approximately RMB20.1 million; (iv) we recognised a provision of approximately RMB18.0 million which included the amount to be paid for the milk powder products of approximately RMB13.0 million and the potential compensation to Ausnutria Group amounting to approximately RMB5.0 million in respect of cost incurred by Ausnutria Group for acquiring raw materials for scheduled product of milk powder products; and (v) we recognised a reversal of input VAT of approximately RMB5.0 million.

FINANCIAL INFORMATION

Termination of the agreements with Ausnutria Group

In mid-2023, for the reasons set out above, the sales of milk powder products remained slump. In the circumstances, our Directors consider that, as a result of a series of unforeseen events, we have already missed out on the best timing for capturing the opportunity for tapping into the milk powder industry through selling and distributing the milk powder products under the Milk Powder Brands. As a result, our management negotiated with Ausnutria Group to terminate the milk powder products collaboration.

In October 2023, we reached an agreement with Ausnutria Group to terminate all of our agreements with Ausnutria Group relating to milk powder products. Following the entering into of the termination agreement, we de-recognised our provision for onerous contracts and recognised approximately RMB5.0 million as reversal of provision for onerous contracts for FY2023.

Our Directors are of the view that the Incident was an isolated event, and that the unsatisfactory sales performance of our milk powder products was attributable to a series of unforeseen events which were beyond our control. Upon termination of the abovementioned agreements with Ausnutria Group, we have no plan to resume milk powder business in the near future, and will not use any [REDACTED] from the [REDACTED] on any milk powder business. Our Directors confirm that our Group will cease to sell milk powders from the year ending 31 December 2025.

Recommendations by the Internal Control Consultant

In the event that our Group intends to commence any business in new products with material financial commitment or enter into any significant contracts in the ordinary course of our business, in order to mitigate the risks of any substantial loss to be suffered by our Group, the independent internal control consultant engaged by us has made the following recommendations, which we have adopted:

1. our Board (including the independent non-executive Directors) and various internal departments of our Company (including but not limited to the accounting and finance department and legal department) are jointly responsible for evaluating the terms of the agreements, in particular, any material financial commitment;
2. before entering into the agreements, our Group shall engage external market consultants approved by our Board to conduct full scope of industry studies;
3. before entering into the agreements, our Group shall engage external legal advisers to review the agreements and, in particular, any onerous terms;
4. before entering into the agreements, our accounting and finance department shall prepare detailed budgets and forecasts, factoring in the worst-case scenario and force majeure scenario, and financial analysis on the maximum exposure and impact on our Group in the event force majeure scenario materialises;

FINANCIAL INFORMATION

5. upon [REDACTED], any decision to embark on any new products with material financial commitment must be unanimously approved by the independent non-executive Directors. All information necessary for the independent non-executive Directors to assess the intended business shall be provided for the independent non-executive Directors’ consideration, and the independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter(s) relating to the intended business; and
6. if we commence any business in new products with material financial commitment, the internal departments of our Company shall regularly report to the Audit Committee and the Board, and hold progress meetings to monitor the development and sales performance of such new products. Our independent non-executive Directors will conduct half yearly review of the transactions thereunder.

Selling and distribution expenses and administrative and other operating expenses

The following table sets forth the breakdown of our selling and distribution expenses for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Promotion expenses	25,562	40.1	31,203	39.5	49,744	48.5	20,777	46.3	32,148	66.9
Compensation to regional distributors	17,924	28.1	14,695	18.6	8,764	8.5	3,578	8.0	2,093	4.4
Staff costs	8,537	13.4	8,861	11.2	9,883	9.6	4,875	10.9	2,721	5.7
Platform management service fee	—	—	7,438	9.4	13,392	13.1	6,419	14.3	2,658	5.5
Platform service fee	3,268	5.1	3,012	3.8	4,843	4.7	2,998	6.7	2,363	4.9
Courier expenses	4,381	6.9	5,953	7.6	8,320	8.1	2,960	6.6	3,482	7.2
Depreciation of right-of-use assets	1,117	1.8	2,328	3.0	2,558	2.5	1,253	2.8	1,158	2.4
Storage fee	829	1.3	1,849	2.3	1,686	1.6	833	1.9	398	0.8
Entertainment	1,282	2.0	879	1.1	1,656	1.6	480	1.1	552	1.1
Others	908	1.3	2,784	3.5	1,732	1.8	679	1.4	510	1.1
Total selling and distribution expenses	63,808	100.0	79,002	100.0	102,578	100.0	44,852	100.0	48,083	100.0

Our selling and distribution expenses mainly included promotion expenses, compensation to regional distributors, staff costs, platform management service fee, platform service fee, courier expenses and depreciation of right-of-use assets. Our selling and distribution expenses amounted to approximately RMB63.8 million, RMB79.0 million, RMB102.6 million, RMB44.9 million and RMB48.1 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

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FINANCIAL INFORMATION

The following table sets forth the breakdown of our administrative and other operating expenses for the years/periods indicated:

	FY2021		FY2022		FY2023		6M2023		6M2024	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(unaudited)									
Staff costs	5,091	27.6	5,319	31.5	6,717	27.7	3,372	28.5	3,454	28.5
Legal and professional fees	4,103	22.3	2,098	12.4	3,768	15.5	2,522	21.3	1,063	8.8
Stamp duties and additional taxes	2,745	14.9	1,808	10.7	2,824	11.6	974	8.2	962	7.9
Depreciation of property, plant and equipment	1,435	7.8	1,524	9.0	1,394	5.7	803	6.8	335	2.8
Depreciation of right-of-use assets	1,019	5.5	959	5.7	952	3.9	476	4.0	476	3.9
Office expenses	570	3.1	823	4.9	801	3.3	372	3.1	625	5.2
Technical service fee	162	0.9	1,905	11.3	887	3.7	267	2.3	626	5.2
Entertainment	1,022	5.6	625	3.7	626	2.6	167	1.4	50	0.4
VAT arising from donation of milk powder products	—	—	—	—	2,420	10.0	1,067	9.0	2,163	17.8
Donation	—	—	300	1.8	1,008	4.2	360	3.1	—	—
Service expenses	606	3.3	605	3.6	343	1.4	206	1.7	164	1.3
Travelling expenses	394	2.1	260	1.6	1,353	5.6	763	6.4	1,382	11.4
Others	1,278	6.9	647	3.8	1,156	4.8	487	4.2	831	6.8
Total administrative and other operating expenses	18,425	100.0	16,873	100.0	24,249	100.0	11,836	100.0	12,131	100.0

Our administration and other operating expenses mainly included staff costs, legal and professional fees, stamp duties and additional taxes, depreciation of property, plant and equipment and right-of-use assets. Our administrative and other operating expenses amounted to approximately RMB18.4 million, RMB16.9 million, RMB24.2 million, RMB11.8 million and RMB12.1 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

Promotion expenses

Our promotion expenses mainly represented our expenses incurred for promoting 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 our consumers.

Our promotion expenses increased from approximately RMB25.6 million for FY2021 to approximately RMB31.2 million for FY2022, and increased to approximately RMB49.7 million for FY2023. Such increase was in line with the growth of our revenue.

Our promotion expenses increased from approximately RMB20.8 million for 6M2023 to approximately RMB32.1 million for 6M2024. In light the low market sentiment of the maternal and children algal oil DHA market in the PRC during 6M2024 which saw the drop of our revenue, we incurred more promotion expenses to promote our brands and products.

FINANCIAL INFORMATION

Compensation to regional distributors

Compensation to regional distributors represented our 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, including certain five largest regional distributors during the Track Record Period.

Our compensation to regional distributors amounted to approximately RMB17.9 million, RMB14.7 million, RMB8.8 million, RMB3.6 million and RMB2.1 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

Staff costs

Our total staff costs (including Directors’ emoluments) represented salaries, discretionary bonus, allowances, other benefits in kind and contributions to defined contribution plan. Our total staff costs increased from approximately RMB13.6 million for FY2021 to approximately RMB14.2 million for FY2022 to approximately RMB16.6 million for FY2023, mainly due to increase in our number of staff. Our total staff costs decreased from approximately RMB8.2 million for 6M2023 to approximately RMB6.2 million for 6M2024, mainly to reduction of salary of our sales staff.

Platform management service fee

Platform management service fee represented our fee paid to a marketing company for managing our online sales platform at Douyin. Our platform management service fee amounted to nil, approximately RMB7.4 million, RMB13.4 million, RMB6.4 million and RMB2.7 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The decrease for 6M2024 was mainly driven by the decrease in sales at Douyin.

Platform service fee

Platform service fee represented the fee charged by e-commerce companies in respect of our online sales platforms with them. Our platform service fee amounted to approximately RMB3.3 million, RMB3.0 million, RMB4.8 million, RMB3.0 million and RMB2.4 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively, which is generally in line with the growth in our sales through online shopping platforms.

Courier expenses

Our courier expenses amounted to approximately RMB4.4 million, RMB6.0 million, RMB8.3 million, RMB3.0 million and RMB3.5 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. During the Track Record Period, as a percentage, our courier expenses to our total revenue ranged between approximately 1.3% to 2.4%.

FINANCIAL INFORMATION

Depreciation of right-of-use assets

Our total depreciation of right-of-use assets amounted to approximately RMB2.1 million, RMB3.3 million, RMB3.5 million, RMB1.7 million and RMB1.6 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The increase in FY2022 and FY2023 was mainly due to the additions of our right-of-use assets during the corresponding year.

Depreciation of property, plant and equipment

Our total depreciation of property, plant and equipment amounted to approximately RMB1.4 million, RMB1.5 million, RMB1.4 million, RMB0.8 million and RMB0.3 million for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively.

[REDACTED] expenses

[REDACTED] expenses mainly represented professional fees incurred in connection with the [REDACTED] which is non-recurring in nature. For FY2021, FY2022, FY2023, 6M2023 and 6M2024, our [REDACTED] expenses amounted to approximately RMB10.7 million, RMB6.0 million, RMB13.0 million, RMB5.8 million and RMB5.3 million respectively.

Income tax expenses

The following table sets forth the breakdown of our income tax expenses for the years/periods indicated:

	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>6M2023</u>	<u>6M2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Current tax expense	34,293	32,050	28,951	8,561	5,745
Deferred tax expense/(income)	<u>162</u>	<u>(21,159)</u>	<u>6,326</u>	<u>5,362</u>	<u>673</u>
Total income tax expenses	<u>34,455</u>	<u>10,891</u>	<u>35,277</u>	<u>13,923</u>	<u>6,418</u>

Our income tax expenses comprised current tax expense and deferred tax expense/(income).

Our current tax expense was in respect of the PRC enterprise income tax (“**PRC EIT**”). During the Track Record Period, our subsidiaries in the PRC, namely, Gold Nemans, Aumay Dairy, Rujian International and Hontat Nutritional (collectively, the “**PRC Subsidiaries**”) were subject to the PRC EIT at a statutory rate of 25%. We were not subject to Hong Kong profits tax as (i) the income generated by Numans HK, being our subsidiary in Hong Kong, was claimed as offshore; and (ii) our Group had no assessable profit in Hong Kong during the Track Record Period.

FINANCIAL INFORMATION

Included in our current tax expense was the PRC EIT recognised by the PRC Subsidiaries of approximately RMB69,000, RMB253,000, RMB275,000, RMB196,000 and RMB139,000 for FY2021, FY2022 and FY2023, 6M2023 and 6M2024, respectively, in respect of the service fee income (the “**Service Fee**”) received by the PRC Subsidiaries from Numans Sales, being our subsidiary incorporated in the Republic of Seychelles, for sales support and administrative services as Numans Sales did not have office and employees during the Track Record Period. As advised by the Tax Adviser, the Service Fee complied with the arm’s length principle. For details, please refer to the paragraph headed “Business — Transfer pricing arrangement between Numans Sales and our PRC subsidiaries” in this document.

Deferred tax expense represented the movement of opening balance and closing balance of our deferred tax assets for the respective years/period. Our deferred tax assets increased significantly from approximately RMB2.0 million as at 31 December 2021 to approximately RMB23.2 million as at 31 December 2022. Of the deferred tax assets amounting to approximately RMB23.2 million as at 31 December 2022, approximately RMB15.4 million was recognised in respect of the losses relating to milk powder products. For details of the losses relating to milk powder products, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products” in this section. As a result of the significant increase of our deferred tax assets, we had our deferred tax expense of approximately RMB0.2 million for FY2021 overturned to deferred tax income of approximately RMB21.2 million for FY2022.

Our effective tax rate, which was calculated by dividing our total income tax expenses by our profit before tax, was approximately 22.4%, 11.1%, 18.1%, 15.3% and 12.4% for FY2021, FY2022, FY2023, 6M2023 and 6M2024, respectively. The significant decrease in effective tax rate from approximately 22.4% for FY2021 to approximately 11.1% for FY2022 was mainly driven by the deferred tax income primarily related to the losses relating to milk powder products of approximately RMB21.2 million for FY2022 as disclosed above.

The relatively lower effective tax rates for FY2022, FY2023 and 6M2023 were mainly driven by the increase in proportion of profits contributed by Numans Sales (being our Seychelles subsidiary responsible for purchase and sales under our Group’s cross-border e-commerce model) mainly driven by the increase in revenue from sales of U.S. DHA Products and thus the decrease in proportion of profits subject to the PRC EIT. As advised by the Tax Adviser, the practical risk of Numans Sales being subject to PRC EIT is remote. The relatively lower effective tax rate for 6M2024 was mainly due to the proportion of profits contributed by Numans Sales increased and deferred tax impact on reversal of provision for milk powder products.

Tax review findings

We engaged Forvis Mazars Tax Services Limited (formerly known as Mazars Tax Services Limited) (the “**Tax Reviewer**”) to conduct a tax review covering (1) PRC tax compliance of the PRC subsidiaries; and (2) withholding tax exposure in the PRC in respect of Numans HK, being our Hong Kong subsidiary during the Track Record Period.

FINANCIAL INFORMATION

(i) Misstatement in revenue reported in the PRC tax returns by Gold Nemans and Hontat Nutritional due to timing difference

In respect of Gold Nemans and Hontat Nutritional, the Tax Reviewer noted that there are timing difference in revenue recognition between the PRC EIT law and regulations and the accounting practice of Gold Nemans and Hontat Nutritional in respect of revenue generated through online sales platforms.

For revenue generated through online sales platform, it has been the accounting practice of Gold Nemans and Hontat Nutritional to recognise the sales amount as revenue after we received the confirmation notices from the online sales platforms and invoices were issued which were usually one to two months after the goods were shipped from their warehouses to the customers’ designated location, in which such treatment conformed with the PRC generally accepted accounting principles in the view of the local PRC auditor, and the amount so recognised were reported in the PRC EIT returns. However, according to HKFRS 15, sales of products should be recognised at a point in time at which the customer obtains the control of the promised asset (i.e. the performance obligation has been fulfilled), which generally coincides with the time when the goods are delivered to customers and the title is passed.

As advised by the Tax Reviewer, pursuant to Circular 875 (i.e. Guoshuihan (2008) No. 875 — Notice on Certain Issues Concerning Revenue Recognition for Enterprise Income Tax Purposes (《國稅函[2008]875號 — 關於確認企業所得稅收入若干問題的通知》) issued by State Taxation Administration (“STA”) of the PRC, revenue from sales of goods shall be recognised when all the following criteria are satisfied:

- the sales contract has been signed and the company has transferred to the buyer the significant risks and rewards of ownership of goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

As such, from the PRC EIT perspective, Gold Nemans and Hontat Nutritional should recognise the sales of goods as revenue and the related cost of goods sold when the products were delivered to customers and reported it in the PRC EIT return in the respective periods. As the annual and quarterly PRC EIT returns of Gold Nemans and Hontat Nutritional, which reported the revenue of both companies, were prepared based on their audited financial statements/management accounts, (1) the revenue reported by Gold Nemans in its PRC tax returns was understated for FY2022 and 6M2024, and was overstated for FY2021 and FY2023; and (2) the revenue reported by Hontat Nutritional in its PRC tax returns was overstated for FY2022 and was understated for FY2021, FY2023 and 6M2024.

FINANCIAL INFORMATION

As advised by the Tax Reviewer, the above misstatements in reported revenue were of timing difference in nature. The Tax Reviewer is of the view that, in practice, the likelihood of the PRC tax authorities imposing a penalty/surcharge on Gold Nemans and Hontat Nutritional is remote.

(ii) Overstatement/understatement of PRC EIT liabilities of the PRC Subsidiaries

In respect of the PRC EIT liabilities of the PRC Subsidiaries, the Tax Reviewer estimated that:

1. Gold Nemans had an understatement of PRC EIT liability of approximately RMB151,000 for FY2023;
2. Hontat Nutritional had an understatement of PRC EIT liability of approximately RMB19,000 for FY2022;
3. Rujian International had understatements of PRC EIT liability of approximately RMB213,000 and RMB11,000 for FY2021 and FY2022, respectively, and had overstatements of PRC EIT liability of approximately RMB3,000 and RMB15,000 for FY2023 and 6M2024, respectively; and
4. Aumay Dairy had understatement of PRC EIT liability of approximately RMB19,000 for FY2022, and had overstatements of PRC EIT liability of approximately RMB7,000, RMB116,000 and RMB11,000 for FY2021, FY2023 and 6M2024, respectively.

As confirmed with the Reporting Accountants, the above misstatements in PRC EIT liabilities were individually and in aggregate immaterial to our consolidated financial statements for the Track Record Period as set out in the Accountants’ Report.

(iii) Withholding tax exposure of Numans HK in the PRC

Numans HK received a royalty paid by Gold Nemans and Rujian International during FY2021 (the “**Royalty Income**”) relating to the use of trademarks in the PRC. According to the Tax Reviewer, when a PRC company (e.g. Gold Nemans and Rujian International) remits royalty to an overseas company (e.g. Numans HK), the PRC company would be the withholding agent and required to withhold PRC EIT, Value-Added Tax (“VAT”) and local surtaxes and pay the taxes to the PRC tax authority for the overseas company.

As advised by the Tax Reviewer, (1) the Royalty Income from Rujian International has been duly and properly reported and settled with the PRC tax authority; and (2) in respect of the Royalty Income from Gold Nemans, Gold Nemans did not gross up the royalty payment for calculation of withholding tax for the calculation of PRC EIT, VAT and local surtaxes. The Tax Reviewer estimated that the additional withholding tax liabilities of Numans HK was approximately RMB60,000 for FY2021. As confirmed by the Reporting Accountants, the above additional withholding tax liabilities have been provided in our consolidated financial statements in relevant periods under the Track Record Period as set out in the Accountants’ Report. The Tax Reviewer has reviewed the withholding tax returns and tax payment certificates and is satisfied that the respective PRC Subsidiaries have paid the relevant PRC EIT and VAT on behalf of Numans HK.

FINANCIAL INFORMATION

The Tax Reviewer further estimated that the potential penalty and late payment surcharge was approximately RMB93,000 for FY2021. The Tax Reviewer considered, in practice, the risk of imposing the potential penalty is remote. If Gold Nemans reports the grossed-up amount of royalty to the tax authority in-charge, the tax authority may impose the late payment surcharge on Gold Nemans. As confirmed with the Reporting Accountants, the above potential penalty and late payment surcharge were immaterial to our consolidated financial statements in the relevant period under the Track Record Period as set out in the Accountants’ Report.

As advised by the Tax Reviewer, the Royalty Income of Numans HK, as offshore income, was not subject to Hong Kong profits tax as the trademarks were originally designed and developed outside Hong Kong and Numans HK licensed the trademarks to the relevant PRC Subsidiaries for use outside Hong Kong. Based on its review of the correspondence between Numans HK and the Inland Revenue Department (the “IRD”) and the confirmation with the IRD, the Tax Reviewer was of the view that the IRD has agreed with the offshore claim by Numans HK for the Royalty Income and that Numans HK complies with all applicable laws and regulations relating to Hong Kong profits tax during the Track Record Period.

Profit for the year

As a result of the foregoing, for FY2021, FY2022, FY2023, 6M2023 and 6M2024, we recorded a net profit of approximately RMB119.7 million, RMB87.5 million, RMB159.3 million, RMB77.3 million and RMB45.3 million, respectively, and our net profit margin was approximately 35.4%, 23.8%, 37.4%, 40.2% and 31.0%, respectively.

REVIEW OF RESULTS OF OPERATIONS

FY2021 compared with FY2022

Revenue

Our revenue increased by approximately RMB29.7 million or 8.8% from approximately RMB337.6 million for FY2021 to approximately RMB367.3 million for FY2022. Such increase was mainly driven by the increase in revenue from sales of algal oil DHA products. For detailed analysis, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Revenue” in this section.

Cost of sales

Our cost of sales increased by approximately RMB3.1 million or 3.4% from approximately RMB91.0 million for FY2021 to approximately RMB94.1 million for FY2022. Such increase was mainly driven by the increase in revenue and was attributable to the increase in cost for selling algal oil DHA products.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB26.6 million or 10.8% from approximately RMB246.6 million for FY2021 to approximately RMB273.2 million for FY2022, mainly driven by the increase in our revenue.

FINANCIAL INFORMATION

Our gross profit margin remained relatively stable at approximately 73.0% and 74.4% for FY2021 and FY2022, respectively.

Other income

Our other income increased by approximately RMB3.3 million from approximately RMB8.5 million for FY2021 to approximately RMB11.8 million for FY2022. Such increase was mainly driven by (i) the increase in government grants of approximately RMB1.7 million from approximately RMB7.6 million for FY2021 to approximately RMB9.3 million for FY2022; and (ii) the recognition of compensation from litigation claims of approximately RMB1.3 million for FY2022.

Other (losses)/gains, net

Our other losses, net, increased significantly by approximately RMB76.5 million from approximately RMB7.9 million for FY2021 to approximately RMB84.4 million for FY2022. Such significant increase was mainly attributable to the recognition of write-down of milk powder products, provision for inventories loss on milk powder products, provision for loss allowance on deposits paid to Ausnutria Group and provision for onerous contracts. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net” in this section.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB15.2 million or 23.8% from approximately RMB63.8 million for FY2021 to approximately RMB79.0 million for FY2022. Such increase was mainly attributable to the increase in promotion expenses and platform management service fee, partially offset by the decrease in compensation to regional distributors.

Administrative and other operating expenses

Our administrative and other operating expenses decreased by approximately RMB1.5 million or 8.2% from approximately RMB18.4 million for FY2021 to approximately RMB16.9 million for FY2022. Such decrease was mainly attributable to the decrease in legal and professional fees and stamp duties and additional taxes, partially offset by the increase in technical service fee.

[REDACTED] expenses

Our [REDACTED] expenses decreased by approximately RMB4.7 million from approximately RMB10.7 million for FY2021 to approximately RMB6.0 million for FY2022.

FINANCIAL INFORMATION

Income tax expenses

Our income tax expenses decreased significantly from approximately RMB34.5 million for FY2021 to approximately RMB10.9 million for FY2022. Such significant decrease was mainly driven by the impact of deferred tax income of approximately RMB21.2 million recognised for FY2022 as a result of the significant increase in our deferred tax assets from approximately RMB2.0 million as at 31 December 2021 to approximately RMB23.2 million as at 31 December 2022. The significant increase in our deferred tax assets during FY2022 was mainly attributable to the losses relating to milk powder products. Our effective tax rate decreased from approximately 22.4% for FY2021 to approximately 11.1% for FY2022. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Income tax expenses” in this section.

Profit for the year

For the foregoing reasons, our profit for the year decreased from approximately RMB119.7 million for FY2021 to approximately RMB87.5 million for FY2022. Our net profit margin decreased from approximately 35.4% for FY2021 to approximately 23.8% for FY2022, mainly driven by the losses relating to milk powder products of approximately RMB81.5 million recognised during FY2022.

FY2022 compared with FY2023

Revenue

Our revenue increased significantly by approximately RMB59.2 million or 16.1% from approximately RMB367.3 million for FY2022 to approximately RMB426.5 million for FY2023. Such increase was mainly driven by the increase in revenue from sales of algal oil DHA products, partially offset by the decrease in revenue from the sales of milk powder products. For detailed analysis, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Revenue” in this section.

Cost of sales

Our cost of sales increased by approximately RMB11.6 million or 12.3% from approximately RMB94.1 million for FY2022 to approximately RMB105.7 million for FY2023. Such increase was mainly driven by the increase in revenue and was attributable to the increase in cost for selling algal oil DHA.

Gross profit and gross profit margin

Our gross profit increased by approximately RMB47.7 million or 17.5% from approximately RMB273.2 million for FY2022 to approximately RMB320.9 million for FY2023, mainly driven by the increase in our revenue.

Our gross profit margin remained relatively stable at approximately 74.4% and 75.2% for FY2022 and FY2023, respectively.

FINANCIAL INFORMATION

Other income

Our other income increased by approximately RMB1.7 million from approximately RMB11.8 million for FY2022 to approximately RMB13.5 million for FY2023. Such increase was mainly driven by the increase in government grants of approximately RMB1.7 million from approximately RMB9.3 million for FY2022 to approximately RMB11.0 million for FY2023.

Other (losses)/gains, net

Our other losses, net, decreased significantly by approximately RMB84.8 million from approximately RMB84.4 million for FY2022 and overturned to other gains, net, of approximately RMB0.4 million for FY2023. Such overturn was mainly attributable to the write-down of milk powder products, provision for inventories loss on milk powder products, provision for loss allowance on deposits paid to Ausnutria Group and provision for onerous contracts recognised for FY2022. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net” in this section.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB23.6 million or 29.9% from approximately RMB79.0 million for FY2022 to approximately RMB102.6 million for FY2023. Such increase was mainly attributable to the increase in platform management service fee, platform service fee and promotion expenses.

Administrative and other operating expenses

Our administrative and other operating expenses increased by approximately RMB7.3 million from approximately RMB16.9 million for FY2022 to approximately RMB24.2 million for FY2023. Such increase was mainly attributable to the increase in staff costs, legal and professional fees and VAT arising from donation of milk powder products.

[REDACTED] expenses

Our [REDACTED] expenses increased from RMB6.0 million for FY2022 to approximately RMB13.0 million for FY2023.

Income tax expenses

Our income tax expenses increased significantly from approximately RMB10.9 million for FY2022 to approximately RMB35.3 million for FY2023. Such significant increase was mainly because we recognised a deferred tax income of approximately RMB21.2 million for FY2022 as disclosed above, whereas we recognised a deferred tax expense of approximately RMB6.3 million for FY2023. As a result, our effective tax rate increased from approximately 11.1% for FY2022 to approximately 18.1% for FY2023. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Income tax expenses” in this section.

FINANCIAL INFORMATION

Profit for the year

For the foregoing reasons, our profit for the year increased significantly from approximately RMB87.5 million for FY2022 to approximately RMB159.3 million for FY2023. Our net profit margin increased significantly from approximately 23.8% for FY2022 to approximately 37.4% for FY2023, mainly driven by the losses relating to milk powder products of approximately RMB81.5 million recognised during FY2022.

6M2023 compared with 6M2024

Revenue

Our revenue decreased by approximately RMB46.0 million or 23.9% from approximately RMB192.1 million for 6M2023 to approximately RMB146.1 million for 6M2024. Such decrease was mainly driven by the decrease in revenue from sales of algal oil DHA products. For detailed analysis, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Revenue” in this section.

Cost of sales

Our cost of sales decreased by approximately RMB5.4 million or 11.6% from approximately RMB46.5 million for 6M2023 to approximately RMB41.1 million for 6M2024. Such decrease was mainly driven by the decrease in revenue and was attributable to the increase in cost for selling algal oil DHA products.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB40.6 million or 27.9% from approximately RMB145.6 million for 6M2023 to approximately RMB105.0 million for 6M2024, mainly driven by the decrease in our revenue.

Our gross profit margin decreased from approximately 75.8% for 6M2023 to approximately 71.9% for 6M2024 mainly due to a lower selling price under economic downturn in the PRC during 6M2024.

Other income

Our other income increased by approximately RMB2.4 million from approximately RMB10.4 million for 6M2023 to approximately RMB12.8 million for 6M2024. Such increase was mainly driven by the increase in government grants of approximately RMB1.5 million from approximately RMB9.3 million for 6M2023 to approximately RMB10.8 million for 6M2024.

Other (losses)/gains, net

Our other losses, net, decreased from approximately RMB2.0 million for 6M2023 to approximately RMB0.3 million for 6M2024, which was mainly driven by the decrease in provision for allowances of trade receivables.

FINANCIAL INFORMATION

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB3.2 million or 7.1% from approximately RMB44.9 million for 6M2023 to approximately RMB48.1 million for 6M2024. Such increase was mainly attributable to the increase in promotion expenses, offset by the decrease in staff costs and platform management service fee.

Administrative and other operating expenses

Our administrative and other operating expenses remained stable at approximately RMB11.8 million and RMB12.1 million for 6M2023 and 6M2024, respectively.

[REDACTED] expenses

Our [REDACTED] expenses remained relatively stable at approximately RMB5.8 million and RMB5.3 million for 6M2023 and 6M2024, respectively.

Income tax expenses

Our income tax expenses decreased from approximately RMB13.9 million for 6M2023 to approximately RMB6.4 million for 6M2024. Such decrease was mainly due to the decrease in current tax expense as a result of decrease in profit before tax. Our effective tax rate decreased from approximately 15.3% for 6M2023 to approximately 12.4% for 6M2024.

Profit for the period

For the foregoing reasons, our profit for the period decreased from approximately RMB77.3 million for 6M2023 to approximately RMB45.3 million for 6M2024. Our net profit margin decreased from approximately 40.2% for 6M2023 to approximately 31.0% for 6M2024, mainly driven by the decrease in revenue.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The following table sets forth our consolidated statements of financial positions as at the dates indicated, which are extracted from the Accountants’ Report:

	As at 31 December			As at 30 June 2024
	2021	2022	2023	
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Intangible assets	—	4,100	4,100	4,100
Property, plant and equipment	5,853	5,406	4,201	4,961
Right-of-use assets	1,175	7,297	5,625	5,816
Deferred tax assets	2,017	23,176	16,850	16,177
	<u>9,045</u>	<u>39,979</u>	<u>30,776</u>	<u>31,054</u>
Current assets				
Inventories	24,469	69,364	62,298	63,023
Trade and other receivables	76,703	73,246	77,327	60,203
Contract assets	25,939	28,154	37,056	52,959
Cash and cash equivalents	152,656	192,838	262,560	295,607
	<u>279,767</u>	<u>363,602</u>	<u>439,241</u>	<u>471,792</u>
Current liabilities				
Trade and other payables	39,750	36,829	36,900	31,560
Lease liabilities	1,027	2,783	2,405	3,017
Provisions	—	17,952	—	—
Income tax payables	11,321	14,114	17,211	7,039
Dividends payables	33,990	80,000	—	—
	<u>86,088</u>	<u>151,678</u>	<u>56,516</u>	<u>41,616</u>
Net current assets	<u>193,679</u>	<u>211,924</u>	<u>382,725</u>	<u>430,176</u>
Total assets less current liabilities	<u>202,724</u>	<u>251,903</u>	<u>413,501</u>	<u>461,230</u>
Non-current liabilities				
Lease liabilities	200	4,663	3,425	3,024
Net assets	<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>
Capital and reserves				
Share capital	—*	—*	—*	—*
Reserves	<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>
Total equity	<u>202,524</u>	<u>247,240</u>	<u>410,076</u>	<u>458,206</u>

* Represent amount less than RMB1,000.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN LINE ITEMS IN THE CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Intangible assets

Our intangible assets represented a patent in respect of our DHA algal oil linseed oil arachidonic acid softgel (being one of our PRC DHA Products) acquired by our Group during FY2022. In February 2022, our Group entered into a contract (the “**Patent Contract**”) with an independent third party to acquire the patent at a total consideration of RMB4.1 million. During FY2022, our Group paid 90% of the total consideration, and settled the remaining 10% of the total consideration in July 2023 when the legal title was officially transferred to our Group. The administrative process for registration of the legal title of the patent was in progress during the period from February 2022 to June 2023. According to the Patent Contract, upon payment of 90% of the total consideration, our Group has the exclusive right to use the patent and was promised that no other parties except our Group has such right to use. The patent has indefinite useful lives as it is transferrable and is able to be renewed with minimal cost. Our Group has carried out an impairment test, and our Directors are of the view that the patent was not impaired as its recoverable amounts exceeded its carrying amount as at the end of each reporting period.

Property, plant and equipment

Our property, plant and equipment mainly included buildings for our own use and motor vehicles. The following table sets forth the carrying amount of our property, plant and equipment as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Buildings	2,654	2,506	2,358	2,284
Leasehold improvements	61	—	—	—
Furniture, fixtures and office equipment	529	475	532	473
Motor vehicles	<u>2,609</u>	<u>2,425</u>	<u>1,311</u>	<u>2,204</u>
Total property, plant and equipment	<u>5,853</u>	<u>5,406</u>	<u>4,201</u>	<u>4,961</u>

The carrying amount of our property, plant and equipment decreased by approximately RMB0.5 million from approximately RMB5.9 million as at 31 December 2021 to approximately RMB5.4 million as at 31 December 2022. Such decrease was mainly driven by the depreciation of our motor vehicles, which was partially offset by additions of motor vehicles during FY2022.

FINANCIAL INFORMATION

The carrying amount of our property, plant and equipment decreased by approximately RMB1.2 million from approximately RMB5.4 million as at 31 December 2022 to approximately RMB4.2 million as at 31 December 2023. Such decrease was mainly driven by the depreciation of our motor vehicles during FY2023.

The carrying amount of our property, plant and equipment increased by approximately RMB0.8 million from approximately RMB4.2 million as at 31 December 2023 to approximately RMB5.0 million as at 30 June 2024. Such increase was mainly driven by the addition of our motor vehicles during 6M2024.

Right-of-use assets

Our right-of-use assets comprised our leased properties, which primarily included our offices and warehouses.

The carrying amount of our right-of-use assets increased by approximately RMB6.1 million from approximately RMB1.2 million as at 31 December 2021 to approximately RMB7.3 million as at 31 December 2022. Such increase was mainly driven by the renewal of three offices and additions of two warehouses during FY2022, which was partially offset by depreciation.

The carrying amount of our right-of-use assets decreased by approximately RMB1.7 million from approximately RMB7.3 million as at 31 December 2022 to approximately RMB5.6 million as at 31 December 2023. Such decrease was mainly driven by depreciation.

The carrying amount of our right-of-use assets remained relatively stable at approximately RMB5.6 million and RMB5.8 million as at 31 December 2023 and 30 June 2024, respectively.

Inventories

Our inventories primarily included finished goods and, to a limited extent, raw materials. Our finished goods mainly consisted of algal oil DHA products. As at 31 December 2022, 31 December 2023 and 30 June 2024, our inventories also included milk powder products.

FINANCIAL INFORMATION

The following table sets forth the breakdown of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	11,468	8,482	9,100	7,811
Finished goods	<u>18,911</u>	<u>102,177</u>	<u>115,726</u>	<u>107,395</u>
Total inventories (gross)	30,379	110,659	124,826	115,206
<i>Less:</i>				
Write-down of inventories (excluding milk powder products)	(5,910)	(2,909)	(3,689)	(389)
Write-down of milk powder products ^(Note 1)	—	(17,699)	(20,751)	(20,809)
Provision for inventories loss on inventories (excluding milk powder products)	—	—	(2,155)	—
Provision for inventories loss on milk powder products ^(Note 1)	<u>—</u>	<u>(20,687)</u>	<u>(35,933)</u>	<u>(30,985)</u>
Total inventories (net)	<u>24,469</u>	<u>69,364</u>	<u>62,298</u>	<u>63,023</u>
Raw materials	5,527	6,998	7,447	7,811
Finished goods:	18,942	62,366	54,851	55,212
— Algal oil DHA products	12,352	49,821	40,837	42,932
— Milk powder products	—	—	—	—
— Others	<u>6,590</u>	<u>12,545</u>	<u>14,014</u>	<u>12,280</u>
Total inventories (net)	<u>24,469</u>	<u>69,364</u>	<u>62,298</u>	<u>63,023</u>

Note:

- For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gain, net” in this section. For movement of the balances, please refer to Note 22 to the Accountants’ Report.

Finished goods constituted a significant proportion of our inventories. In respect of finished goods in our inventories, algal oil DHA products (being the most significant contributor of our revenue during the Track Record Period) were the major component. Likewise, algal oil DHA products were the major component of our purchases.

FINANCIAL INFORMATION

In respect of (1) write-down of milk powder products; and (2) provision for inventories loss on milk powder products, they represented our loss on milk powder products in our inventories due to the incident relating to our sales of milk powder products. For details of the incident, please refer to paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net” in this section. For movement of the balances, please refer to Note 22 to the Accountants’ Report. As at 31 December 2022, 31 December 2023 and 30 June 2024, the milk powder products in our inventories had been fully written off/provided for.

In respect of write-down of inventories (excluding milk powder products), we wrote down our inventories (excluding milk powder products) mainly due to expiry of shelf life, obsolesce or scrapped packaging. During the Track Record Period, our write-down of inventories (excluding milk powder products) was immaterial to our net inventories balance.

In respect of provision for inventories loss on inventories (excluding milk powder products), generally we provide for inventories loss for inventories whose shelf life is within six months. During the Track Record Period, provision for inventories loss on inventories (excluding milk powder products) was immaterial to our net inventories balance.

The following table sets forth an ageing analysis of our inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 3 months	17,422	58,188	38,811	25,921
3–6 months	4,441	6,291	4,404	23,774
6–12 months	1,126	2,835	13,341	3,179
Over 12 months	<u>1,480</u>	<u>2,050</u>	<u>5,742</u>	<u>10,149</u>
Total inventories (net)	<u>24,469</u>	<u>69,364</u>	<u>62,298</u>	<u>63,023</u>

In respect of our inventories balance aged over 12 months as at 30 June 2024 which amounted to approximately RMB10.1 million, the remaining shelf life of those inventories is more than 6 months from expiry of shelf life and thus they had not been written off or provided for.

The following table sets forth our inventory turnover days for the years/period indicated:

	FY2021	FY2022	FY2023	6M2024
Inventory turnover days ^(Note)	<u>98.1 days</u>	<u>269.0 days</u>	<u>215.2 days</u>	<u>279.7 days</u>

FINANCIAL INFORMATION

Note: Inventory turnover days equal inventories as at the year/period end divided by cost of sales for the year/period and multiplied by 365. Average inventories are calculated as inventories at the beginning of the year/period plus inventories at the end of the year/period, divided by two. For illustrative purpose, inventory turnover days for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

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. To cater for the then uncertainty in terms of supply and timing of delivery of our purchases particularly for algal oil DHA products, we significantly increased our purchases of algal oil DHA products during FY2022, and our purchase volume well exceeded our sales volume for FY2022 in respect of algal oil DHA products. As a result, our net inventories increased significantly from approximately RMB24.5 million as at 31 December 2021 to approximately RMB69.4 million as at 31 December 2022.

During FY2023, we continued to utilise our surplus inventories, and at the same time, following the relaxation of the major epidemic measures in the PRC, we decreased our purchases. As a result, our net inventories decreased from approximately RMB69.4 million as at 31 December 2022 to approximately RMB62.3 million as at 31 December 2023.

Our net inventories remained relatively stable at approximately RMB62.3 million and RMB63.0 million as at 31 December 2023 and 30 June 2024, respectively.

Our inventory turnover days increased significantly from approximately 98.1 days for FY2021 to approximately 269.0 days for FY2022, which was mainly driven by the significant increase in our inventories balance as at 31 December 2022 as disclosed above. Our inventory turnover days decreased slightly from 269.0 days for FY2022 to approximately 215.2 days for FY2023, which was mainly driven by the decrease in our inventories balance as at 31 December 2023 as disclosed above.

Our annualised inventory turnover days increased to approximately 279.7 days (annualised) for 6M2024, which was mainly driven by the corresponding decrease in our cost of sales to the decrease in our revenue for 6M2024.

As at 30 November 2024, approximately RMB42.1 million or 66.8% of our inventories as at 30 June 2024 had been subsequently sold or utilised.

FINANCIAL INFORMATION

Our management reviews the inventory ageing analysis periodically and, where applicable, makes allowances for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production at the end of each reporting period. Our Group carries out the inventory review on a product-by-product basis and makes allowances at the end of each reporting period by reference to our management’s estimation of the net realisable value based on the latest market prices and current market conditions.

As at 30 November 2024, despite the relatively low subsequent sales/utilisation of the inventories held by our Group as at 30 June 2024, our Directors are of the view that the provision for inventories was adequately and sufficiently made as at 30 June 2024, having considered: (i) the milk powder products in our inventories has been fully provided or written off; (ii) our inventories (other than milk powder products) that were obsolete or expired as at the end of each reporting period has been fully written off; (iii) the inventories (other than milk powder products) that had a short remaining shelf life (i.e. remaining shelf life is within six months) as at the end of each reporting period has been fully provided; (iv) in respect of the inventories whose shelf life as at 30 June 2024 was more than 6 months of expiry and are considered as suitable for sale or use in production, a provision was made by taking into account factors including their subsequent sales/utilisation and their expected sales/utilisation (e.g. in the sales events or popular sales festivals such as “Double 11” and “Double 12”); and (v) according to the Frost & Sullivan Report, the PRC economy is expected to resume grow and the forecast retail sales value of the maternal and children DHA market in the PRC is expected to grow from approximately RMB11,563.0 million in 2024 to approximately RMB12,881.2 million in 2025 and approximately RMB14,246.6 million in 2026. Based on the above, our Directors considered that there is no material recoverability issue for our inventories.

FINANCIAL INFORMATION

Trade and other receivables

The following table sets forth our trade and other receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	35,982	42,367	32,508	34,190
Less: Loss allowances	(2,083)	(1,976)	(2,150)	(2,396)
	<u>33,899</u>	<u>40,391</u>	<u>30,358</u>	<u>31,794</u>
Other receivables:				
Deposits paid to suppliers	26,610	24,772	39,080	17,439
Deposits paid to Ausnutria Group	10,000	20,149	—	—
Marketing Incentives receivables	751	—	2,301	—
Prepaid promotion expenses	1,359	2,502	2,131	3,070
Other prepayments	2,564	2,449	824	2,276
VAT and other taxes recoverable	—	1,159	468	—
Other deposits and receivables	<u>1,520</u>	<u>1,973</u>	<u>2,165</u>	<u>5,624</u>
Gross other receivables	42,804	53,004	46,969	28,409
Less: Loss allowances	<u>—</u>	<u>(20,149)</u>	<u>—</u>	<u>—</u>
	<u>42,804</u>	<u>32,855</u>	<u>46,969</u>	<u>28,409</u>
Total trade and other receivables	<u>76,703</u>	<u>73,246</u>	<u>77,327</u>	<u>60,203</u>
Average trade receivables (Note 1)	31,647	37,145	35,375	31,076
Average trade receivables to total revenue (Note 2)	9.4%	10.1%	8.3%	10.6%

Notes:

1. Average trade receivables represents the average of trade receivables as at 31 December of the previous year and 31 December of the current year. For average trade receivables as at 30 June 2024, it represents the average of trade receivables as at 31 December 2023 and as at 30 June 2024.
2. Average trade receivables to total revenue represents the average of trade receivables divided by total revenue for the relevant year/period. For illustrative purpose, average trade receivables to total revenue for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

FINANCIAL INFORMATION

Trade receivables

Our trade receivables primarily represented the receivables from our customers in respect of the sales of products.

Our trade receivables (net of loss allowances) increased from approximately RMB33.9 million as at 31 December 2021 to approximately RMB40.4 million as at 31 December 2022. Such increase was generally in line with our growth in revenue for the same years. Our trade receivables (net of loss allowances) decreased from approximately RMB40.4 million as at 31 December 2022 to approximately RMB30.4 million as at 31 December 2023, which was mainly because of prompt settlement by our major customers. Our trade receivables (net of loss allowances) remained relatively stable at approximately RMB30.4 million and RMB31.8 million as at 31 December 2023 and 30 June 2024, respectively.

We generally grant a credit term of up to 90 days from the date of issuance of invoices to our customers.

The following table sets forth an ageing analysis of our trade receivables presented based on invoice date and net of loss allowance as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Within 30 days	28,629	36,930	24,744	24,263
31 to 60 days	3,790	1,157	3,738	1,698
61 to 90 days	45	394	41	1,070
Over 90 days	1,435	1,910	1,835	4,763
Total trade receivables (net)	33,899	40,391	30,358	31,794

FINANCIAL INFORMATION

The following table sets forth an ageing analysis of our trade receivables presented based on due date and net of loss allowance as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Not yet due	<u>28,609</u>	<u>36,582</u>	<u>24,772</u>	<u>24,835</u>
Past due:				
Within 30 days	3,191	1,025	3,813	710
31 to 60 days	656	500	1,495	1,645
61 to 90 days	15	384	41	253
Over 90 days	<u>1,428</u>	<u>1,900</u>	<u>237</u>	<u>4,351</u>
	<u>5,290</u>	<u>3,809</u>	<u>5,586</u>	<u>6,959</u>
Total trade receivables (net)	<u>33,899</u>	<u>40,391</u>	<u>30,358</u>	<u>31,794</u>

As at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, our trade receivables were mainly contributed by our five largest customers for each year/period during the Track Record Period, and in particular Customer A and Customer B, for the corresponding years/period. Our loss allowances were in respect of trade receivables that were past due for over 90 days. During the Track Record Period, we did not encounter significant irrecoverability of our trade receivables.

The table below sets forth the average turnover days of our trade receivables for the years/period indicated:

	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>6M2024</u>
Average turnover days of trade receivables ^(Note)	<u>34.0 days</u>	<u>36.9 days</u>	<u>30.2 days</u>	<u>38.8 days</u>

Note: Average turnover days of trade receivables equal average trade receivables divided by revenue for the year/period and multiplied by 365. Average trade receivables are calculated as trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period, divided by two. For illustrative purpose, average turnover days of trade receivables for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

Our average turnover days of trade receivables remained relatively stable at approximately 34.0 days and 36.9 days for FY2021 and FY2022, respectively. Our average turnover days of trade receivables decreased from approximately 36.9 days for FY2022 to approximately 30.2 days for FY2023, which was mainly driven by the increase in our revenue for FY2023. For 6M2024, our annualised average turnover days of trade receivables was approximately 38.8 days. Considering that (i) we do not have a prolonged average turnover days of trade receivables; and (ii) our trade receivables, representing approximately 11.7%, 10.0%, 6.5% and

FINANCIAL INFORMATION

6.3% of our total assets as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively, were not a material component of our total assets, our Directors are of the view that an increase in our trade receivables and average turnover days of trade receivables would not have a significant impact on our liquidity and cash flows.

As at 30 November 2024, approximately RMB31.8 million or 99.9% of our trade receivables outstanding as at 30 June 2024 were subsequently settled by our customers.

Other receivables

Our gross other receivables increased from approximately RMB42.8 million as at 31 December 2021 to approximately RMB53.0 million as at 31 December 2022. Such increase was mainly driven by the increase in deposits paid to Ausnutria Group, partially offset by the decrease in deposit paid to suppliers.

As at 31 December 2022, we recognised loss allowances of approximately RMB20.1 million in respect of our deposits paid to Ausnutria Group. For details, please refer to paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net” in this section.

Our gross other receivables decreased from approximately RMB53.0 million as at 31 December 2022 to approximately RMB47.0 million as at 31 December 2023. Such decrease was mainly driven by the decrease in deposits paid to Ausnutria Group, partially offset by the increase in deposits paid to suppliers.

Our gross other receivables decreased from approximately RMB47.0 million as at 31 December 2023 to approximately RMB28.4 million as at 30 June 2024. Such decrease was mainly driven by the decrease in deposits paid to suppliers.

Deposits paid to suppliers

Deposits paid to suppliers mainly represented our upfront payment paid to our suppliers, Shanghai Trilives and Confidence Group, 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. The decrease in our deposits paid to suppliers as at 30 June 2024 was mainly because of a lower volume of purchase orders made as at the period end.

Deposits paid to Ausnutria Group

Deposits paid to Ausnutria Group of approximately RMB10.0 million and RMB20.1 million as at 31 December 2021 and 31 December 2022, respectively, represented our upfront payment paid to Ausnutria Group for purchases of milk powder products to fulfil a portion of our minimum purchase commitment. The entire balance has been fully impaired. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products” in this section.

FINANCIAL INFORMATION

Marketing Incentive receivables

Marketing Incentive receivables represented variable consideration receivables arising from volume-based penalty imposed on certain customers but have not been settled as at the end of the reporting period. Our Marketing Incentive receivables amounted to approximately RMB0.8 million, nil, RMB2.3 million and nil as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Prepaid promotion expenses

Prepaid promotion expenses represented our prepayments for promoting 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 our consumers. Our prepaid promotion expenses amounted to approximately RMB1.4 million, RMB2.5 million, RMB2.1 million and RMB3.1 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Contract assets

Contract assets represented unbilled revenue for which our Group had right to receive consideration for goods sold but not yet billed because the rights are conditional upon the satisfaction by the customers. The contract assets were transferred to trade receivables when the rights become unconditional, which is typically at the time when the amount of consideration was eventually confirmed between our Group and our customers subsequent to the delivery of goods to our customers. The following table sets forth the movement of our contract assets as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of the year/ period	4,240	25,939	28,154	37,056
Unbilled revenue recognised during the year/period	25,939	28,154	37,056	52,959
Transfer to trade receivables	<u>(4,240)</u>	<u>(25,939)</u>	<u>(28,154)</u>	<u>(37,056)</u>
At end of the year/period	<u>25,939</u>	<u>28,154</u>	<u>37,056</u>	<u>52,959</u>

As at 30 November 2024, the entire balance of our contract assets as at 30 June 2024 was subsequently transferred to trade receivables.

FINANCIAL INFORMATION

Trade and other payables

The following table sets forth the breakdown of our trade and other payables as at the dates indicated:

	As at 31 December			As at 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	<u>—</u>	<u>843</u>	<u>—</u>	<u>—</u>
Other payables:				
Contract liabilities — refundable receipts in advance	645	221	308	212
Marketing Incentive payables	12,253	6,947	5,603	10,680
Salary payables	2,990	2,836	2,585	1,519
Deposits received from distributors	1,611	1,611	1,591	1,431
Due to distributors	15,847	11,871	6,636	5,006
Other accruals and other payables	3,476	6,303	10,260	4,054
VAT and other taxes payables	<u>2,928</u>	<u>6,197</u>	<u>9,917</u>	<u>8,658</u>
	<u>39,750</u>	<u>35,986</u>	<u>36,900</u>	<u>31,560</u>
Total trade and other payables	<u>39,750</u>	<u>36,829</u>	<u>36,900</u>	<u>31,560</u>

Our trade and other payables decreased from approximately RMB39.8 million as at 31 December 2021 to approximately RMB36.8 million as at 31 December 2022. Such decrease was mainly driven by the decrease in Marketing Incentive payables and due to distributors.

Our trade and other payables remained stable at approximately RMB36.8 million and RMB36.9 million as at 31 December 2022 and 31 December 2023, respectively.

Our trade and other payables decreased from approximately RMB36.9 million as at 31 December 2023 to approximately RMB31.6 million as at 30 June 2024. Such decrease was mainly driven by the decrease in other accruals and other payables, offset by the increase in Marketing Incentive payables.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group had no material defaults in payment of trade and non-trade payables.

FINANCIAL INFORMATION

Trade payables

Our trade payables amounted to nil, approximately RMB0.8 million, nil and nil as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

The table below sets forth the average turnover days of our trade payables for the years indicated:

	FY2021	FY2022	FY2023	6M2024
Average turnover days of trade payables ^(Note)	<u>0.1 day</u>	<u>1.6 days</u>	<u>1.5 days</u>	<u>nil</u>

Note: Average turnover days of trade payables equal average trade payables divided by cost of sales for the year/period and multiplied by 365. Average trade payables are calculated as trade payables at the beginning of the year/period plus trade payables at the end of the year/period, divided by two. For illustrative purpose, average turnover days of trade payables for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

Other payables

Marketing Incentive payables

Marketing Incentives payables represented variable consideration payables arising from different kinds of marketing incentive arrangements with our customers. Our Marketing Incentives payables amounted to approximately RMB12.3 million, RMB6.9 million, RMB5.6 million and RMB10.7 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Salary payables

Our salary payables remained relatively stable at approximately RMB3.0 million, RMB2.8 million and RMB2.6 million as at 31 December 2021, 31 December 2022 and 31 December 2023, respectively. Our decrease in salary payables decreased to approximately RMB1.5 million as at 30 June 2024, which was in line with the decrease in our staff cost.

Deposits received from distributors

Deposits received from distributors represented security deposits placed by our distributors for obtaining rights for selling our Group’s nutritional products in the designated distribution regions. Our deposits received from distributors remained relatively stable at approximately RMB1.6 million, RMB1.6 million, RMB1.6 million and RMB1.4 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024 respectively.

FINANCIAL INFORMATION

Due to distributors

Amounts due to distributors mainly represented (i) receipts for the goods sold to customers in the regions designated to our distributors through our Group’s online store operated on third-party’s online shopping platform; and (ii) payables arising from our sales of products in the regions with our designated distributors among which our Group agreed to pay and the distributors agreed to be compensated in an agreeable amount. Our amounts due to distributors amounted to approximately RMB15.8 million, RMB11.9 million, RMB6.6 million and RMB5.0 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Other accruals and other payables

Other accruals and other payables mainly represented accrued promotion expenses, platform service fee and [REDACTED] expenses. The increase in our other accruals and other payables from approximately RMB3.5 million as at 31 December 2021 to approximately RMB6.3 million as at 31 December 2022 was mainly driven by the increase in accrued promotion expenses and [REDACTED] expenses. The sharp increase in our other accruals and other payables from approximately RMB6.3 million as at 31 December 2022 to approximately RMB10.3 million as at 31 December 2023 was mainly driven by the increase in payable for [REDACTED] expenses. The sharp decrease in our other accruals and other payables from approximately RMB10.3 million as at 31 December 2023 to approximately RMB4.1 million as at 30 June 2024 was mainly driven by the decrease in payable for [REDACTED] expenses.

VAT and other taxes payables

VAT and other taxes payable mainly represented the unpaid VAT as at the end of each reporting period. The increase in our VAT and other taxes payables from approximately RMB2.9 million as at 31 December 2021 to approximately RMB6.2 million as at 31 December 2022 was mainly driven by our sales towards the end of FY2022. Our VAT and other taxes payable remained relatively stable at approximately RMB9.9 million and RMB8.7 million as at 31 December 2023 and 30 June 2024, respectively.

Provisions

This represents the provision for onerous contract in respect of the unavoidable costs which were non-cancellable for which we had the obligation to settle under the agreements we entered into with Ausnutria Group regarding milk powder products. For details, please refer to the paragraph headed “Principal components of the consolidated statements of profit or loss — Other (losses)/gains, net — Losses relating to milk powder products” in this section. As at 31 December 2022, our provision balance of approximately RMB18.0 million included (i) the amount to be paid for the milk powder products of approximately RMB13.0 million; and (ii) the potential compensation to Ausnutria Group amounting to approximately RMB5.0 million in respect of cost incurred by Ausnutria Group for acquiring raw materials for scheduled product of milk powder products. During FY2023, we transferred approximately RMB13.0 million to provision on inventories loss on milk powder products and reversal of input VAT. For detailed movement, please refer to Note 22 to the Accountants’ Report.

FINANCIAL INFORMATION

We de-recognised our provision for onerous contract, which amounted to approximately RMB5.0 million as at 31 December 2023, following our entering into of the termination agreement with Ausnutria Group in October 2023.

Income tax payables

The following table sets forth the movement of income tax payables during the Track Record Period:

	As at/for the year ended 31 December			As at/for the six months ended 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax payables at beginning of the year/period	26,725	11,321	14,114	17,211
Income tax expenses — current	34,293	32,050	28,951	5,745
Income tax paid	<u>(49,697)</u>	<u>(29,257)</u>	<u>(25,854)</u>	<u>(15,917)</u>
Income tax payables at end of the year/period	<u>11,321</u>	<u>14,114</u>	<u>17,211</u>	<u>7,039</u>

Dividends payables

The following table sets forth the movement of dividends payables during the Track Record Period:

	As at/for the year ended 31 December			As at/for the six months ended 30 June
	2021	2022	2023	2024
	RMB'000	RMB'000	RMB'000	RMB'000
Dividends payable at beginning of the year/period	—	33,990	80,000	—
Dividends declared	61,000	51,000	—	—
Less:				
Dividends paid	<u>(27,010)</u>	<u>(4,990)</u>	<u>(80,000)</u>	<u>—</u>
Dividends payable at end of the year/period	<u>33,990</u>	<u>80,000</u>	<u>—</u>	<u>—</u>

FINANCIAL INFORMATION

NET CURRENT ASSETS

The table below sets forth the breakdown of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 June 2024	As at 30 November 2024 (Unaudited)
	2021 RMB'000	2022 RMB'000	2023 RMB'000	RMB'000	RMB'000
Current assets					
Inventories	24,469	69,364	62,298	63,023	49,041
Trade and other receivables	76,703	73,246	77,327	60,203	69,835
Contract assets	25,939	28,154	37,056	52,959	39,077
Cash and cash equivalents	<u>152,656</u>	<u>192,838</u>	<u>262,560</u>	<u>295,607</u>	<u>279,948</u>
Total current assets	<u>279,767</u>	<u>363,602</u>	<u>439,241</u>	<u>471,792</u>	<u>437,901</u>
Current liabilities					
Trade and other payables	39,750	36,829	36,900	31,560	27,980
Lease liabilities	1,027	2,783	2,405	3,017	2,624
Provisions	—	17,952	—	—	—
Income tax payables	11,321	14,114	17,211	7,039	14,765
Dividends payables	<u>33,990</u>	<u>80,000</u>	<u>—</u>	<u>—</u>	<u>50,000</u>
Total current liabilities	<u>86,088</u>	<u>151,678</u>	<u>56,516</u>	<u>41,616</u>	<u>95,369</u>
Net current assets	<u><u>193,679</u></u>	<u><u>211,924</u></u>	<u><u>382,725</u></u>	<u><u>430,176</u></u>	<u><u>342,532</u></u>

Our net current assets increased over the Track Record Period, which was mainly contributed by our net cash generated from operating activities and the increase in our working capital, and partially offset by our provisions and dividends payables.

FINANCIAL INFORMATION

Our net current assets increased from approximately RMB193.7 million as at 31 December 2021 to approximately RMB211.9 million as at 31 December 2022. Our current assets increased significantly from approximately RMB279.8 million as at 31 December 2021 to approximately RMB363.6 million as at 31 December 2022, while our current liabilities also increased significantly from approximately RMB86.1 million as at 31 December 2021 to approximately RMB151.7 million as at 31 December 2022. The significant increase in our current assets during FY2022 was mainly attributable to (i) increase in our cash and cash equivalents mainly generated from our operating activities; and (ii) increase in our inventories, mainly because we increased our purchases during FY2022 due to the large-scale lockdown in Shanghai in 2022 to cater for the then uncertainty in terms of supply and timing of delivery for our purchases. The significant increase in our current liabilities during FY2022 was mainly attributable to increase in provisions and dividends payables.

Our net current assets further increased from approximately RMB211.9 million as at 31 December 2022 to approximately RMB382.7 million as at 31 December 2023. The increase in our net current assets was mainly driven by (i) the significant increase in our current assets from approximately RMB363.6 million as at 31 December 2022 to approximately RMB439.2 million as at 31 December 2023; and (ii) the significant decrease in our current liabilities from approximately RMB151.7 million as at 31 December 2022 to approximately RMB56.5 million as at 31 December 2023. The increase in our current assets during FY2023 was mainly attributable to the increase in our cash and cash equivalents mainly generated from our operating activities. The decrease in our current liabilities during FY2023 was mainly attributable to the decrease in our provisions and dividends payables.

Our net current assets further increased from approximately RMB382.7 million as at 31 December 2023 to approximately RMB430.2 million as at 30 June 2024. Such increase in our net current assets was mainly driven by (i) the increase in our current assets from approximately RMB439.2 million as at 31 December 2023 to approximately RMB471.8 million as at 30 June 2024; and (ii) the decrease in our current liabilities from approximately RMB56.5 million as at 31 December 2023 to approximately RMB41.6 million as at 30 June 2024. The increase in our current assets during 6M2024 was mainly attributable to the increase in our cash and cash equivalents mainly generated from our operating activities. The decrease in our current liabilities was mainly attributable to the decrease in our income tax payables mainly due to our income tax paid during 6M2024.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we funded our liquidity and capital requirements primarily through internally generated funds from our operating activities. As at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, we had cash and cash equivalents of approximately RMB152.7 million, RMB192.8 million, RMB262.6 million and RMB295.6 million, respectively.

We require cash primarily for our operation, general working capital needs and operating lease commitments for lease of our offices and warehouses. Going forward, we expect to fund our working capital requirements with a combination of various sources, including but not limited to cash generated from our operations, the net [REDACTED] from the [REDACTED], bank balances, cash and other possible equity and debt financing as and when appropriate.

FINANCIAL INFORMATION

Cash flows of our Group

Our primary uses of cash are for the payment of direct costs of our business activities, various operating expenses and capital expenditure, and have been funded through cash generated from our operations. Upon completion of the [REDACTED], we expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from [REDACTED] of the [REDACTED] for implementing our future plans as detailed under the section headed “Future Plans and Use of [REDACTED]” in this document, and when necessary, bank and other borrowings.

The following table sets forth a summary of our cash flows for the years/periods indicated:

	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>6M2023</u>	<u>6M2024</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				(unaudited)	
Operating cash flows before movements in working capital	165,509	186,927	200,567	98,504	53,429
Movements in working capital	<u>(21,818)</u>	<u>(113,361)</u>	<u>(24,145)</u>	<u>(14,728)</u>	<u>(5,319)</u>
Cash generated from operations	143,691	73,566	176,422	83,776	48,110
Income tax paid	<u>(49,697)</u>	<u>(29,257)</u>	<u>(25,854)</u>	<u>(14,279)</u>	<u>(15,917)</u>
Net cash generated from operating activities	93,994	44,309	150,568	69,497	32,193
Net cash (used in)/generated from investing activities	(519)	(4,139)	1,572	659	459
Net cash used in financing activities	<u>(29,306)</u>	<u>(8,555)</u>	<u>(83,786)</u>	<u>(1,869)</u>	<u>(1,758)</u>
Net increase in cash and cash equivalents	64,169	31,615	68,354	68,287	30,894
Cash and cash equivalents at beginning of the year/period	92,757	152,656	192,838	192,838	262,560
Currency translation differences	<u>(4,270)</u>	<u>8,567</u>	<u>1,368</u>	<u>1,913</u>	<u>2,153</u>
Cash and cash equivalents at end of the year/period	<u><u>152,656</u></u>	<u><u>192,838</u></u>	<u><u>262,560</u></u>	<u><u>263,038</u></u>	<u><u>295,607</u></u>

We recorded net cash generated from operating activities and net cash used in financing activities for all years/periods presented. For investing activities, we record net cash inflow for 6M2023, FY2023 and 6M2024 and net cash outflow for FY2021 and FY2022.

Our cash and cash equivalents amounted to approximately RMB152.7 million, RMB192.8 million, RMB262.6 million and RMB295.6 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively. Our increase in cash and cash equivalents during the Track Record Period was mainly attributable to net cash generated from operating activities.

FINANCIAL INFORMATION

Net cash generated from operating activities

For 6M2024, we had net cash generated from operating activities of approximately RMB32.2 million, primarily reflecting: (i) profit before tax of approximately RMB51.7 million; (ii) positive adjustments before movement in working capital of approximately RMB1.7 million which primarily reflected depreciation of approximately RMB2.0 million; partially offset by (iii) an increase in contract assets of approximately RMB15.9 million; and (iv) income tax paid of approximately RMB15.9 million.

For FY2023, we had net cash generated from operating activities of approximately RMB150.6 million, primarily reflecting: (i) profit before tax of approximately RMB194.6 million; and (ii) positive adjustments before movement in working capital of approximately RMB5.9 million which primarily reflected (a) depreciation of approximately RMB4.9 million; and (b) write-down of non-milk powder products of approximately RMB3.7 million; partially offset by (c) reversal of onerous contracts of approximately RMB5.0 million; and the above impact was partially offset by (iii) an increase in inventory of approximately RMB27.7 million; and (iv) income tax paid of approximately RMB25.9 million.

For FY2022, we had net cash generated from operating activities of approximately RMB44.3 million, primarily reflecting: (i) profit before tax of approximately RMB98.4 million; and (ii) positive adjustments before movement in working capital of approximately RMB88.5 million which primarily reflected (a) write-down of milk powder products of approximately RMB17.7 million; (b) provision for inventories loss on milk powder products of approximately RMB20.7 million; (c) provision for loss allowance on deposits paid to Ausnutria Group of approximately RMB20.1 million; and (d) provision for onerous contracts of approximately RMB18.0 million; partially offset by (iii) an increase in inventories of approximately RMB86.2 million; and (iv) income tax paid of approximately RMB29.3 million.

For FY2021, we had net cash generated from operating activities of approximately RMB94.0 million, primarily reflecting: (i) profit before tax of approximately RMB154.1 million; and (ii) positive adjustments before movement in working capital of approximately RMB11.4 million which primarily reflected write-down of non-milk powder products inventories of approximately RMB5.9 million, partially offset by (iii) an increase in trade and other receivables of approximately RMB21.0 million; (iv) an increase in contract assets of approximately RMB21.7 million; and (v) income tax paid of approximately RMB49.7 million.

Net cash (used in)/generated from investing activities

For 6M2024, we had net cash generated from investing activities of approximately RMB0.5 million, which was mainly contributed by interest received of approximately RMB1.6 million, offset by the payment for purchase of property, plant and equipment of approximately RMB1.1 million.

For FY2023, we had net cash generated from investing activities of approximately RMB1.6 million, which was mainly contributed by interest received of approximately RMB2.2 million.

FINANCIAL INFORMATION

For FY2022, we had net cash used in investing activities of approximately RMB4.1 million, which was mainly contributed by payment for purchase of intangible assets of approximately RMB3.7 million.

For FY2021, we had net cash used in investing activities of approximately RMB0.5 million, which was mainly contributed by payment for purchase of property, plant and equipment of approximately RMB1.0 million, partially offset by interest received of approximately RMB0.5 million.

Net cash used in financing activities

For 6M2024, we had net cash used in financing activities of approximately RMB1.8 million, which was mainly contributed by the repayment of lease liabilities of approximately RMB1.6 million.

For FY2023, we had net cash used in financing activities of approximately RMB83.8 million, which was mainly contributed by dividends paid of approximately RMB80.0 million and repayment of lease liabilities of approximately RMB3.5 million.

For FY2022, we had net cash used in financing activities of approximately RMB8.6 million, which was mainly contributed by dividends paid of approximately RMB5.0 million and repayment of lease liabilities of approximately RMB3.2 million.

For FY2021, we had net cash used in financing activities of approximately RMB29.3 million, which was mainly contributed by dividends paid of approximately RMB27.0 million and repayment of lease liabilities of approximately RMB2.2 million.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including our existing cash and cash equivalents and other internal resources, and the estimated net [REDACTED] from the [REDACTED], the working capital available to our Group is sufficient for our present requirements and for at least the next 12 months commencing from the date of this document.

As of the Latest Practicable Date, our Directors are not aware of any other factors that would have a material impact on our liquidity.

Details of the funds necessary to meet our existing operations and to fund our future plans are set out in the section headed “Future Plans and Use of [REDACTED]” in this document.

FINANCIAL INFORMATION

INDEBTEDNESS

During the Track Record Period and at the close of business on 30 November 2024, being the latest practicable date on which such information was available to us, our Group did not have any indebtedness except for those disclosed below.

During the Track Record Period and up to the Latest Practicable Date, apart from intra-group liabilities and those disclosed below, our Group did not have outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities. Our Group had no banking facilities and no unutilised banking facilities as at 30 June 2024.

The table below sets forth the indebtedness of our Group as at the dates indicated:

	As at 31 December			As at 30 June 2024	As at 30 November 2024
	2021	2022	2023		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Non-current liability					
Lease liabilities	200	4,663	3,425	3,024	2,076
Current liability					
Lease liabilities	1,027	2,783	2,405	3,017	2,624
Total lease liabilities	<u>1,227</u>	<u>7,446</u>	<u>5,830</u>	<u>6,041</u>	<u>4,700</u>

The following table sets forth our lease liabilities as at the dates indicated:

	As at 31 December			As at 30 June 2024	As at 30 November 2024
	2021	2022	2023		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
					(Unaudited)
Minimum lease payment due:					
— Within one year	1,071	3,065	2,618	3,214	2,814
— More than 1 year but within 2 years	203	1,658	1,788	2,100	1,706
— More than 2 years but within 5 years	—	3,354	1,806	1,032	387
	1,274	8,077	6,212	6,346	4,907
Less: future finance charges	(47)	(631)	(382)	(305)	(207)
Total lease liabilities	<u>1,227</u>	<u>7,446</u>	<u>5,830</u>	<u>6,041</u>	<u>4,700</u>

FINANCIAL INFORMATION

Our Group leased properties for our offices and warehouses, and the lease liabilities were measured at the present value of the remaining lease payments. Our lease liabilities amounted to approximately RMB1.2 million, RMB7.4 million, RMB5.8 million and RMB6.0 million as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively.

Our Directors confirm that our Group did not experience any difficulty in obtaining bank loans and other borrowings, default in payment of bank loans and other borrowings or breach of covenants during the Track Record Period and up to the Latest Practicable Date. Our Directors further confirm that there has been no material change in our indebtedness position since 30 November 2024, being the latest practicable date for the purpose of the indebtedness statement, and up to the date of this document.

CAPITAL EXPENDITURES

Our capital expenditures primarily related to additions to property, plant and equipment. Our capital expenditures amounted to approximately RMB1.0 million, RMB1.2 million, RMB0.2 million and RMB1.1 million for FY2021, FY2022, FY2023 and 6M2024, respectively.

Our current plan with respect to future capital expenditures is subject to changes based on the evolution of our business plan, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures.

CONTINGENT LIABILITIES

Our Directors confirm that, as at the Latest Practicable date, we did not have any material contingent liabilities or guarantees.

RELATED PARTY TRANSACTIONS

During the Track Record Period, other than compensation of key management personnel of our Group, our major related party transactions can be classified into the following categories: (i) provision of promotional services; and (ii) purchase of promotional materials.

For FY2022, we incurred approximately RMB0.5 million for purchasing promotional materials from a related supplier.

For details of the related party transactions, please refer to Note 26 to the Accountants’ Report. Our Directors are of the view that our related party transactions were under normal commercial terms that are fair and reasonable and in the best interest of our Group.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any material off-balance-sheet commitments or arrangements.

FINANCIAL RISK MANAGEMENT

Our Group is exposed to foreign currency risk, credit risk and liquidity risk. Please refer to Note 28 to the Accountants’ Report for details of our financial risk management.

FINANCIAL INFORMATION

SELECTED FINANCIAL RATIOS

	<u>As at/For the years ended 31 December</u>			As at/For the six months ended 30 June 2024
	2021	2022	2023	
Gross profit margin ⁽¹⁾	73.0%	74.4%	75.2%	71.9%
Net profit margin ⁽²⁾	35.4%	23.8%	37.4%	31.0%
Return on equity ⁽³⁾	59.1%	35.4%	38.9%	19.8%
Return on total assets ⁽⁴⁾	41.4%	21.7%	33.9%	18.0%
Current ratio ⁽⁵⁾	3.3	2.4	7.8	11.3
Quick ratio ⁽⁶⁾	3.0	1.9	6.7	9.8
Gearing ratio ⁽⁷⁾	0.6%	3.0%	1.4%	1.3%
Interest coverage ⁽⁸⁾	1,318.3 times	263.4 times	587.2 times	360.0 times

Notes:

1. Gross profit margin represents gross profit for the year/period divided by total revenue for the respective years/period.
2. Net profit margin represents profit for the year/period divided by total revenue for the respective years/period.
3. Return on equity represents profit for the year/period divided by total equity as at the end of the respective years/period. For illustrative purpose, return on equity for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.
4. Return on assets represents profit for the year/period divided by total assets as at the end of the respective years/period. For illustrative purpose, return on total assets for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.
5. Current ratio represents total current assets divided by total current liabilities as at the end of the respective years/period.
6. Quick ratio represents total current assets less inventories divided by total current liabilities as at the end of the respective years/period.
7. Gearing ratio represents total lease liabilities divided by total equity as at the end of the respective years/period.
8. Interest coverage ratio represents profit before interest and tax divided by interests on lease liabilities for the relevant years/period.

Gross profit margin

Our gross profit margin was approximately 73.0%, 74.4%, 75.2% and 71.9% for FY2021, FY2022, FY2023 and 6M2024, respectively. For analysis of our gross profit margin, please refer to the paragraph headed “Principal components of the consolidated statement of profit or loss — Gross profit and gross profit margin” in this section.

FINANCIAL INFORMATION

Net profit margin

Our net profit margin was approximately 35.4%, 23.8%, 37.4% and 31.0% for FY2021, FY2022, FY2023 and 6M2024, respectively. Please refer to the paragraph headed “Review of results of operations” in this section.

Return on equity

Our return on equity decreased from approximately 59.1% for FY2021 to approximately 35.4% for FY2022, which was mainly driven by the decrease in our profit for the year for FY2022. Our return on equity increased to approximately 38.9% for FY2023, which was mainly driven by the increase in our net profit for the year.

For illustrative purpose, return on equity for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

Return on total assets

Our return on total assets decreased from approximately 41.4% for FY2021 to approximately 21.7% for FY2022, which was mainly driven by the decrease in our profit for the year for FY2022. Our return on total assets increased to approximately 33.9% for FY2023, which was mainly driven by the increase in our net profit for the year.

For illustrative purpose, return on total assets for 6M2024 is calculated on an annualised basis, and may not represent the ratio for FY2024.

Current ratio

Our current ratio was approximately 3.3, 2.4, 7.8 and 11.3 as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively. For analysis of our net current assets, please refer to the paragraph headed “Net current assets” in this section.

Quick ratio

Our quick ratio was approximately 3.0, 1.9, 6.7 and 9.8 as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively. The decrease in our quick ratio from approximately 3.0 as at 31 December 2021 to approximately 1.9 as at 31 December 2022 was mainly driven by the increase in our inventories as at 31 December 2022, which was due to the increase in our purchases as a result of the large-scale lockdown in Shanghai during FY2022.

Gearing ratio

Our gearing ratio was approximately 0.6%, 3.0%, 1.4% and 1.3% as at 31 December 2021, 31 December 2022, 31 December 2023 and 30 June 2024, respectively. During the Track Record Period, we did not have significant interest-bearing debts and thus our gearing ratio was minimal.

FINANCIAL INFORMATION

Interest coverage

Our interest coverage was approximately 1,318.3 times, 263.4 times, 587.2 times and 360.0 times for FY2021, FY2022, FY2023 and 6M2024, respectively. During the Track Record Period, we did not have significant interest-bearing debts and thus our interest coverage was high.

DIVIDENDS

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

For FY2021 and FY2022, we declared dividends of approximately RMB61.0 million and RMB51.0 million, respectively, all of which had been settled as at the Latest Practicable Date. Subsequent to the Track Record Period, our Company declared dividends of RMB60.0 million and RMB50.0 million, all of which had been settled by our Group’s internal source of funding. The dividends of RMB60.0 million had been settled in October 2024, while the dividends of RMB50.0 million had been settled in December 2024. Our Directors consider there to be no material adverse impact on our Group’s financial and liquidity position arising out of the dividend payments as our Group will continue to maintain net current assets and net assets position after such payments of dividends. Currently, we do not have a formal dividend policy or a pre-determined dividend distribution ratio.

[REDACTED] EXPENSES

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

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

As at 30 June 2024, our Company did not have distributable reserves.

PROFIT FORECAST FOR FY2024

We have prepared the following profit forecast for FY2024:

Forecast consolidated profit attributable to equity owners of our Company ^(Note 1)	Not less than approximately [RMB73.0 million] (equivalent to approximately [HK\$78.9 million]) ^(Note 2)
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Notes:

1. The principal bases on which the above profit forecast for FY2024 has been prepared are summarised in the section headed “Profit Forecast” in Appendix IIB to this document. Our forecast consolidated profit attributable to equity owners of our Company for FY2024 prepared by our Directors is based on (i) the audited consolidated results of our Group for the six months ended 30 June 2024; (ii) the unaudited consolidated results based on the management accounts of our Group for the five months ended 30 November 2024; and (iii) a forecast of the consolidated results of our Group for the remaining one month ending 31 December 2024, in the absence of unforeseen circumstances. The profit forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Group as summarised in the Accountants’ Report as set out in Appendix I to this document.
2. The forecast consolidated profit attributable to the equity owners of our Company in HK\$ are converted from Renminbi to Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.9255 (equivalent to RMB1.0 to HK\$1.0805). No representation is made that Renminbi amount have been, could have been or may be converted to Hong Kong dollars at that rate or at all.

UNAUDITED [REDACTED] ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to Appendix IIA to this document for the unaudited [REDACTED] adjusted consolidated net tangible assets.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirements under Rules 13.13 to 13.19 of the Listing Rules.

RECENT DEVELOPMENT

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

FINANCIAL INFORMATION

details of operation of private domain traffic (私域流量), please refer to the paragraph headed “Industry Overview — Future trends of the maternal and children algal oil DHA industry in the PRC — Expanding online channels” in this document.

Subsequent to the Track Record Period, algal oil DHA products remained to be our most important product category in terms of sales for the five months ended 30 November 2024, which constituted approximately 96.2% of our total revenue for the same period.

Subsequent to the Track Record Period, our Company declared dividends of RMB60.0 million and RMB50.0 million, all of which had been settled by our Group’s internal source of funding. The dividends of RMB60.0 million had been settled in October 2024, while the dividends of RMB50.0 million had been settled in December 2024.

Decline in financial performance for the year ending 31 December 2024

As set out in the paragraph headed “Financial Information — Profit Forecast for FY2024” in this document, our Company expects a significant decrease in the consolidated profit attributable to equity owners of our Company for FY2024 as compared to that for FY2023, which was mainly due to the abovementioned reduction in demand of the maternal and children nutritional product market in 2024 following the spike in 2023 driven by the release of radioactive water by Japan in the second half of 2023. Furthermore, according to Frost & Sullivan, under the temporary economic downturn in the PRC in 2024, consumers tend to either reserve their purchasing power for essential consumer products, or opt for more economic and affordable algal oil DHA products as alternatives, which led to a heavier negative impact on the sales performance of brands, including ours, that have a higher average product price in algal oil DHA products. According to the Frost & Sullivan Report, the growth of the maternal and children algal oil DHA product industry in the PRC is expected to slow down in 2024, with the forecast retail sales value projected to remain flat at approximately RMB11,563.0 million, as compared to approximately RMB11,259.0 million in 2023, representing a year-over-year growth of 2.7%. This marks a significant contrast to the rapid growth observed in retail sales value over the previous years, which increased by 7.8% from approximately RMB9,121.7 million in 2021 to approximately RMB9,833.2 million in 2022, and further increased by 14.5% to approximately RMB11,259.0 million in 2023. For the associated risk for our sensitivity to impact on economic downturn in the PRC, please refer to the section headed “Risk Factors — The sales of our algal oil DHA products are subject to a higher sensitivity to the impact of economic downturn in the PRC” in this document.

Our Directors are of the view that the decline in net profit for FY2024 was not due to material adverse change in our Group’s business but was primarily driven by the market condition in the maternal and children algal oil DHA industry in the PRC. According to Frost & Sullivan, the economic downturn and weakened domestic consumption in the PRC during 2024 are considered temporary. The PRC economy is expected to recover and maintain a stable growth in 2025. For instance, the retail sales value of the nutritional product industry in the PRC is projected to increase by 11.4% from approximately RMB11,563.0 million in 2024 to approximately RMB12,881.2 million in 2025, and further increase by 10.6% to approximately RMB14,246.6 million in 2026. The anticipated growth is supported by recent fiscal policies implemented by the PRC government, which are expected to materialise and enhance economic

FINANCIAL INFORMATION

momentum in 2025, thereby stimulating the consumer goods sector, including the maternal and children nutritional product industry in the PRC. As such, our Directors are of the view that there is no evidence to suggest that the nutritional product industry in the PRC has declining market prospects. Furthermore, our Directors are of the view that (i) the algal oil DHA products stockpiled by consumers as a reaction to the release of radioactive water by Japan in 2023 would be gradually consumed in the market; and (ii) overtime, through DSM Group press release and media coverage, PRC consumers will come to understand that our Group’s algal oil DHA raw materials are cultivated in controlled environments like fermentation tanks rather than being directly extracted from the ocean, and have no direct association with any marine water sources, with none of DSM Group’s production sites located near or adjacent to any sources of radioactive contamination. In other words, the release of radioactive water has no bearing on the safety of our Group’s algal oil DHA products. This increased awareness is likely to alleviate initial uncertainties among PRC consumers, leading to a gradual return to normal purchasing behaviour and restoration of consumer confidence. As such, to the best knowledge and belief of our Directors, the sales of algal oil DHA products are expected to normalise. With the anticipated economic recovery in the PRC in 2025, consumers are expected to revert their previous spending habits, favouring brands, including ours, that have a higher average product price in algal oil DHA products.

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