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## FINANCIAL INFORMATION

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*You should read this section in conjunction with our audited consolidated financial statements as at and for each of the years ended 31 December 2019, 2020 and 2021 and the six months ended 30 June 2022, which are set out in the Accountants' Report in Appendix I to this prospectus. You should read the whole of the Accountants' Report in Appendix I to this prospectus and not rely merely on the information in this section. The consolidated financial statements have been prepared in accordance with HKFRSs.*

*The following discussion and analysis contains certain 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 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. You should review the section headed "Risk Factors" in this prospectus for a discussion of important factors that could cause our actual results to differ materially from the results described in or implied by the forward-looking statements.*

### OVERVIEW

We mainly produce, and to a lesser extent trade, dried food products and snacks in Jiangxi Province, and to a lesser extent, Sichuan Province and Hubei Province. For an overview of our business, please refer to the paragraph headed "Business — Overview" in this prospectus.

Our revenue slightly decreased from approximately RMB297.4 million for FY2019 to approximately RMB282.9 million for FY2020, and increased to approximately RMB342.0 million for FY2021. Our revenue increased from approximately RMB145.6 million for 6M2021 to approximately RMB167.0 million for 6M2022. During the Track Record Period, our gross profit were approximately RMB96.3 million, RMB90.6 million, RMB108.5 million and RMB54.0 million in FY2019, FY2020, FY2021 and 6M2022, respectively, representing a gross profit margin of approximately 32.4%, 32.0%, 31.7% and 32.3% for the same periods, respectively. Our net profit were approximately RMB40.9 million, RMB40.9 million, RMB48.3 million and RMB20.9 million in FY2019, FY2020, FY2021 and 6M2022, respectively.

### BASIS OF PRESENTATION

Pursuant to the Reorganisation as more fully described in the section headed "History, Reorganisation and Corporate Structure" in this prospectus and the section headed "Statutory and General Information" in Appendix IV to this prospectus, our Company became the holding company of all the companies now comprising our Group on 8 June 2022. The companies now

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## FINANCIAL INFORMATION

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comprising our Group were under the common control of Mr. Yang and Ms. Lin immediately before and after the completion of the Reorganisation. The historical financial information has been prepared on a consolidated basis by applying the principles of merger method of accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of our Group for the Track Record Period have included the results, changes in equity and cash flows of the companies now comprising our Group from the earliest date presented or since their respective dates of incorporation, whichever was shorter, as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of our Group as at 31 December 2019, 2020 and 2021 and 30 June 2022 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates. No adjustment is made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Our Directors confirmed that no significant HKFRSs adjustment was made on the PRC statutory accounts to reconcile to the underlying financial statements prepared in conformity with the HKFRSs.

### **SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITIONS**

**We may not be able to maintain a stable supply of raw materials and the availability of our raw materials could be subject to weather conditions and global climate changes.**

Our business is dependent on maintaining a stable supply of raw materials. We source unprocessed raw materials such as fungi, grains, algae, dried aquatic products, chicken feet and duck necks from a number of suppliers, including farmers, agricultural cooperatives and corporate suppliers. For FY2019, FY2020, FY2021 and 6M2022, aggregate total purchases from our five largest suppliers in each year/period for the Track Record Period accounted for approximately 28.9%, 34.8%, 39.9% and 52.0% of our total purchases, respectively. For the same periods, purchase from our largest supplier accounted for approximately 6.9%, 10.4% and 13.3% and 19.1% of our total purchases, respectively. If we are unable to maintain our relationship with any of our major suppliers or if any of them otherwise ceases to supply raw materials to us on the same or similar terms, or at all, such changes may impair our ability to meet our customer orders, which could have a material adverse effect on our business, results of operations and financial condition. Any shortage in raw materials or fluctuations in market prices could negatively affect our purchase price from suppliers. Risks such as social and political unrest, economic volatility and climate conditions in the regions where we source our raw materials could also negatively and

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## FINANCIAL INFORMATION

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materially affect our purchase price. If we are unable to obtain stable supply for our raw materials due to any of the above factors, our results of operations, profit margins and profitability could be adversely affected. In addition, replacing a supplier may require that we divert attention and resources away from our business. If we are unable to identify suitable replacement suppliers in a timely manner, or at all, our business and results of operations could be materially and adversely affected.

In addition, the harvesting and cultivation of raw materials such as fungi, grains as well as aquatic products and algae are subject to natural conditions which are beyond our control. In the event of unfavourable weather conditions, the quantity or quality of raw materials available to us could be affected. For instance, any large scale flooding or other kind of natural disaster may significantly reduce the supply and increase the price of our raw materials in the market, which in turn affects our gross margin. In addition, global climate change and ocean acidification may also affect the supply of our raw materials. If we are unable to secure sufficient supplies of raw materials, our business, results of operations and financial position could be materially and adversely affected.

### **We are susceptible to fluctuations in raw materials prices.**

Our competitiveness, costs and profitability depend, in part, on our ability to source and maintain a stable and sufficient supply of raw materials at acceptable prices. Our major raw materials include fungi, grains, dried aquatic products, algae, chicken feet and duck necks and packaging materials. We procure all of our raw materials in the PRC. For FY2019, FY2020, FY2021 and 6M2022, our direct material costs amounted to approximately RMB186.4 million, RMB172.2 million, RMB209.6 million and RMB102.6 million, respectively, representing approximately 92.7%, 89.5%, 89.8% and 90.8% of our total cost of sales, respectively. If we are unable to obtain raw materials in the quantities and quality that we require, our volume and/or quality of production will decline, which in turn may have a material adverse effect on our results of operations.

Our raw materials are subject to price volatility caused by external factors beyond our control, such as climatic and environmental conditions, and commodity price fluctuations. An increase in the prices of our raw materials or any inability to secure alternative suppliers may increase our cost of sales and have a material adverse impact on our profit margins and hence our profitability. Our total costs of raw materials are expected to continue to increase in the foreseeable future, which is consistent with the general trend of rising commodity prices in the PRC. Fluctuations in our raw material prices may result in unexpected increases in production costs, and if we are unable to manage these costs or to pass on any such increase to our customers, our profitability will decrease. Hence, any significant increase in the price of our raw materials may materially and adversely affect our business, results of operations and financial position.

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## FINANCIAL INFORMATION

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**We are exposed to concentration risk of reliance on our major customers, particularly supermarkets. If our relationships with our major customers deteriorate, our ability to sell our products may be materially and adversely affected.**

Our customers are primarily retailers such as supermarkets and grocery stores, corporate customers and other individual customers. For FY2019, FY2020, FY2021 and 6M2022, sales to our five largest customers in each year/period for the Track Record Period amounted to approximately RMB208.0 million, RMB207.0 million, RMB230.4 million and RMB108.2 million, representing approximately 70.0%, 73.2%, 67.4% and 64.8% of our total revenue, respectively. For the same periods, sales to the largest customer in each year/period for the Track Record Period amounted to approximately RMB108.1 million, RMB108.8 million, RMB128.3 million and RMB57.3 million, representing approximately 36.4%, 38.4%, 37.6% and 34.3% of our total revenue, respectively. We expect our revenue generated from such customers, particularly supermarkets, to continue being a significant portion of revenue in the foreseeable future.

For details of our five largest customers, please refer to the paragraph headed “Business — Customers” in this prospectus. We did not enter into long-term framework sales agreement with our customers, and our customers may cease purchasing products from us at any time. Any disruption in the relationships with our customers could affect our ability to effectively sell our products and would materially and adversely affect our business, results of operations and financial position.

In addition, our customers, including supermarkets and other retailers, may not be able to sell our products successfully or maintain their competitiveness as a result of various factors. If the sales volume of our products to the end consumers are reduced, our customers may cease placing orders for new products with us, reduce their order volume or demand lower prices. Any loss of our customers or reduction in customer orders could materially and adversely affect our revenue.

Furthermore, we rely on large-scale customers, such as supermarkets, to sell a significant portion of our products. If we do not successfully provide appropriate marketing, product packaging, pricing and other services to these customers, our product availability and sales could suffer. The loss of sales of any of our products to a major customer could have a material adverse effect on our business, results of operations and financial position.

## **SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES**

We identified certain accounting policies that are significant to the preparation of our financial statements in accordance with the HKFRSs. Some of our accounting policies require us to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical

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## FINANCIAL INFORMATION

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experience, nature of our business operations, relevant rules and regulations that we believe to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The summary of significant accounting policies is set out in Note 4 to the Accountant's Report set out in Appendix I to this prospectus. Critical accounting estimates and judgements are set out in Note 5 of the Accountant's Report set out in Appendix I to this prospectus. We set forth below the accounting policies, estimates and judgements that we believe are the most significant to our financial information or that involve the most significant judgements and estimates used in the preparation of our financial statements.

### **Revenue recognition**

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if our Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as our Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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## FINANCIAL INFORMATION

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When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between our Group and the customer at contract inception.

Where the contract contains a financing component which provides a significant financing benefit to our Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

### *Sale of snacks, dried delicacies, dried aquatic products, grains, seasonings and others*

Customers obtain control of the food products when they have been delivered to the agreed location and accepted by customers. Revenue is thus recognised upon when the customers accepted the products. Thus, there is generally only one performance obligation. Invoices are usually payable within 90 days.

Some contracts for the sales of food products provide customers with rights of return and discounts. The rights of return give rises to variable consideration and the revenue is recorded on the price specified in the sales contracts/invoices, net of the estimated discounts.

For contracts which provide a customer with a right of return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which our Group will be entitled. The requirements of HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

### *Contract liabilities*

A contract liability represents our Group's obligation to transfer goods or services to a customer for which our Group has received consideration (or an amount of consideration is due) from the customer.

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## FINANCIAL INFORMATION

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### Accounting judgements and estimates

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty that have significant risks or resulting material adjustments to the carrying amounts of assets and liabilities with next financial year for the Track Record Period:

(i) *Impairment of goodwill, right-of-use assets, property, plant and equipment and intangible assets*

Goodwill, right-of-use assets, property, plant and equipment and intangible assets are tested for impairment when indicators exist. Further, irrespective of whether there is any indication of impairment, goodwill is required to be tested annually for impairment. For the purpose of impairment testing, goodwill has been allocated to the cash generating unit (“CGU”) operating in the trading of food product.

Determining whether goodwill and other assets allocated to trading of food product CGU is impaired requires an estimation of the value in use. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Further information on the impairment assessment on trading of food product CGU is provided in Note 21 to the Accountants’ Report in Appendix I to this prospectus.

(ii) *Fair value measurement*

A number of assets and liabilities included in our Group’s financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of our Group’s financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the “**fair value hierarchy**”):

Level 1: Quoted prices in active markets for identical items (unadjusted);

Level 2: Observable direct or indirect inputs other than Level 1 inputs; and

Level 3: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period as they occur.

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## FINANCIAL INFORMATION

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Our Group measures a number of items at fair value:

- Investment property; and
- Financial asset at fair value through other comprehensive income.

For more detailed information in relation to the fair value measurement of the items above, please refer to Note 20 and Note 23 to the Accountants' Report in Appendix I to this prospectus, respectively.

Our financial asset at fair value through other comprehensive income which was measured at level 3 as at 31 December 2019, 2020 and 2021 and 30 June 2022 comprised an unlisted equity investment in Jiangxi Gannong Financing Guarantee Co., Ltd\* (“**Jiangxi Gannong**”) (江西省贛農融資擔保有限責任公司) (formerly known as Jiangxi Agricultural Industrialization Heading Enterprise Guarantee Co, Limited\* (江西省農業產業化龍頭企業擔保有限責任公司)).

In relation to the unlisted equity investment, our Directors, based on the professional advice received, adopted the following procedures: (i) reviewed the terms of underlying investment agreements; (ii) engaged independent business valuer, provided necessary financial and non-financial information so as to enable the valuer to perform valuation procedures and discussed with the valuer on relevant assumptions; (iii) carefully considered all information especially those non-market related information input, such as trading multiples of publicly traded companies and discount for lack of marketability, which require management assessments and estimates; and (iv) reviewed the valuation working papers and results prepared by the valuer. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the valuer is fair and reasonable, and the financial statements of our Group are properly prepared. Details of the fair value of the unlisted equity investment and corresponding significant unobservable input of the valuation are disclosed in Note 23 and Note 42(b) to the Accountants' Report in Appendix I to this prospectus.

Details of the fair value measurement of the unlisted equity investment, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, the relationship of unobservable inputs to fair value are disclosed in Note 23 and Note 42(b) to the Accountant's Report in Appendix I to this document which was issued by the Reporting Accountants in accordance with Hong Kong Standard on Investment Circular Reporting Engagement 200 “Accountants' Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants for the purpose of expressing an opinion on the Historical Financial Information of our Group for the Track Record Period as a whole and the Reporting Accountants opinion is set out on page I-2 of the Accountants' Report in Appendix I to this prospectus.



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## FINANCIAL INFORMATION

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The Sole Sponsor has conducted relevant due diligence work, including but not limited to, (i) review of relevant notes in the Accountants' Report set forth in Appendix I to this prospectus; (ii) discussed with the Company to understand (a) the procedures performed for such valuation, (b) the key factors, valuation methodologies and key assumptions taken into account by the Company as advised by its external valuer, and (c) the internal process undertaken by the Company for reviewing the relevant valuation; (iii) review of the professional qualification and previous experience of the external valuer engaged by the Company; and (iv) discussed with (a) the external valuer engaged by the Company and (b) the Reporting Accountants on their work performed in this regard.

Having considered the work done by our Directors and the Reporting Accountants and the relevant due diligence done as stated above, nothing has come to the attention of the Sole Sponsor that would reasonably cause them to disagree with the views of our Directors that the Company has complied with SFC's "Guidance note on directors' duties in the context of valuations in corporate transactions" in relation to the relevant valuation of financial assets and liabilities categorised within level 3 of fair value measurement.

***(iii) Estimated useful lives and residual value of property, plant and equipment and intangible assets***

Our Group's management determines the estimated useful lives and residual values for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and intangible assets of similar nature and functions. Management will increase the depreciation or amortisation charge where useful lives are less than previously estimated lives. It will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives; actual residual values may differ from estimated residual values. Periodic view could result in a change in depreciable or amortisable lives and residual values and therefore depreciation or amortisation expense in the future periods.

***(iv) Net realisable value of inventories***

Our Group's management reviews the inventory aging analysis periodically, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales.

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## FINANCIAL INFORMATION

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Our Group carries out an inventory review on a product-by-product basis at the end of each reporting period and makes allowance for obsolete and slow-moving items through management's estimation of the net realisable value for such obsolete and slow-moving items based primarily on the latest invoice prices and current market conditions. Additional write down of inventories might be necessary when the actual movement in inventories and selling prices is lower than anticipated.

**(v) *Impairment of trade receivables, deposits and other receivables***

The measurement of impairment losses under HKFRS 9 requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk since initial recognition. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

At each reporting date, our Group assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. Our Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

**(vi) *Income tax and deferred tax***

Determining income tax provisions requires our Group to make judgements on the future tax treatment of certain transactions. Our Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, 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 can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

## FINANCIAL INFORMATION

### SUMMARY OF RESULTS OF OPERATIONS

Set forth below is a summary of our consolidated statements of profit or loss and other comprehensive income during the Track Record Period, extracted from the Accountants' Report included as Appendix I to this prospectus. The financial information contained herein and in the Accountants' Report in the Appendix I to this prospectus is prepared in accordance with HKFRSs and is presented as if our current group structure had been in existence throughout the years or periods presented.

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Revenue . . . . .	297,398	282,889	341,998	145,595	166,956
Cost of sales . . . . .	(201,147)	(192,301)	(233,518)	(103,170)	(112,987)
Gross profit . . . . .	96,251	90,588	108,480	42,425	53,969
Other revenue . . . . .	4,500	5,153	4,181	3,527	288
Other gains and losses . . . . .	1,013	3,655	3,797	1,354	266
Distribution and selling expenses . . . . .	(21,877)	(20,314)	(28,224)	(13,993)	(13,281)
Administrative expenses . . . . .	(20,415)	(20,504)	(23,130)	(10,347)	(13,098)
Provision of impairment loss recognised on trade and other receivables and deposits, net . . . . .	58	580	893	816	(152)
Finance costs . . . . .	(7,530)	(7,760)	(6,150)	(3,242)	(1,814)
Listing expenses . . . . .	(3,738)	(4,085)	(2,003)	(1,277)	(3,456)
Profit before income tax expense . . . . .	48,262	47,313	57,844	19,263	22,722
Income tax expense . . . . .	(7,317)	(6,374)	(9,552)	(2,502)	(1,853)
Profit for the year/period . . . . .	<u>40,945</u>	<u>40,939</u>	<u>48,292</u>	<u>16,761</u>	<u>20,869</u>
<b>Profit for the year/period attributable to:</b>					
Owners of the Company . . . . .	<u>40,945</u>	<u>40,939</u>	<u>48,292</u>	<u>16,761</u>	<u>20,869</u>

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## FINANCIAL INFORMATION

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### DESCRIPTION OF SELECTED ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

During FY2019, FY2020, FY2021 and 6M2022, we mainly generated revenue through two key sales channels, namely (i) direct sales to supermarket customers, amounting to approximately RMB208.1 million, RMB196.0 million, RMB230.8 million and RMB96.9 million or 70.0%, 69.3%, 67.5% and 58.0% of our total revenue, respectively, and (ii) sales through concessionary counters in supermarket stores, amounting to approximately RMB29.2 million, RMB38.7 million, RMB50.6 million and RMB30.9 million or 9.8%, 13.7%, 14.8% and 18.5% of our total revenue, respectively. For the details of our sales made through these two sales channels, please refer to the paragraph headed “Business — Sales Network — Retailers” in this prospectus. We consider that the sales performance of concessionary counter at a particular supermarket store is largely dependent on the pedestrian traffic flow of that supermarket store as well as other factors such as reputation of such supermarket and its marketing strategy at the relevant time. Therefore, for analysis purpose in relation to the fluctuation of our financial performance during the Track Record Period, we have presented the direct sales to a particular supermarket customer together with the sales through concessionary counters in supermarket stores of that particular supermarket customer as sales attributable to that particular supermarket customer and we believe that such presentation would provide a broad picture of the Group’s revenue generated from (i.e. direct sales) or in relation to (i.e. through concessionary counters) a particular supermarket customer when analysing the historical financial performance/trend. As a result, the term “sales from a particular customer”, where applicable, entails both the direct sales to a particular supermarket customer and the sales through concessionary counter in the supermarket stores of that particular supermarket customer.

#### Revenue

During the Track Record Period, our revenue mainly represents (i) the sales from manufacturing of snacks and dried food products; and (ii) the sales from trading of snacks and dried food products. For FY2019, FY2020, FY2021, 6M2021 and 6M2022, we recorded total revenue of approximately RMB297.4 million, RMB282.9 million, RMB342.0 million, RMB145.6 million and RMB167.0 million, respectively.

## FINANCIAL INFORMATION

### (a) Revenue by business models and by brands

The table below sets out a breakdown of our revenue categorised by business models and by brands during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Manufacturing										
Shengyao (聲耀) . . . . .	205,826	69.2	208,308	73.6	221,060	64.6	88,339	60.7	132,601	79.4
Gangweifang (贛味坊) . . . . .	17,609	5.9	20,641	7.3	29,292	8.6	15,467	10.6	12,236	7.3
Subtotal . . . . .	223,435	75.1	228,949	80.9	250,352	73.2	103,806	71.3	144,837	86.7
Trading . . . . .	73,963	24.9	53,940	19.1	91,646	26.8	41,789	28.7	22,119	13.3
	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>	<u>145,595</u>	<u>100.0</u>	<u>166,956</u>	<u>100.0</u>

### Manufacturing

For FY2019, FY2020, FY2021 and 6M2022, approximately 75.1%, 80.9%, 73.2% and 86.7% of our revenue were generated from our manufacturing business, which we generally source raw materials from our suppliers and process the raw materials and package products at our own production facilities, and sell the products under our own “Shengyao (聲耀)” and “Gangweifang (贛味坊)” brands. We mainly sold our packaged dried delicacies such as black fungi, dried mushroom, dried aquatic products such as dried cuttlefish and vegetable and meat snack products under our “Shengyao (聲耀)” brand and dried candied fruits such as raisins and dried dates as well as nuts under our “Gangweifang (贛味坊)” brand. The sales of our products under our own “Shengyao (聲耀)” brand accounted for approximately 69.2%, 73.6%, 64.6%, 60.7% and 79.4% of our revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively, while the sales of our products under our own “Gangweifang (贛味坊)” brand accounted for approximately 5.9%, 7.3%, 8.6%, 10.6% and 7.3% of our revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively.

The sales of our own-branded products contributed to a relatively larger share of our revenue, which represented approximately 75.1%, 80.9%, 73.2%, 71.3% and 86.7% for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively.

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## FINANCIAL INFORMATION

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Our revenue generated from our own-branded products slightly increased by approximately RMB5.5 million or 2.5% from approximately RMB223.4 million for FY2019 to approximately RMB228.9 million for FY2020. Such increase was mainly attributable to (i) the increase in sale of dried aquatic products of approximately RMB28.6 million; and (ii) the increase in sale of snacks of approximately RMB2.7 million, and partially offset by (i) the decrease in sale of grains of approximately RMB14.3 million; and (ii) the decrease in sale of dried delicacies of approximately RMB10.9 million.

Our revenue generated from our own-branded products increased by approximately RMB21.5 million or 9.4% from approximately RMB228.9 million for FY2020 to approximately RMB250.4 million for FY2021. Such increase was mainly attributable to (i) the increase in sale of snacks of approximately RMB22.5 million; and (ii) the increase in sale of grains of approximately RMB4.9 million, and partially offset by the decrease in sale of dried delicacies of approximately RMB7.9 million.

Our revenue generated from our own-branded products increased by approximately RMB41.0 million or 39.5% from approximately RMB103.8 million for 6M2021 to approximately RMB144.8 million for 6M2022. Such increase was mainly attributable to (i) the increase in the sale of snacks of approximately RMB19.1 million; (ii) the increase in the sale of dried aquatic products of approximately RMB12.0 million; and (iii) the increase in the sale of dried delicacies of approximately RMB6.8 million.

For discussion on the reasons on fluctuation of the sales performance of our particular product line, please refer to the paragraph headed “Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — (b) Revenue by product lines” in this section.

*Shengyao (聲耀)*

Our vegetable snacks under our own brands experienced a much higher growth rate than that of the market growth rate of vegetable snacks for FY2020, which was mainly attributable to the result of our newly launched spicy kelp series in late 2019 and spicy enoki mushroom series in FY2020. It is our strategy to continuously strive to innovate, diversify and improve the types of products we offer in variety of combinations of raw material, flavourings and packaging. As we have long operating history in Jiangxi Province, our Directors considered that we have relatively strong brand awareness in Jiangxi Province and adjacent provinces such as Hubei Province, Hunan Province, Zhejiang Province and Fujian Province, and we also understand the tastes and preferences of the local consumers. Leveraging our established relationship with key supermarket customers such as Customer Group A, Customer B and Jiangxi Guoguang Group, we successfully secured orders of our new vegetable snacks from these customers, which our Directors believe to

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## FINANCIAL INFORMATION

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be the key driver to our growth in sale of our vegetable snacks. The revenue generated from “Shengyao (聲耀)” brand products slightly increased by approximately RMB2.5 million or 1.2% for FY2020, which was mainly due to (i) the increase in sale of our dried cuttlefish by approximately RMB27.0 million as Customer B, one of our five largest customers for the Track Record Period, started sourcing our dried cuttlefish of approximately RMB23.5 million since FY2020; and (ii) our Directors believe that the vegetable snack products launched in the second half of FY2019, such as the spicy kelp series and spicy bamboo shoots series, gained further recognition from our customers, in particular, (a) the sales of spicy kelp series increased by approximately RMB15.7 million; (b) the sales of spicy enoki mushroom series increased by approximately RMB11.3 million; and (c) the sales of spicy bamboo shoots crisps series increased by approximately RMB7.3 million, partially offset by the decrease in sale of fragrant lotus seeds by approximately RMB47.1 million. To the best knowledge of our Directors, the increase in the revenue generated from “Shengyao (聲耀)” brand products was mainly because (i) the consumers were more inclined to buy packaged and branded products with reliable quality, which are easier to be delivered to their doorsteps and stored at home during the lockdown period as compared to loose-package or products without brands and (ii) the increase in number of supermarket stores selling our products, in particular the dried cuttlefish, during FY2020.

The revenue generated from “Shengyao (聲耀)” brand products increased by approximately RMB12.8 million or 6.1% for FY2021 from approximately RMB208.3 million for FY2020 to approximately RMB221.1 million for FY2021, which was mainly attributable to the sale of our newly launched meat snacks in 2021 of approximately RMB60.7 million, in particular the sale of our marinated chicken wing tips series and roasted duck necks series of approximately RMB30.7 million; and partially offset by the decrease in sale of fragrant lotus seeds by approximately RMB40.9 million as a result of our cessation of this production line. We decided to cease production of fragrant lotus seeds and focus on other snacks because we anticipated that (i) the cost of raw materials would increase after the PRC government reclaimed the farmland of our suppliers; and (ii) the market demand for the fragrant lotus seeds would further decline based on the decreasing sales of such products for FY2020 as compared to FY2019. In addition, in light of our introduction of meat snacks, which were expected to have higher gross profit margin than our other product lines, we decided to concentrate our production effort as well as marketing resources to develop our new meat snack products. The decrease in sale of vegetable snacks was mainly due to our strategy to promote meat snacks where we allocated certain production resources for vegetable snacks to meat snacks.

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## FINANCIAL INFORMATION

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The revenue generated from “Shengyao (聲耀)” brand products increased by approximately RMB44.3 million or 50.2% for 6M2022 from approximately RMB88.3 million for 6M2021 to approximately RMB132.6 million for 6M2022, which was mainly attributable to (i) the increase in sale of dried cuttlefish of approximately RMB6.9 million as a result of the increase in direct sales of our dried cuttlefish to Customer Group A, Customer B and Customer Group C and sales of dried cuttlefish through our concessionary counters operated with Customer Group A and Customer Group C, in particular in Jiangxi Province, for 6M2022 which our Directors consider to be an evidence to our relatively strong brand awareness in Jiangxi Province; and (ii) the increase in sale of our meat snacks, in particular, (a) the roasted duck neck series increased by approximately RMB11.4 million; (b) the braised duck wings increased by approximately RMB2.9 million; (c) the marinated chicken wing tip series increased by approximately RMB2.5 million; and (d) the chicken feet increased by approximately RMB1.4 million, coupled with the fact that bulk supply of our meat snack to our customers only began in the second quarter of FY2021 and this accounted for the significant improvement in revenue for 6M2022 as compared to 6M2021.

### *Gangweifang (贛味坊)*

The revenue generated from “Gangweifang (贛味坊)” brand products increased by approximately RMB3.0 million or 17.0% from approximately RMB17.6 million for FY2019 to approximately RMB20.6 million for FY2020, which was mainly attributable to the increase in sale of pistachios by approximately RMB7.2 million. To the best knowledge of our Directors, such increase was mainly due to the promotion activities, such as in-store advertisements and placing our pistachios at eye-level shelves, held by Customer Group A and Customer B in the supermarkets at the relevant time. This was partially offset by the decrease in sale of pecans and raisins by approximately RMB3.2 million.

The revenue generated from “Gangweifang (贛味坊)” brand products increased by approximately RMB8.7 million or 42.2% from approximately RMB20.6 million for FY2020 to approximately RMB29.3 million for FY2021, which was mainly attributable to (i) the increase in sale of macadamia by approximately RMB2.9 million; (ii) the increase in sale of watermelon seeds by approximately RMB1.4 million; and (iii) the increase in sale of pecans by approximately RMB0.9 million. To the best knowledge of our Directors, such increase was mainly due to (i) bargain sales to certain supermarket customers during FY2021; and (ii) the increase in customer traffic in supermarkets after the situation of COVID-19 relieved.

The revenue generated from “Gangweifang (贛味坊)” brand products decreased by approximately RMB3.3 million or 21.3% from approximately RMB15.5 million for 6M2021 to approximately RMB12.2 million for 6M2022, which was mainly attributable to (i) the decrease in sale of pistachios of approximately RMB2.1 million; and (ii) the decrease in sale of macadamia of approximately RMB0.9 million.



## FINANCIAL INFORMATION

The following table sets out a breakdown of revenue of snacks products by product types under our own brands during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Vegetables . . . . .	10,938	9.4	54,838	45.9	50,781	35.8	18,861	34.4	21,456	29.0
Meat . . . . .	—	—	—	—	60,668	42.7	19,862	36.2	38,481	52.0
Nuts, seeds and candied fruits . . . . .	105,814	90.6	64,657	54.1	30,524	21.5	16,160	29.4	14,053	19.0
	<u>116,752</u>	<u>100.0</u>	<u>119,495</u>	<u>100.0</u>	<u>141,973</u>	<u>100.0</u>	<u>54,883</u>	<u>100.0</u>	<u>73,990</u>	<u>100.0</u>

The revenue generated from snacks under our own brands was on an increasing trend from approximately RMB116.8 million for FY2019 to approximately RMB119.5 million for FY2020, and further increased to approximately RMB142.0 million for FY2021. The revenue generated from snacks under our own brand increased from approximately RMB54.9 million for 6M2021 to approximately RMB74.0 million for 6M2022.

### *Vegetables*

The revenue generated from our vegetable snacks increased by approximately RMB43.9 million or over 4 times for FY2020, which was mainly attributable to (i) the increase in sale of spicy kelp series by approximately RMB15.7 million; (ii) the increase in sale of spicy enoki mushroom series by approximately RMB11.3 million; (iii) the increase in sale of spicy bamboo shoots crisp series by approximately RMB7.3 million; and (iv) the increase in sale of spicy lotus root slices by approximately RMB2.5 million. These products were launched in late 2019 or in 2020, therefore contributed to the increase in revenue from sale of vegetable snacks. Besides, the increase in the revenue generated from our vegetable snacks for FY2020 was mainly attributable to the increase in sale of vegetable snacks to China Post Group of approximately RMB5.9 million, in which, among others, (i) the sale of spicy bamboo shoots crisps series increased by approximately RMB2.6 million; and (ii) the sale of spicy kelp series increased by approximately RMB2.4 million. To the best knowledge of our Directors, China Post Group purchased our vegetable snacks to provide benefits to their employees.

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## FINANCIAL INFORMATION

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The revenue generated from our vegetable snacks slightly decreased by approximately RMB4.0 million or 7.3% from approximately RMB54.8 million for FY2020 to approximately RMB50.8 million for FY2021. Such decrease was mainly attributable to decrease in sales order from China Post Group, which our Directors believe that due to the fierce competition in China Post Group's industry, China Post Group suspended the provision of welfare goods to their employees.

The revenue generated from our vegetable snacks increased by approximately RMB2.6 million or 13.8% from approximately RMB18.9 million for 6M2021 to approximately RMB21.5 million for 6M2022. Such increase was mainly attributable to (i) the increase in sales of spicy kelp series of approximately RMB1.4 million; (ii) the increase in sales of spicy bamboo shoots crisps series of approximately RMB0.7 million; and (iii) the increase in sales of spicy enoki mushroom series of approximately RMB0.2 million. Our Directors believe such increase in sale was attributable to our continuous effort to promote our products, in particular our competitive pricing strategy as compared to our competitors at the relevant time.

### *Meat*

Our meat snacks was first launched in 2021 and recorded revenue of approximately RMB60.7 million in FY2021 which was mainly attributable to (i) the direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB39.8 million, in which, among others, the sales of roasted duck neck series amounted to approximately RMB12.2 million and the sales of marinated chicken wing tips series amounted to approximately RMB8.8 million; and (ii) the direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C of approximately RMB5.1 million, in which, among others, the sales of roasted duck neck series amounted to approximately RMB2.0 million and the sales of marinated chicken wing tips series amounted to approximately RMB1.4 million.

The revenue generated from our meat snacks under our own brand increased by approximately RMB18.6 million or 93.5% for 6M2022. Such increase was mainly attributable to (i) the increase in sales of roasted duck neck series of approximately RMB11.4 million; (ii) the increase in sales of braised duck wings of approximately RMB2.9 million; and (iii) the increase in sales of chicken feet of approximately RMB1.4 million. As our meat snack was first launched in FY2021, and specifically during the first quarter of FY2021, bulk supply to our customers only began in the second quarter of FY2021, and this accounted for the significant improvement in revenue for 6M2022 as compared to 6M2021.

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## FINANCIAL INFORMATION

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### *Nuts, seeds and candied fruits*

The revenue generated from our own-branded nuts, seeds and candied fruits decreased by approximately RMB41.1 million or 38.8% from approximately RMB105.8 million for FY2019 to approximately RMB64.7 million for FY2020, which was mainly attributable to the decrease in sale of fragrant lotus seeds by approximately RMB47.1 million, and in particular the decrease in direct sales of fragrant lotus seeds to Customer Group A and sales of fragrant lotus seeds through our concessionary counters operated with Customer Group A, and partially offset by the increase in sale of pistachios by approximately RMB9.0 million.

The revenue generated from our own-branded nuts, seeds and candied fruits decreased by approximately RMB34.2 million or 52.9% for FY2021, which was mainly attributable to the decrease in sale of fragrant lotus seeds by approximately RMB40.9 million which we had ceased to produce and sell, partially offset by (i) the increase in sale of macadamia by approximately RMB2.8 million; (ii) the increase in sale of watermelon seeds by approximately RMB1.3 million; and (iii) the increase in sale of pecans by approximately RMB0.7 million. To the best knowledge of our Directors, such increase was mainly due to (i) bargain sales to certain supermarket customers during FY2021; and (ii) the increase in customer traffic in supermarkets after the situation of COVID-19 relieved.

The revenue generated from our own-branded nuts, seeds and candied fruits decreased by approximately RMB2.1 million or 13.0% from approximately RMB16.2 million for 6M2021 to approximately RMB14.1 million for 6M2022. Such decrease was mainly attributable to the decrease in sales of pistachios of approximately RMB2.1 million.

### *Trading*

For FY2019, FY2020, FY2021 and 6M2022, approximately 24.9%, 19.1%, 26.8% and 13.3% of our revenue were generated from our trading business, respectively. Our trading business supplements our manufacturing business by diversifying our product and brand portfolios to better cater our customers' requirements. Under the trading business model, we source food products which we do not produce, for example, biscuits, jelly and turtle jelly, from third-party suppliers and resell them to our customers.

Our revenue generated from trading business decreased by approximately RMB20.1 million or 27.2% from approximately RMB74.0 million for FY2019 to approximately RMB53.9 million for FY2020. Such decrease was mainly attributable to the decrease in sale of dried aquatic products and dried delicacies by approximately RMB22.3 million and RMB5.5 million, respectively, partially offset by the increase in sale of snacks and grains by approximately RMB6.3 million and RMB3.4 million, respectively. To the best knowledge of our Directors, the decrease in sale of

## FINANCIAL INFORMATION

dried aquatic products was mainly due to the phenomenon that the consumers were more inclined to buy packaged and branded products with reliable quality, which are easier to be delivered to their doorsteps and stored at home during the lockdown period as compared to loose-package or products without brands.

Our revenue generated from trading business increased by approximately RMB37.7 million or 70.0% from approximately RMB53.9 million for FY2020 to approximately RMB91.6 million for FY2021. Such increase was mainly attributable to the increase in sales of dried delicacies and snacks of approximately RMB24.9 million and RMB11.2 million, respectively, and partially offset by the decrease in sales of grains of approximately RMB1.5 million. To the best knowledge of our Directors, the increase in sales of dried delicacies and snacks was mainly due to the increase in customer traffic in supermarkets after the situation of COVID-19 relieved, and therefore increasing the sales order from supermarket customers.

Our revenue generated from trading business decreased by approximately RMB19.7 million or approximately 47.1% for 6M2022 from approximately RMB41.8 million for 6M2021 to approximately RMB22.1 million for 6M2022. Such decrease was mainly attributable to the decrease in sales of snacks of approximately RMB15.4 million. Our Directors consider that the decrease in revenue generated from our trading business is in line with our business strategy to prioritise promotion and sales of our own-branded products, and position our trading business as supplementary to our manufacturing business.

### *(b) Revenue by product lines*

The table below sets out a breakdown of our revenue categorised by product lines during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Snacks . . . . .	128,419	43.2	137,426	48.6	171,059	50.0	73,733	50.6	77,467	46.4
Dried delicacies . . . . .	86,800	29.2	70,454	24.9	87,410	25.6	37,375	25.7	50,471	30.2
Dried aquatic products . . . . .	46,716	15.7	52,965	18.7	59,002	17.3	22,712	15.6	29,299	17.6
Grains . . . . .	28,791	9.7	17,899	6.3	21,358	6.2	10,501	7.2	8,188	4.9
Seasonings and others . . . . .	6,672	2.2	4,145	1.5	3,169	0.9	1,274	0.9	1,531	0.9
Total . . . . .	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>	<u>145,595</u>	<u>100.0</u>	<u>166,956</u>	<u>100.0</u>

## FINANCIAL INFORMATION

The following table sets out a breakdown of the sales volume in tonne and average selling price per kg of our products during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	Average		Average		Average		Average		Average	
	Sales	selling price	Sales	selling price	Sales	selling price	Sales	selling price	Sales	selling price
	volume	per kg	volume	per kg	volume	per kg	volume	per kg	volume	per kg
	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)	(tonne)	(RMB)
Snacks . . . . .	2,308	55.6	3,369	40.8	4,046	42.3	1,796	41.1	1,948	39.8
Dried delicacies . . . . .	1,281	67.8	1,127	62.5	1,098	79.6	469	79.7	603	83.8
Dried aquatic products . . .	392	119.2	379	139.7	426	138.5	186	122.1	210	139.5
Grains . . . . .	3,510	8.2	1,546	11.6	1,754	12.2	891	11.8	646	12.7
Seasonings and others . . .	514	13.0	343	12.1	314	10.1	125	10.2	146	10.5
Total . . . . .	<u>8,005</u>	N/A	<u>6,764</u>	N/A	<u>7,638</u>	N/A	<u>3,467</u>	N/A	<u>3,553</u>	N/A

During the Track Record Period, sales from supermarkets and concessionary counters accounted for a significant portion of our total revenue. Our Directors believe the fluctuation trend in the sales of our products in different product lines was primarily attributable to (i) the change in consumers' preference on particular products in the local markets of which the supermarket outlets of our key supermarket customers such as Customer Group A, Customer B and Jiangxi Guoguang Group are located or where we operate our concessionary counters; (ii) our supermarket customers' marketing and promotion strategies on particular products; and (iii) our business decision to strategically accept fewer orders or cease to sell particular products due to increase in costs or to promote particular products of relatively higher gross profit margin.

### *Snacks*

For FY2019, FY2020, FY2021 and 6M2022, our sales of snacks represented the largest proportion of our revenue, which accounted for approximately 43.2%, 48.6%, 50.0% and 46.4%, respectively.

The revenue generated from snacks increased by approximately RMB9.0 million or 7.0% from approximately RMB128.4 million for FY2019 to approximately RMB137.4 million for FY2020. The sales volume of snacks increased by approximately 1,061 tonne or 46.0% from approximately 2,308 tonne for FY2019 to approximately 3,369 tonne for FY2020, which was mainly due to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A, in which, among others, (i) the sales volume of spicy kelp series increased by approximately 463 tonne; (ii) the sales volume of spicy enoki mushroom series increased by approximately 275 tonne; and (iii) the sales volume of spicy bamboo shoots crisps series increased by approximately 203 tonne. However, our average selling

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## FINANCIAL INFORMATION

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price of snacks decreased from approximately RMB55.6 per kg for FY2019 to RMB40.8 per kg for FY2020, which was mainly due to (i) the increase in sales of spicy kelp series, which was launched in late 2019, with a relatively lower average selling price of approximately RMB25.6 per kg; (ii) the launch of our new spicy enoki mushroom series in FY2020 with a relatively lower average selling price of approximately RMB39.8 per kg; and (iii) the decrease in sales of fragrant lotus seeds with a relatively higher average selling price of approximately RMB77.1 per kg resulted from consumption declines in FY2020. Generally, our vegetable snacks have lower average selling price than our nuts products because the cost of raw materials of vegetables are generally lower than nuts.

The revenue generated from snacks further increased by approximately RMB33.7 million or 24.5% from approximately RMB137.4 million for FY2020 to approximately RMB171.1 million for FY2021. The sales volume of snacks increased by approximately 677 tonne or 20.1% from approximately 3,369 tonne for FY2020 to approximately 4,046 tonne for FY2021, which was mainly due to (i) the increase in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C, in which, among others, (a) the sales volume of pistachios increased by approximately 105 tonne; (b) the sales volume of roasted duck neck series increased by approximately 35 tonne; and (c) the sales volume of marinated chicken wing tips series increased by approximately 25 tonne; and (ii) the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A, in which, among others, (a) the sales volume of roasted duck neck series increased by approximately 158 tonne; and (b) the sales volume of marinated chicken wing tips series increased by approximately 117 tonne and in particular, leveraging our established relationship with Customer Group A and track record in supplying dried food products and snacks to its supermarket outlets, Customer Group A further ordered our own-branded vegetable and meat snacks for its supermarket outlets in Sichuan Province, which our Directors believe that the spicy flavours of our own-branded snacks suit the local consumers' tastes and preferences. Besides, our average selling price of snacks increased from approximately RMB40.8 per kg for FY2020 to approximately RMB42.3 per kg for FY2021, which was the net effect of (i) the launch of our new meat snacks products, in particular the marinated chicken wing tips series and roasted duck necks series, with a relatively higher average selling price of approximately RMB66.0 per kg and RMB47.8 per kg, respectively, in FY2021; and (ii) the decrease in sales of fragrant lotus seeds with a higher average selling price of approximately RMB77.1 per kg as we ceased to produce this product in FY2021.

The revenue generated from snacks increased by RMB3.8 million or approximately 5.2% from approximately RMB73.7 million for 6M2021 to approximately RMB77.5 million for 6M2022. The sales volume of snacks increased by approximately 152 tonne or 8.5% from approximately 1,796 tonne for 6M2021 to approximately 1,948 tonne for 6M2022, which was mainly due to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A, in which, among others, (i) the sales volume of spicy kelp series

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## FINANCIAL INFORMATION

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increased by approximately 59 tonne; (ii) the sales volume of braised duck wings increased by approximately 47 tonne; (iii) the sales volume of roasted duck neck series increased by approximately 33 tonne; and (iv) the sales volume of marinated chicken wing tips series increased by approximately 26 tonne. However, our average selling price decreased from approximately RMB41.1 per kg for 6M2021 to approximately RMB39.8 per kg for 6M2022, which was the net effect of (i) the increase in sales of roasted duck necks with a relatively lower average selling price of approximately RMB34.8 per kg; (ii) the increase in sales of spicy kelp series with a relatively lower average selling price of approximately RMB28.4 per kg; and (iii) the increase in sales of spicy enoki mushroom series with average selling price of approximately RMB39.5 per kg.

### *Dried delicacies*

For FY2019, FY2020, FY2021 and 6M2022, our sales of dried delicacies represented the second largest proportion of our revenue, which accounted for approximately 29.2%, 24.9%, 25.6% and 30.2%, respectively.

Our revenue generated from dried delicacies decreased by approximately RMB16.3 million or 18.8% from approximately RMB86.8 million for FY2019 to approximately RMB70.5 million for FY2020. The sale volume of dried delicacies remained relatively stable at approximately 1,281 tonne and 1,127 tonne for FY2019 and FY2020, respectively. However, our average selling price of dried delicacies decreased from approximately RMB67.8 per kg for FY2019 to approximately RMB62.5 per kg for FY2020, which was mainly due to (i) the decrease in sales of black fungi with a relatively higher average selling price of approximately RMB80.9 per kg; (ii) the decrease in sales of dried mushroom with a relatively higher average selling price of approximately RMB95.8 per kg; (iii) the decrease in sales of dried agrocybe aegerita with a relatively higher average selling price of approximately RMB123.0 per kg; and (iv) the increase in sales of canned bamboo shoots with a relatively lower average selling price of approximately RMB21.3 per kg.

Our sales of dried delicacies increased by approximately RMB16.9 million or 24.0% from approximately RMB70.5 million for FY2020 to approximately RMB87.4 million for FY2021. The sale volume of dried delicacies remained relatively stable at approximately 1,127 tonne and 1,098 tonne for FY2020 and FY2021, respectively. However, our average selling price of dried delicacies increased from approximately RMB62.5 per kg for FY2020 to approximately RMB79.6 per kg for FY2021, which was mainly due to (i) the increase in sales of our lotus seeds with a relatively higher average selling price of approximately RMB88.9 per kg; and (ii) that we did not receive order for canned bamboo shoots, which was a product of relatively lower average selling price among our dried delicacies, in FY2021.

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## FINANCIAL INFORMATION

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Our sales of dried delicacies increased by approximately RMB13.1 million or 35.0% from approximately RMB37.4 million for 6M2021 to approximately RMB50.5 million for 6M2022. The sales volume of dried delicacies increased by approximately 134 tonne or 28.6% from approximately 469 tonne for 6M2021 to approximately 603 tonne for 6M2022, which was mainly due to the increase in sales order from Customer B, in which, among others, (i) the sales volume of lotus seeds increased by approximately 72 tonne; (ii) the sales volume of black fungi increased by approximately 54 tonne; and (iii) the sales volume of dried mushroom increased by approximately 29 tonne. Besides, our average selling price of dried delicacies increased from approximately RMB79.7 per kg for 6M2021 to approximately RMB83.8 per kg for 6M2022, mainly attributable to (i) the increase in sales of black fungi with a relatively higher average selling price of approximately RMB87.4 per kg; and (ii) the increase in sales of lotus seeds with a relatively higher average selling price of approximately RMB83.2 per kg.

### *Dried aquatic products*

For FY2019, FY2020, FY2021 and 6M2022, our sales of dried aquatic products represented approximately 15.7%, 18.7%, 17.3% and 17.6% of our revenue, respectively.

Our revenue generated from dried aquatic products increased by approximately RMB6.3 million or 13.5% from approximately RMB46.7 million for FY2019 to approximately RMB53.0 million for FY2020. The sale volume of dried aquatic products remained relatively stable at approximately 392 tonne and 379 tonne for FY2019 and FY2020, respectively. However, our average selling price of dried aquatic products also increased from approximately RMB119.2 per kg for FY2019 to RMB139.7 per kg for FY2020, which was mainly attributable to (i) the increase in sales of dried cuttlefish with a relatively higher average selling price at RMB169.5 per kg; and (ii) the decrease in sales of kelp with a relatively lower average selling price at approximately RMB30.3 per kg.

Our sales of dried aquatic products increased by approximately RMB6.0 million or 11.3% from approximately RMB53.0 million for FY2020 to approximately RMB59.0 million for FY2021. To the best knowledge of our Directors, the increase in the sales of dried aquatic products was mainly because (i) the consumers were paying more attention to health in light of the COVID-19 while the aquatic products possess relatively high nutritional value and low calorie and (ii) the increase in number of supermarket stores selling our products, in particular the dried cuttlefish, since FY2020. The sale volume of dried aquatic products increased slightly by approximately 47 tonne or 12.4% from approximately 379 tonne for FY2020 to approximately 426 tonne for FY2021, which was mainly due to the increase in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C, in which, among others, (i) the sales volume of dried cuttlefish increased by approximately 20 tonne; and (ii) the sales volume



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## FINANCIAL INFORMATION

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of dried shrimp increased by approximately 18 tonne. Our average selling price of dried aquatic products remained relatively stable at approximately RMB139.7 per kg and RMB138.5 per kg for FY2020 and FY2021, respectively.

Our sales of dried aquatic products increased by approximately RMB6.6 million or 29.1% from approximately RMB22.7 million for 6M2021 to approximately RMB29.3 million for 6M2022. The sales volume of dried aquatic products increased by approximately 24 tonne or 12.9% from approximately 186 tonne for 6M2021 to approximately 210 tonne for 6M2022, which was mainly due to (i) the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A, in which, among others, the sales volume of dried cuttlefish increased by approximately 12 tonne; and (ii) the increase in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C, in which, among others, the sales volume of dried cuttlefish increased by approximately 12 tonnes. Besides, our average selling price increased from approximately RMB122.1 per kg for 6M2021 to approximately RMB139.5 per kg for 6M2022. Such increase was primarily due to (i) the increase in sales of dried cuttlefish with a relatively higher average selling price of approximately RMB172.1 per kg; and (ii) the increase in sales of dried whitebait with a relatively higher average selling price of approximately RMB276.0 per kg.

### *Grains*

For FY2019, FY2020, FY2021 and 6M2022, our sales of grains represented approximately 9.7%, 6.3%, 6.2% and 4.9% of our revenue, respectively.

Our sales of grains decreased by approximately RMB10.9 million or 37.8% from approximately RMB28.8 million for FY2019 to approximately RMB17.9 million for FY2020. The sales volume of grains decreased by approximately 1,964 tonne or 56.0% from approximately 3,510 tonne for FY2019 to approximately 1,546 tonne for FY2020, which was mainly due to the decrease in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C, in which, among others, the sales volume of rice decreased by approximately 1,484 tonne. However, our average selling price of grains increased from approximately RMB8.2 per kg for FY2019 to RMB11.6 per kg for FY2020. Such increase in the average selling price was mainly due to the decrease in sales of rice with a relatively lower average selling price of approximately RMB6.0 per kg; partially offset by the decrease in sales of green bean with a relatively higher average selling price of approximately RMB14.4 per kg.

Our revenue generated from grains increased by approximately RMB3.5 million or 19.6% from approximately RMB17.9 million for FY2020 to approximately RMB21.4 million for FY2021. The sale volume of grains slightly increased by approximately 208 tonne or 13.5% from approximately 1,546 tonne for FY2020 to approximately 1,754 tonne for FY2021, which was

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## FINANCIAL INFORMATION

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mainly due to the increase in sales order from Customer B, in which, among others, the sales volume of green beans increased by approximately 105 tonne. However, our average selling price increased from approximately RMB11.6 per kg for FY2020 to approximately RMB12.2 per kg for FY2021. Such increase was mainly attributable to the recovery in our sales from green bean with a relatively higher average selling price of approximately RMB14.2 per kg.

Our revenue generated from grains decreased by approximately RMB2.3 million or 22.0% from approximately RMB10.5 million for 6M2021 to approximately RMB8.2 million for 6M2022. The sales volume of grains decreased by approximately 245 tonne or 27.5% from approximately 891 tonne for 6M2021 to approximately 646 tonne for 6M2022, which was mainly due to the decrease in sales order from Customer B, in which, among others, (i) the sales volume of millet decreased by approximately 109 tonne; and (ii) the sales volume of rice decreased by approximately 100 tonne. However, the average selling price increased from RMB11.8 per kg for 6M2021 to approximately RMB12.7 per kg for 6M2022, mainly attributable to the decrease in sales of rice with a relatively lower average selling price of approximately RMB5.6 per kg.

### *Seasonings and others*

For FY2019, FY2020, FY2021 and 6M2022, our sales of seasonings and others represented approximately 2.2%, 1.5%, 0.9% and 0.9% of our revenue, respectively.

Our revenue generated from seasonings and others decreased by approximately RMB2.6 million or 38.8% from approximately RMB6.7 million in FY2019 to approximately RMB4.1 million in FY2020 and further decreased to approximately RMB3.2 million in FY2021. The sales volume of seasonings and others decreased by approximately 171 tonne or 33.3% from approximately 514 tonne for FY2019 to approximately 343 tonne for FY2020, which was mainly attributable to the decrease in sales order from Customer B, in which, among others, the sales volume of white sugar decreased by approximately 100 tonne. The sales volume of seasonings and others remained relatively stable at approximately 314 tonne for FY2021. However, the average selling price of seasonings and others decreased from approximately RMB13.0 per kg for FY2019 to approximately RMB12.1 per kg for FY2020, and further decreased to approximately RMB10.1 per kg for FY2021. Such decreasing trend was largely in line with the average selling price of edible oil from approximately RMB84.4 per kg for FY2019 to approximately RMB20.5 per kg for FY2020 and further to approximately RMB15.9 per kg for FY2021.

Our revenue generated from seasoning and others remained relatively stable at approximately RMB1.3 million and RMB1.5 million for 6M2021 and 6M2022, respectively, and the average selling price also remained relatively stable at approximately RMB10.2 per kg and RMB10.5 per kg for 6M2021 and 6M2022, respectively.

## FINANCIAL INFORMATION

### (c) Revenue by delivery destinations

	FY2019		FY2020		FY2021		6M2021		6M2022	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>									
Jiangxi Province . . . . .	191,407	64.4	166,996	59.0	184,791	54.0	78,897	54.2	85,575	51.3
Hubei Province . . . . .	32,341	10.9	74,884	26.5	32,434	9.5	15,725	10.8	8,204	4.9
Zhejiang Province . . . . .	13,649	4.6	6,998	2.5	12,822	3.7	7,603	5.2	14,036	8.4
Sichuan Province (including										
Chongqing) . . . . .	28	0.0	8,143	2.9	74,071	21.7	25,309	17.4	39,430	23.6
Hunan Province . . . . .	31,542	10.6	11,922	4.2	12,150	3.6	6,291	4.3	9,041	5.4
Fujian Province . . . . .	7,516	2.5	5,815	2.1	10,709	3.1	5,518	3.8	4,620	2.8
Shaanxi Province . . . . .	5,128	1.7	3,629	1.3	4,324	1.3	1,922	1.3	1,375	0.8
Anhui Province . . . . .	1,277	0.4	463	0.2	1,024	0.3	355	0.2	411	0.2
Shandong Province . . . . .	—	—	130	0.0	1,119	0.3	400	0.3	663	0.4
Guangdong Province . . . . .	1	0.0	86	0.0	1,699	0.5	444	0.3	1,094	0.7
Jiangsu Province . . . . .	3,825	1.3	2,172	0.8	341	0.1	253	0.2	121	0.1
Other provinces, autonomous										
regions and municipalities										
(Note) . . . . .	10,684	3.6	1,651	0.5	6,514	1.9	2,878	2.0	2,386	1.4
Total . . . . .	<u>297,398</u>	<u>100.0</u>	<u>282,889</u>	<u>100.0</u>	<u>341,998</u>	<u>100.0</u>	<u>145,595</u>	<u>100.0</u>	<u>166,956</u>	<u>100.0</u>

*Note:* Other provinces, autonomous regions and municipalities comprise Hebei Province, Inner Mongolia Autonomous Region, Shanxi Province, Liaoning Province, Henan Province, Ningxia Hui Autonomous Region, Gansu Province, Jilin Province, Qinghai Province, Heilongjiang Province, Guangxi Zhuang Autonomous Region, Guizhou Province, Xinjiang Uygur Autonomous Region, Yunnan Province, Hainan Province, Beijing and Shanghai.

Fluctuation of our revenue by delivery destinations during the Track Record Period was mainly driven by the change of delivery destinations in accordance to instructions of our supermarket customers based on, to the best knowledge of our Directors, their procurement strategies, sales performance of particular outlets, supply chain and logistics arrangement in particular province and at particular point of time as well as their product promotion plans and sales events.

#### *Jiangxi Province*

For FY2019, FY2020, FY2021 and 6M2022, our sales to Jiangxi Province represented the largest proportion of our revenue, which accounted for approximately 64.4%, 59.0%, 54.0% and 51.3%.

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## FINANCIAL INFORMATION

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Our sales to Jiangxi Province decreased by approximately RMB24.4 million or 12.7% from approximately RMB191.4 million for FY2019 to approximately RMB167.0 million for FY2020. Such decrease was mainly attributable to the decrease in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB28.0 million. In FY2020, a large number of farmers' markets, grocery shops and convenience stores were closed due to the outbreak of COVID-19 in Wuhan, Hubei Province, Customer Group A, being a large-scale supermarket chain, acted as one of the major grocery suppliers to supply food and daily necessities to the local residents during the lockdown period. To ensure sufficient supplies to Hubei Province, Customer Group A requested our Group to increase deliveries to Hubei Province while reducing deliveries to their supermarket outlets in Jiangxi Province, as well as other provinces.

Our sales to Jiangxi Province increased by approximately RMB17.8 million or 10.7% from approximately RMB167.0 million for FY2020 to approximately RMB184.8 million for FY2021. Such increase was mainly attributable to the increase in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C of approximately RMB13.8 million, in which, among others, (i) the sales of pistachios increased by approximately RMB3.5 million; (ii) the sales of roasted duck neck series increased by approximately RMB2.0 million; and (iii) the sales of marinated chicken wing tips series increased by approximately RMB1.4 million.

Our sales to Jiangxi Province increased by approximately RMB6.7 million or 8.5% from approximately RMB78.9 million for 6M2021 to approximately RMB85.6 million for 6M2022. Such increase was mainly attributable to the increase in sales to Customer B of approximately RMB9.4 million, in which, among others, (i) the sales of lotus seeds increased by approximately RMB5.6 million; and (ii) the sales of black fungi increased by approximately RMB4.2 million, and partially offset by the decrease in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB1.6 million.

### *Hubei Province*

Our sales to Hubei Province increased by approximately RMB42.6 million or 131.9% from approximately RMB32.3 million for FY2019 to approximately RMB74.9 million for FY2020. Such increase was mainly attributable to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB46.0 million, in which, among others, (i) the sales of spicy kelp series increased by approximately RMB13.0 million; (ii) the sales of spicy bamboo shoots crisps series increased by approximately RMB12.1 million; and (iii) the sales of spicy enoki mushroom series increased by approximately

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## FINANCIAL INFORMATION

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RMB10.9 million. In FY2020, due to the outbreak of COVID-19, to ensure sufficient supplies to Hubei Province, Customer Group A requested our Group to increase deliveries to Hubei Province while reducing deliveries to their supermarket outlets in other provinces.

Our sales to Hubei Province decreased by approximately RMB42.5 million or 56.7% from approximately RMB74.9 million for FY2020 to approximately RMB32.4 million for FY2021. Such decrease was mainly attributable to the decrease in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB43.0 million, in which, among others, (i) the sales of fragrant lotus seeds decreased by approximately RMB21.4 million; (ii) the sales of spicy bamboo shoots crisps series decreased by approximately RMB14.9 million; and (iii) the sales of spicy kelp series decreased by approximately RMB13.0 million. Once the outbreak in Hubei Province became stabilised, our deliveries made to Customer Group A's supermarket outlets in Hubei Province significantly decreased while deliveries made to its supermarket outlets in Jiangxi Province and Shaanxi Province increased.

Our sales to Hubei Province decreased by approximately RMB7.5 million or 47.8% from approximately RMB15.7 million for 6M2021 to approximately RMB8.2 million for 6M2022. Such decrease was mainly attributable to the decrease in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB7.4 million, in which, among others, the sales of lotus seeds decreased by approximately RMB6.4 million.

### *Zhejiang Province*

Our sales to Zhejiang Province decreased by approximately RMB6.6 million or 48.5% from approximately RMB13.6 million for FY2019 to approximately RMB7.0 million for FY2020. Such decrease was mainly attributable to the decrease in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C of approximately RMB6.0 million, in which, among others, the sales of rice decreased by approximately RMB7.0 million.

Our sales to Zhejiang Province increased by approximately RMB5.8 million or 82.9% from approximately RMB7.0 million for FY2020 to approximately RMB12.8 million for FY2021. Such increase was mainly attributable to the increase in sales of pistachios of approximately RMB3.2 million attributable to several customers, including Customer Group C.

Our sales to Zhejiang Province increased by approximately RMB6.4 million or 84.2% from approximately RMB7.6 million for 6M2021 to approximately RMB14.0 million for 6M2022. Such increase was mainly attributable to the increase in sales order to Ningbo Haishu, a new non-supermarket customer since 2021 and one of our five largest customers for 6M2022, of approximately RMB11.0 million, in which, among others, (i) the sales of roasted duck neck series

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## FINANCIAL INFORMATION

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increased by approximately RMB6.1 million; and (ii) the sales of lotus seeds increased by approximately RMB4.0 million, and partially offset by the decrease in direct sales to Customer Group C and sales through our concessionary counters operated with Customer Group C of approximately RMB6.9 million, in which, among others, (i) the sales of pistachios decreased by approximately RMB2.5 million; (ii) the sales of black fungi decreased by approximately RMB1.1 million; and (iii) the sales of dried mushroom decreased by approximately RMB1.0 million.

### *Sichuan Province (including Chongqing)*

Leveraging our established relationship with Customer Group A, we successfully secured orders of snack products such as nuts and biscuits for its outlets in Sichuan Province (including Chongqing), as well as our spicy vegetable and meat snacks which our Directors believe that the spicy flavours of our snacks suit the local consumers' tastes and preferences, and accordingly our sales generated from Sichuan Province (including Chongqing) demonstrated an increasing trend during the Track Record Period.

Our sales to Sichuan Province (including Chongqing) increased significantly from approximately RMB28,000 for FY2019 to approximately RMB8.1 million for FY2020. Such increase was mainly attributable to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB8.1 million, in which, among others, the sales of pistachios increased by approximately RMB4.5 million.

Our sales to Sichuan Province (including Chongqing) increased significantly from approximately RMB8.1 million for FY2020 to approximately RMB74.1 million for FY2021. Such increase was mainly attributable to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB64.7 million, in which, among others, (i) the sales of spicy bamboo shoots crisps series increased by approximately RMB18.4 million; (ii) the sales of spicy enoki mushroom series increased by approximately RMB13.9 million; and (iii) the sales of spicy kelp series increased by approximately RMB13.0 million.

Our sales to Sichuan Province (including Chongqing) increased by approximately RMB14.1 million or 55.7% from approximately RMB25.3 million for 6M2021 to approximately RMB39.4 million for 6M2022. Such increase was mainly attributable to the increase in direct sales to Customer Group A and sales through our concessionary counters operated with Customer Group A of approximately RMB14.0 million, in which, among others, (i) the sales of lotus seeds increased by approximately RMB6.4 million; (ii) the sales of spicy kelp series increased by approximately RMB1.6 million; (iii) the sales of braised duck wings increased by approximately RMB1.5 million; and (iv) the sales of roasted duck neck series increased by approximately RMB1.3 million.

## FINANCIAL INFORMATION

### *Hunan Province*

Our sales to Hunan Province decreased by approximately RMB19.6 million or 62.2% from approximately RMB31.5 million for FY2019 to approximately RMB11.9 million for FY2020. Such decrease was mainly attributable to the decrease in direct sales of fragrant lotus seeds to Customer Group A and sales of fragrant lotus seeds through our concessionary counters operated with Customer Group A of approximately RMB19.0 million.

Our sales to Hunan Province remained relatively stable at approximately RMB11.9 million and RMB12.2 million for FY2020 and FY2021, respectively.

Our sales to Hunan Province increased by approximately RMB2.7 million or 42.9% from approximately RMB6.3 million for 6M2021 to approximately RMB9.0 million for 6M2022. Such increase was mainly attributable to the increase in direct sales of pistachios to Customer Group A and sales of pistachios through our concessionary counters operated with Customer Group A of approximately RMB1.8 million.

### *(d) Revenue by sales channels*

The table below sets out a breakdown of our revenue categorised by sales channel during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
	<i>(unaudited)</i>									
Retailers										
Supermarkets . . . . .	208,097	70.0	196,040	69.3	230,751	67.5	92,531	63.6	96,903	58.0
Grocery stores . . . . .	1,588	0.5	1,935	0.7	6,604	1.9	2,537	1.7	4,134	2.5
Subtotal . . . . .	209,685	70.5	197,975	70.0	237,355	69.4	95,068	65.3	101,037	60.5
Corporate customers . . . . .	57,215	19.2	42,251	14.9	51,261	15.0	22,376	15.4	34,964	21.0
Concessionary counters . . . . .	29,198	9.8	38,697	13.7	50,559	14.8	25,865	17.8	30,918	18.5
E-commerce . . . . .	841	0.3	3,944	1.4	2,728	0.8	2,190	1.5	37	0.0
Others (Note) . . . . .	459	0.2	22	0.0	95	0.0	96	0.0	—	N/A
Total . . . . .	297,398	100.0	282,889	100.0	341,998	100.0	145,595	100.0	166,956	100.0

*Note:* Others mainly refer to direct sales to individual customers who, to the best knowledge of our Directors, purchase our products for their own consumption.

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## FINANCIAL INFORMATION

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### *Retailers*

For FY2019, FY2020, FY2021 and 6M2022, our sale to retailers represented the largest share of our revenue, accounted for approximately 70.5%, 70.0%, 69.4% and 60.5%, respectively.

### *Supermarkets*

Our sale to supermarkets decreased from approximately RMB208.1 million for FY2019 to approximately RMB196.0 million for FY2020. Such decrease was mainly due to (i) the decrease in direct sale to Customer Group C by approximately RMB5.0 million of which the sale was shifted to concessionary counters sale; and (ii) the decrease in direct sale of grains products to Customer B by approximately RMB6.0 million.

During FY2021, our sale to supermarkets increased by approximately RMB34.8 million or 17.8%. Such increase was mainly attributable to increase in direct sale to Customer Group A by approximately RMB39.8 million in relation to our newly launched meat snacks. To the best knowledge of our Directors, such increase was mainly due to (i) bargain sales to certain supermarket customers during FY2021; and (ii) the increase in customer traffic in supermarkets after the COVID-19 relieved.

Our sale to supermarkets increased by approximately RMB4.4 million or 4.8% from approximately RMB92.5 million for 6M2021 to approximately RMB96.9 million for 6M2022. Such increase was mainly due to the increase in direct sales to Customer Group A (mainly to Sichuan Province (including Chongqing)) by approximately RMB5.7 million. Our Directors believe that the spicy flavours of our snacks suit the local consumers' tastes and preferences there, and therefore the corresponding increase in sales order.

### **Non-retailers**

#### *Corporate customers*

Our sale to corporate customers decreased by approximately RMB14.9 million or 26.0% for FY2020, such decrease was mainly due to decrease in sales to small-scale corporate customers which, to the best knowledge of our Directors, could not survive in the economic downturn during the COVID-19 pandemic.

During FY2021, our sale to corporate customers increased by approximately RMB9.0 million or 21.3%, such increase was mainly due to the increase of sale in dried aquatic products, in particular the increase in sale of dried cuttlefish by approximately RMB5.6 million for FY2021.



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## FINANCIAL INFORMATION

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Our sale to corporate customers increased by approximately RMB12.6 million or 56.3% for 6M2022. Such increase was mainly attributable to the increase in sale of roasted duck neck series of approximately RMB8.3 million from approximately RMB0.7 million for 6M2021 to approximately RMB9.1 million for 6M2022.

To the best knowledge of our Directors, the increase in our sale to corporate customers for FY2021 and 6M2022 was mainly attributable to (i) more gift giving among the business communities in light of the COVID-19 relief; (ii) our newly launched meat snacks during FY2021; and (iii) the increase in the number of corporate customers during the relevant year/period.

### *Concessionary counters*

Our sales over concessionary counters increased from approximately RMB29.2 million for FY2019 to approximately RMB38.7 million for FY2020. Such increase was mainly due to (i) approximately RMB5.0 million sale shifted from direct sales to supermarkets in relation to Customer Group C as discussed below; (ii) the increase in revenue by approximately RMB4.5 million generated from concessionary counters operated in Customer Group A's outlets which our Directors considered that such increase was mainly because Customer Group A had launched several marketing campaigns for nuts products; and (iii) in general, the number of concessionary counters of our Group as a whole increased from 94 for FY2019 to 120 for FY2020. In FY2020, the number of sales representatives and promoters decreased as compared with FY2019 and such decrease was mainly because our Group had recruited more promoters in FY2019 for promoting our new snack products including fragrant lotus seeds, spicy bamboo shoot crisps series and spicy kelp series, which was a new product category at that time and the Group considered that it would be important to devote more marketing resources to develop and promote this new product category for our Group's long term development. In FY2020, as consumers became more familiar with our brand and snack products, we gradually reduced the number of full-time promoters and no longer required temporary promoters. Therefore, notwithstanding such decrease in the number of sales representative and promoters in our Group as a whole in FY2020, our sales over concessionary counters increased and was mainly attributable to our sales of other products, such as pistachios.

During FY2021, our sales over concessionary counters increased by approximately RMB11.9 million, such increase was mainly due to (i) the increase in customer traffic in supermarkets after the COVID-19 relieved; and (ii) our strategy to focus our marketing resources on concessionary counters with heavy pedestrian flow and we have assigned more promoters to these concessionary counters.

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## FINANCIAL INFORMATION

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Our sales over concessionary counters increased by approximately RMB5.0 million or 19.3% from approximately RMB25.9 million for 6M2021 to approximately RMB30.9 million for 6M2022. Such increase was mainly due to the increase in sales over concessionary counters at Customer Group C's outlets by approximately RMB5.1 million. The number of our concessionary counters operated in Customer Group C's supermarkets increased to 57, all of which were situated in Jiangxi Province where our Directors considered we have relatively strong brand awareness.

Our Directors considered that sales over concessionary counters directly increased our brand exposure to the public. As at 31 December 2019, 2020 and 2021 and 30 June 2022, we had 94, 120, 120 and 121 concessionary counters, respectively. Despite the slowdown of the increase in number of concessionary counters in FY2021, our revenue for the corresponding period increased significantly, which is a result of our focused marketing resources on concessionary counters located at prominent commercial districts with heavy pedestrian flow while closing down concessionary counters that were less profitable.

### *E-commerce*

Our sales from E-commerce increased from approximately RMB0.8 million for FY2019 to approximately RMB3.9 million for FY2020. Such increase was mainly due to the stronger demand resulted from online consumers under lockdown measures during the COVID-19 pandemic.

Our sales from E-commerce decreased from approximately RMB3.9 million for FY2020 to approximately RMB2.7 million for FY2021.

Our sale from E-commerce decreased from approximately RMB2.2 million for 6M2021 to approximately RMB37,000 for 6M2022. Our Directors believe this was a result of consumers' preference for in-store shopping after the PRC government gradually relieved the pandemic prevention and control measures.

## FINANCIAL INFORMATION

### Cost of sales

Our cost of sales mainly comprised of (i) direct materials costs, (ii) production costs; (iii) direct labour costs; and (iv) others. The following table sets out a breakdown of our cost of sales for the years/periods indicated:

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Direct materials costs . . . . .	186,391	172,187	209,577	90,645	102,615
Production costs . . . . .	7,343	9,467	12,001	6,500	5,761
Direct labour costs . . . . .	7,310	11,065	11,820	6,295	4,882
(Reversal of) provision for sales return, net . . . . .	1,197	209	(51)	(270)	(100)
(Reversal of) provision for obsolete inventories . . . . .	(1,094)	(627)	171	—	(171)
	<u>201,147</u>	<u>192,301</u>	<u>233,518</u>	<u>103,170</u>	<u>112,987</u>

Direct materials costs was the largest component of our cost of sales and accounted for approximately 92.7%, 89.5%, 89.7% and 90.8% of the total cost of sales for FY2019, FY2020, FY2021 and 6M2022, respectively. Direct materials costs included but not limited to purchase of dried aquatic products, lotus seeds, fungi, chicken wing tips and duck necks. The decrease in direct materials costs by approximately RMB14.2 million or 7.6% from approximately RMB186.4 million for FY2019 to approximately RMB172.2 million for FY2020 was generally in line with the decrease in our revenue. The direct materials costs increased by approximately RMB37.4 million or 21.7% from approximately RMB172.2 million for FY2020 to approximately RMB209.6 million for FY2021, which was generally in line with the increase in our revenue. The increase in direct material costs by approximately RMB12.0 million or 13.2% from approximately RMB90.6 million for 6M2021 to approximately RMB102.6 million for 6M2022 was generally in line with the increase in our revenue.

Production costs mainly comprised of depreciation, utilities and production consumables. Our production costs increased from approximately RMB7.3 million for FY2019 to approximately RMB9.5 million for FY2020 and further increased to approximately RMB12.0 million for FY2021. Such increase was mainly due to the increase in utilities expenses of the Guangchang Plant, which is dedicated for the production of snacks, as our meat production line commenced operation in FY2021 and our sale of snacks was on an increasing trend during the Track Record Period. Our production costs decreased from approximately RMB6.5 million for 6M2021 to approximately RMB5.8 million for 6M2022. Such decrease was mainly attributable to the decrease in production volume for 6M2022 as compared with 6M2021 and therefore the associated energy cost decreased.

## FINANCIAL INFORMATION

Direct labour costs increased from approximately RMB7.3 million for FY2019 to approximately RMB11.1 million for FY2020, which was mainly attributable to the increase in the number of production staff (including temporary workers) from 357 as at 31 December 2019 to 421 as at 31 December 2020. Direct labour costs increased from approximately RMB11.1 million for FY2020 to approximately RMB11.8 million for FY2021, which was mainly attributable to the increase in average salary of staff related to production in FY2021. Direct labour costs decreased from approximately RMB6.3 million for 6M2021 to approximately RMB4.9 million for 6M2022, which was mainly attributable to the decrease in production volume for 6M2022 as compared with 6M2021 and therefore the associated labour cost decreased.

During FY2019, FY2020 and 6M2022, there were reversals of provision for obsolete inventories of approximately RMB1.1 million, RMB0.6 million and RMB0.2 million, respectively. Such reversals were mainly due to the increase in the estimated net realisable value of certain inventories as a result of a change in consumer preferences (i.e. certain obsolete inventories were subsequently purchased from customers).

Based on our best estimates, for illustrative purpose only, the table below shows the sensitivity of our profit before tax during the Track Record Period with regard to certain possible changes in the cost of direct materials during the same year/period, assuming all other variables remain constant:

<b>Hypothetical fluctuations</b> (Note 1)	<b>Change in direct materials costs</b> (Note 2)		
	<b>-/+ 5%</b>	<b>-/+ 10%</b>	<b>-/+ 15%</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Increase/(decrease) in profit before tax</b>			
FY2019 .....	9,320/(9,320)	18,639/(18,639)	27,959/(27,959)
FY2020 .....	8,609/(8,609)	17,219/(17,219)	25,828/(25,828)
FY2021 .....	10,479/(10,479)	20,958/(20,958)	31,437/(31,437)
6M2022 .....	5,131/(5,131)	10,262/(10,262)	15,392/(15,392)

Notes:

- (1) Hypothetical fluctuations in direct materials costs are assumed to be 5%, 10% and 15% for illustrative purpose.
- (2) Save for hypothetical fluctuations in direct materials costs, all other factors are assumed to remain unchanged.

### Gross profit and gross profit margin

For FY2019, FY2020, FY2021 and 6M2022, we recorded (i) gross profit of approximately RMB96.3 million, RMB90.6 million, RMB108.5 million and RMB54.0 million, respectively; and (ii) gross profit margin of approximately 32.4%, 32.0%, 31.7% and 32.3%, respectively.

## FINANCIAL INFORMATION

### (a) *Gross profit and gross profit margin — by product lines*

The following table sets forth a breakdown of gross profit and gross profit margin by product lines during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>
	(unaudited)									
Snacks . . . . .	32,757	25.5	43,551	31.7	59,189	34.6	21,973	29.8	26,887	34.7
Dried delicacies . . . . .	32,492	37.4	22,055	31.3	25,578	29.3	11,438	30.6	15,360	30.4
Dried aquatic products . . . . .	17,390	37.2	16,499	31.2	16,259	27.6	5,776	25.4	8,386	28.6
Grains . . . . .	11,509	40.0	7,114	39.7	6,416	30.0	2,837	27.0	2,772	33.9
Seasonings and others . . . . .	2,103	31.5	1,369	33.0	1,038	32.8	401	31.5	564	36.9
	<u>96,251</u>	<u>32.4</u>	<u>90,588</u>	<u>32.0</u>	<u>108,480</u>	<u>31.7</u>	<u>42,425</u>	<u>29.1</u>	<u>53,969</u>	<u>32.3</u>

#### *Snacks*

Our gross profit generated from sales of snacks increased by approximately RMB10.8 million or 33.0% from approximately RMB32.8 million in FY2019 to RMB43.6 million in FY2020 while gross profit margin increased from approximately 25.5% in FY2019 to 31.7% in FY2020. The increase in gross profit generated from snacks was mainly due to increase in revenue attributable to sale of snacks as discussed above. The increase in gross profit margin of snacks was mainly attributable to the increase in sales of certain products with relatively higher gross profit margin, such as spicy kelp series with gross profit margin of approximately 30.4% for FY2020, spicy enoki mushroom series with gross profit margin of approximately 42.0% for FY2020 and pistachios with gross profit margin of approximately 35.0% for FY2020, coupled with the decrease in sales of fragrant lotus seeds with relatively lower gross profit margin of approximately 25.7% for FY2020.

Our gross profit generated from sales of snacks further increased by approximately RMB15.6 million or 35.8% in FY2021 while gross profit margin steadily increased to approximately 34.6%. The increase in gross profit and gross profit margin generated from snacks was mainly attributable to our newly launched meat snacks in FY2021 with relatively higher gross profit margin, such as marinated chicken wing tips series with gross profit margin of approximately 60.3% for FY2021 and roasted duck neck series with gross profit margin of approximately 55.9% for FY2021.

Our gross profit generated from sales of snacks increased by approximately RMB4.9 million or 22.3% from approximately RMB22.0 million for 6M2021 to approximately RMB26.9 million for 6M2022, while gross profit margin increased from approximately 29.8% for 6M2021 to approximately 34.7% for 6M2022. The increase in gross profit and gross profit margin generated

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## FINANCIAL INFORMATION

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from snacks was mainly attributable to (i) the increase in sales of roasted duck neck series of approximately RMB11.4 million, with a relatively higher gross profit margin of approximately 35.1%; and (ii) the increase in sales of spicy bamboo shoot crisps series of approximately RMB0.7 million, with a relatively higher gross profit margin of approximately 35.4%.

### *Dried delicacies*

Our gross profit generated from sales of dried delicacies decreased by approximately RMB10.4 million or 32.0% from approximately RMB32.5 million in FY2019 to approximately RMB22.1 million in FY2020 which was mainly attributable to the decrease in sales volume of dried delicacies products as discussed above. The gross profit margin of dried delicacies decreased from approximately 37.4% in FY2019 to approximately 31.3% in FY2020 which was mainly attributable to (i) the decrease in gross profit margin of dried mushroom in FY2020, being one of our best selling dried delicacies products and contributed approximately RMB14.4 million to revenue of our dried delicacies products in FY2020, as the cost increased which outpaced the increase in the average selling price in FY2020; and (ii) the decrease in gross profit margin of black fungi in FY2020, also being one of our best selling dried delicacies products and contributed approximately RMB10.0 million to revenue of our dried delicacies products in FY2020, as the cost increased which outpaced the increase in the average selling price in FY2020. To the best knowledge of our Directors, the relevant costs of our products, where applicable, increased mainly due to the prolonged transportation of raw materials resulted from the COVID-19 during FY2020 and we were unable to fully pass on such increased costs to our customers given that the market is competitive and the customers, as well as the consumers, are generally price-sensitive and thereby reducing the gross profit margin.

Our gross profit generated from sales of dried delicacies increased by approximately RMB3.5 million or 15.8% in FY2021 while gross profit margin slightly decreased from approximately 31.3% in FY2020 to approximately 29.3% in FY2021. The increase in gross profit generated from dried delicacies was mainly due to the increase in average selling price of our dried delicacies products as discussed above. The slight decrease in gross profit margin was mainly attributable to the increase in revenue generated from sales of black fungi, which contributed approximately RMB12.1 million to the revenue of dried delicacies for FY2021, with decreased gross profit margin of approximately 27.9% for FY2020 to approximately 24.5% for FY2021 as the cost increased which outpaced the increase in the average selling price in FY2021. Our Directors believe that such increase in cost of black fungi was largely attributable to the increase in its production cost resulted from the rise in lumber price during FY2021 and we were unable to fully pass on such increased costs to our customers given that the market is competitive and the customers, as well as the consumers, are generally price-sensitive and thereby reducing the gross profit margin.

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## FINANCIAL INFORMATION

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Our gross profit generated from sales of dried delicacies increased by approximately RMB4.0 million or 35.1% from approximately RMB11.4 million for 6M2021 to approximately RMB15.4 million for 6M2022, while the gross profit margin remained relatively stable at approximately 30.6% and 30.4% for 6M2021 and 6M2022, respectively. Such increase in gross profit was mainly attributable to (i) the increase in gross profit of black fungi of approximately RMB1.0 million; and (ii) the increase in gross profit of dried mushroom of approximately RMB0.4 million.

### *Dried aquatic products*

Our gross profit generated from sales of dried aquatic products remained relatively stable at approximately RMB17.4 million and RMB16.5 million for FY2019 and FY2020, respectively. However, the gross profit margin decreased from approximately 37.2% in FY2019 to approximately 31.2% in FY2020. Such decrease in gross profit margin was mainly due to the increase in sales of dried cuttlefish with a relatively lower gross profit margin of approximately 28.9% in FY2020 which contributed approximately RMB43.4 million to the revenue of dried aquatic products for FY2020.

Our gross profit generated from sales of dried aquatic products remained relatively stable at approximately RMB16.5 million and RMB16.3 million in FY2020 and FY2021, respectively. However, the gross profit margin decreased from approximately 31.2% in FY2020 to approximately 27.6% in FY2021. Such decrease in gross profit margin was mainly attributable to the increase in the sales of dried whitebait with a decreased gross profit margin for FY2021. To the best knowledge of our Directors, the cost of dried whitebait increased significantly owing to the tightened supplies of baby fish fry during FY2021.

Our gross profit generated from sales of dried aquatic products increased by approximately RMB2.6 million or 44.8% from approximately RMB5.8 million for 6M2021 to approximately RMB8.4 million for 6M2022, and the gross profit margin increased from approximately 25.4% for 6M2021 to approximately 28.6% for 6M2022. Such increase in gross profit and gross profit margin was mainly attributable to the effects of (i) the increase in gross profit of dried cuttlefish of approximately RMB1.8 million, with a relatively higher gross profit margin of approximately 26.7%; (ii) the increase in gross profit of kelp of approximately RMB0.1 million, with a relatively higher gross profit margin of approximately 44.3%; and (iii) the increase in gross profit of dried shrimp of approximately RMB65,000, with a relatively higher gross profit margin of approximately 42.1%.

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## FINANCIAL INFORMATION

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### *Grains*

Our gross profit generated from sales of grains decreased by approximately RMB4.4 million or 38.3% from approximately RMB11.5 million in FY2019 to approximately RMB7.1 million in FY2020, mainly attributable to the decrease in sales volume of grains products in FY2020 as discussed above. The gross profit margin of grains remained relatively stable at approximately 40.0% and 39.7% in FY2019 and FY2020, respectively.

Our gross profit generated from sales of grains decreased by approximately RMB0.7 million or 9.9% in FY2021, and gross profit margin of our grains products decreased from approximately 39.7% in FY2020 to approximately 30.0% in FY2021. Such decrease in gross profit margin was mainly attributable to the increase in revenue generated from green beans, which contributed approximately RMB4.0 million to our revenue from sale of grains in FY2021 with a relatively lower gross profit margin of approximately 28.7%.

Our gross profit generated from sales of grains remained relatively stable at approximately RMB2.8 million and RMB2.8 million for 6M2021 and 6M2022, respectively, while the gross profit margin increased from approximately 27.0% for 6M2021 to approximately 33.9% for 6M2022. Such increase in gross profit margin was mainly due to the cost of certain products, including but not limited to green beans, decreased during 6M2022. To the best knowledge of our Directors, the purchase price of green beans surged during 6M2021 resulted from tightened supplies during the COVID-19 pandemic and subsequently reduced during 6M2022.

### *Seasonings and others*

Our gross profit generated from sales of seasonings and others decreased by approximately RMB0.7 million or 33.3% from approximately RMB2.1 million in FY2019 to approximately RMB1.4 million in FY2020. Such decrease was mainly attributable to the decrease in sales of seasonings and others as discussed above. The gross profit margin of seasonings and others slightly increased from approximately 31.5% in FY2019 to approximately 33.0% in FY2020. Such increase was mainly attributable to the increase in sales of certain sugar products with a relatively higher gross profit margin as the cost decreased during FY2020.

Our gross profit generated from sales of seasoning and others further decreased by approximately RMB0.4 million or 28.6% from approximately RMB1.4 million for FY2020 to approximately RMB1.0 million for FY2021. Such decrease was mainly attributable to the decrease in sales of seasonings and others as discussed above. The gross profit margin of seasonings and others remained relatively stable at approximately 33.0% and 32.8% in FY2020 and FY2021, respectively.



## FINANCIAL INFORMATION

Our gross profit generated from sales of seasoning and others increased by approximately RMB0.2 million or 50.0% from approximately RMB0.4 million for 6M2021 to approximately RMB0.6 million for 6M2022. Such increase was mainly attributable to the increase in sales of rock sugar of approximately RMB0.2 million. Besides, the gross profit margin increased from approximately 31.5% for 6M2021 to approximately 36.9% for 6M2022. Such increase was mainly attributable to the increase in sales of rock sugar with a relatively higher gross profit margin of approximately 37.7%, as the cost decreased during 6M2022 which resulted from reduced transportation cost as we changed to source from suppliers that are geographically closer to us.

### (b) *Gross profit and gross profit margin — by brand*

The following table sets forth a breakdown of gross profit and gross profit margin by brand during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>
							(unaudited)			
Own-branded products										
Shengyao (聲耀) . . . . .	66,304	32.2	67,457	32.4	77,909	35.2	28,778	32.6	44,752	33.7
Gangweifang (贛味坊) . . . . .	4,393	24.9	6,507	31.5	6,213	21.2	2,630	17.0	3,267	26.7
	70,697	31.6	73,964	32.3	84,122	33.6	31,408	30.3	48,019	33.2
Trading products . . . . .	25,554	34.5	16,624	30.8	24,358	26.6	11,017	26.4	5,950	26.9
	96,251	32.4	90,588	32.0	108,480	31.7	42,425	29.1	53,969	32.3

### ***Own-branded products***

#### *Shengyao (聲耀)*

Our gross profit for “Shengyao (聲耀)” products slightly increased from approximately RMB66.3 million for FY2019 to approximately RMB67.5 million for FY2020, while the gross profit margin remained relatively stable at approximately 32.2% and 32.4% for FY2019 and FY2020, respectively.

Our gross profit for “Shengyao (聲耀)” products increased significantly from approximately RMB67.5 million for FY2020 to approximately RMB77.9 million for FY2021, and the gross profit margin increased from approximately 32.4% for FY2020 to approximately 35.2% for FY2021. Such increase in both gross profit and gross profit margin was mainly attributable to the launch of our meat snacks, which generated gross profit of approximately RMB29.1 million with relatively

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## FINANCIAL INFORMATION

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higher average gross profit margin of approximately 47.9%. In particular, such increase was mainly attributable to the increase in sales of marinated chicken wing tips series and roasted duck necks series, which generated, in aggregate, gross profit of approximately RMB17.6 million with gross profit margin of approximately 60.3% and 55.9% for FY2021, respectively.

Our gross profit for “Shengyao (聲耀)” products increased significantly from approximately RMB28.8 million for 6M2021 to approximately RMB44.8 million for 6M2022, and the gross profit margin increased from approximately 32.6% for 6M2021 to approximately 33.7% for 6M2022. Such increase in both gross profit and gross profit margin was mainly attributable to (i) the increase in gross profit of roasted duck neck series of approximately RMB2.8 million with a relatively higher gross profit margin of approximately 35.1%; (ii) the increase in gross profit of dried cuttlefish of approximately RMB2.1 million with gross profit margin of approximately 26.7%; (iii) the increase in gross profit of spicy enoki mushroom series of approximately RMB1.4 million with a relatively higher gross profit margin of approximately 62.4%; and (iv) the increase in gross profit of black fungi of approximately RMB1.2 million with gross profit margin of approximately 23.4%.

### *Gangweifang (贛味坊)*

Among our products under the “Gangweifang (贛味坊)” brand, pistachios accounted for the largest proportion of over 30% in terms of revenue throughout the Track Record Period.

Our gross profit for “Gangweifang (贛味坊)” products increased from approximately RMB4.4 million for FY2019 to approximately RMB6.5 million for FY2020, and the gross profit margin increased from approximately 24.9% for FY2019 to approximately 31.5% for FY2020. Such increase was mainly attributable to the increase in sales of pistachios with a relatively stable average selling price of approximately RMB84.7 per kg and RMB85.7 per kg for FY2019 and FY2020, respectively, and coupled with a decreased cost from approximately RMB60.8 per kg for FY2019 to approximately RMB57.4 per kg for FY2020.

Our gross profit for “Gangweifang (贛味坊)” products remained relatively stable at approximately RMB6.5 million and RMB6.2 million for FY2020 and FY2021, respectively, while our gross profit margin for “Gangweifang (贛味坊)” products decreased from approximately 31.5% for FY2020 to approximately 21.2% for FY2021. Such decrease in gross profit margin was mainly attributable to the decrease in average selling price of pistachios from approximately RMB85.7 per kg for FY2020 to approximately RMB72.7 per kg for FY2021. To stay competitive with our competitors, we lowered the selling price of pistachios to our customers, while the cost of which remained relatively stable for FY2020 and FY2021.

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## FINANCIAL INFORMATION

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Our gross profit for “Gangweifang (贛味坊)” products increased from approximately RMB2.6 million for 6M2021 to approximately RMB3.3 million for 6M2022, while the gross profit margin increased from approximately 17.0% for 6M2021 to approximately 26.7% for 6M2022. Such increase in both gross profit and gross profit margin was primarily attributable to the increase in sales of pistachios with an increased average selling price from approximately RMB67.9 per kg for 6M2021 to approximately RMB96.8 per kg for 6M2022 which was mainly due to the increase in its sales to concessionary counters, in which the average selling price is generally higher, while the cost of which remained relatively stable for 6M2021 and 6M2022.

### *Trading products*

Our gross profit for trading products decreased from approximately RMB25.6 million for FY2019 to approximately RMB16.6 million for FY2020, and the gross profit margin also decreased from approximately 34.5% for FY2019 to approximately 30.8% for FY2020. Such decrease in gross profit was mainly attributable to the decrease in gross profit generated by dried whitebait by approximately RMB4.8 million and the decrease in gross profit generated by dried mushroom by approximately RMB3.2 million. The decrease in gross profit margin in FY2020 was primarily because of the decrease in gross profit contribution by dried whitebait, a product with relatively higher gross profit margin at approximately 49.1% in FY2019.

Our gross profit for trading products increased from approximately RMB16.6 million for FY2020 to approximately RMB24.4 million for FY2021, while the gross profit margin decreased from approximately 30.8% for FY2020 to approximately 26.6% for FY2021, which was mainly attributable to (i) the increase in gross profit of lotus seeds by approximately RMB6.6 million with a relatively lower gross profit margin of approximately 25.8%; and (ii) the increase in gross profit of almonds by approximately RMB1.0 million with a relatively lower gross profit margin of approximately 26.1%.

Our gross profit for trading products decreased from approximately RMB11.0 million for 6M2021 to approximately RMB6.0 million for 6M2022, while the gross profit margin remained relatively stable at approximately 26.4% and 26.9% for 6M2021 and 6M2022, respectively. Such decrease in gross profit was mainly attributable to the decrease in sales of trading products as discussed above.

## FINANCIAL INFORMATION

### (c) *Gross profit and gross profit margin — by own-branded snacks*

The following table sets forth a breakdown of gross profit and gross profit margin of our own-branded snacks products during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	<i>Gross profit</i> RMB'000	margin %	<i>Gross profit</i> RMB'000	margin %	<i>Gross profit</i> RMB'000	margin %	<i>Gross profit</i> RMB'000	margin %	<i>Gross profit</i> RMB'000	margin %
	(unaudited)									
Vegetables . . . . .	3,125	28.6	19,684	35.9	16,020	31.5	6,129	32.5	8,606	40.1
Meat . . . . .	—	N/A	—	N/A	29,078	47.9	8,573	43.2	13,254	34.4
Nuts, seeds and candied fruits . . . . .	<u>25,761</u>	24.3	<u>18,262</u>	28.2	<u>6,457</u>	21.2	<u>2,741</u>	17.0	<u>4,049</u>	28.8
	<u>28,886</u>	24.7	<u>37,946</u>	31.8	<u>51,555</u>	36.3	<u>17,443</u>	31.8	<u>25,909</u>	35.0

The gross profit of our own-branded snack products was on an increasing trend which increased from approximately RMB28.9 million for FY2019 to approximately RMB37.9 million for FY2020 and further to approximately RMB51.6 million for FY2021, and the gross profit margin increased from approximately 24.7% for FY2019 to approximately 31.8% for FY2020 and further to approximately 36.3% for FY2021. The gross profit of our own-branded snack products increased from approximately RMB17.4 million for 6M2021 to approximately RMB25.9 million for 6M2022. Such increase was mainly attributable to the increase in sales of our own-branded snacks products as mentioned above.

#### *Vegetables*

The increase in gross profit and gross profit margin of our own-branded vegetable snack products for FY2020 was mainly attributable to (i) the newly launched spicy enoki mushroom series in FY2020 with relatively higher gross profit margin of approximately 42.0%; (ii) the increase in gross profit of spicy bamboo shoots series of approximately RMB3.3 million with a relatively higher gross profit margin of approximately 35.1%; and (iii) the increase in gross profit of spicy kelp series of approximately RMB4.7 million with a relatively higher gross profit margin of approximately 30.4%.

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## FINANCIAL INFORMATION

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The decrease in gross profit of our vegetable snack products for FY2021 was mainly attributable to the decrease in sales as discussed above. The gross profit margin of our vegetable snack products decreased from approximately 35.9% for FY2020 to approximately 31.5% for FY2021. Such decrease was mainly attributable to the decrease in gross profit margin of spicy bamboo shoots crisps series and spicy kelp series as the cost of raw materials increased. To the best knowledge of our Directors, the supply of kelp decreased due to abnormal reproduction of algae in sea in Rongcheng City, Shandong Province, which is a major production base of kelp in China, during FY2021 while the average selling price of the relevant snack products remained relatively stable.

The increase in gross profit of our vegetable snack products for 6M2022 was mainly attributable to the increase in sales as discussed above. And the gross profit margin of our own-branded vegetable snack products increased from approximately 32.5% for 6M2021 to approximately 40.1% for 6M2022, which was mainly due to (i) the gross profit margin of spicy enoki mushroom series increased to approximately 62.4% as the cost of which decreased due to the replacement of another type of enoki mushrooms at cheaper cost while the average selling price remained relatively stable; and (ii) the gross profit margin of spicy bamboo shoots crisps series increased to approximately 35.4% as the average selling price of which increased because (a) the gross profit margin of spicy bamboo shoots crisps series generated from sales to supermarkets, the sales of which accounted for over 95% of the sales of spicy bamboo shoots crisps series during 6M2022, increased as a result of the slight increase in average selling price from approximately RMB35.5 per kg for 6M2021 to approximately RMB36.1 per kg for 6M2022, coupled with the slight decrease in cost from approximately RMB24.6 per kg for 6M2021 to approximately RMB23.0 per kg for 6M2022; and (b) there were no sales of spicy bamboo shoots crisps series through e-commerce in 6M2022 given that the average selling price of spicy bamboo shoots crisps series through e-commerce sales was relatively low in 6M2021.

### *Meat*

The gross profit of our meat snack products amounted to approximately RMB29.1 million, and the gross profit margin of which amounted to approximately 47.9% for FY2021.

The increase in gross profit of our meat snack products for 6M2022 was mainly attributable to the increase in sales as discussed above. The gross profit margin of our meat snack products decreased from approximately 43.2% for 6M2021 to approximately 34.4% for 6M2022, which was mainly due to (i) the gross profit margin of roasted duck neck series decreased to approximately 35.1% as the average selling price of which decreased as there was an increase in sales to Ningbo Haishu, a new customer since 2021 and one of our five largest customers for 6M2022, with a relatively lower average selling price for its bulk purchases during 6M2022 and to establish stable relationship while the cost remained relatively stable; and (ii) the gross profit margin of chicken

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## FINANCIAL INFORMATION

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feet decreased to approximately 25.2% as the increase in cost outpaced the increase in average selling price in 6M2022. To the best knowledge of our Directors, in general, it takes time to negotiate with our supermarket customers for adjusting the selling price of our products and therefore the increase in cost may outpaced the increase in selling price, if any, in a particular period of time.

### *Nuts, seeds and candied fruits*

The decrease in gross profit of our own-branded nuts, seeds and candied fruits snack products for FY2020 was mainly attributable to the decrease in sales of fragrant lotus seeds of approximately RMB47.1 million as discussed above. However, the gross profit margin of our own-branded nuts, seeds and candied fruits snack products increased from approximately 24.3% for FY2019 to approximately 28.2% for FY2020 which was mainly attributable to the increase in sales of pistachios with a relatively higher gross profit margin of approximately 35.0%.

The decrease in gross profit of our own-branded nuts, seeds and candied fruits snack products for FY2021 was mainly attributable to the decrease in sales as discussed above. The gross profit margin of our own-branded nuts, seeds and candied fruits snack products decreased from approximately 28.2% for FY2020 to approximately 21.2% during FY2021. Such decrease was mainly attributable to (i) the cessation of the production line of fragrant lotus seeds; and (ii) the decrease in gross profit margin of pistachios as the average selling price of which decreased to reflect the market conditions and customer preferences at the relevant time in order to maintain its competitiveness while the cost remained relatively stable.

The increase in gross profit of our own-branded nuts, seeds and candied fruits snack products for 6M2022 was mainly attributable to the increase in sales as discussed above. The gross profit margin of our own-branded nuts, seeds and candied fruits snack products increased from approximately 17.0% for 6M2021 to approximately 28.8% for 6M2022, mainly attributable to the gross profit margin of pistachios increased to approximately 40.0% as the average selling price of which increased as we increased sales of pistachios at concessionary counters in which the average selling price is generally higher, coupled with the decrease in the relevant cost.

## FINANCIAL INFORMATION

### (d) *Gross profit and gross profit margin — by sales channels*

The following table sets forth a breakdown of gross profit and gross profit margin by sales channels during the Track Record Period:

	FY2019		FY2020		FY2021		6M2021		6M2022	
	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>	<i>Gross profit</i> RMB'000	<i>margin %</i>
	<i>(unaudited)</i>									
<b>Retailers</b>										
Supermarkets . . . . .	62,569	30.1	56,819	29.0	72,990	31.6	26,858	29.0	31,206	32.2
Grocery stores . . . . .	804	50.6	913	47.2	1,393	21.1	241	9.5	1,210	29.3
Subtotal . . . . .	63,373	30.2	57,732	29.2	74,383	31.3	27,099	28.5	32,416	32.1
Corporate customers . . . .	19,390	33.9	14,763	34.9	14,662	28.6	5,574	24.9	9,663	27.6
Concessionary counters . .	13,190	45.2	16,697	43.1	18,599	36.8	9,076	35.1	11,861	38.4
E-commerce . . . . .	147	17.5	1,394	35.3	811	29.7	650	29.7	29	77.9
Others ( <i>Note</i> ) . . . . .	151	32.9	2	9.1	25	26.3	26	27.4	—	N/A
<b>Total . . . . .</b>	<b>96,251</b>	<b>32.4</b>	<b>90,588</b>	<b>32.0</b>	<b>108,480</b>	<b>31.7</b>	<b>42,425</b>	<b>29.1</b>	<b>53,969</b>	<b>32.3</b>

*Note:* Others mainly refer to direct sales to individual customers who, to the best knowledge of our Directors, purchase our products for their own consumption.

Our gross profit and gross profit margin for different sales channels largely depend on the mix of products sold under the respective sales channel, which in turn depend on the respective demand of our particular products during the period.

#### ***Retailers***

##### *Supermarkets*

The gross profit for direct sales made to supermarkets decreased from approximately RMB62.6 million for FY2019 to approximately RMB56.8 million for FY2020, and the gross profit margin also slightly decreased from approximately 30.1% for FY2019 to approximately 29.0% for FY2020. The decrease in both gross profit and gross profit margin for direct sales made to supermarkets was mainly attributable to the decrease in gross profit generated from Customer B by approximately RMB6.1 million, in particular a decline in gross profit generated from dried whitebait by approximately RMB4.2 million with a gross profit margin of approximately 28.4%.

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## FINANCIAL INFORMATION

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The gross profit for direct sales made to supermarkets increased from approximately RMB56.8 million for FY2020 to approximately RMB73.0 million for FY2021, while the gross profit margin slightly increased to approximately 31.6% for FY2021. The increase in both gross profit and gross profit margin was mainly due to the increase in sales of our newly launched meat snacks, which generally have a higher gross profit margin as discussed above.

The gross profit for direct sales made to supermarkets increased from approximately RMB26.9 million for 6M2021 to approximately RMB31.2 million for 6M2022, while the gross profit margin increased from approximately 29.0% for 6M2021 to approximately 32.2% for 6M2022. The increase in both gross profit and gross profit margin was mainly attributable to (i) the increase in gross profit of spicy enoki mushroom of approximately RMB1.3 million with a relatively higher gross profit margin of approximately 62.9%; (ii) the increase in gross profit of lotus seeds of approximately RMB1.6 million with gross profit margin of approximately 29.6%; and (iii) the increase in gross profit of dried cuttlefish of approximately RMB0.8 million with gross profit margin of approximately 24.4%.

### *Grocery stores*

Gross profit for sales to grocery stores amounted to approximately RMB0.8 million, RMB0.9 million, RMB1.4 million, RMB0.2 million and RMB1.2 million, accounting for approximately 0.8%, 1.0%, 1.3%, 0.6% and 2.2% of the total gross profit for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively. The gross profit margin for sale to grocery stores was approximately 50.6%, 47.2%, 21.1%, 9.5% and 29.3% for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively. During the Track Record Period, sales to grocery stores accounted for an insignificant portion of our revenue, accounting for 0.5%, 0.7%, 1.9%, 1.7% and 2.5% of our revenue for FY2019, FY2020, FY2021, 6M2021 and 6M2022, respectively.

In FY2019 and FY2020, our sales to grocery stores were substantially made up of dried food products, and the gross profit margin for sale to grocery stores maintained at relatively higher levels with a slight decrease from 50.6% in FY2019 to 47.2% in FY2020, which was primarily due to the increase in costs of green beans. In FY2021, our sale to grocery stores increased by approximately RMB4.7 million, or approximately 241.3%, which were mainly made up of sale of snacks. To develop the snack food market, we sold meat snacks, which was a new product series launched in the first half of 2021, to grocery store customers at relatively low prices to penetrate our brands and snack food products to different group of end customers, resulting in the decrease of gross profit margin of sales to grocery stores to approximately 9.5% in 6M2021. In the second half of 2021, as our meat snacks gained wider acceptance, we began to raise prices of our meat snacks to our grocery store customers, resulting in an improvement of gross profit margin of sales to grocery stores to approximately 21.1% in FY2021 and 29.3% in 6M2022.



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## FINANCIAL INFORMATION

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From the business perspective of our Company, even though grocery stores customers are generally operating in a smaller scale than our supermarkets or corporate customers, they are more widely spread within the mainland China, and are considered to be able to access to a different group of end customers. Such sale to grocery store customers is beneficial to us as we could penetrate our brands and products across different provinces in the PRC, and expand our product presence and brand awareness to areas outside Jiangxi Province through sales to a different group of end customers via these grocery store customers. As these smaller scale grocery stores customers are perceivably more sensitive to our product pricing, and given our strategy of expanding our customer reach through sale to these grocery stores customers, so long as the sale to these grocery store customers is generally profitable, and given the insignificant contribution to our revenue, our Company believes that the degree of profitability, and i.e. gross profit margin of sales to these grocery store customers, is not of prime concern to our Company. Therefore, when we negotiated sales to the grocery store customers on an arm's length basis, we did not solely focus on the gross profit margin of such sales, but instead bearing in mind the aforementioned factors from longer term business perspectives of our Company.

### *Non-retailers*

#### *Corporate customers*

Our gross profit for corporate customers decreased from approximately RMB19.4 million for FY2019 to approximately RMB14.8 million for FY2020, while the gross profit margin increased from approximately 33.9% for FY2019 to approximately 34.9% for FY2020, which was mainly due to (i) the decrease in gross profit of black fungi from approximately RMB3.5 million for FY2019 to approximately RMB0.5 million for FY2020, while the gross profit margin of such product increased from approximately 43.3% to approximately 43.7%; and (ii) the decrease in gross profit of our dried mushroom products from approximately RMB2.1 million for FY2019 to approximately RMB1.5 million for FY2020, while the gross profit margin of such product increased from approximately 39.8% for FY2019 to approximately 50.1% for FY2020.

Our gross profit for corporate customers remained relatively stable at approximately RMB14.8 million for FY2020 and RMB14.7 million for FY2021, while our gross profit margin for corporate customers decreased from approximately 34.9% for FY2020 to approximately 28.6% for FY2021, which was mainly due to our competitive pricing strategy to offer our newly launched meat products to corporate customers at discounts to promote such products. Our Directors considered that, by offering competitive prices to our corporate customers, we will be able to better penetrate the snack market by leveraging the network of our corporate customers to raise awareness of our meat snacks.

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## FINANCIAL INFORMATION

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Our gross profit for corporate customers increased from approximately RMB5.6 million for 6M2021 to approximately RMB9.7 million for 6M2022, and gross profit margin increased from approximately 24.9% for 6M2021 to approximately 27.6% for 6M2022, which was mainly due to (i) the increase in gross profit of roasted duck neck series of approximately RMB1.9 million with gross profit margin of approximately 22.5%; (ii) the increase in gross profit of dried cuttlefish of approximately RMB0.5 million, with a relatively higher gross profit margin of approximately 28.3%; and (iii) the increase in gross profit of marinated chick wing tips series of approximately RMB0.1 million with a relatively higher gross profit margin of approximately 32.8%.

### *Concessionary counters*

Our gross profit for sales over concessionary counters increased from approximately RMB13.2 million for FY2019 to approximately RMB16.7 million for FY2020, while the gross profit margin remained relatively stable at approximately 45.2% and 43.1% for FY2019 and FY2020, respectively. Such increase in gross profit was mainly attributable to the increase in gross profit attributable to Customer Group A and Customer Group C by approximately RMB4.6 million for FY2020 as a result of the increase in number of concessionary counters in their stores.

Our gross profit for sales over concessionary counters increased to approximately RMB18.6 million for FY2021, while the gross profit margin decreased to approximately 36.8% for FY2021. The increase in gross profit and decrease in gross profit margin was mainly attributable to the increase in sales of certain products with relatively lower gross profit margin, such as dried cuttlefish, biscuits and fungi, which outweighed the increase in sales of our meat snacks products with relatively higher gross profit margin. The gross profit margin of our dried cuttlefish, biscuits and fungi ranged from approximately 19.5% to 33.6% for FY2021.

Our gross profit for sales over concessionary counters increased from approximately RMB9.1 million for 6M2021 to approximately RMB11.9 million for 6M2022, and the gross profit margin increased slightly from approximately 35.1% for 6M2021 to approximately 38.4% for 6M2022. The increase in gross profit and gross profit margin was primarily due to (i) the increase in gross profit of pistachios of approximately RMB1.3 million with a relatively higher gross profit margin of approximately 48.5%; and (ii) the increase in gross profit of roasted duck neck series of approximately RMB0.5 million with a relatively higher gross profit margin of approximately 64.2%.

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## FINANCIAL INFORMATION

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Our differences in gross profit margins for direct sales to supermarkets and sales over concessionary counters in supermarkets were the result of different sales model and recognition of revenue between (i) direct sales to supermarkets; and (ii) sales over concessionary counters in supermarkets. Please refer to the paragraph headed “Business — Sales Network — Retailers — Our relationship with supermarkets” in this prospectus for details. Based on that (i) our revenue derived from direct sales to supermarkets are recognised net of the lump-sum fees charged by our supermarket customers, whereas no such deduction was made to our revenue derived from sales over concessionary counters; (ii) our promotional fees regarding sales over concessionary counters charged by supermarkets are recorded as our marketing and promotion expenses under distribution and selling expenses; (iii) we generally charged lower product prices against supermarkets under direct sales to them as we offered bulk purchase discount to supermarket customers with selling prices lower than that of the product prices (i.e. at retail prices) we charged under sales over concessionary counter model; and (iv) differences in product mix throughout the Track Record Period, our gross profit margin of sales over concessionary counters in supermarkets was generally higher than that of our gross profit margin of direct sales to supermarkets.

### *E-commerce*

Our gross profit for E-commerce increased from approximately RMB0.1 million for FY2019 to approximately RMB1.4 million for FY2020 but decreased to approximately RMB0.8 million for FY2021, and the gross profit margin increased from approximately 17.5% for FY2019 to approximately 35.3% for FY2020, which was mainly due to the increase of gross profit generated from pistachios and watermelon seeds with relatively higher gross profit margin. The gross profit margin decreased to approximately 29.7% for FY2021, which was mainly due to the decrease of gross profit generated from pistachios by RMB0.9 million with relatively higher gross profit margin.

Our gross profit for E-commerce decreased from approximately RMB0.7 million for 6M2021 to approximately RMB29,000 for 6M2022, while the gross profit margin increased from approximately 29.7% for 6M2021 to approximately 77.9% for 6M2022, which was mainly due to the effects of (i) the decrease in gross profit generated from dried mango of approximately RMB0.3 million; and (ii) there were sales concentrated with the relatively higher gross profit margin products, such as meat snacks, in 6M2022.

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## FINANCIAL INFORMATION

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### Other revenue

The following table sets forth a breakdown of other revenue of our Group for the years/periods indicated:

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Government grants . . . . .	4,122	4,620	3,690	3,256	100
Interest income from bank deposits . . . . .	125	273	307	161	188
Rental income . . . . .	110	220	184	110	—
Imputed interest on government grant receivable . . . . .	78	40	—	—	—
Others . . . . .	65	—	—	—	—
	<u>4,500</u>	<u>5,153</u>	<u>4,181</u>	<u>3,527</u>	<u>288</u>

Other revenue mainly comprised government grants, interest income from bank deposits and rental income. Government grants were one-off in nature and mainly represented grants received from the PRC local government authority as subsidies to our Group, including (i) a three-year subsidy of approximately RMB875,000 per year as an incentive of agricultural development for our 10-year lease of a farmland over 3,000 mu, i.e. over 2,000,000 sq.m.; (ii) government grant related to successful listing on the NEEQ for FY2019 and FY2020 which does not have other unfulfilled obligations; and (iii) government grant for revenue growth for FY2020 which does not have other unfulfilled obligations.

Other revenue increased from approximately RMB4.5 million for FY2019 to approximately RMB5.2 million for FY2020, which was mainly due to the increase in government grants received of approximately RMB0.5 million.

Other revenue decreased to approximately RMB4.2 million for FY2021, which was mainly attributable to the decrease in government grants received by approximately RMB0.9 million.

Other revenue decreased from approximately RMB3.5 million for 6M2021 to approximately RMB0.3 million for 6M2022, primarily due to the decrease in government grants received by approximately RMB3.2 million, in particular (i) government grants of approximately RMB2.0 million in relation to the incentive of agricultural development as mentioned above was recognised in 6M2021, which was originally recognised on a yearly basis across the 10-year lease term from 2019 to 2028, due to early termination of the aforesaid lease as the PRC government reclaimed such farmland. As confirmed by the PRC local government authority, the aforesaid incentive

## FINANCIAL INFORMATION

received was non-recourse in nature and no refund will be required even though the sublease arrangements have been terminated as such termination was initiated by the PRC local government authority to reclaim the relevant farmland; and (ii) the government grants of approximately RMB0.9 million in relation to the optimisation of traditional industry recognised in 6M2021 which was one-off in nature.

### Other gain and losses

The following table sets forth a breakdown of other gain and losses of our Group for the years/periods indicated:

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Reversal for the provision of social insurance and housing provident fund . . . . .	2,937	3,537	1,179	607	318
Gain on changes in fair value of investment property . . . . .	70	160	1,100	1,010	—
Gain from early termination of subleases . . . . .	—	—	1,782	—	—
Exchange loss, net . . . . .	—	(29)	—	—	—
Losses on disposals of property, plant and equipment . . . . .	(74)	(13)	(264)	(263)	(52)
Loss from net investment in subleases . . . . .	(1,920)	—	—	—	—
	<u>1,013</u>	<u>3,655</u>	<u>3,797</u>	<u>1,354</u>	<u>266</u>

As advised by our PRC Legal Advisers, according to the Regulation on Labour Security Supervision (《勞動保障監察條例》), which was promulgated on 1 November 2004 and became effective on 1 December 2004, where an act of violation against labour security laws, regulations or rules is neither found by the labour security administration nor reported or complained by others within two years, the labour security administration shall no longer investigate it. The reversal for the provision of social insurance and housing provident fund during the Track Record Period represents the non-reported or non-complained staff social insurance and housing provident fund aged over the two years retrospective liability period which the possibility being penalised for the unpaid contribution no longer exist.

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## FINANCIAL INFORMATION

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From FY2019 to FY2021, we leased a farmland from the government at an annual rental of RMB450 per mu and sublease such land to the farmers at an annual rental of RMB350 per mu for a term of ten years from 2019 to 2028, resulting in a loss from net investment in subleases according to HKFRS 16 in FY2019. We leased the farmland from the government as we were required to lease over 3,000 mu land in agricultural use for ten years for our government grants received as an incentive of agricultural development, details of which is set out in the paragraph headed “Description of Selected Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Other revenue” in this section. Pursuant to the sublease agreement, we would have priority, but not an obligation, to purchase agricultural products including lotus seeds produced by the sub-leasees. Our Directors consider such arrangement was commercially beneficial to the Group to secure priority in stable supply of raw materials. In FY2021, the farmland was reclaimed by the PRC government. As a result, the relevant lease or sublease agreements were terminated by mutual consent, and we had no further liability under the aforesaid agreements. Accordingly, a gain from early termination of the subleases was recognised in FY2021.

Other gain and losses increased from approximately RMB1.0 million for FY2019 to approximately RMB3.7 million for FY2020, which was mainly attributable to (i) the decrease in loss from net investment in subleases by approximately RMB1.9 million; and (ii) the increase in reversal for the provision of social insurance and housing provident fund by approximately RMB0.6 million.

Other gain and losses increased to approximately RMB3.8 million for FY2021. Such increase was mainly attributable to (i) the increase in gain from early termination of subleases of approximately RMB1.8 million; and (ii) the increase in gain on change in fair value of investment property of approximately RMB0.9 million, partially offset by the decrease in the reversal for the provision of social insurance and housing provident fund of approximately RMB2.4 million.

Other gains and losses decreased from approximately RMB1.4 million for 6M2021 to approximately RMB0.3 million for 6M2022. Such decrease was primarily due to there was no investment property since 2022 and therefore no gain on changes in fair value of investment property recognised for 6M2022.

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## FINANCIAL INFORMATION

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### Distribution and selling expenses

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

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Staff costs . . . . .	13,424	11,401	15,820	7,247	7,094
Delivery and inspection . . . . .	3,869	3,184	4,849	2,287	2,119
Marketing and promotion . . . . .	3,175	3,221	4,758	2,777	2,797
Office expenses and others . . . . .	1,409	2,508	2,797	1,682	1,271
	<u>21,877</u>	<u>20,314</u>	<u>28,224</u>	<u>13,993</u>	<u>13,281</u>

Distribution and selling expenses comprised of staff costs, delivery and inspection, marketing and promotion, and office expenses and others.

Our distribution and selling expenses decreased from approximately RMB21.9 million for FY2019 to approximately RMB20.3 million for FY2020, which was mainly attributable to the decrease in staff costs by approximately RMB2.0 million as a result of the decrease in number of our sales representatives and promoters.

Our distribution and selling expenses increased from approximately RMB20.3 million for FY2020 to approximately RMB28.2 million for FY2021, which was mainly due to (i) the increase in staff costs by approximately RMB4.4 million due to the increase in number of our sales representatives and promoters; and (ii) the increase in cost of delivery and inspection by approximately RMB1.7 million which was generally in line with the increase in our revenue.

Our distribution and selling expenses remained relatively stable at approximately RMB14.0 million and RMB13.3 million for 6M2021 and 6M2022, respectively.

## FINANCIAL INFORMATION

### Administrative expenses

Administrative expenses mainly comprised of research and development, staff cost, legal and professional expenses, depreciation and amortisation, other taxes, entertainment and transportation expenses, office expenses and others. The following table sets forth a breakdown of our administrative expenses for the years/periods indicated:

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Staff costs . . . . .	3,210	3,600	4,787	1,997	2,404
Other taxes . . . . .	1,468	1,614	1,778	452	1,208
Entertainment and transportation expenses . . . . .	1,232	1,238	1,375	696	958
Depreciation and amortisation . . . . .	1,487	1,290	1,273	597	617
Research and development . . . . .	9,491	10,225	10,386	4,353	6,142
Utility expenses . . . . .	252	147	190	100	70
Legal and professional expenses . . . . .	1,936	544	465	291	313
Maintenance expenses . . . . .	370	992	1,508	1,037	90
Office expenses and others . . . . .	969	854	1,368	824	1,296
	<u>20,415</u>	<u>20,504</u>	<u>23,130</u>	<u>10,347</u>	<u>13,098</u>

Our administrative expenses slightly increased from approximately RMB20.4 million for FY2019 to approximately RMB20.5 million for FY2020, which was mainly due to (i) the increase in research and development cost by approximately RMB0.7 million as a result of the increase in number of staff related to research and development from 44 as at 31 December 2019 to 45 as at 31 December 2020 and the increase in cost of product testing by approximately RMB0.4 million; (ii) the increase in staff costs by approximately RMB0.4 million as a result of the increase in number of administrative staff from 44 as at 31 December 2019 to 45 as at 31 December 2020; and (iii) the increase in maintenance expenses by approximately RMB0.6 million in respect of machineries in Guangchang Plant; partially offset by the decrease in legal and professional expenses by approximately RMB0.9 million due to the one-off professional services fee incurred for delisting from NEEQ in FY2019.



## FINANCIAL INFORMATION

Our administrative expenses increased from approximately RMB20.5 million for FY2020 to approximately RMB23.1 million for FY2021, which was mainly due to (i) the increase in staff costs of approximately RMB1.2 million as a result of the increase in number of administrative staff from 40 in FY2020 to 49 in FY2021; and (ii) the increase in maintenance expenses of approximately RMB0.5 million in respect of machineries in Guangchang Plant.

Our administrative expenses increased from approximately RMB10.3 million for 6M2021 to approximately RMB13.1 million for 6M2022, which was mainly due to the increase in research and development cost of approximately RMB1.8 million.

### Finance costs

The following table sets forth a breakdown of our finance costs for the years/periods indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2021</u>	<u>6M2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Interest expenses on					
bank and					
other borrowings . . . . .	7,255	7,519	5,966	3,162	1,813
Guarantee fee . . . . .	110	68	22	—	—
Interest expenses on					
lease liabilities . . . . .	165	173	162	80	1
	<u>7,530</u>	<u>7,760</u>	<u>6,150</u>	<u>3,242</u>	<u>1,814</u>

Our finance costs mainly represented interest expenses on bank and other borrowings. During the Track Record Period, our finance costs were approximately RMB7.5 million, RMB7.8 million, RMB6.2 million and RMB1.8 million, respectively. The increase in finance costs for FY2020 was generally in line with the increase in bank and other borrowings as at 31 December 2020. The decrease in finance costs for FY2021 was due to the decrease in average amount of bank and other borrowings for FY2021. The decrease in finance costs for 6M2022 as compared to 6M2021 was mainly due to the decrease in interest expenses on bank and other borrowings as a result of the decrease in average amount of bank and other borrowings for 6M2022.

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## FINANCIAL INFORMATION

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### Taxation

Our Group is subject to income tax on an entity basis on profits arising in or derived from the tax jurisdictions in which members of our Group are domiciled and operate. Pursuant to the rules and regulations of the Cayman Islands and BVI, our listing entity incorporated in the Cayman Islands and our subsidiary incorporated in BVI are not subject to any income tax.

Hong Kong profits tax for our subsidiary incorporated in Hong Kong has been provided at the rate of 16.5% on the estimated assessable profits.

Pursuant to the EIT Law and related regulations, enterprises operate in China are generally subject to EIT at a rate of 25% on the taxable profit. Enterprises recognised as a “high and new technology enterprise” (the “HNTTE”) are entitled to a preferential tax rate of 15% for three years as long as the HNTTE status is valid, and qualifying enterprises may re-apply such preferential tax rate for an additional three years provided that their business operations continue to qualify for the HNTTE status. Jiangxi Zhengwei was recognised as HNTTE in 2017 and successfully renewed its HNTTE status for three years in 2020. Jiangxi Zhengwei will commence the renewal of its HNTTE status close to the expiry date, and on the basis that there is no amendment to the requirement for the recognition of HNTTE status, we do not foresee any impediment for such renewal. Guangchang Zhenglian was recognised as HNTTE in 2019 and successfully renewed its HNTTE status for three years in 2022. As a result, Jiangxi Zhengwei and Guangchang Zhenglian were subject to a preferential tax rate of 15% during the Track Record Period.

Furthermore, according to Clause 30(1) of the EIT Law which issued in 2018 and related regulations, research and development cost is deductible for PRC corporate income tax. A manufacturing company is entitled to an additional 75% corporate income tax deduction applicable on the research and development expenses for 2019 and 2020 and an additional 100% corporate income tax deduction applicable on the research and development expenses since 2021.

## FINANCIAL INFORMATION

The income tax expense for the Track Record Period can be reconciled to the profit before income tax expense per the consolidated statements of profit or loss and the comprehensive income as follows:

	FY2019	FY2020	FY2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax expense . . . . .	48,262	47,313	57,844	22,722
Tax calculated at the PRC statutory tax rate of 25% . . . . .	12,066	11,837	14,461	5,680
Tax effect of revenue not taxable for tax purposes . . . . .	(2,620)	(1,364)	(2,380)	(2,381)
Tax effect of expenses not deductible for purposes . . . . .	119	95	117	116
Effect of tax exemptions granted to PRC subsidiaries . . . . .	(511)	(2,410)	(1,189)	(54)
Tax incentives for research and development expenses available for subsidiaries incorporated in the PRC . . .	(1,728)	(1,875)	(1,902)	(1,517)
Tax losses/temporary difference not recognised . . . . .	(9)	91	445	9
Income tax expenses . . . . .	7,317	6,374	9,552	1,853
Effective tax rate . . . . .	15.2%	13.5%	16.5%	8.2%

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## FINANCIAL INFORMATION

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Our taxation comprised of (i) profit tax expenses of EIT; and (ii) deferred tax expenses. Our taxation decreased by approximately RMB0.9 million or 12.3% from approximately RMB7.3 million for FY2019 to approximately RMB6.4 million for FY2020. The decrease was primarily due to the decrease in profit before tax of approximately RMB1.0 million, and the decrease in deferred tax assets. Our taxation increased from approximately RMB6.4 million for FY2020 to approximately RMB9.6 million for FY2021, which was mainly due to the increase in profit before tax of approximately RMB10.5 million. Our effective tax rate was approximately 15.2%, 13.5% 16.5% and 8.2% during the Track Record Period, respectively. Our effective income tax rates were mainly affected by, in addition to applicable EIT rates, among other things, tax-free profits of the companies under our Group which engaged in preliminary processing of agricultural products such as mushrooms, black fungi and dried cuttlefish; and additional corporate income tax deduction applicable on the research and development expenses for Jiangxi Zhengwei and Guangchang Zhenglian (i.e. 75% for 2019 and 2020 and 100% since 2021). The fluctuation of our effective tax rate during the Track Record Period was mainly attributable to the fluctuation of our revenue in relation to our production of agricultural products of approximately RMB122.7 million, RMB97.7 million, RMB120.5 million and RMB64.7 million for FY2019, FY2020, FY2021 and 6M2022 respectively, which was exempted from corporate income tax. According to the EIT Law and its related implementation rules and the Circular of the Ministry of Finance and the State Tax Administration on Scope of Agricultural Products' Preliminary Processing Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149) (財政部國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知(財稅[2008]149號)). Our income generated from preliminary processing of agricultural products such as mushroom, black fungi and dried cuttlefish (the “**EIT-exempted Products**”) Jiangxi Zhengwei, Nanchang Kaixing and Guangchang Zhenglian are exempted from EIT. In particular, the relatively lower effective tax rate of approximately 8.2% during 6M2022 was resulted from an increase of non-taxable income for EIT purpose which mainly attributable to increased gross profit margin of the EIT-exempted Products from approximately 25.8% for FY2021 to approximately 33.5% for 6M2022.

## LIQUIDITY AND CAPITAL RESOURCES

### Financial resources

During the Track Record Period, our primary use of cash had been the payment for purchases of raw materials for manufacturing, staff costs and welfares, production costs and various operating expenses. Historically, we have financed our liquidity requirements through a combination of cash generated from our operating activities and bank borrowings.

## FINANCIAL INFORMATION

### Cash flows

	FY2019	FY2020	FY2021	6M2021	6M2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>	
Operating profit before working capital change . . . . .	56,566	52,928	63,560	21,821	26,140
Change in working capital . . . . .	<u>(37,604)</u>	<u>39,201</u>	<u>(28,583)</u>	<u>(51,666)</u>	<u>28,417</u>
Net cash generated from/(used in) operations . . . . .	18,962	92,129	34,977	(29,845)	54,557
Income tax paid . . . . .	<u>(8,374)</u>	<u>(5,570)</u>	<u>(7,905)</u>	<u>(2,314)</u>	<u>(5,832)</u>
Net cash generated from/(used in) operating activities . . . . .	10,588	86,559	27,072	(32,159)	48,725
Net cash used in investing activities . . . . .	(2,629)	(3,105)	(7,187)	(5,042)	(2,059)
Net cash generated from/(used in) financing activities . . . . .	<u>32,507</u>	<u>17,748</u>	<u>(34,902)</u>	<u>(28,706)</u>	<u>(35,792)</u>
Net increase/(decrease) in cash and cash equivalents . . . . .	40,466	101,202	(15,017)	(65,907)	10,874
Cash and cash equivalents at the beginning of the year/period . . . . .	<u>670</u>	<u>41,136</u>	<u>142,338</u>	<u>142,338</u>	<u>127,321</u>
Cash and cash equivalents at the end of the year /period . . . . .	<u><u>41,136</u></u>	<u><u>142,338</u></u>	<u><u>127,321</u></u>	<u><u>76,431</u></u>	<u><u>138,195</u></u>

### Cash flows from operating activities

Net cash generated from operating activities for FY2019 was approximately RMB10.6 million. Operating profit before working capital change were approximately RMB56.6 million, primarily reflecting profit before income taxation of approximately RMB48.3 million, as positively adjusted by interest expenses of approximately RMB7.5 million, reversal of the provision of social insurance of approximately RMB2.9 million, depreciation of property, plant and equipment of approximately RMB2.4 million, and loss from net investment in subleases of approximately RMB1.9 million. Change in working capital contributed to a net cash outflow in the amount of approximately RMB37.6 million, consisting primarily of an increase in trade receivables of approximately RMB46.1 million which was mainly due to the significant increase in direct sales to

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## FINANCIAL INFORMATION

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Customer Group A at the relevant time, and partially mitigated by a decrease in inventories of approximately RMB8.8 million. Operating cash outflow also included payment of income tax of approximately RMB8.4 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in the paragraph headed “Selected Items of Consolidated Statements of Financial Position” in this section.

Net cash generated from operating activities for FY2020 was approximately RMB86.6 million. Operating profit before working capital change were approximately RMB52.9 million, primarily reflecting profit before income taxation of approximately RMB47.3 million, as positively adjusted by interest expenses of approximately RMB7.8 million, reversal of the provision of social insurance of approximately RMB3.5 million, and depreciation of property, plant and equipment of approximately RMB2.4 million. Change in working capital contributed to a net cash inflow in the amount of approximately RMB39.2 million, consisting primarily of (i) an increase in trade payables of approximately RMB27.6 million; (ii) a decrease in prepayments, deposits and other receivables of approximately RMB24.3 million; and (iii) a decrease in trade receivables of approximately RMB22.5 million, and partially mitigated by an increase in inventories of approximately RMB35.2 million. Operating cash outflow also included payment of income tax of approximately RMB5.6 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in the paragraph headed “Selected Items of Consolidated Statements of Financial Position” in this section.

Net cash generated from operating activities for FY2021 was approximately RMB27.1 million. Operating profit before working capital change were approximately RMB63.6 million, primarily reflecting profit before income taxation of approximately RMB57.8 million, as positively adjusted by depreciation of property, plant and equipment of approximately RMB3.8 million, interest expenses of approximately RMB6.2 million, gain from early termination of subleases of approximately RMB1.8 million and reversal of the provision of social insurance of approximately RMB1.2 million. Change in working capital contributed to a net cash outflow in the amount of approximately RMB28.6 million, consisting primarily of (i) a decrease in trade payables of approximately RMB9.9 million; (ii) an increase in trade receivables of approximately RMB9.9 million; and (iii) an increase in inventories of approximately RMB8.4 million. Operating cash outflow also included payment of income tax of approximately RMB7.9 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in the paragraph headed “Selected Items of Consolidated Statements of Financial Position” in this section.

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## FINANCIAL INFORMATION

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Net cash generated from operating activities for 6M2022 was approximately RMB48.7 million. Operating profit before working capital change were approximately RMB26.1 million, primarily reflecting profit before income taxation of approximately RMB22.7 million, as positively adjusted by finance costs of approximately RMB1.8 million and depreciation of property, plant and equipment of approximately RMB1.8 million. Change in working capital contributed to a net cash inflow in the amount of approximately RMB28.4 million, consisting primarily of (i) a decrease in inventories of approximately RMB9.4 million; and (ii) a decrease in trade receivables of approximately RMB0.8 million. Explanations of fluctuations of the aforesaid items from the consolidated statements of financial position are set out in the paragraph headed “Selected Items of Consolidated Statements of Financial Position” in this section.

### **Cash flows from investing activities**

We recorded net cash used in investing activities of approximately RMB2.6 million for FY2019, primarily as a result of (i) the purchase of plant and machinery of approximately RMB1.5 million; and (ii) the purchases of intangible assets of approximately RMB1.3 million.

We recorded net cash used in investing activities of approximately RMB3.1 million for FY2020, primarily as a result of the purchase of plant, plant and equipment of approximately RMB3.4 million.

We recorded net cash used in investing activities of approximately RMB7.2 million for FY2021, primarily as a result of the purchase of plant, plant and equipment of approximately RMB9.5 million, and partially offset by the net cash inflow from disposal of subsidiary of approximately RMB1.9 million.

We recorded net cash used in investing activities of approximately RMB2.1 million for 6M2022, primarily as a result of the purchase of plant, plant and equipment of approximately RMB2.2 million.

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## FINANCIAL INFORMATION

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### **Cash flows from financing activities**

We recorded net cash generated from financing activities of approximately RMB32.5 million for FY2019, primarily as a result of (i) proceeds from bank borrowings of approximately RMB117.6 million; (ii) the repayment of bank borrowings of approximately RMB93.5 million; (iii) the capital contributions from beneficial shareholders of a subsidiary (representing the Pre-IPO Investment from Mr. Lei) of approximately RMB20.0 million; and (iv) the interest paid of approximately RMB6.3 million.

We recorded net cash generated from financing activities of approximately RMB17.7 million for FY2020, primarily as a result of (i) proceeds from bank borrowings of approximately RMB100.3 million; (ii) the repayment of bank borrowings of approximately RMB86.4 million; (iii) the capital contributions from beneficial shareholders of a subsidiary (representing the Pre-IPO Investment from Mr. Su) of approximately RMB13.2 million; and (iv) the interest paid of approximately RMB7.7 million.

We recorded net cash used in financing activities of approximately RMB34.9 million for FY2021, primarily as a result of (i) the repayment of bank borrowings of approximately RMB111.6 million; (ii) proceeds from bank borrowings of approximately RMB83.7 million; and (iii) the interest paid of approximately RMB6.2 million.

We recorded net cash used in financing activities of approximately RMB35.8 million for 6M2022, primarily as a result of (i) the repayment of bank borrowings of approximately RMB33.9 million; and (ii) the interest paid of approximately RMB2.7 million.

### **Sufficiency of working capital**

Taking into account the financial resources available to us, including our available credit facilities, cash and cash equivalents on hand, cash flows generated from our operations and our estimated proceeds from the Share Offer and in the absence of unforeseen circumstances, our Directors are of the opinion that we have available sufficient working capital for our present requirements and for at least 12 months from the date of this prospectus.



## FINANCIAL INFORMATION

### Net current assets

	As at 31 December			As at 30 June 2022	As at 31 October 2022
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
<b>Current assets</b>					
Inventories . . . . .	62,445	98,248	106,459	97,188	76,916
Trade receivables . . . . .	74,344	52,395	63,163	62,342	68,011
Prepayments, deposits and other receivables . . . . .	37,754	15,631	15,300	19,711	10,768
Right of return assets . . . . .	976	767	818	918	918
Amount due from a related party . . . . .	58	58	—	34	—
Amount due from shareholders . . . . .	—	343	343	343	343
Cash and cash equivalents . . . . .	41,136	142,338	127,321	138,195	135,976
	<u>216,713</u>	<u>309,780</u>	<u>313,404</u>	<u>318,731</u>	<u>292,932</u>
<b>Current liabilities</b>					
Trade payables . . . . .	24,774	52,390	42,511	61,448	21,449
Other payables and accruals . . . . .	17,459	14,046	14,380	15,947	10,505
Contract liabilities . . . . .	450	290	593	1,709	954
Borrowings . . . . .	80,972	98,586	87,033	55,019	44,457
Amount due to a shareholder . . . . .	—	9	9	—	—
Lease liabilities . . . . .	249	238	84	42	14
Income tax payable . . . . .	4,306	4,171	5,490	1,497	3,711
	<u>128,210</u>	<u>169,730</u>	<u>150,100</u>	<u>135,662</u>	<u>81,090</u>
<b>Net current assets . . . . .</b>	<u><b>88,503</b></u>	<u><b>140,050</b></u>	<u><b>163,304</b></u>	<u><b>183,069</b></u>	<u><b>211,842</b></u>

Our Group recorded net current assets of approximately RMB88.5 million as at 31 December 2019 and recorded an improvement of net current assets of approximately RMB140.0 million as at 31 December 2020, which was mainly attributable to (i) the increase in cash and cash equivalents of approximately RMB101.2 million; and (ii) the increase in inventories of approximately RMB35.8 million, and partially offset by (i) the increase in trade payables of approximately RMB27.6 million; and (ii) the decrease in trade receivables of approximately RMB21.9 million.

## FINANCIAL INFORMATION

Our net current assets further improved by approximately RMB23.2 million from approximately RMB140.1 million as at 31 December 2020 to RMB163.3 million as at 31 December 2021, which was mainly attributable to (i) the increase in trade receivables of approximately RMB10.8 million; and (ii) the decrease in current borrowings of approximately RMB11.6 million.

Our net current assets increased to approximately RMB183.1 million as at 30 June 2022, which was mainly attributable to (i) the decrease in current borrowings of approximately RMB32.0 million; (ii) the increase in cash and cash equivalents of approximately RMB10.9 million; and (iii) the increase in prepayments, deposits and other receivables of approximately RMB4.4 million, and partially offset by (i) the decrease in inventories of approximately RMB9.3 million; (ii) the increase in trade payables of approximately RMB18.9 million; and (iii) the decrease in trade receivables of approximately RMB0.8 million.

Our net current assets increased from approximately RMB183.1 million as at 30 June 2022 to approximately RMB211.8 million as at 31 October 2022. The increase was primarily due to (i) the increase in trade receivables of approximately RMB5.7 million; (ii) the decrease in trade payables of approximately RMB40.0 million; (iii) the decrease in other payables and accruals of approximately RMB5.4 million; and (iv) the decrease in current borrowings of approximately RMB10.6 million.

Our amount due from a related party was non-trade in nature, unsecured, interest-free and repayable on demand and was settled prior to the Listing. Our amounts due from/(to) shareholders were non-trade in nature, unsecured, interest-free and repayable on demand and will be settled prior to the Listing.

### SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

#### Inventories

During the Track Record Period, our inventories primarily consisted of raw materials. The following table sets out a summary of our inventories balance as at the dates indicated.

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials . . . . .	46,739	62,495	59,598	53,499
Finished goods . . . . .	16,333	35,753	47,032	43,689
	63,072	98,248	106,630	97,188
Less: Provision for obsolete inventories loss . . . . .	(627)	—	(171)	—
	<u>62,445</u>	<u>98,248</u>	<u>106,459</u>	<u>97,188</u>

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## FINANCIAL INFORMATION

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Our raw materials mainly consisted of lotus seeds, fungi, grains, dried aquatic products and algae and others. Our finished goods represent our products that have completed the manufacturing process but have not yet been sold or distributed to customers. As at 31 December 2019, 2020 and 2021 and 30 June 2022, the balance of our inventories represented approximately 28.8%, 31.7%, 34.0% and 30.5% of our total current assets, respectively. Pursuant to our inventory policy, the value of inventory shall be stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis and net realisable value means the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. For FY2019, FY2020, FY2021 and 6M2022, we made provision to the value of our inventories of approximately RMB0.6 million, nil, RMB0.2 million and nil, respectively.

Our inventories increased from approximately RMB62.4 million as at 31 December 2019 to approximately RMB98.2 million as at 31 December 2020, primarily due to the increase in our finished goods of snacks from approximately RMB5.0 million as at 31 December 2019 to approximately RMB18.9 million as at 31 December 2020, which was in line with the increase in our sale of snacks in FY2020.

Our inventories increased from approximately RMB98.2 million as at 31 December 2020 to approximately RMB106.5 million as of 31 December 2021. Such increase was mainly attributable to the increase in our finished goods of dried delicacies from approximately RMB6.0 million as at 31 December 2020 to approximately RMB14.4 million as at 31 December 2021, which was in line with our increase in sale of dried delicacies in FY2021, and partially offset by the decrease in raw materials due to the enchantment of our inventory control and procurement control in FY2021.

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

	FY2019	FY2020	FY2021	6M2022
Average inventory turnover day(s)				
<i>(Note)</i> .....	120.3	152.5	160.0	163.1

*Note:* Average inventory turnover days are calculated by averaging the inventories balance as at the beginning and as at the end of a particular period, dividing by cost of sales during the period and multiplying the number of days in the period. The number of days is 365 days for the year ended 31 December or 181 days for the six months ended 30 June.

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## FINANCIAL INFORMATION

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Our average inventory turnover days increased from approximately 120.3 days for FY2019 to approximately 152.5 days for FY2020, and further increased to approximately 160.0 days for FY2021, which was primarily due to increase in our inventory balance as at 31 December 2020 and 31 December 2021, as discussed above. In particular, among the inventory balances as at 31 December 2019, 2020 and 2021, the finished goods accounted for approximately RMB16.3 million, RMB35.8 million and RMB47.0 million, representing approximately 26.2%, 36.4% and 44.2% of the inventory balance, respectively. Such increase in inventory balance, in particular the finished goods, was due to our stocking of finished goods in preparation for our future sales in light of the historical growth of our sales. Our average inventory turnover days remained relatively stable at approximately 163.1 days for 6M2022.

The substantial increase in our inventory turnover days during the Track Record Period reflects our business model, in particular the stocking of raw materials and finished goods in advance to prepare for our future production and sales. In particular, we substantially increased the stock of finished goods for upcoming festival (i.e. the Chinese New Year, the Mid-Autumn Festival and the Golden Week) as at the relevant year/period end(s) in order to keep pace with our expansion plan in light of the increase in demand for our products and in response to COVID-19's impact on supply chain stability. As our inventory consisted of raw materials and finished goods, our average inventory turnover days during the Track Record Period reflected not only the time we took to sell our finished goods, but also the time we stocked up the raw materials in preparation for our production.

We procure raw materials and plan our production based on our sales schedule. We also take into consideration of our historical sales and future projections when we monitor our inventory level. We generally maintain a reasonable level of raw materials, and all of our raw materials and finished products at our production plants are respectively consumed and sold on a first-in-first-out basis. Once our products are packaged, we endeavour to deliver them to our customers at the earliest possible time. We also use an information system to track inventory levels as well as to ensure that we have reasonable levels of raw materials and finished products.

Despite our food products generally have a shelf life (which represents the suggested consumption period of our products before their expiry) for 8 to 18 months from the date of production, our retailer customers generally place product orders to replenish their shelves on a more frequent basis to avoid stocking up of our products at their stores. Although there is no policy in the minimum shelf life of the products delivered to our retailer customers, we generally ensure our products delivered to key retailer customers such as supermarkets have a shelf life of at least three months before their expiry such that end consumers will have a reasonable time to consume our products after their purchase. Our Directors consider that the above arrangement is in line with the shelf life of similar products in the market.

## FINANCIAL INFORMATION

The following table sets out our inventory ageing analysis as at the dates indicated:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days . . . . .	46,102	61,270	81,080	77,969
91-180 days . . . . .	3,650	18,070	18,449	2,220
181-365 days . . . . .	11,830	18,758	6,780	15,156
Over 365 days . . . . .	863	150	150	1,843
	62,445	98,248	106,459	97,188

The inventories aged more than 180 days as at 30 June 2022 comprised around 70% of raw materials, out of which the majority possessed a shelf life of 12 to 24 months. No provision was made in respect of such inventories because they were still within their respective shelf life. There were no expired products disposed during the Track Record Period.

As at the Latest Practicable Date, among the inventories of our Group as at 30 June 2022, (i) approximately RMB54.9 million or 70.4% of our inventories aged within 90 days were subsequently utilised/sold; (ii) approximately RMB1.9 million or 85.3% of our inventories aged between 91–180 days were subsequently utilised/sold; (iii) approximately RMB11.4 million or 75.0% of our inventories aged between 181–365 days were subsequently utilised/sold; (iv) approximately RMB1.6 million or 87.9% of our inventories aged over 365 days subsequently utilised/sold. In other words, in aggregate, approximately RMB69.8 million or 71.8% of our inventories as at 30 June 2022 were subsequently utilised/sold. We do not believe there is any material recoverability issue for our inventories and that adequate consideration regarding provisions had been made during the Track Record Period.

### Trade receivables

The following table sets forth a breakdown of our trade receivables as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
Trade receivables . . . . .	76,143	53,640	63,507	62,684
Less: Impairment provision . . . . .	(1,799)	(1,245)	(344)	(342)
	74,344	52,395	63,163	62,342

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## FINANCIAL INFORMATION

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Trade receivables mainly represented the outstanding amounts receivable by us from the sales of our products. Our trade receivables amounted to approximately RMB74.3 million, RMB52.4 million, RMB63.2 million as at 31 December 2019, 2020 and 2021, respectively. Our Group's credit terms generally request payment from our customers of 30 to 90 days. The decrease in our trade receivables as at 31 December 2020 was generally in line with the decrease in our revenue in FY2020. The increase in our trade receivables as at 31 December 2021 was generally in line with the increase in our revenue in FY2021. Our trade receivables remained relatively stable at approximately RMB62.3 million as at 30 June 2022.

The following table sets out our average trade receivables turnover days for the years/period indicated:

	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>6M2022</u>
Average trade receivables turnover day(s) ( <i>Note</i> ) . . . . .	<u>63.0</u>	<u>81.8</u>	<u>61.7</u>	<u>68.0</u>

*Note:* Average trade receivables turnover days are calculated by averaging the trade receivables balance after impairment as at the beginning and as at the end of a particular period, dividing such average by revenue during the period and multiplying the number of days in the period. The number of days is 365 days for the year ended 31 December or 181 days for the six months ended 30 June.

Our average trade receivables turnover days increased from approximately 63.0 days to approximately 81.8 days for FY2020, which was mainly because certain customers took a longer time to authorise or arrange the settlement as a result of temporary travel restrictions or other lockdown measures imposed by the PRC Government in response to the outbreak of the COVID-19. Our average trade receivables turnover days decreased from approximately 81.8 days for FY2020 to approximately 61.7 days for FY2021, primarily due to our enhanced collection efforts after the stabilisation of COVID-19 in FY2021. Our average trade receivables turnover days remained relatively stable at approximately 68.0 days for 6M2022. Our average trade receivables turnover days during the Track Record Period were in line with our credit period that we granted to our customers (i.e. 30 to 90 days).

## FINANCIAL INFORMATION

The ageing analysis of trade receivables, based on invoice dates, as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
Within 1 month.....	53,185	41,315	37,657	46,356
1 to 2 months .....	17,860	11,985	25,510	15,988
2 to 3 months .....	4,453	—	—	—
3 months to 1 year .....	—	—	—	—
Over 1 year.....	645	340	340	340
	<u>76,143</u>	<u>53,640</u>	<u>63,507</u>	<u>62,684</u>

Our Group generally allows an average credit period of 30 to 90 days to our customers. Approximately 99.2%, 99.4%, 99.5% and 99.5% of our trade receivables as at 31 December 2019, 2020 and 2021 and 30 June 2022 were aged within 90 days from the invoice dates. We seek to maintain strict control over our outstanding receivables to minimise the credit risk. We did not require any collateral as security.

As at the Latest Practicable Date, approximately RMB62.3 million or 99.5% of trade receivables as at 30 June 2022 were subsequently settled.

### Prepayments, deposits and other receivables

The following table sets forth a breakdown of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 June
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2022
Payment in advance to suppliers .....	26,867	658	—	—
Other receivables .....	8,901	11,279	10,040	14,935
Deferred listing expenses .....	1,246	2,597	3,184	4,098
Deposit .....	422	348	336	226
Prepayments .....	373	656	521	278
Value added tax recoverable .....	19	141	1,275	384
	<u>37,828</u>	<u>15,679</u>	<u>15,356</u>	<u>19,921</u>
Less: Impairment provision.....	(74)	(48)	(56)	(210)
	<u>37,754</u>	<u>15,631</u>	<u>15,300</u>	<u>19,711</u>

## FINANCIAL INFORMATION

Our prepayments, deposits and other receivables decreased by approximately RMB22.2 million or approximately 58.7% from approximately RMB37.8 million as at 31 December 2019 to approximately RMB15.6 million as at 31 December 2020, primarily due to the decrease in payment in advance to our suppliers of approximately RMB26.2 million as certain of our suppliers, such as Xiuyan Manchu Autonomous County Muniu Town Yilin Edible Mushroom Plantation Farmer Cooperative\* (岫岩滿族自治縣牧牛鄉益林食用菌種植專業合作社) with advance payment of approximately RMB4.8 million and nil as at 31 December 2019 and 2020, respectively, Gutian Yuanyuan Agricultural Professional Cooperative\* (古田縣源遠農業專業合作社) with advance payments of approximately RMB3.5 million and nil as at 31 December 2019 and 2020, respectively, and Guangchang Yihe Food Co., Ltd.\* (廣昌縣義荷食品有限公司) with advance payment of approximately RMB4.5 million and nil as at 31 December 2019 and 2020, respectively, no longer required an advance payment for purchase of raw materials after FY2020 since we have built a long-term business relationship with them, and partially offset by the increase in deferred listing expenses of approximately RMB1.4 million. Our prepayments, deposits and other receivables remained relatively stable at approximately RMB15.6 million and RMB15.3 million as at 31 December 2020 and 2021, respectively. Our prepayments, deposits, and other receivables increased to approximately RMB19.7 million as at 30 June 2022, primarily due to the increase in other receivables of approximately RMB4.9 million which was mainly attributable to the increase in revenue derived from concessionary counters at the relevant time. Other receivables recorded during the Track Record Period mainly consisted of concessionary counter sales receivables which are trade in nature. Such receivables were not classified as trade receivables as the relevant sum has been collected immediately by the supermarkets from the end consumers through concessionary counters, while the significant risks and rewards of ownership of goods has already been transferred to the end consumers via these sales through the concessionary counters. The sum received by the supermarkets on behalf of us will then later be transferred to us and thus these balances were classified as other receivables. As at the Latest Practicable Date, approximately RMB15.6 million or 78.3% of our prepayments, deposits and other receivables as at 30 June 2022 were subsequently settled.

### Trade payables

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables .....	24,774	52,390	42,511	61,448



## FINANCIAL INFORMATION

During the Track Record Period, trade payables mainly consisted of balance due to our suppliers for purchase of direct materials. Our trade payables mainly consisted of payables to our suppliers of raw materials and are recognised upon receipt of goods. Our Group was generally offered credit periods of 30 days by our suppliers.

Our trade payables increased by approximately RMB27.6 million, or 111.3%, from approximately RMB24.8 million as at 31 December 2019 to approximately RMB52.4 million as at 31 December 2020. Such increase was primarily due to our increased purchases of raw materials around the end of 2020 as we expected to launch new products around the Chinese New Year of FY2021. Our trade payables decreased from approximately RMB52.4 million as at 31 December 2020 to approximately RMB42.5 million as at 31 December 2021, which was mainly attributable to the enhancement of our inventory control and procurement control in FY2021. Our trade payables increased to approximately RMB61.4 million as at 30 June 2022, which was mainly attributable to an increase in our procurement in order to cope with the market demand for the Mid-Autumn Festival.

The following table sets out our trade payables turnover days for the years/period indicated:

	FY2019	FY2020	FY2021	6M2022
Average trade payable turnover day(s)				
(Note) . . . . .	47.6	73.2	74.2	83.3

*Note:* Average trade payable turnover days are calculated by averaging the trade payable balance as at the beginning and as at the end of a particular period, dividing such average by cost of sales during the period and multiplying the number of days in the period. The number of days is 365 days for the year ended 31 December or 181 days for the six months ended 30 June.

The following table sets out our trade payables ageing analysis as at the dates indicated:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within six months . . . . .	24,121	52,390	42,511	61,448
Six months to 1 year . . . . .	653	—	—	—
Over 1 year . . . . .	—	—	—	—
	<u>24,774</u>	<u>52,390</u>	<u>42,511</u>	<u>61,448</u>

## FINANCIAL INFORMATION

During the Track Record Period, the average trade payables turnover days were approximately 47.6 days, 73.2 days, 74.2 days and 83.3 days, respectively. Our average trade payables turnover days increased in FY2020 and 6M2022 due to the increase in trade payables as discussed above. Our average trade payables turnover days remained relatively stable for FY2021.

As at the Latest Practicable Date, all of our trade payables as at 30 June 2022 were subsequently settled.

### Accruals and other payables

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

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Other payables . . . . .	3,491	2,816	1,855	1,643
Accruals . . . . .	13,717	10,979	12,525	14,304
Deferred revenue . . . . .	251	251	—	—
	<u>17,459</u>	<u>14,046</u>	<u>14,380</u>	<u>15,947</u>

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

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>
Accrued wages and staff benefits . . . . .	7,174	4,450	4,604	3,982
Accrued listing expenses . . . . .	4,345	4,444	5,787	8,043
Accrual for sales return . . . . .	1,462	1,097	1,212	1,422
Others . . . . .	736	988	922	857
	<u>13,717</u>	<u>10,979</u>	<u>12,525</u>	<u>14,304</u>

Accruals and other payables primarily consist of accrued salaries and staff costs, accrued listing expenses, and other tax payables.

## FINANCIAL INFORMATION

We allow for product returns or exchanges for defective products or damaged products based on our examination and approval. We will refund the relevant purchase amount to our customers for any defective or damaged products returned to us. With respect to certain retailer customers, in particular supermarket chains with relatively stronger bargaining power, the sales agreement allows for return of products which remain unsold for prolonged period subject to negotiation between the parties. For FY2019, FY2020, FY2021 and 6M2022, the product returns from our customers amounted to approximately RMB2.8 million, RMB0.7 million, RMB0.2 million and RMB0.1 million, respectively. In accordance with HKFRS 15.50, if the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer. The right of return given is considered to be the variable consideration. Our Directors use the accumulated yearly average historical sales return during the Track Record Period instead of previous yearly average sales return to estimate the accrual for sales return for the sake of prudence, therefore the accrual for sales returns maintained at a similar level during the Track Record Period even the amount of the product returns from our customers was on a decreasing trend.

Our accruals and other payables decreased by approximately RMB3.5 million or 20.0% from approximately RMB17.5 million as at 31 December 2019 to approximately RMB14.0 million as at 31 December 2020, primarily attributable to the decrease in accruals expenses as we have settled relatively large amount of the social security funds as at 31 December 2020.

Our accruals and other payables remained relatively stable at RMB14.0 million, RMB14.4 million and RMB15.9 million as at 31 December 2020, 2021 and 30 June 2022, respectively.

### Contract liabilities

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

	As at 31 December			As at
	2019	2020	2021	30 June 2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities arising from sale of dried delicacies, snacks, dried aquatic products, grains and seasonings and others . . . . .	450	290	593	1,709

As at the Latest Practicable Date, all of our contract liabilities as at 30 June 2022 were subsequently recognised as revenue.

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## FINANCIAL INFORMATION

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### Property, plant and equipment

Our property, plant and equipment comprise buildings, leasehold improvement, furniture, electronic and other equipment, plant and machinery, motor vehicles and construction in progress.

Our property, plant and equipment remained relatively stable at approximately RMB30.4 million and RMB31.4 million as at 31 December 2019 and 2020, and further increased by approximately RMB11.6 million or 36.9% to approximately RMB43.0 million as at 31 December 2021. Such increase was mainly due to (i) the purchase of plant and machineries of approximately RMB7.0 million; and (ii) the transfer from investment property to buildings of approximately RMB6.1 million, as a result of the termination of the lease with the related party and such building was used by our Group for our own operation. Our property, plant and equipment remained relatively stable at approximately RMB43.3 million as at 30 June 2022.

For details of our purchases and disposals of property, plant and equipment during the Track Record Period, please refer to Note 18 to the Accountants' Report in Appendix I to the prospectus.

### Right-of-use assets

Leases are initially recognised as right-of-use assets and corresponding liability at the date of which the leased asset is available for use by our Group (i.e. commencement date), which is depreciated on a straight-line basis over the asset's estimated useful life and lease term as set out below. As at 31 December 2019, 2020, 2021 and 30 June 2022, we recorded right-of-use assets of approximately RMB6.0 million, RMB5.9 million, RMB6.3 million and RMB6.2 million, respectively. The table below sets forth our right-of-use assets amount as at the dates indicated:

	As at 31 December			As at
	2019	2020	2021	30 June
	RMB'000	RMB'000	RMB'000	2022
				RMB'000
Land use right, and warehouses. . . . .	6,007	5,860	6,310	6,199

During the Track Record Period, our right-of-use assets remained relatively stable. The interest of land use right in the PRC is prepaid upon acquisition with the lease term of 50 years. Our Group had also leased low temperature warehouses in the PRC till December 2022. The rental agreements are made for a fixed period from 12 months to 24 months which do not impose any restriction or covenant.

## FINANCIAL INFORMATION

### Goodwill

#### *Impairment testing of goodwill*

	<i>RMB'000</i>
<b>Gross carrying amount</b>	
At 1 January 2019, 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022 . . . . .	269
<b>Accumulated impairment losses</b>	
At 1 January 2019, 31 December 2019, 31 December 2020, 31 December 2021 and 30 June 2022 . . . . .	—
<b>Net carrying amount</b>	
At 31 December 2019 . . . . .	269
At 31 December 2020 . . . . .	269
At 31 December 2021 . . . . .	269
At 30 June 2022 . . . . .	269

The total balance of goodwill is allocated to a CGU, trading of food product.

The recoverable amounts of the CGU has been determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 2.0%-2.5% throughout the Track Record Period.

	At 31 December			At 30 June
	2019	2020	2021	2022
Pre-tax discount rate . . . . .	16.1%	14.8%	15.3%	13.7%
Revenue growth rate within the five year . . . . .	2.9% to 5.6%	3.0% to 5.0%	3.0% to 4.0%	3.0% to 4.0%
Terminal growth rate . . . . .	2.5%	2.5%	2.0%	2.0%

The discount rate used is pre-tax and reflects specific risks relating to the relevant CGU.

The operating margin and growth rate within the five-year period is based on past experience.

## FINANCIAL INFORMATION

Based on the result of the goodwill impairment testing, the estimated recoverable amount of the CGU far exceeded its carrying amount and the headroom was as follows:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Headroom . . . . .	197,605	125,358	195,352	194,666

The management performed the sensitivity analysis based on the abovementioned key assumptions have been changed. Had the estimated key assumptions during the forecast period been changed as below, the headroom would be decreased to as below:

	As at 31 December			As at 30 June
	2019	2020	2021	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Pre-tax discount rate increased by 5% .	184,345	119,459	182,785	180,269
Revenue growth rate within the five year decreased by 5% . . . . .	195,719	121,183	190,927	189,310
Terminal growth rate decreased by 5% .	195,961	124,561	194,115	193,035

Management has also concluded that there is no reasonably possible change to a key assumption used in determining recoverable amount that would cause the CGU's carrying amount to exceed its recoverable amount.

## FINANCIAL INFORMATION

### INDEBTEDNESS

The following table sets forth our Group's indebtedness as at 31 December 2019, 2020 and 2021, 30 June 2022 and 31 October 2022, being the most recent practicable date for the purpose of determining our indebtedness:

	As at 31 December			As at 30 June	As at 31 October
	2019	2020	2021	2022	2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Borrowings					
— Secured . . . . .	83,723	97,640	69,740	57,646	46,402
— Unsecured . . . . .	20,000	20,000	20,000	—	—
— Provision of interest expenses . .	922	946	919	—	—
Amount due to Mr. Yang . . . . .	—	9	9	—	—
Lease liabilities . . . . .	2,185	2,020	84	42	14
<b>Total . . . . .</b>	<b>106,830</b>	<b>120,615</b>	<b>90,752</b>	<b>57,688</b>	<b>46,416</b>

### Borrowings

As at 31 December 2019, 2020, 2021, 30 June 2022 and 31 October 2022, our borrowings amounted to approximately RMB104.6 million, RMB118.6 million, RMB90.7 million, RMB57.6 million and RMB46.4 million, respectively. Among which, borrowings amounted to approximately RMB20 million, RMB20 million, RMB20 million, nil and nil (the “**Subject Loan**”) as at 31 December 2019, 2020 and 2021, 30 June 2022 and 31 October 2022 were obtained from an independent financial institution (the “**Independent Financial Institution**”). As at 31 December 2019, 2020, 2021, 30 June 2022 and 31 October 2022, secured borrowings were charged at fixed/floating effective interest rates ranging from approximately 5.22% to 11.00%, 3.25% to 9.72%, 4.35% to 8.5%, 4.35% to 7.92% and 4.80% to 7.92% per annum, respectively. As at 31 December 2019, 2020 and 2021, 30 June 2022 and 31 October 2022, unsecured borrowings, i.e. the Subject Loan were charged at fixed effective interest rates of approximately 8.5%, 8.5%, 8.5%, nil and nil per annum, respectively. As at 31 October 2022, we had aggregate borrowings of approximately RMB46.4 million, of which all was utilised.

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## FINANCIAL INFORMATION

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The Independent Financial Institution is an unlisted non-bank financial institution established in Jiangxi Province and licenced by the China Banking and Insurance Regulatory Commission to engage in a broad range of trust, lending, securities and consultancy business, and a subsidiary of a company controlled by the State-owned Assets Supervision and Administration Commission of the State Council. We acquired the Guangchang Plant in 2017 and continued to invest on furnishment and purchasing of equipment in 2017 and 2018, resulting in a tight cash position by end of 2018. In view that additional working capital would be required for production of our new vegetable snack products, and raw material suppliers at the relevant time generally required advance payment from us, we therefore obtained the Subject Loan from the Independent Financial Institution in January 2019 to finance our operational needs. The Subject Loan is an unsecured loan with a loan principal of RMB20 million for a term of 36 months at a fixed interest rate of 8.5% per annum. In August 2020, as our cash position improved, we requested for early repayment of the Subject Loan. However, the Independent Financial Institution rejected our request and therefore we repaid the Subject Loan pursuant to the agreed terms in January 2022. To the best knowledge of our Directors, save for the Subject Loan, none of the Group, our Directors, senior management, our Shareholders and any of their respective associates has any other past or present relationships with the Independent Financial Institution (including its directors and ultimate beneficial owners).

Our bank borrowings were primarily denominated in RMB. The secured portion of our borrowings were secured by (i) our Group's certain buildings included in property, plant and equipment; (ii) our land use right under right-of-use assets; (iii) our then investment property; (iv) our then trade receivables; and (v) corporate or personal guarantees given by Mr. Yang, Ms. Lin, Mr. Li Hui (and his spouse), Mr. Lin Deqian (a director of Guangchang Zhenglian, and his spouse), and Nanchang Tongli LP (collectively, the "**Personal or Corporate Guarantors**"). For details of collaterals and guarantees of our secured borrowings, please refer to Note 34 to the Accountants' Report contained in Appendix I to this prospectus.

The personal or corporate guarantees provided by the Personal or Corporate Guarantors will be released upon Listing and replaced by corporate guarantee given by the Company or its subsidiaries.

### **Amount due to Mr. Yang**

As at 31 December 2020 and 2021, amount due to Mr. Yang of approximately RMB9,000 and RMB9,000, respectively, was non-trade in nature, unsecured, non-interest bearing and repayable on demand.



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## FINANCIAL INFORMATION

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### Guarantees provided to Mr. Yang's loans

On 23 September 2020, Mr. Lan Desen (the “**First Lender**”), as lender, Mr. Yang, as borrower, and Jiangxi Zhengwei, as guarantor, entered into a loan agreement in relation to a RMB2 million loan (the “**First Loan**”) for a term from 23 September 2020 to 22 December 2020 at an interest rate of 1.8% per month, whereby Mr. Yang intended to use the First Loan to fund the short-term liquidity needs of Jiangxi Mingpinhui Trading Co., Ltd.\* (江西名品匯貿易有限公司) (“**Mingpinhui**”), which is a company ran by Mr. Yang Lingwei, who is the son of Mr. Yang. Jiangxi Zhengwei provided a joint liability guarantee in respect of the First Loan. Pursuant to the guarantee, Mr. Yang also counter guaranteed to Jiangxi Zhengwei that all liability, loss or expenses arising from the guarantee provided by Jiangxi Zhengwei in relation to the First Loan shall be borne solely by Mr. Yang.

On 4 January 2022, Ms. Zou Yumin (the “**Second Lender**”), as lender, Mr. Yang, as borrower, Jiangxi Zhengwei, as guarantor, and Mr. Lan Hui, as third party, entered into a loan agreement in relation to a RMB2.22 million loan (the “**Second Loan**”) for a term from 4 January 2022 to 24 January 2022 at a daily interest rate of 0.05%, whereby Mr. Yang intended to use the Second Loan to fund the short-term liquidity needs of Mingpinhui. Jiangxi Zhengwei provided a joint liability guarantee in respect of the Second Loan. Pursuant to the guarantee, Mr. Yang also counter guaranteed to Jiangxi Zhengwei that all liability, loss or expenses arising from the guarantee provided by Jiangxi Zhengwei in relation to the Second Loan shall be borne solely by Mr. Yang. On 24 January 2022, Mr. Yang repaid loan principal and interests accrued in an aggregate amount of RMB643,310 to the Second Lender.

On 6 January 2022, Mr. Lan Xueduan (the “**Third Lender**”), as lender, Mr. Yang, as borrower, Jiangxi Zhengwei, Mr. Li Hui, Mr. Wu Bangjun and Ms. Lin, each as guarantor, entered into a loan agreement in relation to a RMB1 million loan (the “**Third Loan**”) for a term from 6 January 2022 to 5 February 2022 with a monthly interest of RMB15,000 per month, whereby Mr. Yang intended to use the Third Loan to fund the short-term liquidity needs of Mingpinhui. Jiangxi Zhengwei provided a joint liability guarantee in respect of the Third Loan. Pursuant to the guarantee, Mr. Yang also counter guaranteed to Jiangxi Zhengwei, Mr. Li Hui and Mr. Wu Bangjun that all liability, loss or expenses arising from the guarantee provided by Jiangxi Zhengwei, Mr. Li Hui and Mr. Wu Bangjun in relation to the Third Loan shall be borne solely by Mr. Yang.

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## FINANCIAL INFORMATION

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According to the PRC Company Law, where a company provides guarantee to its shareholders, it must be resolved by the shareholders' meeting. The guarantees in respect of the First Loan, Second Loan and Third Loan (collectively, the “**Loans**”) were duly approved by the board of directors and shareholders of Jiangxi Zhengwei prior to entering into the relevant loan agreements with the First Lender, Second Lender and Third Lender (collectively, the “**Lenders**”). On this basis, we are advised by our PRC Legal Advisers that the guarantees of the Loans provided by Jiangxi Zhengwei complied with the relevant rules and regulations in the PRC and the Articles of Association of Jiangxi Zhengwei.

### **Late repayments of the Loans**

Although Mr. Yang was the principal borrower of the Loans, the underlying purpose of the Loans was to fund the short-term liquidity needs of Mingpinhui, which was made known to the Lenders before the relevant loan agreements were entered into. As Mr. Yang intended to have a clear business and financial delineation between the businesses of the Group and Mingpinhui, and as a father, Mr. Yang wanted his son to be financially independent of him, Mr. Yang was of the view that Mr. Yang Lingwei should take responsibility to repay the Loans himself.

Due to instances of delayed payments from customers which put the cash flow and working capital of Mingpinhui under pressure, Mr. Yang Lingwei failed to repay the Loans on time. Since Mr. Yang Lingwei had communicated with his father that he would be able to repay the Loans once the cash flow position of Mingpinhui became steady, Mr. Yang therefore did not provide the funds to Mr. Yang Lingwei in his own capacity but helped to liaise with the Lenders to extend the relevant repayment dates so as to pressure Mr. Yang Lingwei to take responsibility of and repay the Loans on one hand and to avoid Jiangxi Zhengwei being exposed to litigation proceedings for enforcement of the guarantees by the Lenders on the other hand. Such intention was communicated to the Lenders who had previously agreed to extend the repayment deadlines of the Loans for several times, therefore Mr. Yang did not expect the Lenders to initiate legal proceedings to recover the debts without first notifying him.

Nonetheless, due to late repayment of (i) the First Loan, (ii) the remaining balance of the Second Loan of RMB1.6 million and the interest accrued thereon; and (iii) the Third Loan (collectively, the “**Outstanding Loans**”), the Lenders commenced legal proceedings against Mr. Yang, Jiangxi Zhengwei and other individual guarantors. As at the Latest Practicable Date, Mr. Yang had fulfilled his repayment obligations under the relevant loan agreements after Mr. Yang Lingwei had transferred the relevant amounts to Mr. Yang for repayment of the Outstanding Loans. As advised by the PRC Legal Advisers, (i) all of the relevant litigations were fully settled; and (ii) Mr. Yang, Jiangxi Zhengwei and the individual guarantors will no longer be liable for any amount of the Loans and the relevant guarantees.

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## FINANCIAL INFORMATION

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In this regard, as part of the Group's enhanced internal control measures to prevent recurrence of similar incidents, (a) the Company's Articles of Association has been amended to prohibit the Company to directly or indirectly enter into guarantee or provide any security in connection with a loan made by any person to any of the Directors, senior management or substantial shareholders, or that of any holding company of the Company or any of their respective close associates, or, if any one or more of the Directors, senior management or substantial shareholders hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company. For further details, please refer to the section headed "2. Articles of Association — (b) Directors — (vii) Loans and provision of security for loans to Directors" in Appendix III to this prospectus; and (b) our Group had adopted the following enhanced internal control measures in relation to the provision of guarantees by the Group (for more details, please refer to the section headed "Business — Risk Management and Internal Control" in this prospectus):

- (i) at all times, all Group companies are strictly prohibited to provide guarantees in respect of any loans or indebtedness undertaken by any Directors, senior management or substantial shareholders (or their respective close associates);
- (ii) prior to Listing, the provision of guarantees to any entities (except the Group companies) or individuals shall be approved by (a) each independent Director (or his/her associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies; and (b) each independent shareholder (except the shareholder (or his/her/its associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies); and
- (iii) upon Listing, the provision of guarantees to any entities (except the Group companies) or individuals shall be approved by (a) each independent non-executive Directors (except the independent non-executive Director (or his/her associates) whose loan or indebtedness is proposed to be guaranteed by the Group companies); and (b) the shareholders in accordance with the Listing Rules.

## FINANCIAL INFORMATION

### Lease liabilities

Our lease liabilities represented land use right and low-temperature warehouses leased for the operation of our Group's business during the Track Record Period. The lease terms range from 12 to 120 months. The table below sets forth the breakdown of our lease liabilities as at the dates indicated:

	As at 31 December			As at 30 June 2022	As at 31 October 2022
	2019	2020	2021	RMB'000	RMB'000 <i>(unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		
<b>Minimum future lease payments</b>					
Within one year . . . . .	422	398	86	43	15
More than 1 year but not exceeding					
2 years . . . . .	313	313	—	—	—
More than 2 years but not exceeding					
5 years . . . . .	938	938	—	—	—
More than 5 years . . . . .	1,562	1,250	—	—	—
	3,235	2,899	86	43	15
Less: Future finance charge . . .	(1,050)	(879)	(2)	(1)	(1)
	2,185	2,020	84	42	14

### Contingent liabilities

During the Track Record Period and up to 31 October 2022, being the most recent practicable date for the purpose of determining our indebtedness, we did not have any material contingent liabilities. We are not currently involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving us. If we were involved in such material legal proceedings, we would record any loss or contingency when, based on the information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated.

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## FINANCIAL INFORMATION

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Save as disclosed above in the paragraph headed “Indebtedness” in this section, as at 31 October 2022, being the most recent practicable date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees on other material contingent liabilities outstanding. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, (i) our credit facilities were subject to the standard banking conditions and covenants, and there were no material covenants that impose a substantial limitation on our ability to obtain further banking facilities; (ii) we had no material default in repayments of our borrowings and with regard to covenants and/or breaches of the covenants under our credit facilities; and (iii) we did not have any material external debt financing plans.

### **Material indebtedness change**

Our Directors confirm that, up to the Latest Practicable Date, there has been no material adverse change in the indebtedness of our Group on a consolidated basis since 31 October 2022, being the latest practicable date for the preparation of the indebtedness statement in this prospectus. Our Directors confirm that as at the Latest Practicable Date, our Group did not have any plans to raise any material debt financing shortly after the Share Offer.

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

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

## FINANCIAL INFORMATION

### KEY FINANCIAL RATIOS

The following table sets out a summary of certain financial ratios for the years/period or as of the dates indicated:

	<i>Notes</i>	As at/For the year/period ended			
		31 December			30 June
		2019	2020	2021	2022
Current ratio. . . . .	1	1.7 times	1.8 times	2.1 times	2.3 times
Quick ratio. . . . .	2	1.2 times	1.2 times	1.4 times	1.6 times
Gearing ratio . . . . .	3	97.9%	73.9%	42.9%	24.8%
Net debt-to-equity ratio . . .	4	60.2%	N/A	N/A	N/A
Interest coverage ratio . . . .	5	7.4 times	7.1 times	10.4 times	13.5 times
Return on total assets. . . . .	6	15.5%	11.5%	13.2%	N/A
Return on equity . . . . .	7	37.5%	25.1%	22.8%	N/A
Net profit margin . . . . .	8	13.8%	14.5%	14.1%	12.5%

*Notes:*

1. Current ratio is calculated based on total current assets divided by total current liabilities as of the end of the respective year/period.
2. Quick ratio is calculated based on total current assets less inventories (if any) in current assets, divided by total current liabilities as of the end of the respective year/period.
3. Gearing ratio is calculated based on the total debt (including borrowings and lease liabilities) divided by the total equity as at the respective year/period end and multiplied by 100%.
4. Net debt-to-equity ratio is calculated by the net debt (including borrowings and lease liabilities less cash and cash equivalents) divided by the total equity as at the respective year/period end and multiplied by 100%.
5. Interest coverage ratio is calculated by the profit before interest and income tax divided by the interest for the respective year/period.
6. For FY2019, FY2020 and FY2021, return on total assets is calculated by the profit for the year divided by the total assets as at the respective year end and multiplied by 100%. Return on total assets for 6M2022 is not meaningful as it is not comparable to the annual figures.
7. For FY2019, FY2020 and FY2021, return on equity is calculated by the profit for the year divided by the total equity as at the respective year end and multiplied by 100%. Return on equity for 6M2022 is not meaningful as it is not comparable to the annual figures.
8. Net profit margin is calculated by the profit for the year divided by the revenue for the respective year/period and multiplied by 100%.

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## FINANCIAL INFORMATION

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### **Current ratio**

Our current ratio remained relatively stable at approximately 1.7 times and 1.8 times as at 31 December 2019 and 2020, respectively. Our current ratio further increased to approximately 2.1 times as at 31 December 2021, which was mainly attributable to (i) the increase in trade receivables of approximately RMB10.8 million; and (ii) the decrease in current borrowings of approximately RMB11.6 million. Our current ratio was approximately 2.3 times as at 30 June 2022. Such increase was mainly attributable to the increase in cash and cash equivalents of approximately RMB10.9 million, coupled with the decrease in borrowings in current liabilities portion of approximately RMB32.0 million, and partially offset by the increase in trade payables of approximately RMB18.9 million.

### **Quick ratio**

Our quick ratio remained relatively stable at approximately 1.2 times, 1.2 times, 1.4 times and 1.6 times as at 31 December 2019, 2020 and 2021 and 30 June 2022, respectively.

### **Gearing ratio**

Our gearing ratio was approximately 97.9% and 73.9% as at 31 December 2019 and 2020, respectively. The decrease was mainly due to increase in our total equity by approximately RMB54.0 million as a result of our net profit for FY2020.

Our gearing ratio further decreased from approximately 73.9% as at 31 December 2020 to approximately 42.9% as at December 2021, which was primarily due to (i) the increase in our total equity by approximately RMB48.5 million as a result of our net profit for FY2021; and (ii) the decrease in our borrowings of approximately RMB28.0 million.

Our gearing ratio was approximately 24.8% as at 30 June 2022. Such decrease was mainly attributable to the decrease in our total borrowings of approximately RMB33.0 million as at 30 June 2022.

### **Net debt-to-equity ratio**

As at 31 December 2019, our net debt-to-equity ratio was approximately 60.2%.

As at 31 December 2020 and 2021, and 30 June 2022, our Group had net cash position, and therefore net debt-to-equity ratio was not applicable to our Group.

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## FINANCIAL INFORMATION

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### **Interest coverage ratio**

Our interest coverage ratio remained relatively stable at approximately 7.4 times and 7.1 times for FY2019 and FY2020, respectively. Our interest coverage ratio increased from approximately 7.1 times for FY2020 to approximately 10.4 times for FY2021, which was mainly attributable to the increase in our profit before interest and tax of approximately RMB8.9 million. Our interest coverage ratio was approximately 13.5 times for 6M2022.

### **Return on total assets**

Our return on total assets decreased from approximately 15.5% for FY2019 to approximately 11.5% for FY2020, which was mainly due to the increase in our cash and cash equivalents of approximately RMB101.2 million. Our return on total assets increased to approximately 13.2% for FY2021, which was mainly due to the increase in our profit for the year of approximately RMB7.4 million.

### **Return on equity**

Our return on equity decreased from approximately 37.5% for FY2019 to approximately 25.1% for FY2020, which was mainly due to the increase in our cash and cash equivalents of approximately RMB101.2 million, and partially offset by (i) the decrease in trade receivables of approximately RMB21.9 million; (ii) the decrease in prepayments, deposits and other receivables of approximately RMB24.3 million; and (iii) the increase in trade payable of approximately RMB27.6 million.

Our return on equity further decreased to approximately 22.8% for FY2021, which was mainly due to (i) the increase in inventories of approximately RMB8.2 million; (ii) the increase in trade receivables of approximately RMB10.8 million; (iii) the decrease in trade payables of approximately RMB9.9 million; and (iv) the decrease in current borrowings of approximately RMB11.6 million.

### **Net profit margin**

Our net profit margin remained relatively stable at approximately 13.8%, 14.5%, 14.1% and 12.5%, respectively during the Track Record Period.



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## FINANCIAL INFORMATION

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### QUANTITATIVE AND QUALITATIVE DISCLOSURE OF FINANCIAL RISKS

We are, in the ordinary course of our business, exposed to a variety of financial risks, which include market risk (including currency risk and interest risk), credit risk and liquidity risk. We monitor and manage such financial risks through internal risks report which analyses exposure by degree and magnitude of risk.

Details of such risk are set out in Note 41 to the Accountants' Report in Appendix I to this prospectus.

### RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in Note 40 to the Accountants' Report in Appendix I to this prospectus. Our Directors are of the view that the related party transactions were conducted at arm's length and on normal commercial terms and/or that such terms were no less favourable to us than terms available from Independent Third Parties which are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

### DIVIDEND

During the Track Record Period, no dividends have been paid by our Company.

The declaration of future dividend will be subject to the recommendation of our Board and approval of our Shareholders in general meetings or, in the case of interim dividends, subject to the approval of our Board in accordance with the Articles. The amount of any dividends to be declared by our Company in any given year in the future will depend on, among others, our Group's results of operations, available cashflows and financial conditions, operating and capital and regulations and any other factors that our Directors deem relevant. The payment of dividend may also be limited by legal restrictions and agreements that our Group may enter into in the future. Our Company does not currently have a fixed dividend policy nor any predetermined dividend payout ratio. No dividend was declared or paid by our Group to owners of our Company during the Track Record Period.

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## FINANCIAL INFORMATION

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### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Our Directors confirmed that after the Track Record Period, and up to the date of this prospectus, there has been no material adverse change in our financial or trading position and prospects. For the recent developments and material adverse change of our business subsequent to the Track Record Period and up to the date of this prospectus, please refer to the section headed “Summary” in this prospectus.

### LISTING EXPENSES

Our listing expenses mainly include underwriting commissions, incentive fees and professional fees paid and payable to legal advisers and the Reporting Accountants for their services rendered in relation to the Listing and the Share Offer. The estimated total listing expenses (assuming an Offer Price of HK\$0.75 per Offer Share, being the mid-point of the indicative Offer Price range, and assuming that the Over-allotment Option is not exercised) for the Share Offer are approximately RMB33.4 million (approximately HK\$39.3 million), representing approximately 26.2% of the gross proceeds from the Share Offer, comprising of (i) fees paid and payable to legal advisers and the Reporting Accountants of approximately RMB16.8 million (approximately HK\$19.8 million); and (ii) others fees and expenses, including sponsor fees, of approximately RMB16.6 million (approximately HK\$19.5 million). The estimated total listing expenses consist of underwriting-related expenses of approximately RMB5.1 million (approximately HK\$6.0 million), and non-underwriting-related expenses of approximately RMB28.3 million (approximately HK\$33.3 million). During the Track Record Period, we incurred listing expenses of approximately RMB13.3 million, which have been charged to our consolidated statements of profit and loss and other comprehensive income. We expect to incur additional listing expenses of approximately RMB9.3 million which are expected to be charged to our consolidated statements of profit and loss and other comprehensive income subsequent to the Track Record Period and approximately RMB10.8 million will be accounted for as a deduction from equity upon the completion of the Share Offer.

### DISTRIBUTABLE RESERVES

As at 30 June 2022, our Group had statutory reserve and retained earnings of approximately RMB160.2 million available for distribution to our Shareholders.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to the section headed “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus for our unaudited pro forma adjusted net tangible assets.

### DISCLOSURE PURSUANT TO RULES 13.13 TO 13.19 OF THE LISTING RULES

We confirm that, as at the Latest Practicable Date, we were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.