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Shenzhen Pagoda Industrial (Group) Corporation Limited

深圳百果园实业(集团)股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 2411)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2022

FINANCIAL HIGHLIGHTS

The table below sets forth certain key financial information of the Group for the periods indicated.

	Year Ended December 31,		Year-over-year Change %
	2022	2021	
	RMB'000	RMB'000	
Revenue ^{(1) (2)}	11,311,995	10,289,375	9.9
Gross profit	1,314,286	1,156,436	13.6
Profit before income tax	346,362	257,527	34.5
Profit is attributable to owners of the Company	323,297	230,345	40.4
Basic and diluted earnings (RMB cents per share)	21.55	15.36	40.3

- (1) The majority of the Group's revenue was derived from sales of fruits and other food products. For the years ended December 31, 2021 and 2022, revenue from sales of fruits and other food products amounted to RMB9,991.8 million and RMB10,981.8 million, respectively, accounting for approximately 97.1% and 97.1% of the Group's total revenue for the years ended December 31, 2021 and 2022, respectively. The remaining revenue was derived from royalty and franchising income, membership income and others.
- (2) The Group mainly distributes its products through offline store network, comprising franchised stores supervised by itself, franchised stores supervised by its regional dealers, and a limited numbers of self-operated stores. For the years ended December 31, 2021 and 2022, aggregate revenue from sales of products contributed by franchised stores amounted to RMB8,127.1 million and RMB8,851.5 million, respectively, accounting for approximately 81.3% and 80.6% of the Group's total revenue for the years ended December 31, 2021 and 2022, respectively. The remaining revenue was derived from royalty and franchising income, membership income and others.

OPERATIONAL HIGHLIGHTS

The table below sets forth the Group's total number of franchised stores and self-operated stores as of the dates indicated.

	As of December 31,	
	2022	2021
Franchised stores		
Franchised stores supervised by the Group	4,577	4,254
Others	1,054	980
Sub-total	5,631	5,234
Self-operated stores	19	15
Total	5,650	5,249

The table below sets forth certain other key operational information of the Group for the periods or as of the dates indicated.

	As of/Year Ended December 31,	
	2022	2021
Gross retail sales (RMB'000)⁽¹⁾	14,580,673	13,664,959
Number of members ('000)	74,029	64,449
Number of paying members ('000)	967	724
Number of self-owned product brands	31	27

- (1) Gross retail sales for the relevant periods represent the aggregate of (i) gross store retail sales, which represent total sales amount of retail stores after discounts or rebates, and (ii) gross online retail sales, which represent total value of goods sold via all online distribution channels of the Group. While being an useful performance indicator, gross retail sales are not equivalent to the Group's revenue for the relevant periods.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend for the year ended December 31, 2022 of RMB0.076 per ordinary share (tax inclusive) to all Shareholders, amounting to approximately a total of RMB120.7 million for the same year.

The board (the "**Board**") of directors (the "**Directors**") of Shenzhen Pagoda Industrial (Group) Corporation Limited (the "**Company**") is pleased to announce the consolidated annual results ("**Annual Results**") of the Company and its subsidiaries (collectively, the "**Group**") for the year ended December 31, 2022. The Annual Results were prepared based on the consolidated financial statements of the Group, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRS**"), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("**HKASs**") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the Annual Results have also been reviewed by the audit committee of the Board (the "**Audit Committee**").

In this announcement, "we", "us", and "our" refer to the Company (as defined above) and where the context otherwise requires, the Group (as defined above).

BUSINESS REVIEW AND OUTLOOK

Market Overview

In 2022, the world remained shrouded by the COVID-pandemic and geopolitical uncertainties. Despite the various challenges and downward external and internal pressure, China's macro economy had experienced a stable progress and according to the National Bureau of Statistics of China ("NBS"), the country recorded a GDP growth of 3.0% in 2022.

In early 2022, mainly due to the prolonged COVID resurgence in different regions and various public health measures adopted by China's central and local governments, domestic consumer product and retail industries had been generally facing pressure from decreased consumer traffic, declined consumption confidence, temporary suspension in production activities, interruption in supply chain and so on. Since late 2022, however, along with the lifted pandemic control policies nationwide, China's retail environment has seen a gradual and effective improvement. The growth momentum is expected to continue to improve in upcoming period, driven mainly by the ongoing consumption recovery and accommodative macro policies. China's total retail sales hit RMB7.71 trillion in January and February 2023, representing a year-on-year increase of 3.5%, according to the NBS figures. The growth contrasts to a 1.8% contraction in December 2022. The prolonged pandemic in previous years has caused fundamental impacts on players in the retailing industry in China, who are required to efficiently adjust and adapt operations to optimize supply chain management, increase cashflow stability, and strengthen online capabilities in response to evolving consumption habits.

In particular, in the post-pandemic e-commerce era, the consumer journey has become increasingly sophisticated as more and more brands ramp up their omnichannel efforts in delivering online-merge-offline ("OMO") shopping experience. Exposed to multiple shopping channels, it is noticeable that the vast majority of consumers in China switch between online and offline over the course of their purchase journey frequently, depending on their needs and consumption habits. As such, the increasing fragmentation of the consumer journey requires retail brands to reduce friction across channels while consistently providing an innovative and seamless online-merge-offline experience for consumers. To reshape and rebuild engaging and personalized consumer journeys based on the needs of target consumers is a key to future success for retail brands in China.

2022 has been a remarkable year for the Group on all levels. The Company completed its global offering (the “**Global Offering**”) and listing of its H shares (the “**Listing**”) in January 2023 and its H shares were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on January 16, 2023 (the “**Listing Date**”), representing a significant milestone in its corporate history. This not only demonstrates the position of the Group as a leading fruit retail operator in China, but also starts a new chapter for it to realize its mission that Pagoda would let more and more people enjoy delicious and affordable fruits, spread fruit knowledge and culture to them, and bring them health and happiness.

Overall Business and Financial Performance

Offline Store Network Development

The Group has the largest community-based fruit specialty retail network in China with OMO and store-as-warehouse features, providing consumers with a highly convenient consumption experience. It has established an extensive nationwide offline retail store network, comprising franchised stores supervised by itself, franchised stores supervised by its regional dealers, and a limited numbers of self-operated stores.

Despite the critical retail environment in 2022 arising from the COVID pandemic, the Group succeeded in continuously expanding its retail store network across the country. As of December 31, 2022, the Group’s offline store network had a total of 5,650 stores located in over 140 cities covering 22 provinces and municipalities in China.

The table below sets forth the Group's total number of franchised stores and self-operated stores as of the dates indicated.

	As of December 31,			
	2022		2021	
		%		%
Franchised stores				
Franchised stores supervised by the Group	4,577	81.0	4,254	81.0
Others	1,054	18.7	980	18.7
Sub-total	5,631	99.7	5,234	99.7
Self-operated stores	19	0.3	15	0.3
Total	5,650	100.0	5,249	100.0

The table below sets forth the Group's revenue contribution derived from sales of products by types of retail stores for the periods indicated.

	Year Ended December 31,			
	2022		2021	
	RMB'000	%	RMB'000	%
Franchised stores				
Franchised stores supervised by the Group	8,849,917	99.3	8,125,229	99.4
Others	1,544	0.0	1,832	0.0
Sub-total	8,851,461	99.3	8,127,061	99.4
Self-operated stores	61,062	0.7	48,296	0.6
Total	8,912,523	100.0	8,175,357	100.0

Franchised stores currently consists the majority of the Group's offline store network. The Group has strategically built the franchise business model with a high degree of autonomy, a strong support system and a standardized management mechanism. It believes its success has been, and will continue to be, based on the healthy and sustainable development of its franchisees. It considers the franchisees as its business partners and has established mutually beneficial relationships. It provides its franchisees with strong brand, supply chain and operational support, creating a favorable entrepreneurial platform for many who dream of starting their own business. This includes ongoing comprehensive franchisee training for store management and operation, as well as in-time guidance by designated regional supervisory managers. It has also established a district-based operation system. Based on the dynamic data of the surrounding shopping districts in which the stores are located, such system provides personalized product portfolio, pricing and promotional activities for stores through a smart ordering system to help franchisees achieve delicacy operation of stores and reduce their operational difficulties, and allow franchisees to grasp the operation status of their stores in real time through the store assistant information system. It implements highly uniform operation management guidance for franchisees to achieve standardized operation of stores to ensure product quality, consumer experience and the healthy development of franchisees.

Coverage and Upgrades of OMO Model

In 2022, the Group continued to optimize its OMO operational model in all aspects. Realizing the significance of the increasing awareness of healthy eating habits as well as fragmental consumption behaviors, the Group believes the ability to provide highly integrated and convenient consumption experience through online sales platforms and offline stores is a key to future success of the Group's retail system.

In an increasingly busy urban life, the "convenience" of consumption is particularly important for products of high purchase frequency such as fruits. The Group's offline retail stores are mainly located within 15-minute walk from the target end consumers and are part of the end-consumers' community life circle, with significant advantages such as certain path dependency, ease to meet the personalized needs of consumers in the community and flexibility and low cost in store opening. The Group maintains a smart location identification system which can integrate parameters such as changes in the surrounding shopping district, customer traffic and spending power, helping to advise its franchisees to efficiently and precisely identify their store locations in communities with high density of residents and strong consumption.

In addition, to facilitate the Group's OMO strategy, its offline retail stores operate with an efficient store-as-warehouse feature, enabling in-store pickup and home delivery services under the just-in-time and next-day delivery options. Fruit is one of the fresh groceries to which product displays and face-to-face sales could add the most value. Through in-store displays, face-to-face sales and tasting activities, offline stores are necessary to create a strong fruit retailing atmosphere and stimulate consumption.

On the other hand, the Group continued to explore online opportunities and has enabled convenient and diverse online shopping options to consumers through mobile APPs, WeChat mini-program (微信小程序), storefronts on e-commerce and social commerce platforms, such as Tmall (天貓), JD.com (京東) and Douyin (抖音), as well as storefronts on third-party food delivery platforms, such as Meituan (美團), Koubei (口碑) and Ele.me (餓了麼). The Group offered differentiated products to customers opting for home delivery or in-store pickup services to effectively increase purchase frequency and coverage of consumers in the community, while encouraging consumers through social marketing and group promotions to place orders online and pick up in stores to enhance cross-selling. In 2022, approximately 27.2% of the Group's orders were placed through various online channels. As of December 31, 2022, the Group had approximately 10.6 million WeChat followers with its official account, 1.8 million Douyin followers and 336,000 Weibo followers. In addition, it guided store managers to establish approximately 22,500 store-based WeChat groups, pushing interesting and interactive product promotions and membership activities, and interacting and communicating with over 12.9 million WeChat community followers in real time. Leveraging the OMO model together with strong industry expertise and insights, the Group believes that it is well positioned to satisfy the needs of consumers with evolving and increasingly fragmental consumption behaviors. For example, the Group launched the "Douyin of the Day" (每日一抖) project in 2022 and asked all the retail stores nationwide to broadcast live events or release short videos. In 2022, contents on Douyin released by the Group and the retail stores attracted over hundreds of millions displays. In 2022, on Douyin, live-streaming broadcasts hosted by the Group and the retail stores accumulated approximately 75 million views, and short videos released by the Group and designated key opinion leaders accumulated approximately 160 million displays.

Last but not least, in 2022, the Group continued to develop its business-to-business, or 2B, fruit business by expanding 2B customer base. In 2022, the Group's revenue from sales of fruits and other food products derived from direct sales increased by approximately 38.5% from RMB522.8 million for the year ended December 31, 2021 to RMB723.8 million for the year ended December 31, 2022.

The fruit specialty retail network with OMO and store-as-warehouse features and the high-frequency consumption nature of fruits has provided continuous and extensive reach to consumers. As of December 31, 2022, the Group had accumulated over 74 million members across all distribution channels with over 967 thousand paying members, and the cumulative number of users of the WeChat mini-program reached 54 million.

Brand Portfolio and Product Offerings

The Group is one of the few companies in the fruit industry in China that have both well-known product brands and channel brands. The Group adopts a multi-brand strategy to attract consumers of different demographics and to quickly acquire market shares. Currently, the retail stores nationwide are mainly operated under two channel brands, namely “Pagoda (百果園)” and “Guoduomei (果多美).” As of December 31, 2022, among all 5,650 offline retail stores, 5,533 were operated under Pagoda brand and 110 were operated under Guoduomei brand, with the remaining under other regional channel brands of the Group.

The Group adopts a customer-centric approach and has mapped out its development strategies supporting its mission and core value of offering delicious fruits and enjoyable lifestyle to people. With respect to delicious fruit products, the Group pioneered in China in establishing a comprehensive and systematic written flavor-oriented 4-grade fruit quality classification system for fruit products. In accordance with the proprietary quality system with various key metrics, fruits are rated and labeled under four categories, namely Excellent (招牌), Grade A, B and C, with different prices catering to different consumers. As of December 31, 2022, the Group had successfully introduced to the market 31 self-owned product brands that are exclusively distributed by it in China under the Excellent and Grade A categories. Such fruits were well accepted by consumers and the retail prices of these fruits under the Excellent and Grade A categories were generally higher than the retail prices of Grade B fruits of the same type. Aggregate sales of fruits under Excellent and Grade A categories accounted for approximately 70% of the total store retail sales of Pagoda stores in 2022. In addition, in terms of the same type of products, average monthly repeat purchase rate of self-branded fruits was generally higher than fruits under Grade B category by approximately 50% in 2022 as compared to 2021. The Group continued to develop product brands and in 2022 alone, it introduced four product brands to the market and aggregate retail sales of all self-branded fruits increased by approximately 36% from 2021, and accounted for over 11% of total store retail sales of Pagoda stores in 2022. By contrast, aggregate retail sales of self-branded fruits accounted for approximately 8 % of total retail sales of Pagoda stores in 2021. Moreover, self-branded fruits have presented competitive advantages over the same fruits under the Group's Grade B category. For example, in 2022, there were over 40 partner plantation bases using the agricultural technical solutions provided by the Group to grow Liangzhi apple, one of the Group's start self-owned brands. Total store retail sales of this product amounted to approximately RMB58 million in 2022, representing an increase of approximately 56 % from 2021. The retail price of Liangzhi apple was generally twice as high as the Grade B apple products.

Moreover, other than fresh fruits, the Group also commenced to distribute fruit-based products, such as dried fruits and juice, and other fresh groceries, including vegetables, meat, seafood, grains and oils and dairy products. The Group registered and used one trademark, namely Panda.F (熊貓大鮮), as the brand name for all of its other fresh groceries.

The Group intends to continue to deploy a business model by offering specialty offline and variety online, continuing to focus on fruit and fruit products business offline, and providing more fresh grocery products online to extend its service boundaries.

Smart Warehousing and Supply Chain Management

As of December 31, 2022, the Group had established a nationwide warehousing network that currently has 29 warehouses across China which also function as local preliminary processing and distribution centers. These preliminary processing and distribution centers were located in 29 cities with an aggregate floor area of more than 194.7 thousand sq.m. Out of the 29 preliminary processing and distribution centers, 16 centers were operated by the Group, and the remaining 13 centers were operated by the Group's regional dealers by strictly following the Group's quality requirements.

The Group has been upgrading the digitalized intelligent warehousing and logistics system, which will enable it to effectively minimize common warehousing and logistics mistakes, including picking error, inaccurate quantity, or mistaken delivery. To this end, it has been improving the warehousing automation level by installing automated racking and retrieval systems. Accordingly, it has also been optimizing the physical warehousing designs, mainly the routing planning for warehouse intelligent vehicles, to support such upgrades.

The Group has established a standardized fruit quality control system across the entire industry chain from orchard to store, to ensure an advanced freshness and loss control mechanism. At warehousing stage, it implements delicacy management by fruit types and by batches based on the attributes of the fruit to ensure that the fruit meets the uniform standard upon shipping. The Group conducts qualitative and quantitative sample testing of pesticide residues to ensure the stability and safety of the fruits. During transportation, it takes into account multiple factors including temperature and humidity, even the speed and layout of the vehicle. Through continuous optimization of operation details, it maintains the quality and freshness of fruits from warehouses to stores, while improving the efficiency and accuracy of the delivery. On the sales side, the Group has implemented a smart product freshness management system which sets the selling time for each product according to its shelf life, helping stores make timely price adjustments and promotional strategies to reduce losses and ensure the quality and freshness of fruits to consumers.

In addition, to accomplish the mission of offering delicious fruits, effective quality control shall start from the origin of the fruits. Leveraging its experience and expertise, the Group continued to strategically participate in the upstream of the industry chain. By empowering its plantation base partners with agricultural technologies, IT and capital resources and by enforcing strict quality management throughout the entire growth period of fruits, the Group is able to cultivate high-quality fruits, improve yields, and in turn, establish a Pagoda-centered large-scale, standardized network of high-quality suppliers. The Group expects the penetration in upstream supply chain will allow it to involve in the process of stabilizing product quality and incubating self-branded products at an early stage, and continue to exert its influence and management across the entire industry chain. In 2022, purchases from suppliers to whom the Group had provided various kinds of agricultural technology related services in dollar amount, accounted for approximately 35% of total purchase of fruits for the same year, representing a 5% increase from 2021.

The Group had received the ISO 22000 Certificates for Food Safety Management Systems from SGS SA, a world's leading testing, inspection and certification company, in the second quarter of 2022. ISO 22000 is an internationally recognized standard system focusing on food safety management and food safety assurance at all levels. The standard system covers the Group's key operational aspects, including procurement, storage, logistics and sales. Obtaining and maintaining the ISO 22000 Certificates demonstrates the Company's ability to implement food safety protocols and requirements in connection with supplier management, compliance and risk analysis.

Industry and Business Outlook

Looking onwards to the year of 2023, China's economy is expected to continue to recover and grow during the post-pandemic era. However, the macro economic environment is clouded by uncertainties, such as potential regional resurgence of pandemic, increasing operational costs, and disruptions of global supply chains resulting from escalating geopolitical tensions. The Group believes that its operation in the retail industry in China will be full of challenges and chances in the short run, depending on its ability to adapt to the recovery of consumer confidence and evolution of consumption patterns. In the long run, the Group remains optimistic for its development, given its well-recognized brand reputation, broad and diversified product offerings and stringent product quality control, sophisticated OMO operations, and stable supply chain management.

The Group's vision is to be the world's largest fruit company. It lays out development strategies focusing on distribution channels, product brands and membership operation to continue to increase its market share and advance its market position. At the core of its strategies is the delicacy strategy, representing the core value the Group provides to the consumers. In 2023, the Group will continue to implement its development strategies and further promote and implement the following:

- **Continue the layout in upstream industry chain and strengthen the core competitive advantages of high quality products**

The Group will continue to increase its layout at fruit planting, empowering plantation bases through agricultural technology, IT and capital resources to cultivate high-quality fruits, secure high-quality fruit sources, develop fruit product brands, and strengthen the core competitive advantages of the products. It will also continue to strengthen the ability to incubate fruit product brands and develop more of its own high-quality product brands to enhance consumer stickiness and profitability. In 2023, the Group will continue to enhance its agricultural technology related services, penetrate in supply chain, incubate more self-branded products. To this extent, it intends to establish specialized processing factories near places of origin for selected core products.

- **Further enhance supply chain management and optimize warehousing, logistic and quality control system**

The Group will continue to expand and upgrade its network of preliminary processing and distribution centers to improve core metrics such as unit storage area, number of stores covered and average daily delivery volume to support the expansion of its franchised store network and the rapid growth of the business-to-business, or 2B, fruit business and quality fresh grocery business. It will also upgrade the warehouse and transportation management system, further implement automated management and explore automated warehousing system to improve warehousing and logistics efficiency and reduce costs.

- **Continue to expand the distribution network and channel brands**

The Group will continue to expand the breadth and depth of its distribution network through continued penetration into low-tier cities, further expansion of stores in existing cities, and nationwide geographic expansion to achieve more effective and in-depth consumer reach. It plans to further penetrate existing markets and launch various types of stores such as experience stores, high-end stores and general community stores to cover diversified consumption scenarios according to local conditions. It has also been developing additional regional channel brands in China so to increase its market share and coverage of consumer base. In particular, in response to the evolving consumption needs and increasingly fragmental consumption behaviors, it will continue to optimize its OMO model by exploring online opportunities and streamlining omnichannel efforts. It will also enhance content marketing so as to reinforce its brand image and convey brand value. Moreover, the Group will also continue to strengthen its 2B business by identifying new customers and exploring additional distribution channels and scenarios.

- **Accelerate the expansion of fresh grocery business**

Considering the similarity between vegetables and fruits, and the similarity and overlap in supply chain management and operations, the Group will continue to expand its product categories in the fresh grocery business by leveraging its technological advantage and extensive experience in upstream planting. It will continue to improve and integrate the supply chain system of fruits and vegetables, establish the quality control standards for fresh grocery products, and accelerate the penetration of its fresh grocery business in the national market through its comprehensive warehousing and logistics network and OMO model.

- **Accelerate the digitalization of the whole operation and industry chain through IT investments and empowerments**

The Group plans to continue to invest in IT research and development and upgrade, and through the technological empowerment of all links of the industry chain, to promote the digitalization of its business and improve the operational efficiency and synergy of the entire industry chain. For example, it will continue to optimize the digital management system in upstream planting and strengthen the smart application of agricultural data to achieve accurate forecast and precision management of the yield and quality at the plantation base, and improve the efficiency of technicians. It will continue to improve the supplier trading platform, combined with the information forecast model to achieve real-time synchronization of inventory and sales data, and accurately monitor product quality and loss rate in procurement, warehousing and logistics. In addition, it will continue to promote the digital operation of its members and integrate online and offline information resources to achieve real-time analysis and application of members' full life cycle consumption data.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's consolidated financial results for the year ended December 31, 2022 with comparative figures for the year ended December 31, 2021.

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	11,311,995	10,289,375
Cost of sales	(9,997,709)	(9,132,939)
Gross profit	1,314,286	1,156,436
Other income	40,826	34,559
Other gains, net	25,382	8,055
Selling expenses	(498,759)	(451,730)
Administrative expenses	(321,579)	(307,065)
Net provision of impairment loss on financial assets	(2,178)	(5,370)
Research and development expenses	(172,980)	(139,742)
Operating profit	384,998	295,143
Finance income	31,771	24,091
Finance costs	(83,739)	(78,190)
Finance costs, net	(51,968)	(54,099)
Share of profit of associates and joint ventures, net	13,332	16,483
Profit before income tax	346,362	257,527
Income tax expense	(40,225)	(36,164)
Profit for the year	<u>306,137</u>	<u>221,363</u>
Profit is attributable to:		
Owners of the Company	323,297	230,345
Non-controlling interests	(17,160)	(8,982)
	<u>306,137</u>	<u>221,363</u>

Revenue

The following table sets forth the Group's revenue by operating segments, each expressed in the absolute amount and as a percentage of total revenue, for the years ended December 31, 2021 and 2022, respectively.

	Year Ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Sales of fruits and other food products	10,981,764	97.1%	9,991,758	97.1%
Royalty and franchising income	168,844	1.5%	160,288	1.5%
Membership income	90,132	0.8%	77,670	0.8%
Others	71,255	0.6%	59,659	0.6%
Total	<u>11,311,995</u>	<u>100.0%</u>	<u>10,289,375</u>	<u>100.0%</u>

The Group's total revenue increased by approximately 9.9% from RMB10,289.4 million for the year ended December 31, 2021 to RMB11,312.0 million for the year ended December 31, 2022. Revenue generated from sales of fruits and other food products represented the majority portion of the Group's total revenue, representing approximately 97.1% and 97.1% of total revenue in 2021 and 2022, respectively.

The Group mainly distributes fruits and other food products through offline store network, comprising franchised stores operated by franchisees recruited by itself or referred by its regional dealers and self-operated stores. It also distributes through online channels. In addition, it engages in direct sales to certain major customers and on a small scale, it engages in wholesale business.

The following table sets forth a breakdown of the Group's revenue from sales of fruits and other food products by distribution channels, each expressed in the absolute amount and as a percentage of revenue from sales of fruits and other food products, for the years ended December 31, 2021 and 2022, respectively.

	Year Ended December 31,			
	2022		2021	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
Franchised stores	8,851,461	80.6%	8,127,061	81.3%
Self-operated stores	61,062	0.6%	48,296	0.5%
Regional dealers	1,072,740	9.7%	968,022	9.7%
Direct sales	723,782	6.6%	522,750	5.2%
Online channels	272,719	2.5%	325,629	3.3%
Total	<u>10,981,764</u>	<u>100.0%</u>	<u>9,991,758</u>	<u>100.0%</u>

The increase in revenue from sales of fruits and other food products was primarily due to (i) net increase in number of the Group's total retail stores by 7.6% from 5,249 retail stores as of December 31, 2021 to 5,650 retail stores as of December 31, 2022, which led to an increase in revenue from sales of fruits and other food products derived by franchised stores by approximately 8.9% from RMB8,127.1 million for the year ended December 31, 2021 to RMB8,851.5 million for the year ended December 31, 2022, and (ii) the acceleration of the development of the Group's direct sales business by establishing favorable pricing strategy in order to expand its corporate customer base; as a result, the Group's revenue from sales of fruits and other food products derived from direct sales increased by approximately 38.5% from RMB522.8 million for the year ended December 31, 2021 to RMB723.8 million for the year ended December 31, 2022.

Cost of Sales

Cost of sales increased by approximately 9.5% from RMB9,132.9 million for the year ended December 31, 2021 to RMB9,997.7 million for the year ended December 31, 2022, mainly due to the increase in cost of inventories sold. Cost of inventories sold represented the majority portion of the Group's cost of sales, accounting for approximately 95.3% and 95.2% of the Group's total cost of sales for the years ended December 31, 2021 and 2022, respectively. The increase in cost of inventories sold was in line with the fluctuation in revenue from sales of fruits and other food products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit increased by approximately 13.6% from RMB1,156.4 million for the year ended December 31, 2021 to RMB1,314.3 million for the year ended December 31, 2022. The Group's gross profit margin improved from 11.2% for the year ended December 31, 2021 to 11.6% for the year ended December 31, 2022.

Other Income

The Group's other income increased by approximately 18.1% from RMB34.6 million for the year ended December 31, 2021 to RMB40.8 million for the year ended December 31, 2022. The increase was primarily due to an increase of RMB10.1 million in government grants, mainly in connection with subsidies in connection with finance costs arising from banks borrowings, partially offset by a decrease of RMB2.0 million in interest income arising from financial support provided to the Group's franchisees, regional dealers and suppliers, and a decrease of RMB1.6 million in penalty income from franchisees which represented various occasional penalty payments the Group collected from franchisees pursuant to the relevant franchise arrangements.

Other Gains, Net

The Group's other gains, net increased by approximately 215.1% from RMB8.1 million for the year ended December 31, 2021 to RMB25.4 million for the year ended December 31, 2022. The increase was primarily due to an increase of RMB15.5 million in net fair value gains on financial assets at fair value through profit or loss (or "FVTPL"), which mainly represented interests income from the short-term structured deposits the Group purchased from domestic reputable commercial banks. In addition, the increase in other gains, net from 2021 to 2022 was also partially due to exchange gains, net in the amount of RMB2.9 million recognized in 2022, while in 2021, exchange losses, net was RMB1.5 million.

Selling Expenses

The Group's selling expenses increased by approximately 10.4% from RMB451.7 million for the year ended December 31, 2021 to RMB498.8 million for the year ended December 31, 2022. The increase was primarily due to an increase in the average annual salary package and headcounts of the Group's sales and marketing staff.

Administrative Expenses

The Group's administrative expenses increased by approximately 4.7% from RMB307.1 million for the year ended December 31, 2021 to RMB321.6 million for the year ended December 31, 2022. The increase was primarily due to an increase in the average annual salary package of the Group's administrative staff.

Research and Development Expenses

The Group's research and development expenses increased by approximately 23.8% from RMB139.7 million for the year ended December 31, 2021 to RMB173.0 million for the year ended December 31, 2022. The increase was primarily due to an increase in the average annual salary package of the Group's research and development staff.

Net Provision of Impairment Loss on Financial Assets

Net impairment losses on financial assets in 2021 and 2022 mainly represented a general expected credit loss on trade and other receivables. Net provision of impairment losses on financial assets amounted to RMB5.4 million and RMB2.2 million for the years ended December 31, 2021 and 2022, respectively.

Finance Cost, Net

Finance income increased by approximately 31.9% from RMB24.1 million for the year ended December 31, 2021 to RMB31.8 million for the year ended December 31, 2022, which was mainly attributable to interest income arising from bank deposits.

Finance costs increased by approximately 7.1% from RMB78.2 million for the year ended December 31, 2021 to RMB83.7 million for the year ended December 31, 2022, which was mainly attributable to an increase in interest expense in connection with the Group's bank borrowings and lease liabilities.

Share of Profit of Associates and Joint Ventures, Net

The Group from time to time makes minority investments in companies, such as start-ups specializing in agricultural technique and equipment development or delivering cultivation management consulting solutions, to leverage their academic or technical expertise to supplement the Group's in-house research capabilities.

For the year ended December 31, 2021 and 2022, the Group recorded share of profit of associates and joint ventures, net of RMB16.5 million and RMB13.3 million, respectively.

Profit Before Income Tax

As a result of the foregoing, the Group recorded profit before tax of RMB346.4 million for the year ended December 31, 2022, increased by approximately 34.5% from RMB257.5 million for the year ended December 31, 2021.

Income Tax Expense

Income tax expense increased by approximately 11.2% from RMB36.2 million for the year ended December 31, 2021 to RMB40.2 million for the year ended December 31, 2022, primarily due to the increase in the Group's taxable income. The difference in magnitude of the increment in the Group's profit before income tax and its taxable income in 2022 was primarily because some of the Group's subsidiaries enjoyed preferential tax treatments and tax exemptions during the year ended December 31, 2022.

Profit for the Year

As a result of the foregoing, the Group's net profit increased by approximately 38.3% from RMB221.4 million for the year ended December 31, 2021 to RMB306.1 million for the year ended December 31, 2022. The Group's net profit margin increased from 2.2% for the year ended December 31, 2021 to 2.7% for the year ended December 31, 2022.

Non-HKFRS Measures – Adjusted Net Profit and Adjusted Net Profit Margin

To supplement the Group's consolidated financial information, which are presented in accordance with HKFRS, the Group presents adjusted net profit and adjusted net profit margin, each a non-HKFRS measure, as additional financial measures. Adjusted net profit is defined as profit for the year before listing expenses and is calculated by adding back the listing expenses to net profit for the relevant year. Adjusted net profit margin is calculated as adjusted net profit for the year divided by total revenue for the relevant year. Listing expenses represents expenses in relation to the Group's Global Offering and Listing completed in January 2023 and its previous listing preparation.

The Group uses unaudited non-HKFRS measures as an additional financial measure to supplement the consolidated financial information and to evaluate the financial performance of the Group by eliminating the impact of certain non-recurring item that the Group does not consider indicative of the performance of the business of the Group. Other companies in the industry the Group operates in may calculate the non-HKFRS measures differently than the Group does. The non-HKFRS measures are not a measure of operating performance or liquidity under HKFRS and should not be considered as a substitute for, or superior to, profit before tax or cash flow from operating activities in accordance with HKFRS.

The non-HKFRS measures have limitation as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of the Group's results as reported under HKFRS. The Group's presentation of this non-HKFRS item should not be construed as an inference that the Group's future results will be unaffected by unusual or non-recurring items.

The table below sets forth the reconciliation of profit and net profit margin for the year under HKFRS to adjusted net profit and adjusted net profit margin, respectively, for the year indicated.

	Year ended December 31,	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year (as reported under HKFRS)	306,137	221,363
Add:		
Listing expenses in connection with previous listing preparation	–	13,157
Listing expenses in connection with the Global Offering and Listing	32,250	16,350
Adjusted net profit for the year (non-HKFRS measure)	<u>338,387</u>	<u>250,870</u>
Net profit margin (as reported under HKFRS)	2.7%	2.2%
Adjusted net profit margin (non-HKFRS measure)	3.0%	2.4%

Liquidity and Capital Resources

For the year ended December 31, 2022, the Group financed its operations primarily through cash generated from its business operations, capital contributions by the shareholders of the Company (“**Shareholders**”) and bank borrowings.

In addition, the Company completed its Global Offering and Listing in the first quarter of 2023 and received net proceeds in the amount of approximately HK\$474.0 million (including net proceeds received from the partial exercise of the over-allotment option). The Group currently intends to finance its expansion and business operation mainly by using its own internal resources, as well as to use the net proceeds received from the Global Offering.

Capital Structure

As of December 31, 2022, the Group had net assets of RMB3,019.5 million, as compared to RMB2,713.0 million as of December 31, 2021. Net assets as of December 31, 2022 primarily comprised current assets of RMB4,729.6 million, non-current assets of RMB2,080.1 million, current liabilities of RMB3,155.3 million and non-current liabilities of RMB635.0 million.

As of December 31, 2021 and 2022, the cash and cash equivalents of the Group were mainly denominated in Renminbi (“**RMB**”).

Cash and Bank Balances

As compared with RMB1,188.4 million as of December 31, 2021, the Group had cash and bank deposits of RMB1,776.2 million as of December 31, 2022, which was consisted of unrestricted cash and cash equivalents of RMB1,485.9 million and restricted bank deposits of RMB290.3 million.

Financial Risks

The Group is exposed to interest rate risk in relation to its cash and bank balances, bank borrowings and fixed rate loan receivables. The management considers the overall interest rate risk is insignificant. The Group has cash at banks denominated in foreign currencies, which subject the Group to foreign exchange risk. The Group does not use any derivative contracts to hedge against its exposure to foreign exchange risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and will take prudent measures to minimize the currency translation risk.

Use of Proceeds from the Global Offering

The Group had not received any proceeds from the Global Offering for the year ended December 31, 2022.

The Company completed its Global Offering and Listing in the first quarter of 2023. Net proceeds the Company raised from the Global Offering (including the partial exercise of the over-allotment option), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering amounted to approximately HK\$474.0 million, comprising HK\$422.6 million raised from the Global Offering and HK\$51.4 million from the issue of shares pursuant to the partial exercise of the over-allotment option, respectively.

The Group intends to utilize the proceeds from the Global Offering in the manner as disclosed in the section headed “Future Plans and Use of Proceeds” in the prospectus of the Company dated December 29, 2022 (the “**Prospectus**”).

Indebtedness

As of December 31, 2022, the Group had an aggregate non-current bank borrowings of RMB103.8 million and short-term bank borrowings of RMB1,231.2 million. Such outstanding bank borrowings were denominated in Renminbi and the majority portion was at fixed interest rates with the remaining at variable interest rates.

The Group uses the gearing ratio (gearing ratio = total borrowings/total equity at the end of year and multiplied by 100%) to monitor its capital structure. The Group’s gearing ratio decreased from 53.5% as of December 31, 2021 to 44.2% as of December 31, 2022, which was primarily due to repayments of bank borrowing which led to a decreased in loan balances by RMB117.6 million from RMB1,452.5 million as of December 31, 2021 to RMB1,334.9 million as of December 31, 2022.

Pledged Assets

As of December 31, 2022, the Group’s right-of-use assets of RMB50.9 million and the Group’s building classified under property, plant and equipment of RMB24.6 million were pledged as collateral for the Group’s bank borrowings.

Cash Flows

For the year ended December 31, 2022, net cash generated from operating activities increased to RMB589.2 million from RMB283.9 million for the year ended December 31, 2021, which was mainly attributable to profit before income tax of RMB346.4 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB128.4 million and finance cost, net of RMB52.0 million. Additional factors that affected the Group's cash generated from operating activities included an increase in trade payables and accruals and other payables of RMB164.7 million and RMB134.6 million, respectively.

For the year ended December 31, 2022, net cash generated from investing activities was RMB619.8 million, while net cash used in investing activities was RMB577.9 million for the year ended December 31, 2021, which was mainly attributable to net redemption of financial assets at FVTPL of RMB436.6 million for the year ended December 31, 2022 compared to the net acquisition of financial assets at FVTPL of RMB623.1 million for the year ended December 31, 2021.

For the year ended December 31, 2022, net cash used in financing activities was RMB307.8 million, while the cash generated from financing activities was RMB404.0 million for the year ended December 31, 2021, which was mainly attributable to net repayments of bank borrowings of RMB117.6 million for the year ended December 31, 2022 compared to net proceeds from bank borrowings of RMB523.0 million for the year ended December 31, 2021.

Financial Assets, Capital and Investment Management

The Group from time to time invests in wealth management products, primarily structured deposits, in order to better facilitate its cash management. Structured deposits were principal-protected products which typically had a fixed short term and may be redeemed upon had their respective expiry dates, therefore, were relatively low risk in nature. The Group's structured deposits were accounted as financial assets measured at FVTPL. To a lesser extent, the Group also recorded fair value gains on long-term financial assets at FVTPL which mainly represented convertible debts in connection with loans convertible to equity interests in the borrowers pursuant to the relevant agreements. Moreover, the Group also recorded financial assets at FVOCI, which comprised (i) unlisted equity securities and (ii) listed equity securities whereby the Group invested in companies that it considered have development potentials.

As of December 31, 2022, the Group had (i) structured deposits which accounted for as financial assets at FVTPL of RMB623.8 million (2021: RMB1,040.0 million), (ii) other financial assets at FVTPL of RMB86.6 million (2021: RMB82.3 million), and (iii) financial assets at FVOCI of RMB18.4 million (2021: RMB10.9 million).

The Group has implemented capital and investment policies to monitor and control the risks relating to its investment activities. The Group generally only makes investments in asset management products when it has surplus cash, and in principle, is only entitled to invest in products with low-risk and high liquidity, and such investments should be non-speculative in nature. The Group's capital and investment policies also specify the criteria for selecting investments to be considered and the detailed review procedures that each proposed investment shall go through.

In view of an upside of earning a relatively higher return than current saving or fixed deposit rate under the low interest rate trend, as well as the principal-protected nature and a relatively short term of maturity of the structured deposits, the Directors are of the view that the structured deposits pose little risk to the Group and the terms and conditions of each of the structured deposits are fair and reasonable and are in the interests of the Company and its Shareholders as a whole.

Capital Expenditure

The Group's capital expenditures amounted to RMB165.0 million for the year ended December 31, 2022, mainly for the payments of construction in progress of the Group's new office building located in Yantian District, Shenzhen, China.

The Group financed its capital expenditures primarily with cash generated from operations and bank borrowings. Since 2023 and onwards, the Group may also use the proceeds raised from the Global Offering to finance its capital expenditures.

Contingent Liabilities and Guarantees

As of December 31, 2022, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

Material Investments, Material Acquisitions, and Disposals of Subsidiaries, Associates and Joint Ventures

In 2022, the Company had no material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures.

In addition, save for the expansion plans as disclosed in the sections headed "Business" and "Future Plans and Use of Proceeds" in the Prospectus, the Group currently has no specific plan for material investment in or acquisition of major assets or other business, or disposal of subsidiaries, associates and joint ventures. However, the Group will continue to identify new opportunities for business development.

Turnover Ratios

Average inventory turnover days slightly increased from 10.1 days in 2021 to 10.7 days in 2022.

Average trade receivables turnover days decreased from 43.4 days in 2021 to 36.7 days in 2022, primarily due to our proactive payment collection.

Average trade payables turnover days increased from 13.0 days in 2021 to 15.6 days in 2022, primarily due to the procurements for the Group's wholesale business extended from the end of 2021 to early 2022 while it was usually completed by end of each year (turnover days of 16.0 days and 15.5 days in 2019 and 2020, respectively).

Employees and Employee Benefit Expenses

As of December 31, 2022, the Group had a total of 3,006 employees, among which approximately 21.2% were from marketing department, 18.2% were from operating and store management department, 17.6% were from production and logistics department and 16.3% were from IT department.

The Group attaches great importance to the development and retention of talents to support the sustainable growth. It has established a comprehensive talent training system for its management and other employees. It offers all-round talent training programs, respectively focusing on developing talents in various fields of general management, upstream planting and market operation.

The Group has developed a performance evaluation system to assess the performance of its employees annually, which forms the basis for determining the salary levels, bonuses and promotions an employee may receive. Sales and marketing personnel may also receive bonuses based on the sales targets they accomplish, by taking into account the overall sales performance of the stores in the same regional market in the relevant period.

In 2022, the Group incurred total employee benefit expenses of RMB717.8 million, representing approximately 6.3% of total revenue of the Group for the same year.

Major Suppliers and Major Customers

For the year ended December 31, 2022, purchases from the Group's largest supplier in terms of dollar amount accounted for approximately 7.5% of total purchase cost of the Group for the same year, and the aggregate purchases from its top five suppliers in aggregate accounted for 20.4% of total purchase cost of the Group for the same year.

For the year ended December 31, 2022, revenue contributed by the Group's largest customer accounted for approximately 1.8% of total revenue of the Group for the same year, and the aggregate revenue contributed by its top five customers accounted for approximately 8.2% of total revenue of the Group for the same year. All top five customers were the Group's franchisees.

Reserves

As of December 31, 2022, the Company's reserves available for distribution to Shareholders amounted to approximately RMB390.0 million.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue	3	11,311,995	10,289,375
Cost of sales	6	<u>(9,997,709)</u>	<u>(9,132,939)</u>
Gross profit		1,314,286	1,156,436
Other income	4	40,826	34,559
Other gains, net	5	25,382	8,055
Selling expenses	6	(498,759)	(451,730)
Administrative expenses	6	(321,579)	(307,065)
Net provision of impairment loss on financial assets		(2,178)	(5,370)
Research and development expenses	6	<u>(172,980)</u>	<u>(139,742)</u>
Operating profit		384,998	295,143
Finance income	7	31,771	24,091
Finance costs	7	<u>(83,739)</u>	<u>(78,190)</u>
Finance costs, net	7	(51,968)	(54,099)
Share of profit of associates and joint ventures, net		<u>13,332</u>	<u>16,483</u>
Profit before income tax		346,362	257,527
Income tax expense	8	<u>(40,225)</u>	<u>(36,164)</u>
Profit for the year		<u>306,137</u>	<u>221,363</u>
Profit is attributable to:			
Owners of the Company		323,297	230,345
Non-controlling interests		<u>(17,160)</u>	<u>(8,982)</u>
		<u>306,137</u>	<u>221,363</u>
Earnings per share for profit attributable to the owners of the Company			
Basic and diluted (expressed in RMB cents per share)	9	<u>21.55</u>	<u>15.36</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year		306,137	221,363
Other comprehensive loss			
Changes in the fair value of financial assets at fair value through other comprehensive income (“FVOCI”)		(3,975)	(49,437)
Income tax relating to these items		(496)	5,884
Other comprehensive loss for the year, net of tax		(4,471)	(43,553)
Total comprehensive income for the year		301,666	177,810
Total comprehensive income for the year is attributable to:			
Owners of the Company		318,826	186,792
Non-controlling interests		(17,160)	(8,982)
		301,666	177,810

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December	
		2022	2021
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		450,153	308,027
Right-of-use assets		547,036	609,620
Investment property		2,529	2,618
Intangible assets		241,752	247,729
Interests in associates and joint ventures		363,563	324,451
Financial assets at FVOCI		18,413	10,864
Financial assets at fair value through profit or loss ("FVTPL")		86,628	82,286
Restricted bank deposits		1,009	1,009
Long-term bank deposits		20,000	100,000
Deposits, prepayments and other receivables		343,245	321,401
Deferred tax assets		5,791	6,839
		<u>2,080,119</u>	<u>2,014,844</u>
Current assets			
Inventories		336,785	246,760
Biological assets		6,139	4,525
Trade receivables	10	1,118,438	1,156,227
Deposits, prepayments and other receivables		848,802	857,536
Financial assets at FVTPL		623,800	1,039,995
Loans to related parties		39,512	12,608
Amounts due from associates		932	15
Restricted bank deposits		289,306	272,690
Short-term bank deposits		–	250,000
Cash and cash equivalents		1,465,908	564,666
		<u>4,729,622</u>	<u>4,405,022</u>
Total assets		<u><u>6,809,741</u></u>	<u><u>6,419,866</u></u>

		As at 31 December	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings		103,750	17,084
Other payables		66,988	72,266
Contract liabilities		23,262	30,853
Lease liabilities		433,392	518,937
Deferred tax liabilities		7,585	11,040
		<u>634,977</u>	<u>650,180</u>
Current liabilities			
Trade payables	11	509,916	345,196
Accruals and other payables		1,318,170	1,178,246
Contract liabilities		22,503	18,249
Income tax payables		13,885	11,674
Amounts due to associates		25,370	15,882
Bank borrowings		1,231,191	1,435,427
Lease liabilities		34,238	52,051
		<u>3,155,273</u>	<u>3,056,725</u>
Total liabilities		<u>3,790,250</u>	<u>3,706,905</u>
Net assets		<u>3,019,491</u>	<u>2,712,961</u>
Equity			
Equity attributable to the owners of the Company			
Share capital		1,500,000	1,500,000
Reserves		1,454,686	1,135,859
Capital and reserves attributable to owners of the Company		<u>2,954,686</u>	<u>2,635,859</u>
Non-controlling interests		64,805	77,102
Total equity		<u>3,019,491</u>	<u>2,712,961</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 3 December 2001 as a limited liability company under Company Law of the PRC. The address of the Company's registered office is 6A-2, 6/F, Block A, Yantian Modern Industry Service Center (Phase I), No. 3018 Shayan Road, Tianxin Community, Shatoujiao Street, Yantian District, Shenzhen, Guangdong Province, China.

On 10 April 2020, the Company was converted into a joint stock company with limited liability with registered capital of RMB1,500,000,000.

The shares of the Company have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 January 2023.

The Company and its subsidiaries (together, the "Group") are principally engaged in operating of a franchised retail network and trading of fruits (the "Listing Business"). The ultimate controlling party of the Group is Mr. Yu Huiyong ("Mr. Yu").

2 BASIS OF PREPARATION

The consolidated financial statements of the group has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements has been prepared under the historical cost basis, except for the following:

- certain financial assets and investment property – measured at fair value; and
- certain biological assets – measured at fair value less costs to sell.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

All relevant standards, amendments and interpretations to the existing standards that are effective during the year ended 31 December 2022 have been adopted by the Group consistently throughout the year ended 31 December 2022 and 2021.

- (a) New and amended standards, improvement, interpretation and accounting guideline that have been issued but are not effective for the year ended 31 December 2022 and have not been early adopted

The following are new and amended standards, improvement, interpretation and accounting guideline that have been issued, but are not effective for the year ended 31 December 2022, and have not been early adopted. The Group plans to adopt these new standards, amendments to standards, accounting guidance and annual improvement when they become effective:

		Effective for accounting year beginning on or after
HKAS 1 and HKFRS Practice Statement 2 (Amendments)	Disclosure of Accounting Policies	1 January 2023
Amendments to HKFRS 4	Extension of the Temporary Exemption from Applying HKFRS 9	1 January 2023
HKAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023
HKAS 8 (Amendments)	Definition of Accounting Estimates	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HKFRS 17 (Amendments)	Amendments to HKFRS 17	1 January 2023
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information	1 January 2023
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024

- (b) New and amended standards, improvement, interpretation and accounting guideline which are not yet effective and have not been early adopted by the Group

		Effective for accounting year beginning on or after
HKFRS 16 (Amendments)	Lease Liability in a Sale and Leaseback	1 January 2024
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current	1 January 2024
HKAS 1 (Amendments)	Non-current Liabilities with Covenants	1 January 2024
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

According to the assessment made by the board of directors, these new and amended standards, improvement, interpretation and accounting guideline are either not relevant to the Group or not significant to the financial performance and positions of the Group when they become effective.

3 REVENUE AND SEGMENT INFORMATION

(a) Description of segments and principal activities

The CODM has been identified as the executive directors of the Company. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources and has determined the operating segment based on these reports.

The CODM assess the performance of the Group in below reportable operating segments:

- Operation of franchised and self-owned retail networks (“**Franchising**”)
- Sales of fruit and other food products – trading of fruits (“**Trading**”)
- Others

The CODM assesses the performance of the operating segments based on a measure of segment results. This measurement basis excludes the effects of fair value gain on structured deposits, legal and professional fees, listing expenses, income tax expense, interest income on bank deposits and interest expenses on borrowings. Other information provided to the CODM is measured in a manner consistent with that in the historical financial information.

(b) Segment revenue and results

An analysis of the Group's revenue and results during the years ended 31 December 2022 and 2021 by operating segment is as follows:

	Franchising <i>RMB'000</i>	Trading <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2022				
Revenue from contracts	10,539,960	777,343	12,325	11,329,628
Less: Inter-segment revenue	–	(16,640)	(993)	(17,633)
Revenue from external customers	<u>10,539,960</u>	<u>760,703</u>	<u>11,332</u>	<u>11,311,995</u>
Segment results	397,641	47,667	8,398	453,706
Unallocated other gains, net				20,394
Unallocated corporate expenses				(107,449)
Unallocated finance income				31,771
Unallocated finance cost				<u>(52,060)</u>
Profit before income tax				346,362
Income tax expense				<u>(40,225)</u>
Profit for the year				<u><u>306,137</u></u>
Depreciation and amortisation	115,218	10,277	2,863	128,358
Additions to:				
Property, plant and equipment	175,893	2,101	14,533	192,527
Right-of-use assets	28,830	–	–	28,830
Intangible assets	<u>9,484</u>	<u>–</u>	<u>–</u>	<u>9,484</u>

	Franchising <i>RMB'000</i>	Trading <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2021				
Revenue from contracts	9,973,084	645,445	11,378	10,629,907
Less: Inter-segment revenue	–	(336,858)	(3,674)	(340,532)
Revenue from external customers	<u>9,973,084</u>	<u>308,587</u>	<u>7,704</u>	<u>10,289,375</u>
Segment results	355,826	(6,622)	8,031	357,235
Unallocated other gains, net				20,633
Unallocated corporate expenses				(96,484)
Unallocated finance income				24,091
Unallocated finance cost				<u>(47,948)</u>
Profit before income tax				257,527
Income tax expense				<u>(36,164)</u>
Profit for the year				<u><u>221,363</u></u>
Depreciation and amortisation	107,762	7,457	2,599	117,818
Additions to:				
Property, plant and equipment	80,703	750	19,666	101,119
Right-of-use assets	382,577	–	–	382,577
Intangible assets	<u>10,069</u>	<u>–</u>	<u>–</u>	<u>10,069</u>

(c) **Geographical segment**

Analysis of revenue of the Group by geographical market is as follows:

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	11,157,622	10,138,716
Hong Kong and other countries	154,373	150,659
	<u>11,311,995</u>	<u>10,289,375</u>

4 OTHER INCOME

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	17,299	7,225
Penalty income from franchisees	2,422	4,041
Interest income arising from loans	19,117	21,120
Others	1,988	2,173
	<u>40,826</u>	<u>34,559</u>

5 OTHER GAINS, NET

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Fair value gains/(losses) on biological assets	1,134	(494)
Fair value gains on financial assets at FVTPL, net	24,736	9,248
Losses on disposals of property, plant and equipment	(4,090)	(224)
Gains/(losses) on lease termination	719	(213)
Gains on disposal of associates and joint venture	–	1,248
Exchange gains/(losses), net	2,883	(1,510)
	<u>25,382</u>	<u>8,055</u>

6 EXPENSES BY NATURE

	Year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	9,519,373	8,705,686
Employee benefit expenses (including directors' emoluments)	717,801	676,031
Listing expenses	32,250	16,350
Depreciation of property, plant and equipment	45,894	40,202
Depreciation of right-of-use assets	67,003	63,314
Amortisation of intangible assets	15,461	14,302
Legal and professional fees	80,443	74,756
Delivery charges	214,639	198,641
Marketing and promotion expenses	58,879	65,483
Office supplies	12,034	13,127
Labour cost	77,375	43,301
Expense relating to short-term leases	44,388	34,380
Travelling expenses	12,117	12,805
Entertainment	18,272	7,670
Water and electricity	17,453	15,421
Other tax expenses	19,541	18,477
Others	38,104	31,530
	<u>10,991,027</u>	<u>10,031,476</u>
Representing:		
Cost of sales	9,997,709	9,132,939
Selling expenses	498,759	451,730
Administrative expenses	321,579	307,065
Research and development expenses	172,980	139,742
	<u>10,991,027</u>	<u>10,031,476</u>

7 FINANCE COSTS, NET

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance costs		
Interest expenses on bank borrowings	52,776	47,948
Interest expenses on lease liabilities	31,679	30,242
	<u>84,455</u>	<u>78,190</u>
Less: amount capitalised in Yantian Office building	(716)	–
	<u>83,739</u>	<u>78,190</u>
Finance income		
Interest income on bank deposits	(31,771)	(24,091)
Finance costs, net	<u>51,968</u>	<u>54,099</u>

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Current income tax	43,128	39,594
Deferred tax	(2,903)	(3,430)
Income tax expense	<u>40,225</u>	<u>36,164</u>

Companies comprising the Group are established and operating in the PRC. Most of them are subject to PRC corporate income tax (“CIT”) at the rate of 25% for the years ended 31 December 2022 (2021: same), except for one subsidiary which was awarded certificate of High and New Technology Enterprises (“HNTTE”) in October 2017. Such entity was entitled to a preferential CIT rate of 15% up to the expiry of the certificate in October 2023. The further entitlement to such HNTTE tax incentive is subject to the successful renewal of certificate by the PRC tax authority. According to Article 27 of the China Corporate Income Tax Law and Article 86 of the Implementation Regulation of the CIT Law, income and expenses attributable to processing of agricultural products are exempted from the CIT for the years ended 31 December 2021 and 2022, subject to annual review by the local PRC tax authority of the Company’s subsidiaries.

9 EARNINGS PER SHARE FOR THE PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

(a) Basic earnings per share

The basic earnings per share is calculated on the profit attributable to owners of the Company divided by the weighted average number of ordinary shares outstanding during the years ended 31 December 2022 and 2021.

	Year ended 31 December	
	2022	2021
Profit attributable to owners of the Company (<i>RMB'000</i>)	323,297	230,345
Weighted average number of shares outstanding (<i>'000</i>)	1,500,000	1,500,000
Basic earnings per share (<i>expressed in RMB cent</i>)	21.55	15.36

(b) Diluted earnings per share

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the year ended 31 December 2022 (2021: same).

10 TRADE RECEIVABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, gross	1,156,260	1,191,298
Less: loss allowance	(37,822)	(35,071)
Trade receivables, net	1,118,438	1,156,227

The ageing analysis of trade receivables by invoice date is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
1 – 90 days	803,891	784,079
91 – 180 days	284,697	332,889
181 – 365 days	40,157	47,500
Over 1 year	27,515	26,830
	1,156,260	1,191,298

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,094,816	1,144,286
US\$	16,179	9,231
HK\$	7,443	2,710
	1,118,438	1,156,227

11 TRADE PAYABLES

The ageing analysis of the trade payables based on invoice dates is as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	476,403	317,811
31 to 60 days	21,164	20,757
61 to 90 days	2,494	2,224
Over 90 days	9,855	4,404
	<u>509,916</u>	<u>345,196</u>

The carrying amounts of the Group's trade payables approximate their fair values and are denominated in RMB.

12 DIVIDENDS

The proposed 2022 final dividend of RMB0.076 per ordinary share, equivalent to an aggregate of approximately RMB120,729,000 for the year is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting. (2021: Nil). The aggregated amount of the proposed dividend is expected to be paid out of retained earnings as at 31 December 2022 but not recognised as a liability at year end.

OTHER INFORMATION

Final Dividend

The Board has recommended the payment of a final dividend of RMB0.076 per ordinary share (tax inclusive) to all Shareholders for the year ended December 31, 2022.

The proposed final dividend shall be declared in RMB and paid to holders of H shares of the Company (the “**H Shareholders**”) in Hong Kong dollars (“**HK\$**”). The final dividend payable in HK\$ will be converted from RMB at the average exchange rate of RMB against the HK\$ issued by the People’s Bank of China five business days before the forthcoming annual general meeting of the Company (the “**AGM**”), and the final dividend paid to the holders of domestic shares of the Company will be paid in RMB. This proposed final dividend is subject to the approval of the Shareholders at the forthcoming AGM and is expected to be paid on or around Monday, July 10, 2023.

In accordance with the Enterprise Income Tax Law of the People’s Republic of China and its implementation rules (the “**EIT Law**”), non-resident enterprises shall pay enterprise income tax on income derived from China, and the applicable tax rate is 10.0%. To this end, any H shares registered in the name of non-individual Shareholders, including HKSCC Nominees Limited, other nominees, trustees or other organizations and groups will be treated as being held by non-resident enterprise Shareholders (as defined in the EIT Law), and the Company will distribute the final dividend to such non-resident enterprise Shareholders after withholding such 10.0% enterprise income tax.

The Company distributes the 2022 final dividend to the individual Shareholders, which would be subject to the personal income tax at the rate of 10% or 20%. It would be specifically handle in line with relevant regulations and tax collection and management requirements, unless otherwise required by the tax regulations, relevant tax agreements or notices.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance.

The Company was listed on the Stock Exchange on January 16, 2023 and the CG Code as set out in Appendix 14 to the Listing Rules was not applicable to the Company before the Listing Date. Since the Listing Date and up to the date of this announcement, the Company has complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein.

Model Code for Securities Transactions

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding all dealings by Directors, supervisors and relevant employees of securities in the Company and other matters covered by the Model Code since the Listing Date.

As the Company was listed on the Stock Exchange on January 16, 2023, it was not required to comply with the Model Code during the year ended December 31, 2022.

Having made specific enquiry with the Directors and supervisors, all of the Directors and supervisors confirmed that he/she has complied with the required standards as set out in the Model Code during the period from the Listing Date and up to the date of this announcement. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company for the aforesaid period.

Purchase, Sale or Redemption of the Company’s Listed Securities

As the Company’s shares have not been listed on the Stock Exchange during the year ended December 31, 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year under review.

During the period from the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules since the Listing Date and up to the date of this announcement. The Company maintained the minimum level of public float of at least 25% of its total registered share capital.

SUBSEQUENT EVENTS

The following significant event took place subsequent to December 31, 2022:

- (i) on the Listing Date, the Company issued 78,947,500 H shares at an offer price of HK\$5.60 per H share pursuant to the Global Offering and its H shares (including 1,094,072,605 H shares converted from domestic shares upon Listing) listed on the Main Board of the Stock Exchange;
- (ii) on January 16, 2023 and February 22, 2023, the Group subscribed for certain wealth management products with an aggregate amount of RMB350.0 million. Such wealth management products remained outstanding as of the date of this announcement;
- (iii) On February 5, 2023, the Group subscribed for additional registered capital of Guangxi Zhencheng Agriculture Co., Ltd.* (廣西真誠農業有限公司) in the amount of RMB10.0 million and the Group's equity interest in Guangxi Zhencheng Agriculture Co., Ltd. increases to 42% upon the completion of the capital subscription; and
- (iv) on February 8, 2023, the International Underwriters (as defined in the Prospectus) partially exercised the over-allotment option, pursuant to which the Company further issued 9,596,500 H Shares on February 13, 2023. Listing of and dealings in such shares on the Main Board of the Stock Exchange commenced on February 13, 2023.

As of the date of this announcement, save as disclosed above, there was no significant event affecting the Group which occurred after the end of December 31, 2022.

AUDIT COMMITTEE

The Board has established the Audit Committee, which comprises two independent non-executive Directors and one non-executive Director, namely, Dr. WU Zhanchi (*chairman*), Mr. MA Ruiguang and Mr. PAN Pan. The Audit Committee has also adopted written terms of reference which clearly set out its duties and obligations (the terms of reference are available on the websites of the Company and the Stock Exchange).

The Audit Committee has, together with the senior management of the Company, reviewed the accounting principles and practices adopted by the Group as well as the consolidated financial information of the Group for the year ended December 31, 2022. The Audit Committee considered that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and the selection and appointment of external auditors.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and consolidated statement of other comprehensive income and the related notes thereto for the year ended December 31, 2022 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL GENERAL MEETING

A notice convening the AGM will be published on the website of the Company (www.pagoda.com.cn) and the website of the Stock Exchange (www.hkexnews.hk) and despatched to the Shareholders within the prescribed time and in such manner in accordance with the requirements of the Listing Rules.

PUBLICATION OF 2022 ANNUAL RESULTS AND 2022 ANNUAL REPORT

This annual results announcement is published on the website of the Company (www.pagoda.com.cn) and the website of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended December 31, 2022 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company within the prescribed time and in accordance with the requirements under the Listing Rules.

PUBLICATION OF 2022 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Group for the year ended December 31, 2022 will be published on the respective website of the Company and the Stock Exchange as set out above within the prescribed time and in accordance with the requirements under the Listing Rules.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their continuous support and contribution to the Group.

By Order of the Board
Shenzhen Pagoda Industrial (Group) Corporation Limited
深圳百果園實業(集團)股份有限公司
YU Huiyong
Chairman and Executive Director

Shenzhen, the People's Republic of China
March 28, 2023

As of the date of this announcement, the Board of Directors of the Company comprises Mr. YU Huiyong, Ms. XU Yanlin, Mr. TIAN Xiqiu, Mr. JIAO Yue and Mr. ZHU Qidong as executive Directors, Mr. PAN Pan and Mr. HU Qihao as non-executive Directors, and Dr. JIANG Yanbo, Mr. MA Ruiguang, Dr. WU Zhanchi, Mr. CHEUNG Yee Tak Jonathan and Ms. ZHU Fang as independent non-executive Directors.

* *For identification purpose only*