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The following discussion and analysis of our financial condition and results of operations should be read together with our consolidated financial information as of and in each of FY2020, FY2021, FY2022 and 9M2023 with the accompanying notes to the Accountants’ Report as set out in Appendix I to this document. The financial statements have been prepared in accordance with HKFRS. Prospective [REDACTED] should read the whole of the Accountants’ Report as set out in Appendix I to this document and not rely merely on the information contained in this section. The following discussion and analysis contain forward-looking statements that involve risk and uncertainties. However, whether our actual results and developments will meet our expectations and projection depend on a number of risks and uncertainties over which our Group does not have control. For additional information regarding these risks and uncertainties, please refer to the section headed “Risk Factors” in this document.

OVERVIEW

We are the largest producer of potted vegetable produce in Shandong province, with a market share of 14.8% in terms of sales revenue in Shandong province in 2022. We are principally engaged in the cultivation and sales of potted vegetable produce, which are cultivated and sold in pots. During the Track Record Period, our potted vegetable produce was mainly leafy vegetable species which included 29 species, with vegetable species such as crown daisy, rapeseed, Frisée, Indian lettuce, pak choi, lettuce, Chinese celery and tatsoi being our principal products offered in the market during the Track Record Period.

Our products are offered in the market primarily under our brand “富景农业”. During the Track Record Period, we sold our products primarily in Shandong province. In 2019, we extended our geographical coverage by commencing sales of our potted vegetable produce in Xi’an, Shaanxi province and Dalian, Liaoning province. During FY2020, we further expanded our Laixi Facility by a total site area of approximately 90,000 sq.m. for cultivation of our potted vegetable produce. We sell our potted vegetable produce primarily through a network of distributors in the PRC, which is consistent with industry practice. Our distributors then on-sell our products to end-user customers, the majority of which are hotels and restaurants in the PRC.

We have achieved a solid track record of growth in revenue and profit, save for FY2022 and 9M2022 when our results were temporarily and adversely affected by COVID-19 epidemic which seriously affected our Shandong province and Dalian markets during the period. For FY2020, FY2021, FY2022, 9M2022 and 9M2023, we recorded a total revenue of approximately RMB121.4 million, RMB154.9 million, RMB126.7 million, RMB88.6 million and RMB121.3 million, respectively, while our net profit for the same period was approximately RMB43.8 million, RMB47.3 million, RMB31.8 million, RMB19.7 million and RMB41.1 million for FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively.

For further information about our business and operations, please refer to the section headed “Business” in this document.

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BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 July 2019. In preparation for the [REDACTED], we underwent the Reorganisation, as detailed in the section headed “History, Reorganisation and Corporate Structure” in this document. Following the Reorganisation, our Company became the holding company of all the companies now comprising our Group.

The historical financial information of our Group has been prepared by our Directors based on accounting policies which conform with Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards and their interpretations) issued by the Hong Kong Institute of Certified Public Accountants, on the basis of presentation as set out in note 2 to the Accountants’ Report as set out in Appendix I to this document.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION AND FINANCIAL CONDITIONS

Our results of operations and financial conditions are affected by a number of factors, many of which may be beyond our control, including those factors set forth in the section headed “Risk Factors” in this document and those set forth below.

Consumer demand for our potted vegetable produce in the PRC

Consumer demand for our potted vegetable produce in the PRC is one of the key drivers of our revenue. In line with the increasing rate of vegetable consumption of residents in China due to the increasing total population and disposable income, the sales volume of potted vegetable produce increased from 107.8 million pots in 2017 to 239.4 million pots in 2022 with a CAGR of 17.3%. Meanwhile, the sales revenue of potted vegetable produce increased from RMB1,520.8 million in 2017 to RMB4,069.3 million in 2022 with a CAGR of approximately 21.8%. Going forward, as potted vegetable produce is increasingly popular in the PRC, the market is expected to keep an upward trend. The sales volume of potted vegetable produce is likely to reach 329.4 million pots in 2027 with a CAGR of approximately 6.6%. The sales revenue is also expected to grow to RMB6,591.0 million in 2027, representing a CAGR of approximately 10.1%. For details of the historical and expected growth of the potted vegetable produce industry of the PRC, please refer to the paragraph headed “Industry Overview — China’s vegetable and potted vegetable produce markets” in this document. The rising demand for potted vegetable produce in the PRC may positively affect our results of operations.

On the other hand, since our growth depends, to a significant extent, on the continuous growth in the demand for our potted vegetable produce, any future reduced demand or downturn in the relevant sectors may materially and adversely affect our sales and profitability. Furthermore, we are subject to the changing consumer preferences. If there is a change in market preference and if we fail to keep pace with these changes, we may not be able to achieve the growth as expected.

Cost of raw materials and subcontractor labour cost

Our raw materials primarily include (i) components of organic substrates; (ii) seeds; and (iii) fertilisers (such as foliar fertilisers) and biopesticides (such as matrine).

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In FY2020, FY2021, FY2022 and 9M2023, cost of raw materials represented approximately 49.1%, 47.9%, 47.2% and 47.7% of our cost of sales, respectively. While we are generally able to pass on increases in cost of raw materials of our products to our customers by increasing the prices of our products accordingly and we have effective mechanism to keep monitoring the supply and price trends of our raw materials, we cannot assure that our key suppliers will not be interrupted and will be able to continue to supply raw materials to us on commercially acceptable terms or that can meet our standards. Our financial conditions and results of operations may accordingly be adversely affected.

Our subcontractor labour cost also affects our profitability. In FY2020, FY2021, FY2022 and 9M2023, our subcontractor labour cost amounted to approximately RMB28.3 million, RMB37.2 million, RMB30.3 million and RMB29.0 million, representing approximately 41.6%, 41.7%, 40.9% and 41.8% of our cost of sales respectively for the same periods. While we strive to improve our operating efficiency and control cost, our subcontractor labour cost may continue to grow with the increase in our business scale in the foreseeable future.

Our ability to maintain our competitive advantages that differentiate us from our competitors

The potted vegetable produce market in China is a highly fragmented market with thousands of potted vegetable producers.

Entry barriers and the competitiveness of the potted vegetable produce market largely lie in brand recognition, potted vegetable produce cultivation know-how, capital requirements and logistics capabilities. Our Directors believe that we are able to compete by leveraging our strengths in China’s potted vegetable produce market, our well-established distribution network and our developed techniques in the potted vegetable produce cultivation. We will also further solidify our status in the market through continuous efforts in testing of cultivation methods and techniques and improvements in product quality.

For further details on our competitive landscape, please refer to the paragraph headed “Industry Overview — China’s vegetable and potted vegetable produce markets — Competitive landscape of China’s vegetable produce and potted vegetable produce markets” in this document. For further details on our risks related to competition, please also refer to the paragraph headed “Risk Factors — Risks relating to the industry which we operate in — We operate in a highly fragmented and competitive industry and may face increasing competition, which may affect our market shares and profit margins” in this document.

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Distribution network

Our sales volume is and will continue to be affected by the size of our distribution network. Our major customers consist of distributors who are primarily involved in the on-selling of our potted vegetable produce to end-user customers in their respective designated regions. In FY2020, FY2021, FY2022 and 9M2023, sales to our distributors (which were all based in the PRC) amounted to RMB121.0 million, RMB154.9 million, RMB126.7 million and RMB121.3 million, respectively, representing approximately 99.7%, 100.0%, 100.0% and 100.0% of our revenue during the same period, respectively. For details, please refer to the paragraph headed “Business — Distribution and sales network — Our customers” in this document.

While we have established approximately three to nine years of business relationship, failure to renew our distribution agreements with our distributors may adversely affect the sales of our potted vegetable produce and thus our financial conditions and results of operation. For details, please refer to the paragraph headed “Risk Factors — Risk relating to our business — We rely on our distributors to sell our products. Any changes in our relationships with our distributors may have a material and adverse effect on our sales, results of operations and financial conditions” in this document.

Changes in fair value of biological assets

Our biological assets as at the end of reporting period represent the potted vegetable produce held by us and stated at fair value less estimated cost to sell as at the end of reporting period. Our results have been, and we expect will continue to be, affected by changes in the fair value of our biological assets. Between each reporting dates, our fair value of biological assets is affected by our production and sale of these biological assets in our business operation. At the end of each reporting period, we recognise fair value gains or losses arising from changes in fair value of the potted vegetable produce that remain unsold as at the beginning and end of reporting period, that is the fair value changes of biological assets. Such fair value changes are due to the changes in the physical attributes and market-determined prices of biological assets.

During the Track Record Period, the fair value of our biological assets were assessed at each reporting date by Savills, our independent valuer. The fair value of potted vegetables that are planted and sold within the same financial period results in no changes in the carrying amount and fair value of biological assets recognised during that reporting period. As our biological assets are stated at fair value less estimated cost to sell as at the end of the reporting period, the carrying amounts are affected by the number, maturity and therefore the fair value of our potted vegetable produce as at the end of the reporting period. The resultant changes in the fair value adjustment between each reporting period are recognised as gain or loss in our consolidated statements of profit or loss.

In FY2020, our results of operations were positively affected by the gain arising from the changes in fair value less cost to sell of biological assets of approximately RMB3.2 million. In FY2021, our results of operations were positively affected by the gain arising from fair value changes less cost to sell of biological assets of approximately RMB3.4 million. In FY2022, our results of operations were negatively affected by the loss from fair value changes less cost to sell of biological assets of approximately RMB2.1 million. In 9M2023, our results of operations were positively affected by the gain arising from fair

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value changes less cost to sell of biological assets of approximately RMB3.3 million. Changes in fair value less cost to sell of biological assets represent fair value gains/losses on our biological assets.

In applying valuation methods (including market and cost approaches), Savills has relied on a number of assumptions, related to, among others, quantity held, sales volume and market price of our potted vegetable produce and cost to sell. The fair value of our potted vegetable produce could be affected by, among others, the accuracy of these assumptions. Any changes in the assumptions may affect the fair value of our potted vegetable produce significantly. Our management review the assumptions and estimates periodically to identify any significant changes in fair value of our potted vegetable produce. We expect that our results will continue to be affected by changes in the fair value of our potted vegetable produce. For more information about the valuation methods applied in valuing our potted vegetable produce, please refer to the paragraph headed “Valuation of biological assets” in this section of the document.

Seasonality

During the Track Record Period, we experienced seasonality fluctuations in the cultivation of our potted vegetable produce due to weather conditions. As we rely on natural heat and light sources in the regulation of our greenhouse climate, our cultivation volume decreased during colder seasons as the temperature inside our greenhouses is lower and the illumination inside our greenhouses decreases with the shorter length of insolation duration during colder seasons, which in turn leads to slower maturation and longer growth cycles of our potted vegetable produce in colder seasons. For further details of our seasonality fluctuations, please refer to the paragraph headed “Business — Distribution and sales network — Seasonality” in this document.

MATERIAL ACCOUNTING POLICY INFORMATION, CRITICAL JUDGEMENT AND KEY ESTIMATES

We have identified material accounting policy information, critical judgement and key estimates that are relevant to the preparation of our consolidated financial statements and important for an understanding of our financial position and results of operation.

Our material accounting policy information are set out in note 4 to the Accountants’ Report as set out in Appendix I to this document, which are important for understanding our financial condition and results of operation.

Certain critical judgement and key estimates, which are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances, are discussed in note 5 to the Accountants’ Report as set out in Appendix I to this document.

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RESULTS OF OPERATIONS

The following table sets forth selected items of our consolidated statements of profit or loss and other comprehensive income for the periods indicated:

	Year ended 31 December				Nine months ended 30 September			
	2020	2021		2022	2022		2023	
	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments	Results before biological assets fair value adjustments
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	121,405	154,946	126,694	88,626	88,626	121,294	121,294	—
Cost of sales	(65,828)	(85,999)	(70,804)	(49,920)	(74,155)	(66,785)	(53,271)	(2,532)
Gross profit	55,577	68,947	55,890	38,706	52,539	54,509	35,355	(2,532)
Other income	4,590	1,222	887	672	887	718	672	718
Changes in fair value of biological assets (Allowance)/reversal of allowance for expected credit losses (“ECL”) of trade receivables	—	—	—	—	(2,053)	—	(1,570)	—
[REDACTED]	(118)	(140)	(160)	(10)	(160)	61	(10)	—
Selling and distribution expenses	(500)	(457)	(420)	(307)	(420)	(241)	(307)	[REDACTED]
Administrative and other expenses	(11,583)	(13,924)	(12,354)	(9,436)	(12,354)	(8,019)	(9,436)	—
Profit from operation	43,906	48,023	38,116	25,310	32,712	41,012	20,389	767
Finance costs	(1,183)	(897)	(900)	(688)	(900)	(662)	(688)	—
Profit before tax	42,723	47,126	37,216	24,622	31,812	40,350	19,701	767
Income tax expense	—	—	—	—	—	—	—	—
Profit for the year/period	42,723	47,126	37,216	24,622	31,812	40,350	19,701	767
Other comprehensive (loss)/income for the year/period, net of tax:								
Item that may be reclassified to profit or loss:	(1)	(1)	(3)	(5)	(3)	(6)	(5)	(6)
Exchange differences on translating foreign operations	—	—	—	—	—	—	—	—
Total comprehensive income for the year/period	42,722	47,125	37,213	24,617	31,809	40,344	19,696	767
Earnings per share (RMB)								
Basic and diluted	0.11	0.12	0.08	0.05	0.08	0.10	0.05	0.10

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DESCRIPTION OF SELECTED STATEMENTS OF PROFIT OR LOSS ITEMS

Revenue

During the Track Record Period, we derived all of our revenue from the sales of our potted vegetable produce, and approximately 87.1%, 91.2%, 90.3%, 90.4% and 91.6% of our revenue was derived from the sales of our potted vegetable produce in Shandong province during FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively.

The sales revenue of our potted vegetable produce was affected by both the sales volume and selling price of our potted vegetable produce in the corresponding periods. During the Track Record Period, we sold our potted vegetable produce primarily through a network of distributors in the PRC, which is consistent with industry practice. Our distributors then on-sold our products to over 1,000 end-user customers in Shandong, Liaoning and Shaanxi provinces in the PRC, the majority of which are hotels and restaurants. To a lesser extent, we also sold our products to end-user customers through WeMall. The following table sets forth a breakdown of our sales volume and average selling price by sales channels during the Track Record Period:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price	Sales volume	Average selling price
	('000 pots)	(RMB)	('000 pots)	(RMB)	('000 pots)	(RMB)	('000 pots)	(RMB)	('000 pots)	(RMB)
		(Note)		(Note)		(Note)	(unaudited)	(Note)		(Note)
Potted vegetable produce										
Sales to distributors	8,004	15.1	10,273	15.1	8,395	15.1	5,873	15.1	8,044	15.1
Direct sales to end-user customers	18	20.5	—*	20.0	—*	19.7	—*	19.9	—*	20.2
Total/overall	8,022	15.1	10,273	15.1	8,395	15.1	5,873	15.1	8,044	15.1

Note: Average selling price represents total revenue divided by sales volume during the respective period.

* The total sales volume attributable to direct sales to end-user customers in FY2021, FY2022, 9M2022 and 9M2023 represents the online sales to end-user customers of approximately 400 pots, 100 pots, 100 pots and 100 pots, respectively.

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Our revenue increased from approximately RMB121.4 million in FY2020 to approximately RMB154.9 million in FY2021. Such increase in our revenue in the said period was primarily attributable to the increase in the sales volume of our potted vegetable produce from approximately 8.0 million pots in FY2020 to approximately 10.3 million pots in FY2021 due to (i) the deployment of 40 enhanced greenhouses in our Laixi Facility in July 2020 and August 2020 leading to an increase in our productivity; and (ii) the increase in popularity of our potted vegetable produce in the corresponding period. On the other hand, the average selling price per pot of our potted vegetable produce remained to be stable at approximately RMB15.1 in FY2020 and FY2021.

Our revenue decreased from approximately RMB154.9 million in FY2021 to approximately RMB126.7 million in FY2022. Such decrease in revenue in the said period was primarily attributable to the decrease in the sales volume of our potted vegetable produce from approximately 10.3 million pots in FY2021 to approximately 8.4 million pots in FY2022 due to the resurgence of COVID-19 cases in Shandong province between March 2022 to April 2022 which had led to a temporary suspension of business activities of our Laixi Facility during the lockdown period. The said incident led to the direct loss of approximately 549,000 unsellable pots of our vegetable produce, the estimated cost of which was approximately RMB4.5 million. It is estimated that it led to a loss of potential sales revenue of approximately RMB8.2 million based on the average selling price of our potted vegetable produce in Shandong province of approximately RMB15.0 per pot in FY2022.

Our revenue increased from approximately RMB88.6 million in 9M2022 to approximately RMB121.3 million in 9M2023. Such increase in revenue in the said period was primarily attributable to the increase in the sales volume of our potted vegetable produce from approximately 5.9 million pots in 9M2022 to approximately 8.0 million pots in 9M2023 as our business operation was no longer affected by COVID-19 epidemic in 9M2023. On the other hand, the average selling price per pot of our potted vegetable produce remained to be stable at approximately RMB15.1 in 9M2022 and 9M2023. We maintain long-term relationships with our 12 distributors, which maintain stable relationships with our end-user customers, unlike the general wholesale market for vegetable products with a vast number of different producers and purchasers. Any price volatility of our potted vegetable produce poses many uncertainties for customers, particularly hotels and restaurants, in terms of cost control and operational management. Besides, the COVID-19 epidemic lasted from 2020 to 2022, which created uncertainties over the market and business environment. Accordingly, we decided to maintain a stable selling price of our products during the Track Record Period.

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The following table sets forth our revenue generated by sales channel of our operations for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Sales to distributors	121,028	99.7	154,937	100.0	126,692	100.0	88,624	100.0	121,292	100.0
Direct sales to end-user customers (Note)	377	0.3	9	—*	2	—*	2	—*	2	—*
Total	121,405	100.0	154,946	100.0	126,694	100.0	88,626	100.0	121,294	100.0

Note: Total revenue attributable to direct sales to end-user customers in each of FY2020, FY2021, FY2022 and 9M2023 includes revenue attributable to the online sales to end-user customers of approximately RMB8,000, RMB9,000, RMB2,000 and RMB2,000, respectively.

* represents percentage ratio of less than 0.1%.

The following table sets forth our revenue generated by geographical location of our customers for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Shandong province										
Qingdao	74,787	61.6	99,547	64.3	81,911	64.6	57,322	64.7	79,601	65.7
Yantai	24,496	20.2	32,726	21.1	26,966	21.3	18,735	21.1	27,429	22.6
Weifang	6,454	5.3	9,018	5.8	5,591	4.4	4,070	4.6	4,028	3.3
Shaanxi province										
Xi'an	8,704	7.2	6,206	4.0	5,316	4.2	3,932	4.4	4,517	3.7
Liaoning province										
Dalian	6,964	5.7	7,449	4.8	6,910	5.5	4,567	5.2	5,719	4.7
Total	121,405	100.0	154,946	100.0	126,694	100.0	88,626	100.0	121,294	100.0

During the Track Record Period, we sold our products primarily to distributors located in Shandong province where we derived approximately 87.1%, 91.2%, 90.3% and 91.6% of our revenue during FY2020, FY2021, FY2022 and 9M2023, respectively. In 2019, we extended our geographical coverage by commencing sales of our potted vegetable produce in Xi'an, Shaanxi province and Dalian, Liaoning province.

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Our revenue attributable to our sales in Shandong province increased by approximately RMB35.6 million from approximately RMB105.7 million in FY2020 to approximately RMB141.3 million in FY2021. Such increase was principally attributable to (i) the deployment of 40 enhanced greenhouses in our Laixi Facility in July 2020 and August 2020 leading to an increase in our productivity; and (ii) the increase in popularity of our potted vegetable produce. The overall increase in revenue from approximately RMB121.4 million to approximately RMB154.9 million was partially offset by the decrease in cultivation volume resulting from (i) the wear and tear of three enhanced greenhouses in our Xi’an Facility; and (ii) the loss of unsold potted vegetable produce and the potential sales revenue during the lockdown of our Xi’an Facility as a result of the outbreak of COVID-19 epidemic in Xi’an in December 2021 and thus sales in Shaanxi province decreased by approximately RMB2.5 million.

Our revenue attributable to our sales in Shandong province decreased by approximately RMB26.8 million from approximately RMB141.3 million in FY2021 to approximately RMB114.5 million in FY2022. Such decrease was principally attributable to (i) the decrease in sales in Qingdao by approximately RMB17.6 million, and (ii) the decrease in sales in Yantai by approximately RMB5.8 million, and (iii) the decrease in sales in Weifang by approximately RMB3.4 million resulting from the temporary suspension of business activities of our Laixi Facility caused by the lockdown measures as a result of the resurgence of COVID-19 cases in Shandong province between March 2022 to April 2022. The overall decrease in revenue by RMB28.2 million from approximately RMB154.9 million in FY2021 to approximately RMB126.7 million in FY2022 was principally attributable to the decrease in sales of our potted vegetable produce in Shandong province from approximately RMB141.3 million in FY2021 to approximately RMB114.5 million in FY2022 for the above reasons.

Our revenue attributable to our sales in Shandong province increased by approximately RMB31.0 million from approximately RMB80.1 million in 9M2022 to approximately RMB111.1 million in 9M2023. Such increase was principally attributable to (i) the increase in sales in Qingdao by approximately RMB22.3 million, and (ii) the increase in sales in Yantai by approximately RMB8.7 million as our business operation was no longer affected by COVID-19 epidemic in 9M2023. The overall increase in revenue by RMB32.7 million from approximately RMB88.6 million in 9M2022 to approximately RMB121.3 million in 9M2023 was principally attributable to the increase in sales of our potted vegetable produce in Shandong province from approximately RMB80.1 million in 9M2022 to approximately RMB111.1 million in 9M2023 for the above reasons.

Cost of sales

Our cost of sales primarily consists of raw materials, labour and cultivation overheads. Our raw materials primarily include (i) components of organic substrates; (ii) seeds; and (iii) fertilisers (such as foliar fertilisers) and biopesticides (such as matrine). Our labour cost represents subcontracting labour cost. Cultivation overheads primarily represent depreciation of property, plant and equipment, depreciation of right-of-use assets, utility expenses and other cultivation related cost. In addition, the cost of unsold vegetable produce (other than those arising from the temporary suspension of our Laixi Facility and

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Dalian Facility from March 2022 to April 2022) during the Track Record Period was charged to the cost of sales in the consolidated statements of profit or loss and other comprehensive income of the Group in the relevant periods.

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales
							(unaudited)			
Raw materials										
Components of organic substrates	31,267	46.0	40,100	45.0	32,727	44.1	22,920	43.0	31,258	45.1
Seeds	1,265	1.9	1,549	1.7	1,386	1.9	1,013	1.9	988	1.4
Fertilisers and biopesticides	834	1.2	1,069	1.2	873	1.2	612	1.1	834	1.2
	33,366	49.1	42,718	47.9	34,986	47.2	24,545	46.0	33,080	47.7
Subcontracting labour cost	28,285	41.6	37,168	41.7	30,315	40.9	21,238	39.9	28,999	41.8
Cultivation overheads	4,177	6.2	6,113	6.8	5,503	7.4	4,137	7.8	4,706	6.8
Biological assets fair value adjustments	2,119	3.1	3,174	3.6	3,351	4.5	3,351	6.3	2,532	3.7
Total	<u>67,947</u>	<u>100.0</u>	<u>89,173</u>	<u>100.0</u>	<u>74,155</u>	<u>100.0</u>	<u>53,271</u>	<u>100.0</u>	<u>69,317</u>	<u>100.0</u>

In FY2020, FY2021, FY2022, 9M2022 and 9M2023, our cost of sales was approximately RMB67.9 million, RMB89.2 million, RMB74.2 million, RMB53.3 million and RMB69.3 million, representing approximately 56.0%, 57.6%, 58.5%, 60.1% and 57.1%, respectively, of our revenue from operations for the same periods. The change in our cost of sales during the Track Record Period was in line with the change in our sales volume in the respective period.

The cost of raw materials was the largest component of our cost of sales and accounted for approximately 49.1%, 47.9%, 47.2%, 46.0% and 47.7% of the total cost of sales in FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively. The increase in our cost of raw materials from FY2020 to FY2021 was in line with the increase in our sales volume in the corresponding period. Further, the decrease in our cost of raw materials from FY2021 to FY2022 was in line with the decrease in our sales volume in the corresponding period. Further, the increase in our cost of raw materials from 9M2022 to 9M2023 was in line with the increase in our sales volume in the corresponding period. During the Track Record Period, components of organic substrates and seeds were the two largest components of our cost of raw materials. In FY2020, FY2021, FY2022, 9M2022 and 9M2023, components of organic substrates accounted for approximately 46.0%, 45.0%, 44.1%, 43.0% and 45.1% of our total cost of sales whereas seeds accounted for approximately 1.9%, 1.7%, 1.9%, 1.9%, and 1.4% of our total cost of sales, respectively. The subcontractor labour cost was the second largest component of our cost of sales and accounted for approximately 41.6%, 41.7%, 40.9%, 39.9% and 41.8% of our total cost of sales in FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively.

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Our subcontractor labour cost increased by approximately 31.4% from approximately RMB28.3 million in FY2020 to approximately RMB37.2 million in FY2021 mainly because our sales volume increased by approximately 28.1% from approximately 8.0 million pots in FY2020 to approximately 10.3 million pots in FY2021.

Our subcontractor labour cost decreased by approximately 18.4% from approximately RMB37.2 million in FY2021 to approximately RMB30.3 million in FY2022 mainly because our sales volume decreased by approximately 18.3% from approximately 10.3 million pots in FY2021 to approximately 8.4 million pots in FY2022.

Our subcontractor labour cost increased by approximately 36.5% from approximately RMB21.2 million in 9M2022 to approximately RMB29.0 million in 9M2023 mainly because our sales volume increased by approximately 37.0% from approximately 5.9 million pots in 9M2022 to approximately 8.0 million pots in 9M2023.

The following table sets forth the sensitivity analysis on the impact of hypothetical fluctuations on (i) labour cost; and (ii) cost of raw materials on our net profit for the Track Record Period, assuming all other factors affecting our profit margin remain unchanged:

(1) Hypothetical fluctuation on labour cost

	Increase/ decrease by 10%	Increase/ decrease by 15%	Increase/ decrease by 20%
Change in net profit (RMB'000)			
FY2020	2,829	4,243	5,657
FY2021	3,717	5,576	7,434
FY2022	3,032	4,547	6,063
9M2022	2,124	3,186	4,248
9M2023	2,900	4,350	5,800

(2) Hypothetical fluctuation on cost of raw materials

	Increase/ decrease by 10%	Increase/ decrease by 15%	Increase/ decrease by 20%
Change in net profit (RMB'000)			
FY2020	3,337	5,005	6,673
FY2021	4,272	6,408	8,544
FY2022	3,499	5,248	6,997
9M2022	2,455	3,682	4,909
9M2023	3,308	4,962	6,616

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Gross profit

Our gross profit increased by approximately RMB12.3 million (or 23.0%) from approximately RMB53.5 million in FY2020 to approximately RMB65.8 million in FY2021. Such increase was primarily the result of the increase in our revenue by approximately RMB33.5 million (or 27.6%) in the corresponding period, mainly attributable to the increase in the sales volume of our potted vegetable produce.

Our gross profit decreased by approximately RMB13.3 million (or 20.2%) from approximately RMB65.8 million in FY2021 to approximately RMB52.5 million in FY2022. Such decrease was primarily the result of the decrease in our revenue by approximately RMB28.3 million (or 18.2%) in the corresponding period, mainly attributable to the decrease in the sales volume of our potted vegetable produce due to lockdown measures in light of COVID-19 epidemic. The COVID-19 epidemic had led to a temporary drop of our Group’s revenue in FY2022. For details, please refer to the paragraph headed “Business — Impact of the outbreak of COVID-19 epidemic” in this document.

Our gross profit increased by approximately RMB16.6 million (or 47.0%) from approximately RMB35.4 million in 9M2022 to approximately RMB52.0 million in 9M2023. Such increase was primarily the result of the increase in our revenue by approximately RMB32.7 million (or 36.9%) in the corresponding period, mainly attributable to the increase in the sales volume of our potted vegetable produce.

Other income

Other income consists of (i) interest income; (ii) rental income; (iii) government grants; and (iv) compensation received. The following table sets forth our other income for the periods indicated:

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	19	8	17	17	44
Rental income	640	640	640	480	480
Net foreign exchange gains	—	—	3	5	6
Government grants	3,627	544	227	170	170
Compensation received	304	30	—	—	18
Total	4,590	1,222	887	672	718

In FY2020, FY2021, FY2022, 9M2022 and 9M2023, our other income amounted to approximately RMB4.6 million, RMB1.2 million, RMB0.9 million, RMB0.7 million and RMB0.7 million, respectively.

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Rental income represents mainly the rental income derived from renting our cold storage at Dianbu Town, Laixi and a portion of the self-owned land in our Laixi Facility to Independent Third Parties. For details, please refer to the paragraph headed “Business — Properties — Owned properties” in this document.

Government grants represent subsidies from relevant government authorities of approximately RMB3.6 million, RMB0.5 million, RMB0.2 million and RMB0.2 million during the Track Record Period in relation to, among others, agricultural development and supporting the [REDACTED] of local enterprises provided by the Municipal Government of Laixi of RMB3.0 million in FY2020.

Compensation received mainly represents the compensation paid by our insurance company covering our losses resulted from the heavy hail which took place in Qingdao in May 2020 and a fire incident in January 2021.

Changes in fair value of biological assets less cost to sell

Our biological assets consist of potted vegetable produce held by us and stated at fair value less estimated cost to sell as at the end of reporting period. During the Track Record Period, the fair value of our biological assets were assessed at each reporting date by Savills, our independent valuer. The resultant gain or loss arising from the changes in the fair value adjustment between each reporting period are recognised in our consolidated statements of profit or loss.

In FY2020, we recorded a gain arising from the changes in fair value of biological assets less cost to sell of approximately RMB3.2 million. The gain represents the difference between the fair value of the biological assets and the original cost of the biological assets as at 31 December 2020.

In FY2021, we recorded a gain arising from changes in fair value of biological assets less cost to sell of approximately RMB3.4 million. The gain represents the difference between the fair value of the biological assets and the original cost of the biological assets as at 31 December 2021.

In FY2022, we recorded a loss from changes in fair value of biological assets less cost to sell of approximately RMB2.1 million. In FY2022, our changes in fair value of biological assets included the unsold vegetable produce of approximately RMB4.6 million as a result of the temporary suspension of our facilities due to the outbreak of COVID-19 epidemic from March 2022 to April 2022. Most of the unsold potted vegetable produce from our Laixi Facility was donated to the government for the distribution to the local residents for their consumption during the lockdown period of the COVID-19 epidemic in FY2022. For details, please refer to the paragraph headed “Business — Impact of the outbreak of COVID-19 epidemic” in this document. The remaining gain of approximately RMB2.5 million represents the difference between the fair value of the biological assets and the original cost of the biological assets as at 31 December 2022.

In 9M2022, we recorded a loss from changes in fair value of biological assets less cost to sell of approximately RMB1.6 million. In 9M2022, our changes in fair value of biological assets included the unsold vegetable produce of approximately RMB4.6 million as a result of the temporary suspension of our facilities due to the outbreak of COVID-19 epidemic

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from March 2022 to April 2022. The remaining gain of approximately RMB3.0 million represents the difference between the fair value of the biological assets and the original cost of the biological assets as at 30 September 2022.

In 9M2023, we recorded a gain from changes in fair value of biological assets less cost to sell of approximately RMB3.3 million. The gain represents the difference between the fair value of the biological assets and the original cost of the biological assets as at 30 September 2023.

For more information about the valuation method adopted by Savills, please refer to the paragraph headed “Valuation of biological assets” in this section of the document.

Allowance/Reversal of allowance for expected credit losses (“ECL”) of trade receivables

Our allowance for ECL mainly represents the loss allowance of our trade receivables, net of reversal. We use provision matrix to calculate ECL of our trade receivables. The provision rates used in the provision matrix are based on our internal credit ratings as grouping of various debtors that have similar loss patterns. The provision matrix is based on our historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue cost or effort. The provision of ECL is sensitive to changes in estimates.

In FY2020, FY2021, FY2022, 9M2022 and 9M2023, we recorded an allowance for ECL of trade receivables of approximately RMB0.1 million, RMB0.1 million, RMB0.2 million, RMB0.01 million and a reversal of allowance for ECL of trade receivables of approximately RMB0.1 million, respectively.

Selling and distribution expenses

Selling and distribution expenses consist of salary, depreciation, office expenses, advertising fees, motor vehicles expenses and other expenses.

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

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	RMB'000	% of total selling and distribution expenses	RMB'000	% of total selling and distribution expenses	RMB'000	% of total selling and distribution expenses	RMB'000	% of total selling and distribution expenses	RMB'000	% of total selling and distribution expenses
Salary	237	47.5	234	51.2	221	52.6	168	54.7	106	44.0
Depreciation	139	27.7	162	35.4	182	43.3	137	44.7	132	54.8
Office expenses	1	0.2	15	3.3	14	3.3	1	0.3	1	0.4
Advertising fees	12	2.4	8	1.8	—	—	—	—	1	0.4
Motor vehicles expenses	54	10.7	28	6.1	—	—	—	—	—	—
Other expenses	57	11.5	10	2.2	3	0.8	1	0.3	1	0.4
Total	500	100.0	457	100.0	420	100.0	307	100.0	241	100.0

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In FY2020, FY2021, FY2022, 9M2022 and 9M2023, our selling and distribution expenses amounted to approximately RMB0.5 million, RMB0.5 million, RMB0.4 million, RMB0.3 million and RMB0.2 million, respectively. As a percentage of total revenue, our selling and distribution expenses accounted for approximately 0.4%, 0.3%, 0.3%, 0.3% and 0.2% in FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively. During FY2020, FY2021 and FY2022, salary was the largest component of our selling and distribution expenses, which mainly represents the salary payment to our salesmen.

Administrative and other expenses

Administrative and other expenses consist of salary, legal, professional and auditing fees, depreciation of property, plant and equipment, depreciation of investment properties, depreciation of right-of-use assets, entertainment and travelling expenses, write-off of property, plant and equipment and other expenses.

The following table sets forth a breakdown of our administrative and other expenses of our operations for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	RMB'000	% of total administrative and other expenses	RMB'000	% of total administrative and other expenses	RMB'000	% of total administrative and other expenses	RMB'000 (unaudited)	% of total administrative and other expenses	RMB'000	% of total administrative and other expenses
Salary	2,492	21.5	2,596	18.7	2,502	20.3	1,866	19.8	1,693	21.1
Legal, professional and auditing fees	259	2.2	1,252	9.0	1,312	10.6	1,073	11.4	831	10.4
Depreciation of property, plant and equipment	3,762	32.5	3,900	28.0	4,363	35.3	3,282	34.8	3,239	40.4
Depreciation of investment properties	295	2.6	295	2.1	295	2.4	221	2.3	391	4.9
Depreciation of right-of-use assets	464	4.0	493	3.5	496	4.0	372	3.9	348	4.3
Entertainment and travelling expenses	879	7.6	831	6.0	404	3.3	296	3.1	240	3.0
Loss on disposal of property, plant and equipment	—	—	—	—	214	1.7	214	2.3	—	—
Loss on write-off of property, plant and equipment	—	—	33	0.2	382	3.1	382	4.0	—	—
Other expenses	3,432	29.6	4,524	32.5	2,386	19.3	1,730	18.4	1,277	15.9
Total	11,583	100.0	13,924	100.0	12,354	100.0	9,436	100.0	8,019	100.0

In FY2020, FY2021, FY2022, 9M2022 and 9M2023, our administrative and other expenses amounted to approximately RMB11.6 million, RMB13.9 million, RMB12.4 million, RMB9.4 million and RMB8.0 million, respectively. As a percentage of total revenue, our administrative and other expenses accounted for approximately 9.5%, 9.0%, 9.8%, 10.6% and 6.6% in FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively. Depreciation expenses accounted for the largest component of our administrative and other expenses during the Track Record Period. The other expenses include, among others, motor vehicles expenses, repair and maintenance fees and sundry expenses.

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[REDACTED]

[REDACTED] amounted to approximately RMB[REDACTED], RMB[REDACTED], RMB[REDACTED], RMB[REDACTED], RMB[REDACTED] and RMB[REDACTED] for the period before the Track Record Period, FY2020, FY2021, FY2022, 9M2022 and 9M2023, respectively. The change in our [REDACTED] during the Track Record Period is in line with the phase of work of the professional parties engaged for the purpose of our application for [REDACTED] in the corresponding periods.

Finance cost

Our finance cost represents interest on bank borrowings and lease liabilities. Our finance cost decreased from approximately RMB1.2 million in FY2020 to approximately RMB0.9 million in FY2021 since we obtained bank loans with more favourable terms. The effective interest rates of our bank borrowings as at 1 January 2020 was relatively high at 6.09% per annum, which were later replaced by bank borrowings with lower effective interest rates ranging from 3.85% per annum to 4.55% per annum during FY2020. Meanwhile, the effective interest rates of our bank borrowings throughout FY2021 ranged from 3.95% per annum to 4.55% per annum. In FY2022, our finance cost remained to be stable at approximately RMB0.9 million. The effective interest rates of our bank borrowings throughout FY2022 ranged from 3.75% per annum to 4.55% per annum. In 9M2022 and 9M2023, our finance cost remained to be stable at approximately RMB0.7 million and RMB0.7 million. The effective interest rates of our bank borrowings throughout 9M2023 ranged from 3.45% per annum to 4.40% per annum.

Income tax expense

We are not subject to taxation in the Cayman Islands and the British Virgin Islands. No provision for Hong Kong Profits Tax is required since we have no assessable profits in Hong Kong during the Track Record Period.

Our income tax expense remained nil during the Track Record Period. Our effective tax rate remained nil for the same period. According to the Article 27 of the EIT Law and Article 86 of the Regulations of Enterprise Income Tax Law, enterprise income from agriculture, forestry, husbandry and fishery projects may be reduced or exempted from taxation. Pursuant to the abovementioned provisions and with the approval of Dianbu Branch of the State Taxation Bureau of Laixi City, Fujing Agriculture’s enterprise income from agriculture has been exempted from taxation for the period from 1 May 2010 to 1 May 2050. For details, please refer to the paragraph headed “Regulatory Overview — Laws and regulations relating to taxation” in this document.

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, we did not have any dispute or unresolved tax issue with any tax authority.

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Profit for the year

As a result of the foregoing, our net profit increased by approximately RMB3.5 million (or 8.0%) from approximately RMB43.8 million in FY2020 to approximately RMB47.3 million in FY2021. Meanwhile, our net profit decreased by approximately RMB15.5 million (or 32.8%) from approximately RMB47.3 million in FY2021 to approximately RMB31.8 million in FY2022 mainly due to the series of lockdown measures in Dalian and various areas in Shandong province due to the COVID-19 epidemic in 2022 which had a temporary adverse impact on our business in FY2022 as discussed above and in the paragraph headed “Business — Impact of the outbreak of COVID-19 epidemic” in this document. Meanwhile, our net profit increased by approximately RMB21.4 million (or 108.7%) from approximately RMB19.7 million in 9M2022 to approximately RMB41.1 million in 9M2023, which was primarily attributable to the increase in the sales volume of our potted vegetable produce as our business operation was no longer affected by COVID-19 epidemic in 9M2023.

PERIOD TO PERIOD COMPARISON OF OUR RESULTS OF OPERATIONS

9M2022 compared to 9M2023

Revenue

Please refer to the paragraph headed “Description of selected statements of profit or loss items — revenue” in this section of the document for the description of changes in revenue of our Group in 9M2022 and 9M2023.

Cost of sales

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Cost of sales” in this section of the document for the description of changes in cost of sales of our Group in 9M2022 and 9M2023.

Gross profit and gross profit margin

Please refer to the paragraphs headed “Description of selected statements of profit or loss items — Gross profit” and “Financial Information — Key Financial Ratios — Gross profit margin” in this section of the document for the description of changes in gross profit and gross profit margin of our Group in 9M2022 and 9M2023.

Other income

Our other income remained to be stable at approximately RMB0.7 million and RMB0.7 million in 9M2022 and 9M2023, respectively.

Allowance/Reversal of allowance for ECL

Our allowance for ECL of trade receivables remained to be minimal at approximately RMB10,000 in 9M2022 and we have a reversal of allowance for ECL of trade receivables of approximately RMB0.1 million in 9M2023, respectively.

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Selling and distribution expenses

Our selling and distribution expenses remained to be relatively stable at approximately RMB0.3 million in 9M2022 and approximately RMB0.2 million in 9M2023.

Administrative and other expenses

Our administrative and other expenses decreased by approximately RMB1.4 million (or 15.0%) from approximately RMB9.4 million in 9M2022 to approximately RMB8.0 million in 9M2023. Such decrease was primarily attributable to (i) the loss on write-off of property, plant and equipment of approximately RMB0.4 million in 9M2022; and (ii) the decrease in other expenses by approximately RMB0.5 million (or 26.2%) in 9M2023.

Finance costs

Our finance costs remained to be stable at approximately RMB0.7 million and RMB0.7 million in 9M2022 and 9M2023, respectively.

Income tax expense

Our income tax expense remained to be nil and nil in 9M2022 and 9M2023, respectively. Our effective tax rate remained to be nil and nil for the same period. Please refer to the paragraph headed “Description of selected statements of profit or loss items — Income tax expense” in this section of the document for the description of tax exemptions granted to us due to the nature of our business.

Profit for the period

Our profit for the period increased by approximately RMB21.4 million (or 108.7%) from approximately RMB19.7 million in 9M2022 to approximately RMB41.1 million in 9M2023, which mainly resulted from (i) the increase in our revenue by approximately RMB32.7 million (or 36.9%) from 9M2022 to 9M2023 mainly attributable to the increase in our sales volume of our potted vegetable produce as our business operation was no longer affected by COVID-19 epidemic in 9M2023. Our revenue and sales volume for 9M2022 was significantly lower due to the temporary suspension of our Laixi Facility and Dalian Facility as a result of the resurgence of COVID-19 cases and the lockdown measures during March 2022 and April 2022. Meanwhile, our net profit margin increased from approximately 22.2% in 9M2022 to approximately 33.9% in 9M2023 as our business operation was no longer affected by COVID-19 epidemic in 9M2023.

FY2022 compared to FY2021

Revenue

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Revenue” in this section of the document for the description of changes in revenue of our Group in FY2021 and FY2022.

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Cost of sales

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Cost of sales” in this section of the document for the description of changes in cost of sales of our Group in FY2021 and FY2022.

Gross profit and gross profit margin

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Gross profit” and “Key Financial Ratios — Gross profit margin” in this section of the document for the description of changes in gross profit and gross profit margin of our Group in FY2021 and FY2022.

Other income

Our other income decreased by approximately RMB0.3 million (or 27.4%) from approximately RMB1.2 million in FY2021 to approximately RMB0.9 million in FY2022. Such decrease was primarily attributable to the decrease in government grants by approximately RMB0.3 million (or 58.3%), a majority of which was granted in FY2021 on one-off basis being subsidy provided by the Municipal Government of Laixi for supporting the [REDACTED] of local enterprises.

Allowance for ECL

Our allowance for ECL of trade receivables remained to be minimal at approximately RMB0.1 million in FY2021 and approximately RMB0.2 million in FY2022, respectively.

Selling and distribution expenses

Our selling and distribution expenses remained to be relatively stable at approximately RMB0.5 million in FY2021 and approximately RMB0.4 million in FY2022.

Administrative and other expenses

Our administrative and other expenses decreased by approximately RMB1.6 million (or 11.3%) from approximately RMB13.9 million in FY2021 to approximately RMB12.4 million in FY2022. Such decrease was primarily attributable to the decrease in our other expenses by approximately RMB2.1 million (or 47.3%) in FY2022, which was partially offset by the increase in our depreciation of property, plant and equipment by approximately RMB0.5 million (or 11.9%) in FY2022.

Finance cost

Our finance cost remained to be stable at approximately RMB0.9 million and RMB0.9 million in FY2021 and FY2022, respectively.

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Income tax expense

Our income tax expense remained to be nil and nil in FY2021 and FY2022, respectively. Our effective tax rate remained to be nil and nil for the same period. Please refer to the paragraph headed “Description of selected statements of profit or loss items — Income tax expense” in this section of the document for the description of tax exemptions granted to us due to the nature of our business.

Profit for the year

Our profit for the period decreased by approximately RMB15.5 million (or 32.8%) from approximately RMB47.3 million in FY2021 to approximately RMB31.8 million in FY2022, which mainly resulted from (i) the decrease in our revenue by approximately RMB28.3 million (or 18.2%) from FY2021 to FY2022 mainly attributable to the decrease in our sales volume due to the temporary suspension of our Laixi Facility as a result of the resurgence of COVID-19 cases and the lockdown measures during March 2022 and April 2022; and (ii) the decrease in our other income by approximately RMB0.3 million (or 27.4%) in the corresponding period. Meanwhile, our net profit margin decreased from approximately 30.5% to approximately 25.1%. The series of lockdown measures in Dalian and various areas in Shandong province due to the COVID-19 epidemic in 2022 has temporary adverse impact on our business in FY2022.

FY2021 compared to FY2020

Revenue

Please refer to the paragraph headed “Description of selected statements of profit or loss items — revenue” in this section of the document for the description of changes in revenue of our Group in FY2020 and FY2021.

Cost of sales

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Cost of sales” in this section of the document for the description of changes in cost of sales of our Group in FY2020 and FY2021.

Gross profit and gross profit margin

Please refer to the paragraph headed “Description of selected statements of profit or loss items — Gross profit” and “Key Financial Ratios — Gross profit margin” in this section of the document for the description of changes in gross profit and gross profit margin of our Group in FY2020 and FY2021.

Other income

Our other income decreased by approximately RMB3.4 million (or 73.4%) from approximately RMB4.6 million in FY2020 to approximately RMB1.2 million in FY2021. Such decrease was primarily attributable to the decrease in government grants by

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approximately RMB3.1 million (or 85.0%), a majority of which was an one-off subsidy granted by the Municipal Government of Laixi for supporting the [REDACTED] of local enterprises in FY2020.

Allowance for ECL

Our allowance for ECL of trade receivables remained to be minimal at approximately RMB0.1 million in FY2020 and approximately RMB0.1 million in FY2021, respectively.

Selling and distribution expenses

Our selling and distribution expenses remained to be relatively stable at approximately RMB0.5 million and RMB0.5 million in FY2020 and FY2021, respectively.

Administrative and other expenses

Our administrative and other expenses increased by approximately RMB2.3 million (or 20.2%) from approximately RMB11.6 million in FY2020 to approximately RMB13.9 million in FY2021. Such increase was primarily attributable to (i) the increase in our legal, professional and auditing fees by approximately RMB1.0 million (or 383.4%) due to payment of the supplemental service fees to our professional advisers; and (ii) increase in our other expenses by approximately RMB1.1 million (or 31.8%) in FY2021.

Finance cost

Our finance cost decreased from approximately RMB1.2 million to approximately RMB0.9 million in FY2020 and FY2021, respectively. Such decrease was mainly because we obtained bank loans with more favourable terms. The effective interest rates of our bank borrowings as at 1 January 2020 was relatively high at 6.09% per annum, which were later replaced by bank borrowings with lower effective interest rates ranging from 3.85% per annum to 4.55% per annum during FY2020. Meanwhile, the effective interest rates of our bank borrowings throughout FY2021 ranged from 3.95% per annum to 4.55% per annum.

Income tax expense

Our income tax expense remained to be nil and nil in FY2020 and FY2021, respectively. Our effective tax rate remained to be nil and nil for the same period. Please refer to the paragraph headed “Description of selected statements of profit or loss items — Income tax expense” in this section of the document for the description of tax exemptions granted to us due to the nature of our business.

Profit for the year

Our profit for the year increased by approximately RMB3.5 million (or 8.0%) from approximately RMB43.8 million in FY2020 to approximately RMB47.3 million in FY2021, which mainly resulted from the increase in our revenue by approximately RMB33.5 million (or 27.6%) from FY2020 to FY2021 mainly attributable to the increase in our sales volume; effect of which was partially offset by (i) the increase in our [REDACTED] by

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approximately RMB[REDACTED] (or [REDACTED]%) and (ii) the decrease in our other income by approximately RMB3.4 million (or 73.4%) in the corresponding period. Meanwhile, our net profit margin decreased from approximately 36.1% to approximately 30.5%.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During the Track Record Period, we met our liquidity requirements principally through our cash flow from operations. Our use of cash is mainly for the financing of our operations and working capital requirements going forward. We do not expect any material changes to the underlying drivers of our source of cash and uses of cash, except for the [REDACTED] from the [REDACTED] which will be used according to our future plans as set out in the section headed “Future Plans and [REDACTED]” in this document.

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Cash flow

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

	Year ended 31 December			Nine months ended 30 September	
	2020	2021	2022	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i>
Net cash generated from operating activities	51,612	33,818	50,235	42,959	42,200
Net cash used in investing activities	(55,222)	(16,812)	(1,091)	(1,091)	(22,965)
Net cash generated from/(used in) financing activities	<u>5,495</u>	<u>(1,012)</u>	<u>(1,025)</u>	<u>(770)</u>	<u>(719)</u>
Net increase/(decrease) in cash and cash equivalents	1,885	15,994	48,119	41,098	18,516
Effect of foreign exchange rate changes	—	1	(3)	(3)	—
Cash and cash equivalents at the beginning of the year/period	<u>5,083</u>	<u>6,968</u>	<u>22,963</u>	<u>22,963</u>	<u>71,079</u>
Cash and cash equivalents at the end of the year/period	<u><u>6,968</u></u>	<u><u>22,963</u></u>	<u><u>71,079</u></u>	<u><u>64,058</u></u>	<u><u>89,595</u></u>

Cash flows generated from operating activities

We derive our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities is principally for purchases of raw materials, salaries and employee benefits and cultivation overheads.

In 9M2023, we had a net cash generated from operating activities of approximately RMB42.2 million, which was mainly attributable to our operating profit before working capital changes of approximately RMB49.5 million, adjusted for increase in accruals and other payables of approximately RMB1.1 million. These cash inflow were partially offset by the increase in trade receivables of approximately RMB4.9 million and the decrease in trade payables of approximately RMB3.4 million during the same period. Our net cash generated from operating activities during 9M2023 remained stable as compared to our net cash generated from operating activities during 9M2022.

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In 9M2022, we had net cash generated from operating activities of approximately RMB43.0 million, which was mainly attributable to our operating profit before working capital changes of approximately RMB34.2 million, adjusted for increase in trade payables of approximately RMB8.3 million, decrease in prepayments and other receivables of approximately RMB2.7 million, and decrease in trade receivables of approximately RMB2.3 million. These cash inflow were partially offset by the increase in biological assets of approximately RMB4.2 million during the same period.

In FY2022, we had a net cash generated from operating activities of approximately RMB50.2 million, which was mainly attributable to our operating profit before working capital changes of approximately RMB49.9 million, adjusted for decrease in prepayments and other receivables of approximately RMB2.8 million and increase in trade payables of approximately RMB10.2 million. These cash inflow were partially offset by the increase in trade receivables of approximately RMB7.0 million during the same period. We had higher net cash generated from operating activities during FY2022 than in FY2021 mainly because of the increase in trade payables during FY2022.

In FY2021, we had a net cash generated from operating activities of approximately RMB33.8 million, which was mainly attributable to our operating profit before working capital changes of approximately RMB59.0 million. These cash inflows were partially offset by (i) the increase in trade receivables by approximately RMB15.6 million; and (ii) the increase in our prepayments and other receivables of approximately RMB6.0 million during the same period.

In FY2020, we had net cash generated from operating activities of approximately RMB51.6 million, which was primarily attributable to our operating profit before working capital changes of approximately RMB53.1 million. These cash inflows were partially offset by the decrease in our accruals and other payables by approximately RMB1.1 million during the same period.

Cash flows used in investing activities

Our cash outflow for investing activities primarily consisted of (i) payments for property, plant and equipment; (ii) payments for right-of-use assets; and (iii) interest received from bank deposit.

In 9M2023, our net cash used in investing activities amounted to approximately RMB23.0 million, which was primarily due to payments of approximately RMB12.2 million for the renovation of our Laixi Land and Buildings for Investment Purpose and payments of approximately RMB10.8 million for renovation of our property, plant and equipment conducted during the same period; whereas in 9M2022, our net cash used in investing activities amounted to approximately RMB1.1 million.

In FY2022, our net cash used in investing activities amounted to approximately RMB1.1 million, which was primarily due to our payment for purchase of property, plant and equipment of approximately RMB1.5 million for the cultivation of our potted vegetable produce, which was partially offset by the proceeds from disposals of property, plant and equipment of approximately RMB0.4 million during the same period.

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In FY2021, our net cash used in investing activities amounted to approximately RMB16.8 million, which was primarily due to our payment for purchase of property, plant and equipment of approximately RMB16.8 million for the renovation of the office premises and other maintenance and improvement works in our Laixi Facility during the same period.

In FY2020, our net cash used in investing activities amounted to approximately RMB55.2 million, which was primarily due to our purchase of property, plant and equipment of approximately RMB55.1 million for the expansion of our cultivation capacity during the same period.

Cash flows (used in)/generated from financing activities

Our cash inflows for financing activities primarily consisted of (i) bank borrowings; and (ii) contribution from our pre-[REDACTED] investor. Our cash outflows for financing activities primarily consisted of (i) repayments of bank borrowings; (ii) principal elements of lease liabilities; and (iii) interest payment.

In 9M2023, our net cash used in financing activities amounted to approximately RMB0.7 million, which was primarily attributable to the interest paid of approximately RMB0.7 million during the same period; whereas in 9M2022, we recorded a net cash used in financing activities amounted to approximately RMB0.8 million, which was primarily attributable to the interest paid of approximately RMB0.7 million during the same period.

In FY2022, our net cash used in financing activities amounted to approximately RMB1.0 million, which was primarily attributable to the interest paid of approximately RMB0.8 million during the same period.

In FY2021, our net cash used in financing activities amounted to approximately RMB1.0 million, which was primarily attributable to the interest paid of approximately RMB0.8 million during the same period.

In FY2020, our net cash generated from financing activities amounted to approximately RMB5.5 million, which was primarily due to raising of additional bank borrowings of RMB5.0 million and investment into our subsidiary by Mr. Xie Xing of approximately RMB1.8 million. This cash inflows was partially offset by our interest payment of approximately RMB1.1 million during the same period.

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CURRENT ASSETS AND CURRENT LIABILITIES

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

	As at 31 December			As at 30 September	As at 31 January
	2020	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current Assets					
Biological assets	9,395	9,781	8,371	8,876	9,082
Inventories	31	199	1,557	1,331	1,747
Trade receivables	31,121	46,590	53,444	58,376	64,901
Prepayments and other receivables	3,052	9,075	6,252	6,701	8,372
Amount due from the ultimate holding company	6	6	6	6	6
Amounts due from Shareholders	3	3	3	3	3
Bank and cash balances	<u>6,968</u>	<u>22,963</u>	<u>71,079</u>	<u>89,595</u>	<u>89,501</u>
	<u>50,576</u>	<u>88,617</u>	<u>140,712</u>	<u>164,888</u>	<u>173,612</u>
Current liabilities					
Trade payables	9,149	5,323	15,552	12,177	10,540
Accruals and other payables	3,295	1,719	1,546	2,628	3,907
Amount due to a Director	20	30	30	30	30
Bank borrowings	20,000	20,000	20,000	19,995	19,995
Lease liabilities	80	124	98	106	109
Deferred income	<u>227</u>	<u>227</u>	<u>227</u>	<u>227</u>	<u>227</u>
	<u>32,771</u>	<u>27,423</u>	<u>37,453</u>	<u>35,163</u>	<u>34,808</u>
Net current assets	<u>17,805</u>	<u>61,194</u>	<u>103,259</u>	<u>129,725</u>	<u>138,804</u>

As at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, we had net current assets of approximately RMB17.8 million, RMB61.2 million, RMB103.3 million, RMB129.7 million and RMB138.8 million, respectively.

We recorded net current assets of approximately RMB61.2 million as at 31 December 2021 as compared with net current assets of approximately RMB17.8 million as at 31 December 2020. Such change was primarily attributable to (i) the increase in our trade receivables by approximately RMB15.5 million (or 49.7%); (ii) the increase in our bank and cash balances by approximately RMB16.0 million (or 229.5%); and (iii) the increase in our prepayments and other receivables by approximately RMB6.0 million (or 197.3%).

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We recorded net current assets of approximately RMB103.3 million as at 31 December 2022 as compared with net current assets of approximately RMB61.2 million as at 31 December 2021. Such change was primarily attributable to the increase in our bank and cash balances by approximately RMB48.1 million (or 209.5%) which was mainly due to the settlement of our trade receivables in the corresponding period.

We recorded net current assets of approximately RMB129.7 million as at 30 September 2023 as compared with net current assets of approximately RMB103.3 million as at 31 December 2022. Such change was primarily attributable to the increase in our bank and cash balances by approximately RMB18.5 million (or 26.0%) which was mainly due to the settlement of our trade receivables in the corresponding period.

We recorded net current assets of approximately RMB138.8 million as at 31 January 2024 as compared with net current assets of approximately RMB129.7 million as at 30 September 2023. Such change was primarily attributable to the increase in our trade receivables by approximately RMB6.5 million (or 11.2%) which was mainly due to the increase in sales revenue and trade receivables in the fourth quarter of 2023.

The amount due from the ultimate holding company are non-trade in nature and will be settled prior to [REDACTED].

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Biological assets

Our biological assets represent the potted vegetable produce stated at fair value less estimated cost to sell as at the end of reporting period. The fair value has been assessed by Savills, a firm of independent qualified professional valuers not connected with us, which has appropriate qualifications and experiences in valuation of biological assets, with reference to market prices, scrap rate, species, growing conditions and cost incurred. We are required under HKFRS to recognise such changes under “changes in fair value of biological assets”. This item represents fair value changes of our biological assets due to the changes in physical attributes and market prices of our biological assets, in particular, our potted

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vegetable produce at the end of each of the Track Record Period. The following table sets forth the value of our biological assets as at the dates indicated:

	At 31 December			At 30
	2020	2021	2022	September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>2023</i> <i>RMB'000</i>
Value of biological assets				
At 1 January, comprising:				
Original cost before fair valuation adjustment	4,605	6,221	6,430	5,839
Fair value adjustment	2,119	3,174	3,351	2,532
	<u>6,724</u>	<u>9,395</u>	<u>9,781</u>	<u>8,371</u>
Adjusted for:				
Increase due to plantation	67,444	86,208	74,798	66,523
Decrease due to sales	(65,828)	(85,999)	(70,804)	(66,785)
Fair value adjustment on the closing balance of biological assets	3,174	3,351	2,532	3,299
Less: Unsold vegetable produce	—	—	(4,585)	—
Less: Fair value adjustment on the opening balance of biological assets	(2,119)	(3,174)	(3,351)	(2,532)
Biological assets fair value adjustments	<u>1,055</u>	<u>177</u>	<u>(5,404)</u>	<u>767</u>
At 31 December/30 September	<u><u>9,395</u></u>	<u><u>9,781</u></u>	<u><u>8,371</u></u>	<u><u>8,876</u></u>
Value of biological assets at 31 December/30 September, comprising:				
Original cost before fair value adjustment	6,221	6,430	5,839	5,577
Fair value adjustment	3,174	3,351	2,532	3,299
	<u><u>9,395</u></u>	<u><u>9,781</u></u>	<u><u>8,371</u></u>	<u><u>8,876</u></u>

According to our Group’s accounting policies, (i) a biological asset shall be measured at the end of each reporting period at its fair value less costs to sell, except where the fair value cannot be measured reliably; and (ii) agricultural produce harvested from an entity’s biological assets shall be measured at its fair value less costs to sell at the point of harvest.

Our biological assets represent the potted vegetable produce stated at fair value less estimated cost to sell as at the end of the reporting period. Between each reporting dates, our fair value of biological assets is affected by our production and sale of these biological assets in our business operation. As our biological assets are stated at fair value less estimated cost to sell as at the end of the reporting period, the carrying amounts are affected by the number, maturity and therefore the fair value of our potted vegetable produce as at the end of the reporting period.

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The resultant changes in the fair value adjustment between each reporting period are recognised as gain or loss and charged to “changes in fair value of biological assets” in our consolidated statements of profit or loss. The fair value adjustment represented the difference between the fair value less estimated cost to sell of biological assets and the original cost of biological assets as at the end of each reporting period.

As the potted vegetable produce was sold to the customers in pots filled with organic substrates, the potted vegetable was sold while still fresh and living and has not been harvested upon sales, there is no need to revalue potted vegetable produce upon sales. While the Group’s biological asset at the end of each reporting period is measured at its fair value less costs to sell, the fair value of potted vegetables that are planted and sold within the same financial period results in no changes in fair value of biological assets recognised during that reporting period. The “gain” on these potted vegetables that are planted and sold within the same financial period are recognised in our gross profit.

During the first week of growing period, our potted vegetable produce typically does not yet sprout and does not have observable significant biological transformation above the organic substrate. Cost approach is adopted for these newly planted potted vegetable produce. The cost of direct raw materials, labour cost, and other related expenses have been considered in the calculation of the fair values of our potted vegetable produce. After the first week of growing period but before reaching the mature period, our potted vegetable produce typically has observable significant biological transformation since planting with sprout and leaves visible above the organic substrate. Based on our historical record, more than 65% of our total cost have been incurred after the first week of growing period. Unit fair value of growing potted vegetable produce is estimated based on market price for mature potted vegetable produce less remaining cultivation cost and associated profit, adjusted for expected scrappage prior to reaching maturity. Market approach is adopted since observable biological transformation has taken place. During the mature period, our potted vegetable produce has reached the saleable state and market approach is adopted. The fair values of our biological assets as at the end of respective years are calculated to be the product of unit market value and the quantity held, deducting the reasonable cost related to sales.

In FY2022, our changes in fair value of biological assets included the unsold vegetable produce of approximately RMB4.6 million as a result of the temporary suspension of our facilities due to the outbreak of COVID-19 epidemic from March 2022 to April 2022. Most of the unsold potted vegetable produce from our Laixi Facility was donated to the government for the distribution to the local residents for their consumption during the lockdown period of the COVID-19 epidemic in FY2022.

The fair value of our biological assets increased by approximately RMB0.4 million (or 4.1%) from approximately RMB9.4 million as at 31 December 2020 to approximately RMB9.8 million as at 31 December 2021, primarily due to the increase in the number of our potted vegetable produce in our cultivation facilities as at 31 December 2021. This was mainly attributable to the increase in the number of potted vegetables under cultivation on 31 December 2021 as compared to that of 31 December 2020, of which a larger portion is in the growing and mature stage.

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The fair value of our biological assets decreased slightly by approximately RMB1.4 million (or 14.4%) from approximately RMB9.8 million as at 31 December 2021 to approximately RMB8.4 million as at 31 December 2022, primarily due to the decrease in the number of potted vegetable produce in our cultivation facilities as at 31 December 2022.

The fair value of our biological assets increased slightly by approximately RMB0.5 million (or 6.0%) from approximately RMB8.4 million as at 31 December 2022 to approximately RMB8.9 million as at 30 September 2023, primarily due to the increase in the number of potted vegetable produce in growing and mature stage in our cultivation facilities as at 30 September 2023.

For more information about the valuation method adopted by Savills, please refer to the paragraph headed “Valuation of biological assets” in this section of the document.

Inventories

Our inventories primarily consist of pots and agricultural materials which mainly include seeds, fertilisers and biopesticides which were not utilised at the end of each of the Track Record Period. The following table sets forth the breakdown of our inventories as at the dates indicated:

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Pots and agricultural materials	31	199	1,557	1,331

Due to the nature of our business (i.e. we do not harvest our potted vegetable produce upon selling of the same), and that our potted vegetable produce is not reclassified from biological assets to inventories when it becomes mature as it is not harvested, our inventory level is low. While it is our policy to keep low raw material inventory level in general, we have however gradually made more purchases and kept more inventories since FY2021 to reduce the risk of supply interruption after years of the pandemic from 2020 to 2022, with intermittent lockdowns in various regions. Our purchasing strategies also helped us keep our raw material cost stable at a reasonable level in spite of the increasing price trend of raw materials in general as explained in the paragraph headed “Industry Overview — Historical price trend of raw materials and potted vegetable produce” in this document. Our inventories increased by approximately RMB168,000 from approximately RMB31,000 as at 31 December 2020 to approximately RMB199,000 as at 31 December 2021 primarily because we had purchased some of the components of organic substrates in FY2021 which were not yet utilised near the year end. Our inventories increased by approximately RMB1.4 million to approximately RMB1.6 million as at 31 December 2022 primarily because we had purchased a relatively large amount of the components of organic substrates to prepare for

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the cultivation during the fourth quarter of FY2022. Our inventories decreased slightly by approximately RMB0.2 million to approximately RMB1.3 million as at 30 September 2023 primarily because of utilisation of raw materials.

The following table sets out the ageing analysis of the inventories:

Ageing analysis	At 31 December			At 30
	2020	2021	2022	September
	RMB'000	RMB'000	RMB'000	2023
				RMB'000
0–180 days	23	199	1,557	1,329
181–365 days	—	—	—	2
Over 1 year	8	—	—	—
	<u>31</u>	<u>199</u>	<u>1,557</u>	<u>1,331</u>

The following table sets out the average inventory turnover day(s) for the Track Record Period:

Average inventory turnover days <i>(Note)</i>	Year ended 31 December			Nine months ended 30
	2020	2021	2022	September
				2023
	0.6	0.5	4.3	5.9

Note: Average inventory turnover day(s) for each of the years ended 31 December 2020, 2021 and 2022 and the nine months ended 30 September 2023 are equal to the average inventories divided by cost of sales, before fair value adjustment, and multiplied by the number of days in the relevant year/period. Average inventories is equal to the average of inventory at the beginning of the year/period and inventory at the end of the year/period.

The average inventory turnover day(s) remained stable at 0.6 days and 0.5 days between FY2020 and FY2021, and increased to 4.3 days for FY2022, primarily because we have made more purchases and kept more inventories since FY2022 to reduce the risk of supply interruption. Our inventory turnover day for 9M2023 is higher at 5.9 days because we maintained a comparatively higher inventory of over RMB1.3 million as at both 31 December 2022 and 30 September 2023 and our average inventory for 9M2023 is higher. Despite our higher inventory turnover day for FY2022 and 9M2023, our inventory turnover day is lower than 10 days in line with our general policy to keep low raw material inventory level.

As at the Latest Practicable Date, all of our inventories as at 30 September 2023 were subsequently utilised.

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Trade receivables

Our trade receivables primarily consist of receivables associated with the sales of our potted vegetable produce to our customers. The following table sets forth the breakdown of our trade receivables as at the dates indicated:

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	32,339	46,591	53,605	58,476
Allowance for ECL	(1,218)	(1)	(161)	(100)
	31,121	46,590	53,444	58,376

During the Track Recorded Period, we grant our distributors and end-user customers generally a credit period of 60 days to 120 days and 180 days respectively depending on their credit history, historical sales performance, estimated future purchases, relationship history with us and business scale.

Our trade receivables increased by approximately RMB14.3 million (or 44.1%) from approximately RMB32.3 million as at 31 December 2020 to approximately RMB46.6 million as at 31 December 2021, in line with the increase in our sales of approximately 27.6% in the corresponding period. Our trade receivables increased by approximately RMB7.0 million (or 15.1%) to approximately RMB53.6 million as at 31 December 2022, primarily due to the slight increase in our sales revenue in the fourth quarter of FY2022 of approximately RMB38.1 million as compared to the sales revenue of approximately RMB37.7 million in the fourth quarter of FY2021. Since the third quarter of the year is our peak season, our trade receivables increased by approximately RMB4.9 million (or 9.1%) to approximately RMB58.5 million as at 30 September 2023, primarily due to the increase in our sales revenue in the third quarter of 2023 of approximately RMB50.0 million as compared to our sales revenue in the fourth quarter of FY2022 of approximately RMB38.1 million. Our allowance for ECL dropped from approximately RMB1.2 million as at 31 December 2020 to approximately RMB1,000 as at 31 December 2021 mainly because we wrote off certain long outstanding trade receivables of approximately RMB1.4 million during FY2021. Our allowance for ECL increased slightly to approximately RMB0.2 million as at 31 December 2022. Our allowance for ECL remained to be relatively stable at approximately RMB0.1 million as at 30 September 2023.

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An ageing analysis of our trade receivables at the end of each reporting period, based on the invoice date and net of allowance for ECL, is as follows:

	At 31 December			At 30 September		
	2020	2021	2022	2023		
	Trade receivables <i>RMB'000</i>	Trade receivables <i>RMB'000</i>	Trade receivables <i>RMB'000</i>	Trade receivables <i>RMB'000</i>	Less: amount subsequently settled up to the Latest Practicable Date <i>RMB'000</i>	Remaining balances up to the Latest Practicable Date <i>RMB'000</i>
0–90 days	30,540	36,609	37,550	48,558	(37,913)	10,645
91–180 days	383	9,981	15,894	9,818	(9,818)	—
181–365 days	198	—	—	—	—	—
Over 1 year	—	—	—	—	—	—
	31,121	46,590	53,444	58,376	(47,731)	10,645

A majority of our trade receivables as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 were aged within 90 days, as most of the credit period granted to our distributors and end-user customers were due within 60 days to 120 days and 180 days respectively from the date of billing.

As at the Latest Practicable Date, approximately RMB47.7 million, or 81.7% of trade receivables as at 30 September 2023 were subsequently settled. Our Group did not record any bad debt during the Track Record Period, our Directors are of the view that there is no recoverability issue for our trade receivables and sufficient allowance for doubtful debts provision has been provided for.

The following table sets forth our average trade receivables turnover days for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2020	2021	2022	2023
Average trade receivables turnover days ^(Note)	99.2	93.0	144.3	126.1

Note: Average trade receivables turnover day(s) in each of FY2020, FY2021, FY2022 and 9M2023 are equal to the average trade receivables divided by revenue and multiplied by 366 days in FY2020, 365 days in FY2021, 365 days in FY2022 and 273 days in 9M2023. Average trade receivables is equal to the average of trade receivables at the beginning of the year/period and trade receivables at the end of the year/period.

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There was no material change in our trade receivables turnover days in FY2020 and FY2021. In light of the uncertainty over the business environment in relation to the lockdown measures in various regions in China during the COVID-19 epidemic, we have been more flexible in enforcing our credit terms for distributors in FY2022 which ranged from 60 to 120 days. Therefore our average trade receivables turnover day for FY2022 increased to 144.3 days and was higher than our credit term range. Besides, our revenue for FY2022 was lower than usual due to the lockdown measures in Dalian and various areas in Shandong province in March and April 2022, with monthly average revenue of only approximately RMB10.6 million, as compared with the monthly average revenue of approximately RMB12.9 million for FY2021. With a substantially lower average revenue, our average trade receivables turnover day for FY2022 was also higher than usual.

As the PRC government has substantially lifted its COVID-19 prevention and control policies since December 2022, we have pressed our distributors for faster settlement of trade receivables and enforced our credit terms in 2023, leading to the lower trade receivables turnover days of approximately 126.1 days for 9M2023 as compared to 144.3 days for FY2022. However, it is still higher than our credit terms for distributors which ranged from 60 to 120 days mainly because of our high trade receivable balances as at 31 December 2022 which led to higher average trade receivable balances for the 9M2023. As confirmed by the Directors, there is no recoverability issue for our trade receivables as at the Latest Practicable Date and sufficient allowance has been made for the trade receivables during the Track Record Period.

Prepayments and other receivables

The following table sets forth a summary of our balance of prepayments and other receivables as at the dates indicated:

	At 31 December			At 30
	2020	2021	2022	September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets:				
Prepayments for renovation of property, plant and equipment	—	—	—	6,000
Current assets:				
Prepayments	434	4,503	334	690
Prepaid [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Other receivables	946	490	506	631
	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>	<u>[REDACTED]</u>

Our prepayments increased from RMB0.4 million as at 31 December 2020 to RMB4.5 million as at 31 December 2021, primarily due to the increase in the purchase of the components of organic substrate near the end of FY2021 for the purpose of stocking up some components of organic substrate as our contingency plan to avoid any delay in

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production that may be caused by any unforeseeable events in the market, and to hedge the risk of fluctuation of the cost of the raw materials. Our prepayment as at 31 December 2021 consist of prepayment of the components of organic substrate of approximately RMB4.2 million. Our prepayments decreased from approximately RMB4.5 million as at 31 December 2021 to RMB0.3 million as at 31 December 2022 mainly because our prepayment for the purchase of the components of organic substrate as at 31 December 2021 has been utilised. Our prepayments increased slightly from approximately RMB0.3 million as at 31 December 2022 to RMB0.7 million as at 30 September 2023.

Our prepayments of renovation of property, plant and equipment in the amount of approximately RMB6.0 million were made primarily for the renovation of the greenhouses in the Group’s cultivation facilities. Our Group commenced such renovation work in May 2023. Such renovation work is still ongoing as at the Latest Practicable Date.

Our prepaid [REDACTED] amounted to approximately RMB[REDACTED], RMB[REDACTED], RMB[REDACTED] and RMB[REDACTED] as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. The change in our prepaid [REDACTED] during the Track Record Period is in line with the phase of work of the professional parties engaged for the purpose of our application for [REDACTED] in the corresponding periods.

Our other receivables mainly represented the outstanding rental receivables due from our tenant for the Laixi Land and Buildings for Investment of approximately RMB0.9 million, RMB0.5 million, RMB0.5 million and RMB0.6 million as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 respectively.

Trade payables

Our trade payables primarily relate to our subcontracting labour cost and purchase of raw materials from our suppliers with general credit terms of no more than one month. We normally settle such payables by bank transfers.

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The following table sets forth our trade payables as at the dates indicated:

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	9,149	5,323	15,552	12,177

Our trade payables decreased by approximately RMB3.8 million (or 41.8%) from approximately RMB9.1 million as at 31 December 2020 to approximately RMB5.3 million as at 31 December 2021, primarily due to our timely settlement of trade payables. Our trade payables increased by approximately RMB10.2 million (or 192.2%) to approximately RMB15.6 million as at 31 December 2022, primarily due to the late settlement of the labour subcontracting fee due to the COVID-19 epidemic in FY2022. Our trade payables decreased slightly by approximately RMB3.4 million (or 21.7%) to approximately RMB12.2 million as at 30 September 2023, primarily due to our timely settlement of trade payables.

An ageing analysis of our trade payables at the end of each reporting period, based on invoice date, is as follows:

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
0–90 days	8,333	5,282	13,139	11,969
91–180 days	797	—	2,372	167
181–365 days	3	22	—	—
Over 1 year	16	19	41	41
	9,149	5,323	15,552	12,177

As at the Latest Practicable Date, approximately RMB12.2 million, or 100% of our trade payables outstanding as at 30 September 2023 were subsequently settled.

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The following table sets forth our average trade payables turnover days for the periods indicated:

Average trade payables turnover days ^(Note)	Year ended 31 December			Nine months ended 30 September
	2020	2021	2022	2023
	46.3	29.6	51.4	54.6

Note: Average trade payables turnover day(s) in each of FY2020, FY2021, FY2022 and 9M2023 are equal to the average trade payables divided by cost of sales and multiplied by 366 days in FY2020, 365 days in FY2021, 365 days in FY2022 and 273 days in 9M2023. Average trade payables is equal to the average of trade payables at the beginning of the year/period and trade payables at the end of the year/period.

Our average trade payables turnover days decreased from 46.3 days in FY2020 to 29.6 days in FY2021. Such decrease was primarily due to our timely settlement of trade payables.

Our average trade payable turnover days increased from 29.6 days in FY2021 to 51.4 days in FY2022. Such increase was primarily due to the fact that (i) we made purchase of the components of organic substrate and incurred more cost of labour near the end of FY2022 leading to the higher trade payable balances as at 31 December 2022 and (ii) the decrease in cost of sales in FY2022.

Our trade payables for 9M2023 of 54.6 days were higher than our trade payables credit terms of generally no more than one month. The higher trade payables for 9M2023 were primarily due to the longer time required for our administrative procedure as a result of the temporary shortage of our accounting staff caused by the prolonged leave taken by one of the staff in our accounts department in 9M2023. Therefore, our payment to our suppliers and subcontractors was slower in 9M2023 and our average trade payable turnover days increased from 51.4 days in FY2022 to 54.6 days in 9M2023. However, the average trade payables turnover days has returned to normal level as at the Latest Practicable Date.

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Accruals and other payables

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

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accruals	391	412	512	492
Other payables	2,904	1,307	1,034	2,136
	3,295	1,719	1,546	2,628

Our accruals primarily consist of accrued salaries of our employees. Our accruals remained to be relatively stable at approximately RMB0.4 million, RMB0.4 million, RMB0.5 million and RMB0.5 million as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively.

Our other payables primarily consist of construction cost payables relating to the construction of our greenhouses and the relevant site formation cost and payables for [REDACTED] and professional fee. Our other payables decreased by approximately RMB1.6 million (or 55.0%) from approximately RMB2.9 million as at 31 December 2020 to approximately RMB1.3 million as at 31 December 2021, which were primarily attributable to the settlement of our construction cost associated with the improvement and expansion works of our Laixi Facilities in early 2021. Our other payables decreased slightly by approximately RMB0.3 million (or 21.0%) to approximately RMB1.0 million as at 31 December 2022 which was mainly due to payable for [REDACTED] and professional fee of approximately RMB[REDACTED] as at 31 December 2022. Our other payables increased by approximately RMB1.1 million (or 106.6%) to approximately RMB2.1 million as at 30 September 2023 which was mainly due to the fact that we incurred more [REDACTED] and professional fee near the end of 9M2023.

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Deferred income

During the Track Record Period, our deferred income principally represents government grants in relation to agricultural development, greening purposes, subsidising the interest payment of our borrowings in 2018 and supporting the [REDACTED] of local enterprises provided by the Municipal Government of Laixi in FY2020. The following table sets forth our deferred income as at the dates indicated:

	At 31 December			At 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Government grants:				
At 1 January	3,995	3,953	3,727	3,500
Additions	3,585	318	—	—
Amortisation	<u>(3,627)</u>	<u>(544)</u>	<u>(227)</u>	<u>(170)</u>
At 31 December/ 30 September	<u><u>3,953</u></u>	<u><u>3,727</u></u>	<u><u>3,500</u></u>	<u><u>3,330</u></u>

RELATED PARTY TRANSACTIONS

With respect to the related party transaction set forth in the Accountants' Report as set out in Appendix I to this document, our Directors confirm that the transaction was conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

SUFFICIENCY OF WORKING CAPITAL

Our Directors are of the opinion that after taking into account the existing financial resources available to our Group including internally generated funds from operating activities, existing bank facilities and the estimated [REDACTED] from the [REDACTED], our Group has sufficient working capital for its present requirements for the next 12 months from the date of this document.

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CAPITAL EXPENDITURES

Capital expenditures during the Track Record Period

The following table sets forth our capital expenditures for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Additions to property, plant and equipment	44,354	14,420	1,522	4,787
Additions to investment properties	—	—	—	12,222

Our capital expenditures for FY2020, FY2021, FY2022 and 9M2023 represented additions of property, plant and equipment primarily made for the site formation and the construction, renovation of greenhouses in our cultivation facilities, the renovation of the office premises in our Laixi Facility and the renovation of our Laixi Land and Buildings for Investment Purpose during the Track Record Period.

Besides, we have also made prepayment of approximately RMB 6.0 million mainly for renovation of our Laixi Land and Buildings for Investment Purpose as at 30 September 2023.

Planned capital expenditures

Save for the planned usage of the [REDACTED] from the [REDACTED] as disclosed in the section headed “Future Plans and [REDACTED]” in this document and the additions to property, plant and equipment and our investment properties necessary for our business operations which will be made by our Group from time to time, including periodic repair, upgrade, renovation and replacement, we had no material planned capital expenditure as at the Latest Practicable Date.

We expect to fund our capital expenditure principally through the [REDACTED] raised from the [REDACTED], bank borrowings and cash generated from our operating activities. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months from the date of this document.

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CONTRACTUAL COMMITMENTS

Capital Commitments

As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, the capital commitments of our Group in respect of the payments for purchase of property, plant and equipment contracted but not yet incurred were nil, nil, nil and RMB6.5 million, respectively.

INDEBTEDNESS

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

	At 31 December			At 30 September	At 31 January
	2020	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Current portion					
Amount due to a Director	20	30	30	30	30
Bank borrowings	20,000	20,000	20,000	19,995	19,995
Lease liabilities	80	124	98	106	109
	20,100	20,154	20,128	20,131	20,134
Non-current portion					
Lease liabilities	641	553	454	394	349
	20,741	20,707	20,582	20,525	20,483

As at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, the amount due to a Director were approximately RMB20,000, RMB30,000, RMB30,000, RMB30,000 and RMB30,000, respectively. The amounts due to a Director are non-trade in nature and will be settled prior to [REDACTED].

Bank borrowings

As at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, our total outstanding balance of bank loans was approximately RMB20.0 million, RMB20.0 million, RMB20.0 million, RMB20.0 million and RMB20.0 million, respectively.

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

	At 31 December			At 30 September	At 31 January
	2020	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Bank borrowings, secured	20,000	20,000	20,000	19,995	19,995

During the Track Record Period, we primarily used our bank borrowings for general working capital. As at 31 January 2024, we did not have any unutilised banking facilities.

Our bank borrowings remained to be stable at RMB20.0 million, RMB20.0 million, RMB20.0 million, RMB20.0 million and RMB20.0 million as at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, respectively.

As at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, our bank borrowings of RMB20.0 million were secured by, among others, (i) personal guarantees provided by Mr. Zhang and Ms. Geng Juan; (ii) investment properties of our Group (i.e. the Laixi Land and Buildings for Investment) with net carrying amount of approximately RMB6.7 million, RMB6.4 million, RMB6.1 million, RMB18.0 million and RMB17.6 million as at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, respectively; and (iii) right-of-use assets (i.e. the Laixi Land Parcel A) with net carrying amount of approximately RMB19.7 million, RMB19.2 million, RMB18.7 million, RMB18.3 million and RMB18.1 million as at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, respectively of our Group.

The personal guarantees provided by Mr. Zhang and Ms. Geng Juan will be released upon [REDACTED].

As at 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and 31 January 2024, our bank borrowings were denominated in RMB and due within one year, whereas the effective interest rates of our bank borrowings per annum were from 3.85% to 4.55%, from 3.95% to 4.55%, from 3.75% to 4.55%, from 3.45% to 4.40% and from 3.45% to 4.40%, respectively.

There are no material covenants relating to our outstanding bank borrowings which would impact or restrict our ability to undertake additional debt or equity financing. Our Directors confirmed that our Group had not had any material default with regard to our trade or other payables or any bank borrowings, and had not breached any covenants in our bank borrowings during the Track Record Period and up to the Latest Practicable Date. Our Directors also confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any difficulty in obtaining credit facilities or

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withdrawal of facilities, request for early repayment, default in payments or breach of financial covenants of bank borrowings. Our Directors further confirmed that we did not have any plan to raise material external debt financing as at the date of this document.

Lease liabilities

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

	Present value of minimum lease payments				
	As at 31 December			At 30 September	At 31 January
	2020	2021	2022	2023	2024
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> (unaudited)
Within one year	80	124	98	106	109
In the second to fifth years, inclusive	369	362	354	287	349
After five years	<u>272</u>	<u>191</u>	<u>100</u>	<u>107</u>	<u>—</u>
Present value of lease obligations	721	677	552	500	458
Less: Amount due for settlement within 12 months (shown under current liabilities)	<u>(80)</u>	<u>(124)</u>	<u>(98)</u>	<u>(106)</u>	<u>(109)</u>
Amount due for settlement after 12 months	<u><u>641</u></u>	<u><u>553</u></u>	<u><u>454</u></u>	<u><u>394</u></u>	<u><u>349</u></u>

Our Group leases office and cultivation facilities for operations. Lease contracts are entered into for fixed term of up to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, our Group applies the definition of a contract and determines the period for which the contract is enforceable.

Except as disclosed above, as at 31 January 2024, being the latest practicable date for the purpose of this indebtedness statement, we did not have any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees. We confirm that there had not been any material adverse change in our indebtedness position since 31 January 2024.

CONTINGENT LIABILITIES

At 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, our Group did not have any contingent liabilities.

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KEY FINANCIAL RATIOS

The following table sets forth certain financial ratios as at the dates or for the periods indicated:

	As at/For the year ended 31 December			As at/For the nine months ended 30 September
	2020	2021	2022	2023
Profitability Ratios				
Turnover growth ^(Note 1)	3.3%	27.6%	(18.2)%	36.9%
Gross profit margin ^(Note 2)	44.0%	42.4%	41.5%	42.9%
Net profit growth ^(Note 3)	12.2%	8.1%	(32.7)%	108.7%
Net profit margin ^(Note 4)	36.1%	30.5%	25.1%	33.9%
Return on assets ^(Notes 5&6)	17.6%	16.3%	9.6%	11.1% ^(Note 6)
Return on equity ^(Notes 6&7)	20.7%	18.3%	11.0%	12.4% ^(Note 6)
Liquidity Ratios				
Current ratio ^(Note 8)	1.5 times	3.2 times	3.8 times	4.7 times
Quick ratio ^(Note 9)	1.5 times	3.2 times	3.7 times	4.7 times
Solvency Ratios				
Interest coverage ratio ^(Note 10)	38.0 times	53.7 times	36.3 times	63.1 times
Net debt to equity ratio ^(Note 11)	6.5%	-0.9% ^(Note 13)	-17.4% ^(Note 13)	-20.8% ^(Note 13)
Gearing Ratio ^(Note 12)	9.8%	8.0%	7.1%	6.2%

Notes:

1. Turnover growth represents the difference between revenue for the current year/period and prior year/period, divided by the revenue for the prior year/period and multiplied by 100%.
2. The gross profit margin represents the gross profit divided by the revenue for the respective year/period multiplied by 100%. For details, please refer to the paragraphs headed “Description of selected statements of profit or loss items — Gross profit ” and “Key Financial Ratios — Gross profit margin” in this section of the document.
3. Net profit growth represents the difference between net profit for the current year/period and prior year/period, divided by the net profit for the prior year/period and multiplied by 100%.
4. The net profit margin represents the net profit divided by the revenue for the respective year/period multiplied by 100%.
5. Return on assets represents net profit divided by total assets as at the respective year/period end and multiplied by 100%.
6. Return on equity and return on assets are calculated on a full year basis except for 9M2023.
7. Return on equity represents net profit divided by total equity as at the respective year/period end and multiplied by 100%.

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8. Current ratio represents total current assets divided by total current liabilities as at the respective year/period end.
9. Quick ratio represents total current assets less inventories divided by total current liabilities as at the respective year/period end.
10. Interest coverage ratio represents profit before income tax and interest expenses divided by interest expenses for the respective year/period.
11. Net debt to equity ratio represents net debt divided by total equity as at the respective year/period end. Net debt is calculated as the total interest-bearing debt including borrowings and lease liabilities less bank and cash balances.
12. Gearing ratio represents the total interest-bearing debt including borrowings and lease liabilities divided by total equity as at the respective year/period end multiplied by 100%.
13. We recorded a negative net debt to equity ratio for FY2021, FY2022 and 9M2023 as the Group is in a net cash position deriving the same periods.

Turnover growth

Our revenue increased from approximately RMB121.4 million in FY2020 to approximately RMB154.9 million in FY2021. Such increase in our revenue in the said period was primarily attributable to the increase in the sales volume of our potted vegetable produce from approximately 8.0 million pots in FY2020 to approximately 10.3 million pots in FY2021 due to (i) the deployment of 40 enhanced greenhouses in our Laixi Facility in July 2020 and August 2020 leading to an increase in our productivity; and (ii) the increase in popularity of our potted vegetable produce in the corresponding period. On the other hand, the average selling price of our potted vegetable produce remained to be stable at approximately RMB15.1 per pot in FY2020 and approximately RMB15.1 per pot in FY2021.

Our revenue decreased from approximately RMB154.9 million in FY2021 to approximately RMB126.7 million in FY2022. Such decrease in revenue in the said period was primarily attributable to the decrease in the sales volume of our potted vegetable produce from approximately 10.3 million pots in FY2021 to approximately 8.4 million pots in FY2022 due to the resurgence of COVID-19 cases in Shandong province between March 2022 to April 2022 which had led to a temporary suspension of business activities of our Laixi Facility during the lockdown period. The said incident led to the direct loss of approximately 549,000 unsellable pots of our vegetable produce, the estimated cost of which was approximately RMB4.6 million. It is estimated that it led to a loss of potential sales revenue of approximately RMB8.3 million based on the average selling price of our potted vegetable produce in Shandong province of approximately RMB15.1 per pot in FY2022.

Our revenue increased from approximately RMB88.6 million in 9M2022 to approximately RMB121.3 million in 9M2023. Such increase in revenue in the said period was primarily attributable to the increase in the sales volume of our potted vegetable produce from approximately 5.9 million pots in 9M2022 to approximately 8.0 million pots

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in 9M2023 as our business operation was no longer affected by COVID-19 epidemic in 9M2023. On the other hand, the average selling price per pot of our potted vegetable produce remained to be stable at approximately RMB15.1 in 9M2022 and 9M2023.

Gross profit margin

Our gross profit margin slightly decreased from approximately 44.0% in FY2020 to approximately 42.4% in FY2021 mainly because of the increase in cultivation overheads from approximately RMB4.2 million for FY2020 to RMB6.1 million for FY2021 which are predominantly depreciation charges. Such increase in cultivation overheads was due to the significant capital expenditure on our cultivation facilities including greenhouses and infrastructure which amounted to approximately RMB44.4 million and RMB14.4 million for FY2020 and FY2021 respectively. Had the cultivation overheads in FY2021 remained at the same level as in FY2020, our gross profit margin would have increased by 1.2% to 43.7%.

Our gross profit margin decreased from approximately 42.4% in FY2021 to approximately 41.5% in FY2022 mainly because our revenue decreased by approximately 18.2% due to the temporary suspension of our cultivation facilities in FY2022, yet our cultivation overheads remain at a similar level. As a result, our cultivation overheads accounted for a larger proportion of cost of sales in FY2022, leading to lower gross profit margin in FY2022.

Our gross profit margin increased from approximately 39.9% in 9M2022 to approximately 42.9% in 9M2023 mainly because of the increase in revenue from the sale of our potted vegetable produce by approximately RMB32.7 million (or 36.9%) from 9M2022 to 9M2023, which overwhelmed the increase in our cost of sales by approximately RMB16.0 million (or 30.1%) during the same period. Moreover, due to the temporary suspension of business activities of our Laixi Facility and Dalian Facility during the lockdown period between March and April 2022, our revenue decreased significantly during the period, leading to a lower gross profit margin for 9M2022.

Net profit growth

Our profit for the period increased by approximately RMB3.5 million (or 8.1%) from approximately RMB43.8 million in FY2020 to approximately RMB47.3 million in FY2021, which mainly resulted from the increase in our revenue by approximately RMB33.5 million (or 27.6%) from FY2020 to FY2021 mainly attributable to the increase in our sales volume; effect of which was partially offset by (i) the increase in our [REDACTED] by approximately RMB[REDACTED] (or [REDACTED]%) and (ii) the decrease in our other income by approximately RMB3.4 million (or 73.4%) in the corresponding period.

Our profit for the period decreased by approximately RMB15.5 million (or 32.7%) from approximately RMB47.3 million in FY2021 to approximately RMB31.8 million in FY2022, which mainly resulted from (i) the decrease in our revenue by approximately RMB28.3 million (or 18.2%) from FY2021 to FY2022 mainly attributable to the decrease in our sales volume due to the temporary suspension of our Laixi Facility as a result of the resurgence of COVID-19 cases and the lockdown measures during March 2022 and April

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2022; and (ii) the decrease in our other income by approximately RMB0.3 million (or 27.4%) in the corresponding period. The series of lockdown measures in Dalian and various areas in Shandong province due to the COVID-19 epidemic in 2022 has temporary adverse impact on our business in FY2022.

We recorded a profit for the period of approximately RMB41.1 million in 9M2023, compared to a net profit of approximately RMB19.7 million recorded in 9M2022, which was primarily due to the increase in our revenue as a result of our increase in the volume of our actual cultivation output during the corresponding period as our business operation was no longer affected by COVID-19 epidemic in 9M2023. Our revenue and sales volume for 9M2022 was significantly lower due to the temporary suspension of our Laixi Facility and Dalian Facility as a result of the resurgence of COVID-19 cases and the lockdown measures during March 2022 and April 2022.

Net profit margin

Our net profit margin decreased from approximately 36.1% in FY2020 to approximately 30.5% in FY2021. Such decrease was primarily the result of (i) the increase in our [REDACTED] of approximately RMB[REDACTED] (or [REDACTED]%) and (ii) the decrease in our other income by approximately RMB3.4 million (or 73.4%); effect of which was partially offset by the increase in our revenue by approximately RMB33.5 million (or 27.6%) from FY2020 to FY2021 mainly attributable to the increase in our sales volume in the corresponding period.

Our net profit margin decreased from approximately 30.5% in FY2021 to approximately 25.1% in FY2022. Such decrease was primarily the result of the decrease in our revenue of approximately RMB28.3 million (or 18.2%) from FY2021 to FY2022 due to the temporary adverse impact of the COVID-19 epidemic which seriously affected our Laixi Facility and Dalian Facility and Shandong province market during FY2022.

We have a net profit margin of 33.9% in 9M2023, which is higher than the net profit margin of 25.1% in FY2022. Our net profit margin for FY2022 was particularly low primarily because of the decrease in our revenue of approximately RMB28.3 million (or 18.2%) from FY2021 to FY2022 due to the temporary adverse impact of the COVID-19 epidemic which seriously affected our Laixi Facility and Dalian Facility and Shandong province market during FY2022.

Please refer to the paragraph headed “Period to period comparison of our results of operations” in this section of the document for more details of our net profit margin.

Return on assets

Our return on assets decreased from approximately 17.6% in FY2020 to approximately 16.3% in FY2021. Such decrease was primarily due to the increase in our total assets mainly resulting from (i) the increase of our bank and cash balances by approximately RMB16.0 million (or 229.5%); and (ii) the increase of our trade receivables by approximately RMB15.5 million (or 49.7%) from FY2020 to FY2021.

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Our return on assets decreased from approximately 16.3% in FY2021 to approximately 9.6% in FY2022. Such decrease was primarily due to (i) the decrease in our net profit of approximately RMB15.5 million (or 32.8%); and (ii) the increase in our total assets mainly resulting from the increase of our bank and cash balances by approximately RMB48.1 million (or 209.5%) from FY2021 to FY2022.

Our return on assets for 9M2023 was approximately 11.1%, which was higher than our return on assets of approximately 9.6% for FY2022, primarily due to the increase in our net profit in 9M2023 despite the fact that our return on assets for 9M2023 was calculated based on the net profit recorded in 9M2023 as contrary to the full year net profit for the calculation of the return on assets for FY2022.

Return on equity

Our return on equity decreased from 20.7% in FY2020 to 18.3% in FY2021. Such decrease was primarily due to the increase in our total equity by approximately RMB47.3 million (or 22.4%) from FY2020 to FY2021.

Our return on equity decreased from approximately 18.3% in FY2021 to approximately 11.0% in FY2022. Such decrease was primarily due to (i) the decrease in our net profit of approximately RMB15.5 million (or 32.8%); and (ii) the increase in our total equity by approximately RMB31.8 million (or 12.3%) from FY2021 to FY2022.

Our return on equity for 9M2023 was approximately 12.4%, which was higher than our return on equity of approximately 11.0% for FY2022, primarily due to the increase in our net profit in 9M2023 despite the fact that our return on equity for 9M2023 was calculated based on the net profit recorded in 9M2023 as contrary to the full year net profit for the calculation of the return on equity for FY2022.

Current ratio

Our current ratio was approximately 1.5 times, 3.2 times, 3.8 times and 4.7 times as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. Our current ratio increased from approximately 1.5 times as at 31 December 2020 to approximately 3.2 times as at 31 December 2021 primarily because of (i) the increase in our trade receivables by approximately RMB15.5 million (or 49.7%); (ii) the increase in our bank and cash balances by approximately RMB16.0 million (or 229.5%); and (iii) the increase in our prepayments and other receivables by approximately RMB6.0 million (or 197.3%) in the corresponding period. Our current ratio increased further to approximately 3.8 times as at 31 December 2022 primarily because of the increase in our bank and cash balances by approximately RMB48.1 million (or 209.5%) in the corresponding period. Our current ratio increased further to approximately 4.7 times as at 30 September 2023, primarily because of the increase in our bank and cash balances by approximately RMB18.5 million (or 26.0%) in the corresponding period.

Quick ratio

Our quick ratio was approximately 1.5 times, 3.2 times, 3.7 times and 4.7 times as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. Our quick ratio increased from approximately 1.5 times as at 31 December 2020 to approximately 3.2 times as at 31 December 2021 primarily because of (i) the increase in our trade receivables by approximately RMB15.5 million (or 49.7%); (ii) the increase in our

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bank and cash balances by approximately RMB16.0 million (or 229.5%); and (iii) the increase in our prepayments and other receivables by approximately RMB6.0 million (or 197.3%) in the corresponding period. Our quick ratio increased further to approximately 3.7 times as at 31 December 2022 primarily because of the increase in our bank and cash balances by approximately RMB48.1 million (or 209.5%) in the corresponding period. Our quick ratio increased further to approximately 4.7 times as at 30 September 2023, primarily because of the increase in our bank and cash balances by approximately RMB18.5 million (or 26.0%) in the corresponding period.

Interest coverage ratio

Our interest coverage ratio was approximately 38.0 times, 53.7 times, 36.3 times and 63.1 times as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. Our interest coverage ratio increased from approximately 38.0 times as at 31 December 2020, to approximately 53.7 times as at 31 December 2021, which was primarily due to the decrease in our interest expenses by approximately RMB0.3 million (or 24.2%) in FY2021 compared to FY2020. Our interest coverage ratio decreased from approximately 53.7 times as at 31 December 2021, to approximately 36.3 times as at 31 December 2022, which was primarily due to the decrease of our profit before income tax and interest expenses by approximately RMB15.5 million (or 32.1%) in the corresponding period. Our interest coverage ratio then rebounded to approximately 63.1 times as at 30 September 2023 primarily due to the increase in our profit before income tax and interest expenses by approximately RMB21.4 million (or 104.9%) as compared to the profit before income tax and interest expenses for the 9M2022.

Net debt to equity ratio

Our net debt to equity ratio was approximately 6.5% as at 31 December 2020. Net debt to equity ratio is not applicable to our Group as at 31 December 2021, 31 December 2022 and 30 September 2023 as our Group recorded net cash as at 31 December 2021, 31 December 2022 and 30 September 2023.

Gearing ratio

Our gearing ratio was approximately 9.8%, 8.0%, 7.1% and 6.2% as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. Our gearing ratio decreased slightly from approximately 9.8% as at 31 December 2020 to approximately 8.0% as at 31 December 2021, which was primarily due to the increase in our total equity by approximately RMB47.3 million (or 22.4%) during the same period. Our gearing ratio decreased slightly to approximately 7.1% as at 31 December 2022, which was primarily due to the increase in our total equity by approximately RMB31.8 million (or 12.3%) during the same period. Our gearing ratio decreased slightly to approximately 6.2% as at 30 September 2023, which was primarily due to the increase in our total equity by approximately RMB41.1 million (or 14.2%) during the same period.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, save as disclosed in notes 37 and 38 to the Accountants' Report as set out in Appendix I to this document, we had not entered into any off-balance sheet transactions.

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QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

Our activities expose us to a variety of financial risks: foreign currency risk, credit risk, interest rate risk and liquidity risk. Our overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Details of the risk to which we are exposed are set out in note 6 to the Accountants’ Report as set out in Appendix I to this document.

Categories of financial instruments

	Our Group			
	At 31 December			At 30
	2020	2021	2022	September
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Financial assets:				
Financial assets at amortised cost	39,044	70,052	125,038	148,611
Financial liabilities:				
Financial liabilities at amortised cost	32,464	27,072	37,128	34,830

Fair value

The carrying amounts of the financial assets and financial liabilities of our Group and our Company at amortised cost as reflected in our consolidated statements of financial position approximate their respective fair values.

DIVIDEND POLICY

We may distribute dividends in the form of cash, shares or a combination of cash and shares. Our Board formulates our profit distribution plan based on our results of operations, cash flows, financial condition, future business prospects, statutory and regulatory restrictions on the payment of dividends and other factors that our Board deems relevant. All of our Shareholders have equal rights to dividends and other distributions proportionate to their shareholding.

During the Track Record Period, we did not declare or pay any dividends to our equity holders. As members of our Group did not declare or pay any dividend since its inception, the dividend declared represents the return to shareholders accumulated since the inception of the Group.

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Going forward, we will re-evaluate our dividend policy in light of our financial position and the prevailing economic climate. The determination to pay dividends will be based upon our earnings, cash flow, financial condition, capital requirements, statutory fund reserve requirements and any other conditions that our Directors deem relevant. The payment of dividends may also be limited by legal restrictions and by financing agreements that we may enter into in the future.

Our Company does not intend to adopt fixed dividend policy specifying a dividend payout ratio after [REDACTED]. The declaration, payment and amount of dividends will be subject to our discretion. There shall be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. Our historical dividends may not be indicative of the amount of our future dividends.

DISTRIBUTABLE RESERVES

As at 30 September 2023, the Company had no reserves available for distribution to our Shareholders. The Companies Act provides that share premium account of an exempted company incorporated in the Cayman Islands, such as our Company, may be applied in such manner as it may from time to time determine, subject to the provisions, if any, of its memorandum and articles of association, provided that no distribution or dividend may be paid to its members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, such company shall be able to pay its debts as they fall due in the ordinary course of business.

[REDACTED]

Our total estimated [REDACTED] primarily consist of our estimated [REDACTED] commissions for the [REDACTED] in addition to our professional fees paid in relation to the [REDACTED].

Assuming the [REDACTED] is not exercised and assuming an [REDACTED] of HK\$[REDACTED], being the mid-point of our indicative price range for the [REDACTED], our total [REDACTED] is estimated to be approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), representing approximately [REDACTED]% of the gross proceeds from the [REDACTED]. The [REDACTED] comprise (i) [REDACTED]-related expenses of approximately RMB[REDACTED] (equivalent to HK\$[REDACTED]); (ii) non-[REDACTED]-related expenses of RMB[REDACTED] (equivalent to HK\$[REDACTED]), including (a) fees and expenses of legal advisers and reporting accountants of approximately RMB[REDACTED] (equivalent to HK\$[REDACTED]); and (b) other non-[REDACTED]-related fees and expenses of approximately RMB[REDACTED] (equivalent to HK\$[REDACTED]). Our [REDACTED] of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) is directly attributable to the issue of the [REDACTED] in the [REDACTED] which was and is expected to be accounted for as a deduction from equity in accordance with relevant accounting standards. Our remaining [REDACTED] of RMB[REDACTED] (equivalent to HK\$[REDACTED]) were or are expected to be charged as expenses to our consolidated statements of profit or loss and other comprehensive income, of which approximately RMB[REDACTED] (equivalent to

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approximately HK\$[REDACTED]), approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]), approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) and approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) was charged for the period before Track Record Period, FY2020, FY2021, FY2022 and 9M2023 respectively, while the balance of approximately RMB[REDACTED] (equivalent to approximately HK\$[REDACTED]) is expected to be charged in the remaining months in the year ended 31 December 2023 and the year ending 31 December 2024. Our above total estimated [REDACTED] are the latest practicable estimates for reference only. The final amount to be recognised may differ from these estimates.

Our Directors consider that our financial results will be adversely affected by the expenses in relation to the [REDACTED] for the year ending 31 December 2023.

VALUATION OF BIOLOGICAL ASSETS

The independent valuers

We have engaged Savills, a firm of independent qualified professional valuers, to determine the fair value of our biological assets as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, respectively. The key members of Savills comprised Ms. Sofia Luo, Mr. Yue Xu and Mr. Tony Tung.

Ms. Sofia Luo, Senior Associate Director at Savills, is specialised in accounting compliance valuation, biological asset valuation and derivative and is currently responsible for the business valuation for initial public offering, financial reporting, merger and acquisition, and project finance. She has provided various business and biological asset valuation services to numerous listed and unlisted companies of different industries primarily resided in the PRC, such as China Tontine Wines Group Limited (a company listed on the Stock Exchange with stock code 0389), COFCO Meat Holdings Limited (a company listed on the Stock Exchange with stock code 1610) and PuraPharm Corporation Limited (a company listed on the Stock Exchange with stock code 1498), for financial reporting purpose.

Mr. Yue Xu, Associate Director at Savills, holds the Chartered Financial Analyst, Financial Risk Manager and Certified Management Accountants' designations. He is also a member of the Royal Institute of Chartered Surveyors. He has over 8 years' experiences in business valuation, including company valuation, merger consideration allocation, intangible assets, and valuation of financial instruments to various listed and unlisted companies in different industries in the PRC and Hong Kong, such as Tycoon Group Holdings Limited (a company listed on the Stock Exchange with stock code 3390) for transactional purpose, and PuraPharm Corporation Limited (a company listed on the Stock Exchange with stock code 1498) for financial reporting purpose.

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Mr. Tony Tung, Valuation Manager at Savills, is a member of the Hong Kong Institute of Certified Public Accountants and holds the Chartered Financial Analyst and the Financial Risk Manager designations. He has over 6-year experience in business and financial instrument valuation to numerous listed and unlisted companies of different industries in the PRC and Hong Kong and 10-year experience in auditing.

Based on market reputation and relevant background research, our Directors and the Sole Sponsor are satisfied that Savills is independent from us and is competent in conducting a valuation on our biological assets.

Valuation method

The market approach considers prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is an established market may be valued by this approach.

The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation or obsolescence present, whether arising from physical, functional or economic causes.

The Sole Sponsor held discussions with Savills in relation to the valuation procedures, valuation techniques and information required to prepare their valuation report. The Sole Sponsor further compared the valuation in technique chosen with those used in other similar transactions and market practice.

In the valuation by Savills, market and cost approaches are adopted to value our potted vegetable produce as at the valuation dates. In terms of the biological nature of our potted vegetable produce, the whole life cycle can be classified as growing period and mature period. We employed industrial cultivation method for our potted vegetable produce. The cultivation process of our potted vegetable produce until the point of sales takes approximately 22 to 31 days. Potted vegetable produce has longer growth cycles in colder seasons. The following table set forth the growing period and mature period of our potted vegetable produce (assuming that they are growing in optimal cultivation conditions) as at the valuation dates:

Valuation dates	Growing period	Mature period
31 December 2020, 31 December 2021 and 31 December 2022	1 day to 27 days	28 days or above
30 September 2023	1 day to 20 days	21 days or above

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During the first week of growing period, our potted vegetable produce typically does not yet sprout and does not have observable significant biological transformation above the organic substrate. Cost approach is adopted for these newly planted potted vegetable produce. The cost of direct raw materials, subcontracting labour cost, and other related expenses have been considered in the calculation of the fair values for our potted vegetable produce. After the first week of growing period but before reaching the mature period, the potted vegetable produce typically has observable significant biological transformation since planting with sprout and leaves visible above the organic substrate. Based on our historical record, more than 65% of our total cost have been incurred after the first week of growing period. Unit fair value of growing potted vegetable produce is estimated based on market price for mature potted vegetable produce less remaining cultivation cost and associated profit, adjusted for expected scrapage prior to reaching maturity. Market approach is adopted since observable biological transformation has taken place. During the mature period, the potted vegetable produce has reached the saleable state and market approach is adopted. The fair values of our biological assets as at the end of respective years are calculated to be the product of unit fair value and the quantity held, deducting the reasonable cost related to sales.

Key assumptions and inputs

The key assumptions and inputs include the classification of cultivation methods, scrap rate, market price of potted vegetable produce and cost. Savills also assumes that historical trend and data will be maintained and there will be no material change in the existing political, legal, technological, fiscal or economic condition which may adversely affect our business. Our Directors confirmed, and the Sole Sponsor concurred, that the components used by Savills in the valuation process are consistent with market factors and assumptions used in the measurement.

The key assumptions and inputs for determining the fair value of our biological assets include the following:

- accounting and operating records at our Company are accurate. Cost, quality and quantity of our biological assets are properly reflected in the information kept and provided by our Company;
- in accordance with HKFRS 13, potential blockage discount due to the volume of potted vegetable produce held by our Company is not considered as it is the characteristics of the holding rather than the characteristics of our biological assets;
- in the absence of a future or forward market of potted vegetable produce as confirmed by our Company, prevailing market prices for our mature potted vegetable produce based on transaction with Independent Third Parties at and near as at each valuation date is considered the best estimate of price receivable when our biological assets are sold upon maturity;

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- cost to be incurred in completing the planting cycle for our growing potted vegetable produce will not deviate significantly from that of our mature potted vegetable produce as at each valuation date respectively;
- our biological assets are properly planted by appropriate methods and are properly cultivated under appropriate environment such that they will grow in a normal condition and meet the relevant quality requirements;
- there will be no major changes in existing political, legal, technological, tax, fiscal or economic conditions in the country or district where the business is in operation;
- the long term inflation rate, interest rate and currency exchange rate will not differ materially from those then prevailing as at each valuation date;
- our Company will retain sufficient management and technical personnel to maintain our ongoing operations;
- there will be no major business disruptions through diseases, riots, international crisis, industrial disputes, industrial accidents or severe weather conditions, other than those prevailing as at the valuation dates, that will significantly affect our biological assets;
- our businesses are unaffected by any statutory notice and the operation of our business does not give, or will not give, rise to a contravention of any statutory requirements. All applicable laws and regulations were and will be complied with;
- our business is not and will not be subject to any unusual or onerous restrictions or encumbrances which may render our Company defaulted against our outstanding commitment or obligation; and
- any potential bad debt of our Company will not materially significantly affect value of our biological assets.

As the cultivation process of our potted vegetable produce until the point of sales takes approximately 22 to 31 days only (affected by seasonal factors and weather conditions), all our biological assets as at 31 December 2020, 31 December 2021, 31 December 2022 and 30

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September 2023 have been subsequently sold if applicable as at the date of the valuation report, thus, taking into account the information of the subsequent sales of our biological assets, our Directors consider that the above key assumptions and inputs are reasonable.

The representatives of Sole Sponsor and Savills conducted the physical inspection for the quality and quantity of our biological assets as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 without experiencing any limitation in material aspect. In particular, Savills has performed the following work with respect to the valuation of our biological assets:

- Savills conducted inspection of our cultivation facilities and physically counted the number of potted vegetable produce on various dates and compared with the same of the historical record, checked and cultivation status of our potted vegetable produce; took photos of our potted vegetable produce to observe their physical appearance;
- Savills obtained and reviewed that our Company has kept proper record of quantity of our biological assets; and
- Savills conducted market research to assess if the historical selling prices of the potted vegetable produce sold by us were in line with market transactions.

The valuation conducted by Savills is subject to the caveat that Savills relied substantially on the accuracy, completeness and reasonableness of the various assumptions and other data provided by us in preparation of the valuation report. There is no assurance that there will be no significant deviation in the future. Please refer to the paragraph headed “Risk Factors — Risks relating to our business — Our results of operations are subject to changes in fair value of biological assets, which are subject to a few assumptions. Any increase in the selling prices of our biological assets will increase both our sales revenue and changes in fair value of biological assets, and vice versa” in this document.

The Sole Sponsor discussed with Savills in relation to the valuation bases and assumptions and understands that Savills has conducted the biological asset valuation in accordance with Hong Kong Accounting Standard 41 — Agriculture, issued by the Hong Kong Institute of Certified Public Accountants. The key assumptions, as detailed above, are made based on the historical actual operation performance of our Company and market data. Savills has obtained and discussed with us and our Reporting Accountants regarding the historical actual operation data from us, and considered and reviewed whether they are appropriate and reasonable to be used in the valuation. Our Directors confirm that the assumptions adopted are consistent with industry practice and in line with the actual figures during the Track Record Period.

Further, our Reporting Accountants have performed the procedures in accordance with the Hong Kong Standards on Auditing. Our Reporting Accountants have made inquiries regarding the source data used and procedures undertaken by Savills in the valuations and obtained an understanding on the assumptions and methods used. Based on the procedures undertaken, our Reporting Accountants are satisfied that the valuation technique chosen and the source data used in the valuation are appropriate and reasonable.

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The Sole Sponsor has held discussions with Savills in relation to the valuation methodology and assumptions adopted, the valuation techniques and the inputs used in the valuation by Savills to understand their valuation process and reviewed the qualification and relevant valuation experience of Savills and its professional valuers. The Sole Sponsor has further compared the valuation technique chosen, bases and assumptions of the valuation with those used in other similar transactions and market practice. In addition, the Sole Sponsor has discussed with our Reporting Accountants regarding the valuation of biological assets by Savills and noted that our Reporting Accountants had performed procedures in accordance with the relevant auditing standards. Given the above, the Sole Sponsor is satisfied that the valuation methodology and major inputs used in the valuation of the biological assets of our Company are appropriate and reasonable.

Sensitivity analysis

The following tables illustrate the sensitivity of the fair value of our biological assets that would arise if the weighted average market price of potted vegetable produce had changed during the periods indicated, assuming all other variables remained constant. The fair value of our biological assets increases when the market price increases, and decreases when the market price decreases.

Market price of our potted vegetable produce was maintained at approximately RMB15 per pot to RMB16 per pot during the Track Record Period.

Change in market price	–30%	–15%	15%	30%
	<u>(Decrease)/Increase in fair value</u>			
	<i>(RMB'000)</i>			
For the year ended 31 December 2020	(2,477)	(1,239)	1,239	2,477
For the year ended 31 December 2021	(2,537)	(1,268)	1,268	2,537
For the year ended 31 December 2022	(2,018)	(1,009)	1,009	2,018
For the nine months ended 30 September 2023	(2,345)	(1,172)	1,172	2,345

Stock-take and internal control

Stock-take

We perform a full stock-take of our potted vegetable produce every month at our cultivation facilities to ensure the physical existence and monitor the physical condition of our biological assets. For each full stock-take, we prepare a detailed stock-take plan with instructions. The team of a full stock-take includes four members, normally staff from our finance staff and staff member of our cultivation facilities. The result of each full stock-take is documented on a stock count sheet which is signed by all members and the responsible person of each cultivation facility who participated in the stock-take. The stock count sheet will be submitted to and kept by our finance staff. Any variance between the results of the stock-take and the inventory record shall be reported to our management. The results of the stock-take will be recorded after the approval of our management. If the variance between

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the results of the full stock-take and the inventory record exceed ten pots for each greenhouse, a new full stock-take needs to be performed. During the Track Record Period, there was no material damage or death of our biological assets.

Internal control and management system

We have maintained a comprehensive policy for biological asset management. Our biological asset management policy covers, among others, purchase and inspection of raw materials, monitoring the cultivation process, accounting records, record keeping and stock-take. To facilitate the implementation of our biological asset management policy, we plan to employ an electronic information management system developed by a third-party developer to keep comprehensive record of our biological assets.

UNAUDITED [REDACTED] STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details of our unaudited [REDACTED] statement of adjusted consolidated net tangible assets, please refer to the section headed “Unaudited [REDACTED] Financial Information” as set out in Appendix II to this document.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this document, there has been no material adverse change in our financial and trading position since 30 September 2023 and there has been no event since 30 September 2023 which would materially affect the information shown in the Accountants’ Report as set out in Appendix I to this document.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, our Directors confirmed that there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

The value of our property interests as of 31 December 2023 as valued by BMI Appraisals Limited, an independent property valuer, was RMB121 million. There was a net revaluation deficit, representing the deficiency in market value of the properties below their net book value as of 31 December 2023. We considered that there is no impairment on these properties as the value in use of these properties are higher than the carrying amount as of 31 December 2023. Management of the Company considered there is no impairment indicator on these properties as these properties are profit generating. Further details of our property interests and the text of the letter and valuation certificates of these property interests prepared by BMI Appraisals Limited are set out in Appendix IV to this document.

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Disclosure of the reconciliation of the valuation of the interests in properties attributable to us as of 31 December 2023 and such property interests in our consolidated statements of financial position as of 30 September 2023 as required under Rule 5.07 of the Listing Rules is set forth below:

	<i>RMB'000</i>
Net book value of following properties as at 30 September 2023:	
Properties in property, plant and equipment	156,999
Properties in investment properties	17,966
Properties in right-of-use assets	<u>20,835</u>
	<u>195,800</u>
Less: Depreciation on properties in property, plant and equipment for the period from 1 October 2023 to 31 December 2023	(2,036)
Less: Depreciation on properties in investment properties for the period from 1 October 2023 to 31 December 2023	(243)
Less: Depreciation on properties in right-of-use assets for the period from 1 October 2023 to 31 December 2023	(150)
Add: Additions on properties in property, plant and equipment for period from 1 October 2023 to 31 December 2023	<u>5,000</u>
Net book value of properties as at 31 December 2023:	198,371
Valuation deficit	<u>(77,371)</u>
Valuation as at 31 December 2023	<u><u>121,000</u></u>