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Shenzhen Pagoda Industrial (Group) Corporation Limited

深圳百果园实业(集团)股份有限公司

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

(Stock Code: 2411)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED DECEMBER 31, 2023

FINANCIAL HIGHLIGHTS

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

	Year Ended December 31,		Year-over-year Change %
	2023	2022	
	RMB'000	RMB'000	
Revenue ^{(1) (2)}	11,390,555	11,311,995	0.7
Gross profit	1,314,829	1,314,286	0.0
Profit before income tax	381,033	346,362	10.0
Profit is attributable to owners of the Company	361,717	323,297	11.9
Basic and diluted earnings (RMB cents per share)	22.97	21.55	6.6

(1) The majority of the Group's revenue was derived from sales of fruits and other food products. For the years ended December 31, 2022 and 2023, revenue from sales of fruits and other food products amounted to RMB10,981.8 million and RMB11,073.1 million, respectively, accounting for approximately 97.1% and 97.2% of the Group's total revenue for the years ended December 31, 2022 and 2023, respectively. The remaining revenue was derived from royalty and franchising income, membership income and others.

(2) The Group mainly distributes its products through offline store network, comprising franchised stores supervised by itself, franchised stores supervised by its regional dealers, and a limited numbers of self-operated stores. For the years ended December 31, 2022 and 2023, aggregate revenue from sales of fruits and other food products contributed by franchised stores amounted to RMB8,851.5 million and RMB8,499.8 million, respectively, accounting for approximately 78.25% and 74.62% of the Group's total revenue for the years ended December 31, 2022 and 2023, respectively.

OPERATIONAL HIGHLIGHTS

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

	As of December 31,	
	2023	2022
Franchised stores		
Franchised stores supervised by the Group	4,818	4,577
Others	1,263	1,054
Sub-total	6,081	5,631
Self-operated stores	12	19
Total	6,093	5,650

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

	As of/Year Ended December 31,	
	2023	2022
Gross retail sales (RMB'000)⁽¹⁾	14,171,330	14,580,673
Overseas direct sales (RMB'000)⁽²⁾	250,029	154,373
Number of members ('000)	83,905	74,029
Number of paying members ('000)	1,171	967
Number of self-owned product brands	37	31

- (1) Gross retail sales for the relevant years represent the aggregate of (i) gross store retail sales, which represent total sales amount of retail stores after discounts or rebates, and (ii) gross online retail sales, which represent total value of goods sold via all online distribution channels of the Group. While being an useful performance indicator, gross retail sales are not equivalent to the Group's revenue for the relevant years.
- (2) Overseas direct sales for the relevant years represent the total sales amount to overseas 2B customers which are directly counted for as the Group's revenue for the relevant years.

PROPOSED FINAL DIVIDEND

The Board has recommended a final dividend for the year ended December 31, 2023 of RMB0.043 per ordinary share (tax inclusive) to all Shareholders, amounting to approximately a total of RMB68,307,000 for the same year.

The board (the “**Board**”) of directors (the “**Directors**”) of Shenzhen Pagoda Industrial (Group) Corporation Limited (the “**Company**”) is pleased to announce the consolidated annual results (the “**Annual Results**”) of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended December 31, 2023. The Annual Results were prepared based on the consolidated financial statements of the Group, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRS**”), which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (the “**HKASs**”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). In addition, the Annual Results have also been reviewed by the audit committee of the Board (the “**Audit Committee**”).

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

PERFORMANCE REVIEW

Market Overview

In 2023, the economy in China continued to rebound and improve, and recorded a GDP growth of 5.2%. In addition, in 2023, the total retail sales of consumer goods in China amounted to RMB47,149.5 billion, representing a year-on-year growth of approximately 7.2%.

In China, consumers' demand for fruit quality and variety continued to increase in 2023. According to the Ministry of Agriculture and Rural Development, China's total fruit imports reached US\$18,340 million in 2023, representing a year-on-year increase of approximately 16.3% as compared to the year of 2022. Among fruit imported from overseas in 2023, fresh durian witnessed a notable growth during the year, with total amount of imports valued at US\$6,720 million, indicating a year-on-year growth of approximately 66.0% as compared to the year of 2022. The Group's strong commitment to quality, product innovation, and customer experience well resonates with the growing appetite of consumers for refined services, and unique and seasonal fruit offerings.

Company Performance Review

The Group's revenue increased by approximately 0.7% from RMB11,312.0 million for the year ended December 31, 2022 to RMB11,390.6 million for the year ended December 31, 2023. The Group's gross profit slightly increased by approximately 0.04% from RMB1,314.3 million for the year ended December 31, 2022 to RMB1,314.8 million for the year ended December 31, 2023. The Group's profit attributable to owners of the Company increased by approximately 11.9% from RMB323.3 million for the year ended December 31, 2022 to RMB361.7 million for the year ended December 31, 2023.

In 2023, the Group strategically optimized its organizational structure of business operations by restructuring its organizational divisions into three business units, namely, retail business unit (零售事業群), 2B business unit (2B事業群), and category business unit (品類事業群), to better align with the Group's long-term growth goal. This restructuring allows the Group to sharpen focus on core business, enhance business efficiency and explore new revenue streams such as further acquisition of Shenzhen Banguo Technology Co., Ltd.* (深圳般果科技有限公司) (“**Shenzhen Banguo**”), a platform enterprise that provides procurement platform services to 2B business enterprises.

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

Company Business Highlights

Retail Business Unit – Continued Development of the Group’s Retail Business

Offline Store Network Development

In 2023, the Group continued to expand its retail store network nationwide by increasing the store density in higher tier cities and further broadening its reach in lower-tier cities. As of December 31, 2023, the Group recorded a net increase of 443 retail stores as compared to December 31, 2022. And as of December 31, 2023, the Group’s offline store network had a total of 6,093 stores located in over 170 cities covering 22 provinces and municipalities in China.

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

	As of December 31,			
	2023		2022	
		%		%
Franchised stores				
Franchised stores supervised by the Group	4,818	79.1	4,577	81.0
Others	1,263	20.7	1,054	18.7
Sub-total	6,081	99.8	5,631	99.7
Self-operated stores	12	0.2	19	0.3
Total	6,093	100.0	5,650	100.0

As of December 31, 2023, the total number of the Group’s retail stores increased by approximately 7.8% as compared to December 31, 2022, mainly due to the Group’s continuous endeavours to implement its strategy to continue to expand and develop its retail store network, as well as the continuous opening of additional retail stores by existing franchisees and store employees who are confident in the fruit retail industry, the Group’s brand and the Group’s franchised store operational business model.

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

	Year Ended December 31,			
	2023		2022	
	RMB’000	%	RMB’000	%
Franchised stores				
Franchised stores supervised by the Group	8,495,143	99.4	8,849,917	99.3
Others	4,646	0.0	1,544	0.0
Sub-total	8,499,789	99.4	8,851,461	99.3
Self-operated stores	47,833	0.6	61,062	0.7
Total	8,547,622	100.0	8,912,523	100.0

Franchised stores currently consist of the majority of the Group’s offline store network. The Group’s franchised stores are operated under the Group’s standardized management mechanism. The Group provides its franchisees with strong brand, supply chain and operational support, including ongoing comprehensive franchisee training for store management and operation, as well as in-time guidance by designated regional supervisory managers. In addition, the Group provides franchised stores with chain-wide information technology systems, including a smart ordering system that matches stores with personalized product mix and pricing, and a territory-wide membership marketing system that is designed to improve franchisee’s operational capabilities. In 2023, in order to maximize the efficiency of the Group’s franchise business model and further enhance the franchisees’ satisfaction, the Group set up a franchisee committee (加盟商委員會) and organized six franchisee committee exchange and learning activities. The Group, on one hand, strived to build up an excellent franchise model to incentivise franchisees with more than one franchised store and/or with improved probability; on the other hand, the Group organized a dedicated mentor team to provide guidance and assistance to retail stores with poor performance. As a more recent initiative of the Group, since late 2023, the Group has also been working with the franchisees to update the signboards, price labels and in-store promotional materials to further strengthen the influence of the Group’s brand.

Online-merge-offline (“OMO”) Model

In pursuit to make “Pagoda” a go-to-brand for consumers purchasing fruits, in 2023, the Group continued to expand its online and offline channels to boost market reach and customer loyalty. The Group believes that a community-based store model with OMO and store-as-warehouse features is the best suit for fruit consumption given its inherent unpredictability and high-frequency purchase patterns. The Group’s extensive offline retail network allows for rapid customer outreach and efficient collection of user feedback. The Group’s diverse online channels, including mobile APPs, Douyin (抖音), WeChat mini-program (微信小程序), and third party food delivery platforms such as Meituan (美团), and Ele.me (餓了麼), offer convenient options for in-store pickup or home delivery, further driving user penetration. In addition, the Group’s community WeChat group chats help better interact with its customers, retain the loyal users and promote cross selling, thereby boosting their transaction frequency.

As of December 31, 2023, the Group had accumulated over 83 million members across all distribution channels with over 1,170 thousand paying members, and the cumulative number of users of the WeChat mini-program reached 68 million, representing an increase of approximately 26% as compared to the year of 2022.

In 2023, the proportion of the Group's orders placed through various online channels remained approximately 27.6% out of the total orders of the Group. Furthermore, the Group continued to provide guidance to its store managers to establish store-based WeChat groups, pushing interesting and interactive product promotions and membership activities, and interacting and communicating with WeChat community followers in real time. As of December 31, 2023, the total number of store-based WeChat groups established by the Group's store managers increased to approximately 27,455 with an aggregate of over 16.2 million WeChat community followers, representing a year-on-year increase of approximately 25.6% as compared to the year of 2022.

Meanwhile, in order to meet consumers' demand for multi-scene and multi-channel consumption, the Group is also actively exploring the content e-commerce segment by launching its online business and brand promotion on multiple platforms such as Douyin, RED, Tmall and JD.com. Through the Tasty Fruit Festival (好吃水果節) held in October 2023, contents released by the Group on the internet attracted over 120 million displays, and has been featured on the list of national trending topics on Weibo. In addition, in 2023, the total number of customers who placed orders to purchase the Group's fruits and fruit products through the Douyin increased by 190% as compared to the year of 2022, and the total retail sales amount of the Group's fruits and fruit products through Douyin ranked first among all fruits and fruit products traded through Douyin.

2B Business Unit – Further Expansion of the Group’s 2B Business

In November 2023, the Group completed a further equity acquisition of Shenzhen Banguo, as a result of which, the Group indirectly held a total of 51% equity interest in Shenzhen Banguo and realizing the control over Shenzhen Banguo. Shenzhen Banguo is a platform enterprise that provides procurement platform to small business enterprises such as regional fruit stores and mom-and-pop stores through city warehouses with the main warehouse as the distribution center. Shenzhen Banguo is a supply chain solutions provider for small business enterprises, and it focuses on solving difficulties and challenges in the fresh retail industry, such as difficulty in procurement and high procurement cost for small end-customers, and high circulation cost, low timeliness and client fragmentation for the upstream suppliers. In 2023, the gross merchandise value (GMV) of Shenzhen Banguo amounted to RMB3,068 million. The Group believes in the substantial potential in catering to the needs of small business enterprises in China for an integrated procurement platform, which enhances liquidity and fosters a more streamlined and cost-effective fruit supply chain. The Group expects to generate more synergies with Shenzhen Banguo, further enhancing its supply chain effectiveness and expanding its market share in the 2B sector.

With a focus on distinctive category, the Group’s 2B business unit continued to leverage the Group’s robust supply chain to broaden the customer base and enhance the market reach in both domestic and overseas markets. The Group’s revenue from direct sales of fruits and other food products increased by approximately 42.5% from RMB723.8 million for the year ended December 31, 2022 to RMB1,031.5 million for the year ended December 31, 2023, of which the direct sales of fruits in overseas market increased by approximately 62.0% as compared to the year of 2022.

Category Business Unit – Continued Development and Diversification of Brand Portfolio and Product Offerings

Apart from the Group’s channel brands, the Group’s category brands embody the Group’s long-term vision to evolve into a world-leading argo-ecological technology platform company. These brands are designed not only to empower the Group’s retail and 2B business, but also to pave the way for its future expansion across all channels. The Group’s category business unit is dedicated to develop the Group’s category brands by providing key suppliers with capital, agricultural technology, and management expertise.

The Group has established a comprehensive and systematic written flavor-oriented 4-grade fruit quality classification system for fruit products where fruits are rated and labeled under four categories, namely Excellent (招牌), Grade A, B and C, with different prices catering to different consumers. Amongst, products under the Excellent and Grade A categories were well accepted by consumers and whose retail prices were generally higher than those of Grade B fruits of the same type. Aggregate sales of fruits under Excellent and Grade A categories accounted for approximately 66.5% of the total store retail sales of Pagoda stores for the year ended December 31, 2023.

In 2023, the Group continued to develop its own brands as Excellent fruits and has introduced a total of six new product brands which are Excellent fruits to the market. As such, as of December 31, 2023, the Group had successfully introduced to the market a total of 37 self-owned product brands which are Excellent fruits, and the aggregate retail sales of all self-branded fruits accounted for approximately 14.0% of total store retail sales of Pagoda stores in 2023.

In addition, the Group has been actively diversifying its fruit offerings and introducing new products to the market in 2023, such as Red Guoseng (紅果參), Fruit Corn (水果玉米), Purple Jade Carrot (紫玉胡蘿蔔), Passion Fruit (苳食百香果) and Golden Venus Apple (黃金維納斯蘋果); amongst, the total sales amount of Fruit Corn (水果玉米) increased by approximately 3,076% and the total sales amount of Golden Venus Apple (黃金維納斯蘋果) increased by approximately 515% in 2023, as compared to the year of 2022. By assigning specialized general managers to oversee each product category (i.e., category managers), the Group is able to ensure that each brand is provided with the targeted focus and resources necessary for achieving superior market performance and fostering innovation. As of December 31, 2023, the Group had eight category managers for eight brands, including Red Guoseng (紅果參) and Purple Jade Carrot (紫玉胡蘿蔔).

Other Business Updates

Smart Warehousing and Supply Chain Management

As of December 31, 2023, the Group had 29 warehouses across China which also functioned as local preliminary processing and distribution centers which were located in 29 cities with an aggregate floor area of more than 207 thousand sq.m. Out of the 29 preliminary processing and distribution centers, 16 centers were operated by the Group, and the remaining 13 centers were operated by the Group's regional dealers by strictly following the Group's quality requirements.

In terms of warehousing, in 2023, the Group continued to upgrade its digitalized intelligent warehousing and logistics system through further improving warehousing automation and optimizing warehousing designs to effectively minimize common warehousing and logistics mistakes, including picking error, inaccurate quantity, or mistaken delivery. Further, the Group launched a new version of transportation management system or TMS in the second quarter of 2023. The upgraded TMS is able to generate more accurate information and data, which in turn allows the Group to further optimize its pricing strategy on transportation, further improving cost efficiency. In 2023, the Group's transportation costs decreased by approximately 4.7% as compared to the year of 2022.

In 2023, the Group has further strengthened its supply chain capability by actively promoting the establishment of local warehouses at the origin of relevant fruits. This initiative stems from its belief that the foundation of high-quality fruits lies in their origin-based quality cultivation. Consequently, the Group has maintained its comprehensive approach to support upstream suppliers through product selection, soil enhancement, agricultural management, and post-harvest care. By engaging directly from the cultivation phase, the Group aims to elevate both the quality and quantity of its products, secure its supply sources, and develop a high-standard supply chain ecosystem. The purchase amount from suppliers to whom the Group provided agricultural technology and related services out of the total fruit purchases increased from approximately 35.0% as of December 31, 2022 to approximately 41.0% as of December 31, 2023. Moreover, as of December 31, 2023, the Group partnered with 16 local suppliers and completed the construction of 16 warehouses, relating to 10 types of fruits, covering 11 provinces and cities across China.

2024 BUSINESS OUTLOOK AND GROUP STRATEGIES

Looking into 2024, the Group faces challenges from a tepid recovery pace of the economy and low inflation in China. Nevertheless, the Group remains optimistic on a back-loaded macroeconomic recovery, backed by further government policy support and growing consumer spending power. The Group is confident that it will be able to navigate through hard times. In 2024, the Group believes that pivoting towards a high-quality growth strategy will further strengthen its core competitiveness, deliver greater value to its core customers, and capture new market opportunities. With regards to the Group's retail business, the Group aims to increase customer engagement by providing more distinctive products, premium services, and an enhanced shopping experience. Moreover, the Group's 2B business segment, representing an additional avenue for growth, will sustain its momentum and achieve a higher market share through new channel expansion. As a leader in the fruit retail industry, the Group is on the mission to lead high-quality development trajectory by offering more superior, stable and cost-effective fruits and fruit products. In 2024, the Group will continue to implement its development strategies and further promote and implement the following:

- **Continue to improve profitability of retail stores and further expand OMO distribution network**

The Group will comprehensively enhance its brand awareness and reputation through refreshing strategies, increasing the proportion of sales of Excellent fruits and creating fruit gift boxes, thereby further improving the profitability of its retail stores. Specifically, the Group will (1) continue to upgrade the store image and engage celebrity for endorsement to enhance the influence of Pagoda brand; (2) continue to promote seasonal Excellent fruits throughout the year, and endeavour to offer more new types of products to lead the market trend; and (3) develop high-quality fruit gift boxes to seize the gift-giving market and boost the Group's overall sales amount. Meanwhile, the Group will continue to expand the breadth and depth of its distribution network through continued penetration into low-tier cities, further expansion of stores in existing cities.

- **Actively and comprehensively develop the 2B distribution channels**

In addition, the Group will continue to strengthen its 2B business through further deepening its cooperation with its existing 2B customers, such as developing new fruit gift boxes to meet the customized needs of 2B customers for welfare gifts; exploring omni-channel 2B customers to further expand the 2B customer base; meanwhile strengthening product development capabilities and enhancing the competitiveness of its products through its exclusive rights to distribute domestically produced and imported fruits. In addition, the Group will firmly implement its strategy of “Buy Globally, Sell Globally” to promote its high-quality fruits from various production areas to be circulated and traded globally, so that people all over the world can enjoy high-quality fruits. Lastly, the Group will further increase its market share in fruit markets in lower-tier cities through Shenzhen Banguo and strive to maintain the steady growth of Shenzhen Banguo.

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

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

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

The Group plans to continue to invest in IT research and development and upgrade, and through the technological empowerment of all links of the industry chain, to promote the digitalization of its business and improve the operational efficiency and synergy of the entire industry chain. In particular, the Group intends to deepen the digital transformation by establishing dynamic, efficient, and result-driven IT systems to maximize performance outcomes and corporate values. To this end, the Group plans to leverage artificial intelligence, deep learning and other advanced technologies to improve the data processing, analysis and management capabilities, so as to optimize algorithms and improve the synergies among intra-group IT systems and infrastructure. The Group also expects its IT systems, upon the digital transformation, could accommodate and benefit external industry players in its ecosystem in the fruit industry.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table sets forth the Group's consolidated financial results for the year ended December 31, 2023 with comparative figures for the year ended December 31, 2022.

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	11,390,555	11,311,995
Cost of sales	(10,075,726)	(9,997,709)
Gross profit	1,314,829	1,314,286
Other income	36,828	40,826
Other gains, net	29,613	25,382
Selling expenses	(481,988)	(498,759)
Administrative expenses	(313,534)	(321,579)
Net provision of impairment loss on financial assets	(23,548)	(2,178)
Research and development expenses	(145,588)	(172,980)
Operating profit	416,612	384,998
Finance income	40,901	31,771
Finance costs	(75,803)	(83,739)
Finance costs, net	(34,902)	(51,968)
Share of (losses)/profits of associates and joint venture, net	(677)	13,332
Profit before income tax	381,033	346,362
Income tax expense	(41,041)	(40,225)
Profit for the year	<u>339,992</u>	<u>306,137</u>
Profit is attributable to:		
Owners of the Company	361,717	323,297
Non-controlling interests	(21,725)	(17,160)
	<u>339,992</u>	<u>306,137</u>

Revenue

The following table sets forth the Group's revenue by operating segments, each expressed in the absolute amount and as a percentage of total revenue, for the years ended December 31, 2022 and 2023, respectively.

	Year Ended December 31,			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Sales of fruits and other food products	11,073,137	97.2	10,981,764	97.1
Royalty and franchising income	144,582	1.3	168,844	1.5
Membership income	95,345	0.8	90,132	0.8
Others	77,491	0.7	71,255	0.6
Total	11,390,555	100.0	11,311,995	100.0

The Group's total revenue increased by approximately 0.7% from RMB11,312.0 million for the year ended December 31, 2022 to RMB11,390.6 million for the year ended December 31, 2023. Revenue generated from sales of fruits and other food products represented the majority portion of the Group's total revenue, representing approximately 97.1% and 97.2% of total revenue in 2022 and 2023, respectively.

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

The following table sets forth a breakdown of the Group's revenue from sales of fruits and other food products by distribution channels, each expressed in the absolute amount and as a percentage of revenue from sales of fruits and other food products, for the years ended December 31, 2022 and 2023, respectively.

	Year Ended December 31,			
	2023		2022	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Franchised stores	8,499,789	76.8	8,851,461	80.6
Self-operated stores	47,833	0.4	61,062	0.6
Regional dealers	1,238,641	11.2	1,072,740	9.7
Direct sales	1,031,514	9.3	723,782	6.6
Online channels	255,360	2.3	272,719	2.5
Total	11,073,137	100.0	10,981,764	100.0

The increase in revenue from sales of fruits and other food products was primarily due to increase in revenue of sales derived from 2B business (i.e., direct sales) by approximately 42.5% from RMB723.8 million for the year ended December 31, 2022 to RMB1,031.5 million for the year ended December 31, 2023, net with the decrease in revenue of sales derived from franchised stores by approximately 4.0% from RMB8,851.5 million for the year ended December 31, 2022 to RMB8,499.8 million for the year ended December 31, 2023.

The increase in revenue from direct sales was primarily due to the Group's business growth in both overseas and domestic markets. The Group's total sales amount derived from exporting fruits and fruit products to 2B customers in overseas market increased by approximately 62.0% from RMB154.4 million for the year ended December 31, 2022 to RMB250.0 million for the year ended December 31, 2023 due to increase in demand of quality fruits in overseas markets. The Group's total sales amount derived from 2B customers in domestic market increased by approximately 37.2% from RMB569.4 million for the year ended December 31, 2022 to RMB781.5 million for the year ended December 31, 2023 due to the continuous implementation of the Group's favorable pricing strategy since 2022 in order to expand the Group's 2B business customer base.

The decrease in revenue from franchised stores was primarily due to net impact of (i) net increase in number of franchised stores supervised by the Group by approximately 5.3% from 4,577 stores as of December 31, 2022 to 4,818 stores as of December 31, 2023, and (ii) decrease in average annual revenue per franchised store supervised by the Group by approximately 9.8% from RMB2.0 million for the year ended December 31, 2022 to RMB1.8 million for the year ended December 31, 2023, which was due to full resumption to normal operations of economy and society in China that people travel more during holidays, especially in summer holiday, resulting in decrease of in-flow of customers in small community-based stores.

Cost of Sales

Cost of sales increased by approximately 0.8% from RMB9,997.7 million for the year ended December 31, 2022 to RMB10,075.7 million for the year ended December 31, 2023, mainly due to the increase in cost of inventories sold. Cost of inventories sold represented the majority portion of the Group's cost of sales, accounting for approximately 95.2% and 95.4% of the Group's total cost of sales for the years ended December 31, 2022 and 2023, respectively. The increase in cost of inventories sold was in line with the fluctuation in revenue from sales of fruits and other food products.

Gross Profit and Gross Profit Margin

As a result of the foregoing, the Group's gross profit slightly increased by approximately 0.04% from RMB1,314.3 million for the year ended December 31, 2022 to RMB1,314.8 million for the year ended December 31, 2023. The Group's gross profit margin slightly decreased from 11.6% for the year ended December 31, 2022 to 11.5% for the year ended December 31, 2023.

Other Income

The Group's other income decreased by approximately 9.8% from RMB40.8 million for the year ended December 31, 2022 to RMB36.8 million for the year ended December 31, 2023. The decrease was primarily due to a decrease of RMB1.9 million in government grants, mainly in connection with subsidies in connection with finance costs arising from banks borrowings, and a decrease of RMB1.3 million in penalty income from franchisees which represented various occasional penalty payments the Group collected from franchisees pursuant to the relevant franchise arrangements.

Other Gains, Net

The Group's other gains, net increased by approximately 16.7% from RMB25.4 million for the year ended December 31, 2022 to RMB29.6 million for the year ended December 31, 2023. The increase was primarily due to appreciation of foreign currencies which led to exchange gains, net derived mainly from overseas direct sales in the amount of RMB9.3 million recognized in 2023, while in 2022, exchange gains, net was RMB2.9 million.

Selling Expenses

The Group's selling expenses decreased by approximately 3.4% from RMB498.8 million for the year ended December 31, 2022 to RMB482.0 million for the year ended December 31, 2023. The decrease was primarily due to (i) decrease of transportation costs of RMB10.0 million, representing a decrease of approximately 4.7% from RMB214.6 million for the year ended December 31, 2022 to RMB204.6 million for the year ended December 31, 2023 which was attributable to the Group's upgraded TMS that allows the Group to further optimize its pricing strategy on transportation, and (ii) decrease in headcounts of the Group's sales and marketing staff from 1,452 as of December 31, 2022 to 1,224 as of December 31, 2023.

Administrative Expenses

The Group's administrative expenses decreased by approximately 2.5% from RMB321.6 million for the year ended December 31, 2022 to RMB313.5 million for the year ended December 31, 2023. The decrease was primarily due to decrease in headcounts of the Group's administrative staff from 538 as of December 31, 2022 to 525 as of December 31, 2023.

Net Provision of Impairment Loss on Financial Assets

Net impairment losses on financial assets in 2022 and 2023 mainly represented a general expected credit loss on trade and other receivables. Net provision of impairment losses on financial assets increased from RMB2.2 million for the year ended December 31, 2022 to RMB23.5 million for the year ended December 31, 2023 due to increase in trade receivables aged over 1 year which mainly attributable to default, insolvency or bankruptcy of a few 2B business customers and the Group has submitted claims against those debtors.

Research and Development Expenses

The Group's research and development expenses decreased by approximately 15.8% from RMB173.0 million for the year ended December 31, 2022 to RMB145.6 million for the year ended December 31, 2023. The decrease was primarily due to decrease in headcounts of the Group's research and development staff from 491 as of December 31, 2022 to 361 as of December 31, 2023.

Finance Cost, Net

Finance income increased by approximately 28.7% from RMB31.8 million for the year ended December 31, 2022 to RMB40.9 million for the year ended December 31, 2023, which was mainly attributable to increase in interest income arising from bank deposits.

Finance costs decreased by approximately 9.5% from RMB83.7 million for the year ended December 31, 2022 to RMB75.8 million for the year ended December 31, 2023, which was mainly attributable to decrease in interest expense in connection with the Group's bank borrowings and lease liabilities.

Share of (Losses)/Profits of Associates and Joint Venture, Net

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

For the year ended December 31, 2023, the Group recorded share of losses of associates and joint venture, net of RMB0.7 million, while the Group recorded share of profits of associates and joint ventures, net of RMB13.3 million for the year ended December 31, 2022. The decrease was mainly attributable to loss-making of some associates involved in cultivating avocado and pitaya.

Profit Before Income Tax

As a result of the foregoing, the Group recorded profit before income tax of RMB381.0 million for the year ended December 31, 2023, increased by approximately 10.0% from RMB346.4 million for the year ended December 31, 2022.

Income Tax Expense

Income tax expense increased by approximately 2.0% from RMB40.2 million for the year ended December 31, 2022 to RMB41.0 million for the year ended December 31, 2023, primarily due to the increase in the Group's taxable income. The difference in magnitude of the increment in the Group's profit before income tax and its taxable income in 2023 was primarily because some of the Group's subsidiaries enjoyed preferential tax treatments and tax exemptions during the year ended December 31, 2023.

Profit for the Year

As a result of the foregoing, the Group's net profit increased by approximately 11.1% from RMB306.1 million for the year ended December 31, 2022 to RMB340.0 million for the year ended December 31, 2023. The Group's net profit margin increased from approximately 2.71% for the year ended December 31, 2022 to approximately 2.98% for the year ended December 31, 2023.

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

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

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

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

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

	Year ended December 31,	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year (as reported under HKFRS)	339,992	306,137
Add:		
Listing expenses in connection with the Global Offering and Listing	2,192	32,250
Adjusted net profit for the year (non-HKFRS measure)	342,184	338,387
Net profit margin (as reported under HKFRS)	2.98%	2.71%
Adjusted net profit margin (non-HKFRS measure)	3.00%	2.99%

Liquidity and Capital Resources

For the year ended December 31, 2023, the Group financed its operations primarily through cash generated from its business operations, capital contributions by the shareholders of the Company (the “**Shareholders**”) and bank borrowings.

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

Capital Structure

As of December 31, 2023, the Group had net assets of RMB3,337.1 million, as compared to RMB3,019.5 million as of December 31, 2022. Net assets as of December 31, 2023 primarily comprised current assets of RMB5,265.8 million, non-current assets of RMB2,325.1 million, current liabilities of RMB3,517.6 million and non-current liabilities of RMB736.3 million.

Cash and Bank Balances

As compared with RMB1,776.2 million as of December 31, 2022 the Group had cash and bank deposits of RMB2,537.1 million as of December 31, 2023, which was consisted of unrestricted cash and cash equivalents of RMB2,224.8 million and restricted bank deposits of RMB312.3 million.

As of December 31, 2022 and 2023, the cash and cash equivalents of the Group were mainly denominated in Renminbi (“**RMB**”).

Financial Risks

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

Use of Proceeds from the Global Offering

The Company completed its Global Offering and Listing in the first quarter of 2023 and its H shares were successfully listed on the Main Board of the Stock Exchange on January 16, 2023 (the “**Listing Date**”). Net proceeds the Company raised from the Global Offering (including the partial exercise of the over-allotment option), after deducting the underwriting commission and other estimated expenses in connection with the Global Offering amounted to approximately HK\$474.0 million (the “**Net Proceeds**”).

The table below sets forth the utilization of the Net Proceeds by the Group as of December 31, 2023:

Intended use of Net Proceeds	Adjusted allocation of Net Proceeds ⁽¹⁾ <i>(million)</i>	Adjusted percentage of total Net Proceeds ⁽¹⁾	Amount of Net Proceeds utilized up to December 31, 2022 <i>(million)</i>	Amount of Net Proceeds utilized up to December 31, 2023 <i>(million)</i>	Balance of Net Proceeds unutilized as of December 31, 2023 <i>(million)</i>	Expected timeframe for use of Net Proceeds ⁽²⁾
To improve and enhance operation and supply chain systems	HK\$229.5	48.4%	–	–	HK\$229.5	Before December 31, 2025
To upgrade and improve core backbone IT systems and infrastructure	HK\$127.5	26.9%	–	HK\$56.5	HK\$71.0	Before December 31, 2024
To repay part of interest-bearing bank borrowings	HK\$91.5	19.3%	–	HK\$91.5	–	–
To use as working capital and for general corporate purposes	HK\$25.5	5.4%	–	HK\$23.3	HK\$2.2	Before December 31, 2025
TOTAL	HK\$474.0	100.0%	–	HK\$171.3	HK\$302.7	

Notes:

- (1) Based on the actual amounts of Net Proceeds adjusted on pro rata basis, except for the fixed amount of HK\$91.5 million used to repay the Group's interest-bearing bank borrowings.
- (2) Based on the Group's current estimates of its business plans and market conditions, and subject to change and adjustment.

As of December 31, 2023, the Net Proceeds unutilized had been deposited into short-term interest bearing deposits placed in licensed banks in China. The Group intends to continue to utilize the Net Proceeds in the manner as disclosed in the section headed "Future Plans and Use of Proceeds" in the prospectus of the Company dated December 29, 2022 (the "**Prospectus**").

Indebtedness

As of December 31, 2023, the Group had an aggregate non-current bank borrowings of RMB126.3 million and short-term bank borrowings of RMB1,768.9 million. Such outstanding bank borrowings were denominated in Renminbi and the majority portion was at fixed interest rates with the remaining at variable interest rates.

The Group uses the gearing ratio (gearing ratio = total borrowings/total equity at the end of year and multiplied by 100%) to monitor its capital structure. The Group's gearing ratio increased from 44.2% as of December 31, 2022 to 56.8% as of December 31, 2023, which was primarily due to increase in bank borrowings which were replaced with bank borrowings with lower interest rate which, in turn, led to decrease in interest expenses on bank borrowings from RMB52.8 million for the year ended December 31, 2022 to RMB50.3 million for the year ended December 31, 2023.

Pledged Assets

As of December 31, 2023, the Group's right-of-use assets of RMB49.1 million and the Group's building classified under property, plant and equipment of RMB23.2 million were pledged as collateral for the Group's bank borrowings.

Cash Flows

For the year ended December 31, 2023, net cash used in operating activities was RMB48.5 million while net cash generated from operating activities was RMB589.2 million for the year ended December 31, 2022, which was mainly attributable to profit before income tax of RMB381.0 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB127.3 million and finance cost, net of RMB34.9 million. Additional factors that affected the Group's cash used in operating activities included an increase in deposits, prepayments and other receivables of RMB306.2 million mainly attributable to increase in prepayments for purchases of fruits and other food products of RMB247.9 million to ensure high-quality fruits for the Group's development strategies implementation, and a decrease in trade payables of RMB145.8 million.

For the year ended December 31, 2023, net cash generated from investing activities was RMB282.6 million, while net cash generated from investing activities was RMB619.8 million for the year ended December 31, 2022, which was mainly attributable to net redemption of financial assets at FVTPL of RMB469.3 million for the year ended December 31, 2023 net with net advance to loan receivables of RMB118.3 million for the year ended December 31, 2023.

For the year ended December 31, 2023, net cash generated from financing activities was RMB414.9 million, while the net cash used in financing activities was RMB307.8 million for the year ended December 31, 2022, which was mainly attributable to net proceeds from bank borrowings of RMB560.3 million for the year ended December 31, 2023 compared to net repayments of bank borrowings of RMB117.6 million for the year ended December 31, 2022 and net proceeds from initial public offering of RMB426.8 million and dividends paid of RMB120.8 million during the year of 2023.

Financial Assets, Capital and Investment Management

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

As of December 31, 2023, the Group had (i) structured deposits which accounted for as financial assets at FVTPL of RMB180.4 million (2022: RMB623.8 million), (ii) other financial assets at FVTPL of RMB86.5 million (2022: RMB86.6 million), and (iii) financial assets at FVOCI of RMB30.6 million (2022: RMB18.4 million).

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

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

Capital Expenditure

The Group's capital expenditures amounted to RMB112.6 million for the year ended December 31, 2023, mainly for the payments of construction in progress of the Group's new office building located in Yantian District, Shenzhen, China.

The Group financed its capital expenditures primarily with cash generated from operations and bank borrowings.

Contingent Liabilities and Guarantees

As of December 31, 2023, the Group did not have any contingent liabilities, guarantees or any litigation against it.

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

Subscriptions of Wealth Management Products

On January 16, 2023 and February 22, 2023, the Company subscribed for wealth management structured time deposit products offered by Bank of Communications Co., Ltd.* (交通銀行股份有限公司) (“**BOCOM**”) with an aggregated principal amount of RMB350 million with expected annual return rates of 1.75% or 3.00% or 3.02% depending on the benchmark price AM (the “**Subscriptions**”). The BOCOM wealth management structured time deposit products are short-term principal-protected wealth management products that have relatively low associated risks issued by a reputable commercial bank. Therefore, the Subscriptions were considered to have relatively low risk and are also in line with the internal risk management, cash management and investment policies of the Group. The Subscriptions are considered to be part of the Group's treasury management to maximize the return on the unutilized funds of the Company after taking into account, among others, the level of risk, return on investment and the term to maturity, and to bring higher return on capital. The wealth management products underlying the Subscriptions were matured and fully redeemed during the year. For further details, please refer to the Company's announcement dated February 22, 2023.

Save as disclosed above, the Company had no significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures in 2023.

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

Turnover Ratios

Average inventory turnover days slightly increased from 10.7 days in 2022 to 12 days in 2023, primarily due to increase in the Group's overseas direct sales of apple and other fruits that typically have a relatively long storage time.

Average trade receivables turnover days decreased from 36.7 days in 2022 to 35 days in 2023, primarily due to the Group's proactive payment collection.

Average trade payables turnover days slightly increased from 15.6 days in 2022 to 15.8 days in 2023, which remained stable as no significant change in supplier settlement policy for the year ended December 31, 2023.

Employees and Employee Benefit Expenses

As of December 31, 2023, the Group had a total of 2,637 employees, among which approximately 18.7% were from marketing department, 15.7% were from operating and store management department, 20.4% were from production and logistics department and 13.7% were from IT department.

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

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

In 2023, the Group incurred total employee benefit expenses of RMB653.2 million, representing approximately 5.7% of total revenue of the Group for the same year.

In addition, the Company adopted a share award scheme on September 28, 2023 to incentivize or reward eligible persons, including management personnel of the Group at manager level or above, other core employees who made outstanding contribution to the Group and service providers as the Board deems fit, for their contribution to the Group.

Major Suppliers and Major Customers

For the year ended December 31, 2023, purchases from the Group's largest supplier in terms of dollar amount accounted for approximately 5.3% of total purchase cost of the Group for the same year, and the aggregate purchases from its top five suppliers in aggregate accounted for 19.0% of total purchase cost of the Group for the same year.

For the year ended December 31, 2023, revenue contributed by the Group's largest customer accounted for approximately 1.7% of total revenue of the Group for the same year, and the aggregate revenue contributed by its top five customers accounted for approximately 7.4% of total revenue of the Group for the same year. The top five customers include three franchisees and two regional dealers.

Reserves

As of December 31, 2023, the Company's reserves available for distribution to Shareholders amounted to approximately RMB300.0 million.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue	3	11,390,555	11,311,995
Cost of sales	6	<u>(10,075,726)</u>	<u>(9,997,709)</u>
Gross profit		1,314,829	1,314,286
Other income	4	36,828	40,826
Other gains, net	5	29,613	25,382
Selling expenses	6	(481,988)	(498,759)
Administrative expenses	6	(313,534)	(321,579)
Net provision of impairment loss on financial assets		(23,548)	(2,178)
Research and development expenses	6	<u>(145,588)</u>	<u>(172,980)</u>
Operating profit		416,612	384,998
Finance income	7	40,901	31,771
Finance costs	7	<u>(75,803)</u>	<u>(83,739)</u>
Finance costs, net	7	(34,902)	(51,968)
Share of (losses)/profits of associates and joint venture, net		<u>(677)</u>	<u>13,332</u>
Profit before income tax		381,033	346,362
Income tax expense	8	<u>(41,041)</u>	<u>(40,225)</u>
Profit for the year		<u>339,992</u>	<u>306,137</u>
Profit is attributable to:			
Owners of the Company		361,717	323,297
Non-controlling interests		<u>(21,725)</u>	<u>(17,160)</u>
		<u>339,992</u>	<u>306,137</u>
Earnings per share for profit attributable to the owners of the Company			
Basic and diluted (expressed in RMB cents per share)	9	<u>22.97</u>	<u>21.55</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year		339,992	306,137
Other comprehensive income/(loss)			
Changes in the fair value of financial assets at fair value through other comprehensive income (“FVOCI”)		6,614	(3,975)
Income tax relating to these items		263	(496)
Shares of other comprehensive income of joint venture		(47)	–
Other comprehensive income/(loss) for the year, net of tax		6,830	(4,471)
Total comprehensive income for the year		346,822	301,666
Total comprehensive income for the year is attributable to:			
Owners of the Company		368,547	318,826
Non-controlling interests		(21,725)	(17,160)
		346,822	301,666

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Note</i>	As at 31 December	
		2023	2022
		RMB'000	RMB'000
Assets			
Non-current assets			
Property, plant and equipment		521,842	450,153
Right-of-use assets		544,707	547,036
Investment property		2,441	2,529
Intangible assets		272,606	241,752
Interests in associates and joint venture		355,165	363,563
Financial assets at FVOCI		30,559	18,413
Financial assets at fair value through profit or loss ("FVTPL")		86,537	86,628
Restricted bank deposits		1,009	1,009
Long-term bank deposits		110,000	20,000
Deposits, prepayments and other receivables		393,345	343,245
Deferred tax assets		6,926	5,791
		<u>2,325,137</u>	<u>2,080,119</u>
Current assets			
Inventories		324,871	336,785
Biological assets		7,143	6,139
Trade receivables	10	1,063,440	1,118,438
Deposits, prepayments and other receivables		1,226,181	848,802
Financial assets at FVTPL		180,434	623,800
Loans to related parties		2,041	39,512
Amounts due from associates and joint venture		35,602	932
Restricted bank deposits		311,313	289,306
Cash and cash equivalents		2,114,823	1,465,908
		<u>5,265,848</u>	<u>4,729,622</u>
Total assets		<u><u>7,590,985</u></u>	<u><u>6,809,741</u></u>

	<i>Note</i>	As at 31 December	
		2023	2022
		RMB'000	RMB'000
Liabilities			
Non-current liabilities			
Bank borrowings		126,340	103,750
Other payables		104,965	66,988
Contract liabilities		20,315	23,262
Lease liabilities		475,182	433,392
Deferred tax liabilities		9,525	7,585
		<u>736,327</u>	<u>634,977</u>
Current liabilities			
Trade payables	11	364,158	509,916
Accruals and other payables		1,294,363	1,318,170
Contract liabilities		24,736	22,503
Income tax payables		11,918	13,885
Amounts due to associates		16,410	25,370
Bank borrowings		1,768,876	1,231,191
Lease liabilities		37,101	34,238
		<u>3,517,562</u>	<u>3,155,273</u>
Total liabilities		<u>4,253,889</u>	<u>3,790,250</u>
Net assets		<u>3,337,096</u>	<u>3,019,491</u>
Equity			
Equity attributable to the owners of the Company			
Share capital		1,588,544	1,500,000
Reserves		1,636,428	1,454,686
Capital and reserves attributable to owners of the Company		<u>3,224,972</u>	<u>2,954,686</u>
Non-controlling interests		112,124	64,805
Total equity		<u>3,337,096</u>	<u>3,019,491</u>

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated in the People's Republic of China (the "PRC") on 3 December 2001 as a limited liability company under Company Law of the PRC and was converted into a joint stock company with limited liability on 10 April 2020. The address of the Company's registered office is 6A-2, 6/F, Block A, Yantian Modern Industry Service Center (Phase I), No. 3018 Shayan Road, Tianxin Community, Shatoujiao Street, Yantian District, Shenzhen, Guangdong Province, China.

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

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

These consolidated financial statements are presented in thousands of units of Renminbi ("RMB'000") unless otherwise stated. These consolidated financial statements have been approved by the Board of directors on 27 March 2024.

2 BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost basis, except for the following:

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

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

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended standards for its annual reporting period commencing on 1 January 2023:

Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transactions
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
HKFRS 17	Insurance Contracts and the Related Amendments
HKFRS 17	Initial Application of HKFRS and HKFRS 9 – Comparative Information

The new and amended standards listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New and amended standards and interpretation not yet adopted by the Group

Certain amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the Group in preparing the consolidated financial statements:

		Effective for accounting year beginning on or after
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current	1 January 2024
Amendments to HKAS 1	Non-current Liabilities with Covenants	1 January 2024
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback	1 January 2024
Hong Kong Interpretation 5 (Revised)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2024
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements	1 January 2024
Amendments to HKAS 21	Lack of Exchangeability	1 January 2025
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of Assets between an investor and its Associate or Joint Venture	To be determined

The Group will adopt the above new and amended standards and interpretation as and when they become effective. The directors of the Company are currently assessing the impact on the new and amended standards and interpretation on the Group's financial position and results of operations.

3 REVENUE AND SEGMENT INFORMATION

(a) Description of segments and principal activities

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

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

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

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

(b) Segment revenue and results

An analysis of the Group's revenue and results during the years ended 31 December 2023 and 2022 by operating segment is as follows:

	Franchising <i>RMB'000</i>	Trading <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Year ended 31 December 2023				
Revenue from contracts	10,894,383	870,343	25,114	11,789,840
Less: Inter-segment revenue	–	(381,283)	(18,002)	(399,285)
Revenue from external customers	10,894,383	489,060	7,112	11,390,555
Segment results	427,621	39,862	7,077	474,560
Unallocated other gains, net				15,901
Unallocated corporate expenses				(104,740)
Unallocated finance income				40,901
Unallocated finance cost				(45,589)
Profit before income tax				381,033
Income tax expense				(41,041)
Profit for the year				339,992
Depreciation and amortisation	113,157	10,199	3,968	127,324
Additions to:				
Property, plant and equipment	101,304	730	15,234	117,268
Right-of-use assets	76,174	112	–	76,286
Intangible assets	5,139	–	–	5,139
Addition upon step acquisition				
– Property, plant and equipment	–	77	–	77
– Intangible assets	–	16,833	–	16,833

	Franchising RMB'000	Trading RMB'000	Others RMB'000	Total RMB'000
Year ended 31 December 2022				
Revenue from contracts	10,949,335	777,343	12,325	11,739,003
Less: Inter-segment revenue	–	(421,732)	(5,276)	(427,008)
Revenue from external customers	<u>10,949,335</u>	<u>355,611</u>	<u>7,049</u>	<u>11,311,995</u>
Segment results	397,641	47,667	8,398	453,706
Unallocated other gains, net				20,394
Unallocated corporate expenses				(107,449)
Unallocated finance income				31,771
Unallocated finance cost				<u>(52,060)</u>
Profit before income tax				346,362
Income tax expense				<u>(40,225)</u>
Profit for the year				<u><u>306,137</u></u>
Depreciation and amortisation	115,218	10,277	2,863	128,358
Additions to:				
Property, plant and equipment	175,893	2,101	14,533	192,527
Right-of-use assets	28,830	–	–	28,830
Intangible assets	<u>9,484</u>	<u>–</u>	<u>–</u>	<u>9,484</u>

(c) **Geographical segment**

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

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Mainland China	11,138,987	11,157,622
Indonesia	92,380	52,272
Singapore	62,498	29,736
Hong Kong and other countries	96,690	72,365
	<u>11,390,555</u>	<u>11,311,995</u>

4 OTHER INCOME

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Government grants	15,386	17,299
Penalty income from franchisees	1,106	2,422
Interest income arising from loan receivables	18,634	19,117
Others	<u>1,702</u>	<u>1,988</u>
	<u>36,828</u>	<u>40,826</u>

5 OTHER GAINS, NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Fair value (losses)/gains on biological assets	(2,334)	1,134
Fair value gains on financial assets at FVTPL, net	25,810	24,736
Losses on disposals of property, plant and equipment	(1,443)	(4,090)
Losses on disposals of intangible assets	(808)	–
Gains on lease termination	262	719
Others	(1,167)	–
Exchange gains, net	9,293	2,883
	29,613	25,382

6 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories sold	9,611,618	9,519,373
Employee benefit expenses (including directors' emoluments)	653,155	717,801
Listing expenses	2,192	32,250
Depreciation of property, plant and equipment	42,311	45,894
Depreciation of right-of-use assets	69,111	67,003
Amortisation of intangible assets	15,902	15,461
Legal and professional fees	84,298	75,993
Remuneration of auditors		
– Audit services	4,630	3,480
– Non-audit services	1,120	970
Delivery charges	204,643	214,639
Marketing and promotion expenses	72,576	58,879
Office supplies	10,261	12,034
Labour cost	96,301	77,375
Expense relating to short-term leases	48,779	44,388
Travelling expenses	19,289	12,117
Entertainment	9,734	18,272
Water and electricity	18,461	17,453
Other tax expenses	19,847	19,541
Others	32,608	38,104
	11,016,836	10,991,027
Representing:		
Cost of sales	10,075,726	9,997,709
Selling expenses	481,988	498,759
Administrative expenses	313,534	321,579
Research and development expenses	145,588	172,980
	11,016,836	10,991,027

7 FINANCE COSTS, NET

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Finance costs		
Interest expenses on bank borrowings	50,288	52,776
Interest expenses on lease liabilities	30,214	31,679
	<u>80,502</u>	<u>84,455</u>
Less: amount capitalised in qualifying assets	(4,699)	(716)
	<u>75,803</u>	<u>83,739</u>
Finance income		
Interest income on bank deposits	(40,901)	(31,771)
Finance costs, net	<u>34,902</u>	<u>51,968</u>

8 INCOME TAX EXPENSE

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Current income tax	44,164	43,128
Deferred tax	(3,123)	(2,903)
Income tax expense	<u>41,041</u>	<u>40,225</u>

Companies comprising the Group are established and operating in the PRC. Most of them are subject to PRC corporate income tax (“CIT”) at the rate of 25% for the year ended 31 December 2023 (2022: 25%), except for three subsidiaries which was awarded certificate of High and New Technology Enterprises (“HNTE”) (2022: one). Such entities were entitled to a preferential CIT rate of 15% up to the expiry of the latest certificate in 2026. The further entitlement to such HNTE tax incentive is subject to the successful renewal of certificate by the PRC tax authority. According to Article 27 of the China Corporate Income Tax Law and Article 86 of the Implementation Regulation of the CIT Law, income and expenses attributable to processing of agricultural products are exempted from the CIT for the years ended 31 December 2022 and 2023, subject to annual review by the local PRC tax authority of the Company’s subsidiaries.

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

(a) Basic earnings per share

The basic earnings per share is calculated on the profit attributable to owners of the Company divided by the weighted average number of ordinary shares outstanding during the year ended 31 December 2023 (2022: same).

	Year ended 31 December	
	2023	2022
Profit attributable to owners of the Company (<i>RMB'000</i>)	361,717	323,297
Weighted average number of shares outstanding (<i>'000</i>)	1,574,660	1,500,000
Basic earnings per share (<i>expressed in RMB cent</i>)	22.97	21.55

(b) Diluted earnings per share

Diluted earnings per share presented is the same as the basic earnings per share as there were no potentially dilutive ordinary shares issued during the year ended 31 December 2023 (2022: same).

10 TRADE RECEIVABLES

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables, gross	1,117,264	1,156,260
Less: loss allowance	(53,824)	(37,822)
Trade receivables, net	1,063,440	1,118,438

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
0 – 90 days	765,132	803,891
91 – 180 days	270,284	284,697
181 – 365 days	31,590	40,157
Over 1 year	50,258	27,515
	1,117,264	1,156,260

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,038,585	1,094,816
US\$	14,857	16,179
HK\$	9,998	7,443
	1,063,440	1,118,438

11 TRADE PAYABLES

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

	As at 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
0 to 30 days	334,532	476,403
31 to 60 days	16,030	21,164
61 to 90 days	2,341	2,494
Over 90 days	11,255	9,855
	<u>364,158</u>	<u>509,916</u>

As at 31 December 2023, the carrying amounts of the Group's trade payables approximate their fair values and are denominated in RMB (2022: same).

12 DIVIDENDS

The proposed 2023 final dividend of RMB0.043 per ordinary share, equivalent to an aggregate of approximately RMB68,307,000 for the year is subject to the approval of the Company's Shareholders at the forthcoming annual general meeting (2022: RMB120,771,000). The aggregated amount of the proposed dividend is expected to be paid out of retained earnings as at 31 December 2023 but not recognised as a liability at year end.

OTHER INFORMATION

Final Dividend

The Board has recommended the payment of a final dividend of RMB0.043 per ordinary share (tax inclusive) to all Shareholders for the year ended December 31, 2023.

The proposed final dividend shall be declared in RMB and paid to holders of H shares of the Company (the “**H Shareholders**”) in Hong Kong dollars (“**HK\$**”). The final dividend payable in HK\$ will be converted from RMB at the average exchange rate of RMB against the HK\$ issued by the People’s Bank of China five business days before the forthcoming annual general meeting of the Company (the “**AGM**”), and the final dividend paid to the holders of unlisted shares of the Company will be paid in RMB. This proposed final dividend is subject to the approval of the Shareholders at the forthcoming AGM and is expected to be paid on or around Friday, July 19, 2024.

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

The Company distributes the 2023 final dividend to the individual Shareholders, which would be subject to the personal income tax at the rate of 10% or 20%. It would be specifically handle in line with relevant regulations and tax collection and management requirements, unless otherwise required by the tax regulations, relevant tax agreements or notices.

Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the Shareholders and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) as its own code of corporate governance.

The Company was listed on the Stock Exchange on January 16, 2023 and the CG Code as set out in Appendix C1 to the Listing Rules was not applicable to the Company before the Listing Date. For the period from the Listing Date to December 31, 2023, the Company has complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein.

Model Code for Securities Transactions

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as its own code of conduct regarding all dealings by Directors, supervisors of the Company (“**Supervisors**”) and relevant employees of securities in the Company and other matters covered by the Model Code since the Listing Date.

The Company was listed on the Stock Exchange on January 16, 2023 and the Model Code as set out in Appendix C3 to the Listing Rules was not applicable to the Company before the Listing Date.

Having made specific enquiry with the Directors and Supervisors, all of the Directors and Supervisors confirmed that he/she has complied with the required standards as set out in the Model Code for the period from the Listing Date to December 31, 2023. No incident of non-compliance of the Model Code by the relevant employees was noted by the Company for the aforesaid period.

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

The Company was listed on the Stock Exchange on January 16, 2023. During the period from the Listing Date to December 31, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

PUBLIC FLOAT

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

SUBSEQUENT EVENTS

The following significant event took place subsequent to December 31, 2023:

- (a) during the year ended December 31, 2023, Guangdong Pagoda Agricultural Products Preliminary Processing Co., Ltd. ("**Pagoda Preliminary Processing**"), a wholly-owned subsidiary of the Company, as the defendant, received a notice of acceptance of case from The People's Court of Tianhe District (the "**Court**") in relation to the financial contract disputes with a domestic bank (the "**Plaintiff**") of approximately RMB20.0 million. On March 19, 2024, the Court ruled that it did not support the lawsuit initiated by the Plaintiff and rejected the Plaintiff's claim against Pagoda Preliminary Processing.

As of the date of this announcement, save as disclosed above, there was no significant event affecting the Group which occurred after the end of December 31, 2023.

AUDIT COMMITTEE

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

The Audit Committee has, together with the senior management of the Company, reviewed the accounting principles and practices adopted by the Group as well as the consolidated financial information of the Group for the year ended December 31, 2023. The Audit Committee considered that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made. The Audit Committee has also reviewed the accounting principles and practices adopted by the Group, and the selection and appointment of external auditors.

SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, and consolidated statement of other comprehensive income and the related notes thereto for the year ended December 31, 2023 as set out in this announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by PricewaterhouseCoopers on this announcement.

ANNUAL GENERAL MEETING

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

PUBLICATION OF 2023 ANNUAL RESULTS AND 2023 ANNUAL REPORT

This annual results announcement is published on the website of the Company (www.pagoda.com.cn) and the website of the Stock Exchange (www.hkexnews.hk). The annual report of the Company for the year ended December 31, 2023 containing all the information required by the Listing Rules will be disseminated to the Shareholders and published on the respective website of the Company and the Stock Exchange within the prescribed time and in accordance with the requirements under the Listing Rules.

PUBLICATION OF 2023 ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The environmental, social and governance report of the Group for the year ended December 31, 2023 will be published on the respective website of the Company and the Stock Exchange as set out above within the prescribed time and in accordance with the requirements under the Listing Rules.

APPRECIATION

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

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

Shenzhen, the People's Republic of China
March 27, 2024

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

* *For identification purpose only*