# Shenzhen Pagoda Industrial (Group) Corporation Limited
# 深圳百果園實業(集團)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 INTERIM RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2023

## FINANCIAL HIGHLIGHTS

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

| | Six Months Ended June 30, | | Period-over-period Change |
|---|---|---|---|
| | **2023** | 2022 | |
| | ***RMB'000*** | *RMB'000* | *%* |
| Revenue [1] [2] | **6,294,316** | 5,914,721 | 6.4 |
| Gross profit | **712,532** | 677,393 | 5.2 |
| Profit before income tax | **272,480** | 207,048 | 31.6 |
| Profit is attributable to owners of the Company | **260,807** | 194,452 | 34.1 |
| Basic and diluted earnings *(RMB cents per share)* | **16.51** | 12.96 | 27.4 |

(1) The majority of the Group's revenue was derived from sales of fruits and other food products. For the six months ended June 30, 2022 and 2023, revenue from sales of fruits and other food products amounted to RMB5,730.7 million and RMB6,117.2 million, respectively, accounting for approximately 96.9% and 97.2% of the Group's total revenue for the six months ended June 30, 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 six months ended June 30, 2022 and 2023, aggregate revenue from sales of products contributed by franchised stores amounted to RMB4,602.8 million and RMB4,732.1 million, respectively, accounting for approximately 77.8% and 75.2% of the Group's total revenue for the six months ended June 30, 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 June 30, | |
|---|---|---|
| | **2023** | 2022 |
| **Franchised stores** | | |
| Franchised stores supervised by the Group | **4,795** | 4,454 |
| Others | **1,150** | 981 |
| **Sub-total** | **5,945** | 5,435 |
| **Self-operated stores** | **13** | 16 |
| **Total** | **5,958** | 5,451 |

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

| | As of/Six Months Ended June 30, | |
|---|---|---|
| | **2023** | 2022 |
| **Gross retail sales *(RMB'000)*[(1)]** | **7,927,247** | 7,704,928 |
| **Number of members *('000)*** | **79,314** | 69,274 |
| **Number of paying members *('000)*** | **1,141** | 815 |
| **Number of self-owned product brands** | **35** | 29 |

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

The board (the "**Board**") of directors (the "**Directors**") of Shenzhen Pagoda Industrial (Group) Corporation Limited (the "**Company**") is pleased to announce the unaudited consolidated results (the "**Interim Results**") of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended June 30, 2023. The Interim Results were prepared based on the unaudited interim condensed consolidated financial information 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 Interim Results have also been reviewed by the audit committee of the Board (the "**Audit Committee**").

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

## BUSINESS REVIEW AND OUTLOOK

### Market Overview

In the first half of 2023, the global economic growth slowed down yet the economy in China recovered owing to the lift of the epidemic controlling measures. In early 2023, due to the optimization of anti-epidemic measures and the re-opening of retail stores in China, consumption demand that had been subdued previously was unleashed; as a result, consumption showed a positive trend and in particular, consumption scenarios of contact and gathering services such as catering, travel, tourism, and cultural entertainment rapidly recovered. In the first quarter of 2023, the total retail sales of consumer goods in China increased by 5.8% as compared to the corresponding period in 2022. However, as consumers' hoarding behavior during the epidemic subsided along with the end of the epidemic, and the consumption demand had been unleashed altogether, while consumers' expectation on income growth has yet to be fully recovered, the consumption growth slowed down during the second quarter of 2023.

As the consumer sector in China market is at the key stage of consumption upgrade, the recovery of consumer sector in China market indicates optimistic consumption demand growth. On one hand, consumption activities continue to flourish driven by the continuous improvement of living standards and the acceleration of pace of life; on the other hand, the consumption demand for fresh food increases with the increasing health expenditures due to the aging of the population and the trend of sub-health, as well as people's pursuit of a better life.

In addition, consumers in China have stepped into the era of smart consumption. Instead of comparing unreasonably or chasing for the cheapest, people make smarter purchasing decisions and choosing products that suit their needs better to maximize the value of the purchase. In selecting food or food products, "delicious", "safe" and "green and healthy" have become a consensus of consumers while considering their own conditions and needs. Meanwhile, consumers' recognition of brands is gradually increasing. As such, enterprises are in need to build their own unique brand(s) and to deepen the customers' understanding of such brand(s) so as to enhance consumers' loyalty. Furthermore, as consumers have multiple channels to purchase fresh food, the fresh food industry is very competitive. In order to meet consumers' needs in different purchasing scenarios, it is significant for enterprises to continuously improve the convenience of purchase, cost-effectiveness of products, and offering of unique services to customers.

## Overall Business and Financial Performance

### *Optimization of Overall Business Model*

*Optimization of Organizational Structure of Business Operations*

In the first half of 2023, the Group optimized its organizational structure of business operations and has set up three new business units focusing on three major opportunities for the development of fruit sales industry, respectively. The three new business units are retail business unit (零售事業群), business-to-business or 2B business unit (2B事業群) and category business unit (品類事業群). Retail business unit carries out the Group's core retail strategy to establish an integrated online-merge-offline retail network, making it a go-to brand for Chinese consumers. 2B business unit leverages the Group's sophisticated supply chain resources to further enhance the Group's omni-channel capabilities by further expanding 2B business opportunities and increasing the Group's market share. Category business unit continued to execute the Group's category brands development strategies with a focus on building the Group's product brands while providing support to the Group's retail business unit and 2B business unit. Category business unit focuses on developing product brands through various empowerments, such as agricultural technology, brand marketing, sales management and minority equity investments. To ensure proficiency and efficiency, a dedicated category general manager has been assigned for each product category to enhance the quality and competitiveness of each brand under development.

*Optimization of Online-merge-offline ("**OMO**") Model*

In the first half of 2023, the Group continued to optimize its OMO operational model in all aspects and firmly believed that its enhanced capability to provide highly integrated and convenient consumption experience through online sales platforms and offline stores is a key to future success of the Group's retail system.

The fruit specialty retail network with OMO and store-as-warehouse features and the high-frequency consumption nature of fruits has provided continuous and extensive reach to consumers. As of June 30, 2023, the Group had accumulated over 79 million members across all distribution channels with over 1,141 thousand paying members, and the cumulative number of users of the WeChat mini-program reached 62 million.

As part of the Group's OMO strategy, the Group continued to explore online business opportunities to offer convenient and diverse online shopping options to consumers through diverse channels, including mobile APPs, WeChat mini-program (微信小程序), storefronts on e-commerce and social commerce platforms, such as Tmall (天貓), JD.com (京東) and Douyin (抖音), as well as storefronts on third-party food delivery platforms, such as Meituan (美團), Koubei (口碑) and Ele.me (餓了麼). In addition, the Group continued to implement its strategy of offering differentiated products to customers opting for home delivery or in-store pickup services to effectively increase purchase frequency and coverage of consumers in the community, while encouraging consumers to place orders online and pick up in stores through social marketing and group promotions to enhance cross-selling. In the first half of 2023, the Group's orders placed through various online channels further increased to approximately 28.8% alongside with the increase of the Group's Douyin followers and Weibo followers. Further, 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 June 30, 2023, the total number of store-based WeChat groups established by the Group's store managers increased to approximately

25,600 with an aggregate of over 16.4 million WeChat community followers. Furthermore, driven by the Group's "Douyin of the Day" (每日一抖) initiative launched in 2022, in the first half of 2023, live-streaming broadcasts hosted by the Group and the retail stores on Douyin accumulated approximately 2,227 million views. Furthermore, in the first half of 2023, the number of customers who purchased through Douyin increased by approximately 913%, and the total retail sales amount through Douyin increased by approximately 796%, as compared to corresponding period in 2022.

*Further Expansion of 2B Business*

Leveraging the Group's resources accumulated in the fruit supply chain sector over the years, in the first half of 2023, the Group seized the opportunities in the fruit wholesale sector to further develop its 2B business through expanding the scale of its 2B business and reducing procurement costs so as to further expand the Group's market share in the fruit industry. In particular, the Group continued to expand its 2B customer basis through extending its sales network in both domestic and overseas markets. Group's revenue from sales of fruits and other food products derived from direct sales increased by approximately 34.7% from RMB407.0 million for the six months ended June 30, 2022 to RMB548.3 million for the six months ended June 30, 2023.

***Offline Store Network Development***

Driven by the recovery of consumer sector in China and the Group's strategy of continuous expanding its retail store network across the country and penetrating into lower-tier cities, as of June 30, 2023, the Group recorded a net increase of 507 retail stores as compared to June 30, 2022. As of June 30, 2023, the Group's offline store network had a total of 5,958 stores located in over 150 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 June 30,** | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | | % | | % |
| **Franchised stores** | | | | |
| Franchised stores supervised by the Group | **4,795** | **80.5** | 4,454 | 81.7 |
| Others | **1,150** | **19.3** | 981 | 18.0 |
| **Sub-total** | **5,945** | **99.8** | 5,435 | 99.7 |
| **Self-operated stores** | **13** | **0.2** | 16 | 0.3 |
| **Total** | **5,958** | **100.0** | 5,451 | 100.0 |

As of June 30, 2023, the Group recorded a net increase of 507 retail stores as compared to June 30, 2022 which was mainly due to the Group's continuous expansion and development strategies on retail store network, the recovery of China economy since early 2023 as well as the surged consumption demand in early 2023.

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

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| **Franchised stores** | | | | |
| Franchised stores supervised by the Group | **4,728,339** | **99.4** | 4,601,710 | 99.3 |
| Others | **3,794** | **0.1** | 1,068 | 0.0 |
| **Sub-total** | **4,732,133** | **99.5** | 4,602,778 | 99.3 |
| **Self-operated stores** | **24,625** | **0.5** | 31,693 | 0.7 |
| **Total** | **4,756,758** | **100.0** | 4,634,471 | 100.0 |

Franchised stores currently consist the majority of the Group's offline store network. The Group's franchised stores have a high degree of autonomy and yet with strong support from the Group, and 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. Further, the Group's established district-based operation system provides personalized product portfolio, pricing and promotional activities for stores through a smart ordering system to help franchisees achieve delicacy operation of stores and reduce their operational difficulties and allow franchisees to grasp the operation status of their stores in real time through the store assistant information system. The Group also implements highly uniform operation management guidance for franchisees to achieve standardized operation of stores to ensure product quality, consumer experience and the healthy development of franchisees.

***Brand Portfolio and Product Offerings***

The Group has adopted a multi-brand strategy and has established both well-known product brands and channel brands in the fruit industry in China. Currently, the retail stores nationwide are mainly operated under two channel brands, namely "Pagoda (百果園)" and "Guoduomei (果多美)." As of June 30, 2023, among all 5,958 offline retail stores, 5,845 were operated under Pagoda brand and 112 were operated under Guoduomei brand, with the remaining under other regional channel brands of the Group.

The Group's mission and core value is to offer delicious fruits and enjoyable lifestyle to people. 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 67% of the total store retail sales of Pagoda stores in the first half of 2023. In addition, in terms of the same type of products, average monthly repeat purchase rate of self-branded fruits under Excellent category was generally higher than fruits under Grade B category by approximately 50% in the first half of 2023 as compared to the corresponding period in 2022.

In the first half of 2023, the Group continued to develop product brands. In addition to the efforts in increasing the number of self-owned brands, the Group has also endeavored to explore new distribution channels for its self-branded products. For example, in the first half of 2023, the Group developed "Sweet Moon" banana (甜月亮(香蕉)) brand which is not only distributed by the Group but also by selected third party distribution channels in China. In terms of expanding distribution channels for its self-branded products, the Group recently also expanded the distribution of "Little Purple (小鮮紫)" passion fruit and allowed selected third party distributors to distribute it under the brand name of "Xianshi (莤食)." In the first half of 2023 alone, the Group introduced 4 new product brands to the market. As such, as of June 30, 2023, the Group had successfully introduced to the market a total of 35 self-owned product brands, and the aggregate retail sales of all self-branded fruits increased by approximately 27% from the corresponding period in 2022, and accounted for approximately 14% of total store retail sales of Pagoda stores in the first half of 2023. By contrast, aggregate retail sales of self-branded fruits accounted for approximately 12% of total retail sales of Pagoda stores in the corresponding period in 2022.

Moreover, as a more recent initiative to diversify its fruit offerings, the Group continued to launch new types of rare fruit products, for example, Red Guoseng (紅果參). The Group will continue to offer specialty offline and variety online with a focus on fruit and fruit products business offline, and providing more fresh grocery products online to further extend its service boundaries.

***Smart Warehousing and Supply Chain Management***

The Group has a nationwide warehousing network. As of June 30, 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 194.7 thousand sq.m. Out of the 29 preliminary processing and distribution centers, 16 centers were operated by the Group, and the remaining 13 centers were operated by the Group's regional dealers by strictly following the Group's quality requirements.

In terms of warehousing, in the first half of 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 the first half of 2023, the Group's transportation costs decreased by approximately 8% as compared to the corresponding period in 2022.

In addition, the Group continued to strategically participate in the upstream of the industry chain. Besides the Group's continuous initiatives to empower its plantation base partners with agricultural technologies, IT and capital resources and to enforce strict quality management throughout the entire growth period of fruits, in the first half of 2023, the Group also introduced a new agricultural technology promotion program, further strengthening its capability to cultivate high-quality fruits, improve yields, and in turn, extend its established Pagoda-centered large-scale, standardized network of high-quality suppliers. In the first half of 2023, the Group has selected 118 suppliers to participate in the new agricultural technology promotion program. The Group expects to continue to penetrate in upstream supply chain, and continue to exert its influence and management across the entire industry chain.

## Industry and Business Outlook

Looking onwards to the second half of 2023, China's economy is expected to continue to recover and grow with the support of the government's macro-economic policies and rising consumer spending power. Meanwhile, the macro economic environment will continue to face various challenges, such as high inflation, rising interest rate, increasing operational costs, and disruptions of global supply chains resulting from escalating geopolitical tensions. The Group believes that its operation in the retail industry in China will still be full of challenges and opportunities in the short run, depending on its ability to adapt to the recovery of the macro economy, consumer confidence and evolution of consumption patterns. In the long run, the Group remains optimistic for its development, given its well-recognized brand reputation, broad and diversified product offerings and stringent product quality control, sophisticated OMO operations, and stable supply chain management.

The Group's vision is to be the world's largest fruit company. The Group will formulate its future development strategies with a focus on its distribution channels, 2B business and product brands, and continue to implement its "delicious" business strategy to offer cost-effective fruits to more customers. In particular, the Group has laid out strategies to further expand its distribution channels, strengthen its 2B business, optimize and diversify its product brands and further enhance membership operation to continue to increase its market share and strengthen its market position. In the second half of 2023, the Group will continue to implement its development strategies and further promote and implement the following:

- **Continue to expand OMO distribution network and 2B distribution channels**

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

  In addition, the Group will continue to strengthen its 2B business through further deepening its cooperation with its existing 2B customers, for example, with respect to the customized needs of welfare gifts required by 2B customers, further expanding its 2B customer base through identifying new 2B customers, meanwhile exploring additional distribution channels and scenarios, such as tea chain stores, community groups and traditional supermarkets. Last, the Group will also expand its business of exporting domestic high-quality fruits overseas so that people from the world can enjoy high-quality fruits.

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

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

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

  The Group will continue to expand and upgrade its network of preliminary processing and distribution centers to improve core metrics such as unit storage area, number of stores covered and average daily delivery volume to support the expansion of its franchised store network and the rapid growth of the business-to-business, or 2B, fruit business and quality fresh grocery business. It will also upgrade the 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 unaudited consolidated financial results for the six months ended June 30, 2023 with comparative figures for the six months ended June 30, 2022.

| | Six Months ended June 30, | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Revenue | **6,294,316** | 5,914,721 |
| Cost of sales | **(5,581,784)** | (5,237,328) |
| **Gross profit** | **712,532** | 677,393 |
| Other income | **21,465** | 29,526 |
| Other gains, net | **25,849** | 7,676 |
| Selling expenses | **(241,995)** | (246,184) |
| Administrative expenses | **(146,873)** | (157,205) |
| Net (provision)/reversal of impairment loss on financial assets | **(13,943)** | 754 |
| Research and development expenses | **(74,106)** | (86,280) |
| **Operating profit** | **282,929** | 225,680 |
| Finance income | **20,529** | 15,423 |
| Finance costs | **(38,432)** | (43,499) |
| Finance costs, net | **(17,903)** | (28,076) |
| Share of profit of associates and joint ventures, net | **7,454** | 9,444 |
| **Profit before income tax** | **272,480** | 207,048 |
| Income tax expense | **(21,931)** | (21,498) |
| **Profit for the period** | **250,549** | 185,550 |
| Profit is attributable to: | | |
| Owners of the Company | **260,807** | 194,452 |
| Non-controlling interests | **(10,258)** | (8,902) |
| | **250,549** | 185,550 |

**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 six months ended June 30, 2022 and 2023, respectively.

| | **Six Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Sales of fruits and other food products | **6,117,186** | **97.2** | 5,730,693 | 96.9 |
| Royalty and franchising income | **98,516** | **1.6** | 95,211 | 1.6 |
| Membership income | **47,887** | **0.8** | 42,820 | 0.7 |
| Others | **30,727** | **0.4** | 45,997 | 0.8 |
| **Total** | **6,294,316** | **100.0** | 5,914,721 | 100.0 |

The Group's total revenue increased by approximately 6.4% from RMB5,914.7 million for the six months ended June 30, 2022 to RMB6,294.3 million for the six months ended June 30, 2023. Revenue generated from sales of fruits and other food products represented the majority portion of the Group's total revenue, representing approximately 96.9% and 97.2% of total revenue for the six months ended June 30, 2022 and 2023, respectively.

The Group mainly distributes fruits and other food products through offline store network. It also distributes through online channels and 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 six months ended June 30, 2022 and 2023, respectively.

| | **Six Months Ended June 30,** | | | |
|---|---|---|---|---|
| | **2023** | | 2022 | |
| | ***RMB'000*** | *%* | *RMB'000* | *%* |
| Franchised stores | **4,732,133** | **77.4** | 4,602,778 | 80.3 |
| Self-operated stores | **24,625** | **0.4** | 31,693 | 0.6 |
| Regional dealers | **652,363** | **10.7** | 563,694 | 9.8 |
| Direct sales | **548,274** | **9.0** | 406,982 | 7.1 |
| Online channels | **159,791** | **2.5** | 125,546 | 2.2 |
| **Total** | **6,117,186** | **100.0** | 5,730,693 | 100.0 |

The increase in revenue from sales of fruits and other food products was primarily due to (i) net increase in number of the Group's total retails stores by 9.3% from 5,451 retail stores as of June 30, 2022 to 5,958 retails stores as of June 30, 2023 as well as the diversification impact of market due to epidemic clearance measures carried out in China for the six months ended June 30, 2023 compared to the concentration of market when the Group was one of the supply guarantee enterprises appointed by the PRC government for the six months ended June 30, 2022, which led to an increase in revenue from sales of fruits and other food products derived by franchised stores by approximately 2.8% from RMB4,602.8 million for the six months ended June 30, 2022 to RMB4,732.1 million for the six months ended June 30, 2023, and (ii) the further acceleration of the development of the Group's direct sales business by optimizing the Group's organizational structure through the set up of 2B business unit and favorable pricing strategy in order to expand its corporate customer base; as a result, the Group's revenue from sales of fruits and other food products derived from direct sales increased by approximately 34.7% from RMB407.0 million for the six months ended June 30, 2022 to RMB548.3 million for the six months ended June 30, 2023.

**Cost of Sales**

Cost of sales increased by approximately 6.6% from RMB5,237.3 million for the six months ended June 30, 2022 to RMB5,581.8 million for the six months ended June 30, 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 95.3% and 95.3% of the Group's total cost of sales for the six months ended June 30, 2022 and 2023, respectively. The increase in cost of inventories sold was in line with the increase in revenue from sales of fruits and other food products.

**Gross Profit and Gross Profit Margin**

As a result of the foregoing, the Group's gross profit increased by approximately 5.2% from RMB677.4 million for the six months ended June 30, 2022 to RMB712.5 million for the six months ended June 30, 2023. The Group's gross profit margin was 11.5% for the six months ended June 30, 2022 and 11.3% for the six months ended June 30, 2023.

**Other Income**

The Group's other income decreased by approximately 27.3% from RMB29.5 million for the six months ended June 30, 2022 to RMB21.5 million for the six months ended June 30, 2023. The decrease was primarily due to (i) a decrease of RMB4.5 million in government grants, mainly in connection with subsidies in connection with finance costs arising from banks borrowings, and (ii) a decrease of RMB2.4 million in interest income arising from financial support provided to the Group's franchisees, regional dealers and suppliers.

**Other Gains, Net**

The Group's other gains, net increased by approximately 236.8% from RMB7.7 million for the six months ended June 30, 2022 to RMB25.8 million for the six months ended June 30, 2023. The increase was primarily due to an increase of RMB10.3 million in net fair value gains on financial assets at fair value through profit or loss (or "**FVTPL**"), which mainly represented interests income from the short-term structured deposits the Group purchased from domestic reputable commercial banks. In addition, the increase in other gains, net from the six months ended June 30, 2022 to the corresponding period in 2023 was also partially due to exchange gains, which increased from RMB1.7 million recognized for the six months ended June 30, 2022 to RMB8.1 million recognized for the six months ended June 30, 2023.

**Selling Expenses**

The Group's selling expenses decreased by approximately 1.7% from RMB246.2 million for the six months ended June 30, 2022 to RMB242.0 million for the six months ended June 30, 2023. The decrease was primarily due to a decrease in the headcount of the Group's sales and marketing staff.

**Administrative Expenses**

The Group's administrative expenses decreased by approximately 6.6% from RMB157.2 million for the six months ended June 30, 2022 to RMB146.9 million for the six months ended June 30, 2023. The decrease was primarily due to a decrease in the headcount of the Group's administrative staff and the decrease of listing expenses.

**Research and Development Expenses**

The Group's research and development expenses decreased by approximately 14.1% from RMB86.3 million for the six months ended June 30, 2022 to RMB74.1 million for the six months ended June 30, 2023. The decrease was primarily due to a decrease in the headcount of the Group's research and development staff.

**Net (Provision)/Reversal of Impairment Loss on Financial Assets**

Net impairment losses on financial assets for the six months ended June 30, 2022 and 2023 mainly represented a general expected credit loss on trade and other receivables. Reversal of impairment losses on financial assets amounted to RMB0.8 million for the six months ended June 30, 2022, while provision of impairment losses on financial assets amounted to RMB13.9 million for the six months ended June 30, 2023. The loss was mainly due to the rapid increase in direct sales which usually have a longer credit term and led to increase in general expected credit loss on trade and other receivables.

**Finance Costs, Net**

Finance income increased by approximately 33.1% from RMB15.4 million for the six months ended June 30, 2022 to RMB20.5 million for the six months ended June 30, 2023, which was mainly attributable to interest income arising from bank deposits.

Finance costs decreased by approximately 11.6% from RMB43.5 million for the six months ended June 30, 2022 to RMB38.4 million for the six months ended June 30, 2023, which was mainly attributable to a decrease in interest expense in connection with the Group's bank borrowings and lease liabilities.

**Share of Profit of Associates and Joint Ventures, Net**

For the six months ended June 30, 2022 and 2023, the Group recorded share of profit of associates and joint ventures, net of RMB9.4 million and RMB7.5 million, respectively. The decrease of share of profit of associates and joint ventures, net was mainly due to the decrease in profits of the Group's associates and joint ventures.

**Profit Before Income Tax**

As a result of the foregoing, the Group recorded profit before tax of RMB272.5 million for the six months ended June 30, 2023, increased by approximately 31.6% from RMB207.0 million for the six months ended June 30, 2022.

**Income Tax Expense**

Income tax expense increased by approximately 2.0% from RMB21.5 million for the six months ended June 30, 2022 to RMB21.9 million for the six months ended June 30, 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 for the six months ended June 30, 2023 was primarily because some of the Group's subsidiaries enjoyed preferential tax treatments and tax exemptions during the six months ended June 30, 2023.

**Profit for the Period**

As a result of the foregoing, the Group's net profit increased by approximately 35.0% from RMB185.6 million for the six months ended June 30, 2022 to RMB250.5 million for the six months ended June 30, 2023. The Group's net profit margin increased from 3.1% for the six months ended June 30, 2022 to 4.0% for the six months ended June 30, 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 period before listing expenses and is calculated by adding back the listing expenses to net profit for the relevant period. Adjusted net profit margin is calculated as adjusted net profit for the period divided by total revenue for the relevant period. Listing expenses represents expenses in relation to the Company's global offering (the "**Global Offering**") and listing of its H shares (the "**Listing**") on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") which were completed in the first quarter of 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 period under HKFRS to adjusted net profit and adjusted net profit margin, respectively, for the period indicated.

| | Six Months ended June 30, | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| Profit for the period (as reported under HKFRS) | **250,549** | 185,550 |
| Add: | | |
| Listing expenses in connection with the Global Offering and Listing | **2,192** | 19,096 |
| Adjusted net profit for the period (non-HKFRS measure) | **252,741** | 204,646 |
| Net profit margin (as reported under HKFRS) | **4.0%** | 3.1% |
| Adjusted net profit margin (non-HKFRS measure) | **4.0%** | 3.5% |

**Liquidity and Capital Resources**

For the six months ended June 30, 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 June 30, 2023, the Group had net assets of RMB3,563.1 million, as compared to RMB3,019.5 million as of December 31, 2022. Net assets as of June 30, 2023 primarily comprised current assets of RMB5,298.8 million, non-current assets of RMB2,148.4 million, current liabilities of RMB3,192.9 million and non-current liabilities of RMB691.2 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 RMB2,405.8 million as of June 30, 2023, which was consisted of unrestricted cash and cash equivalents of RMB2,094.8 million and restricted bank deposits of RMB311.0 million.

As of December 31, 2022 and June 30, 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 June 30, 2023:

| Intended use of Net Proceeds | Adjusted allocation of Net Proceeds(1) | Adjusted percentage of total Net Proceeds(1) | Amount of Net Proceeds utilized up to December 31, 2022 | Amount of Net Proceeds utilized up to June 30, 2023 | Balance of Net Proceeds unutilized as of June 30, 2023 | Expected timeframe for use of Net Proceeds(2) |
|---|---|---|---|---|---|---|
| | *(million)* | | *(million)* | *(million)* | *(million)* | |
| 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$127.5 | 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$22.0 | HK$3.5 | Before December 31, 2025 |
| **TOTAL** | **HK$474.0** | **100.0%** | **–** | **HK$113.5** | **HK$360.5** | |

*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 June 30, 2023, the Net Proceeds unutilized had been deposited into short-term interest-bearing deposits placed in licensed banks in China. The Group intends 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 June 30, 2023, the Group had an aggregate non-current bank borrowings of RMB123.6 million and short-term bank borrowings of RMB1,184.5 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 period and multiplied by 100%) to monitor its capital structure. The Group's gearing ratio decreased from 44.2% as of December 31, 2022 to 36.7% as of June 30, 2023, which was primarily due to issuance of ordinary shares upon Listing in the first quarter of 2023 which led to increase in total equity from RMB3,019.5 million as of December 31, 2022 to RMB3,563.1 million as of June 30, 2023.

**Pledged Assets**

As of June 30, 2023, the Group's right-of-use assets of RMB50.0 million (December 31, 2022: RMB50.9 million) and the Group's building classified under property, plant and equipment of RMB23.8 million (December 31, 2022: RMB24.6 million) were pledged as collateral for the Group's bank borrowings.

**Cash Flows**

For the six months ended June 30, 2023, net cash generated from operating activities decreased to RMB225.1 million from RMB512.9 million for the six months ended June 30, 2022, which was mainly attributable to profit before income tax of RMB272.5 million, adjusted for certain non-cash items such as depreciation and amortization in the aggregate amount of RMB66.4 million and finance cost, net of RMB17.9 million. Additional factors that affected the Group's cash generated from operating activities included an increase in deposits, prepayments and other receivables of RMB135.9 million and RMB55.6 million for the six months ended June 30, 2023 and June 30, 2022, respectively.

For the six months ended June 30, 2023, net cash generated from investing activities was RMB48.9 million, while net cash generated from investing activities was RMB1,034.9 million for the six months ended June 30, 2022, which was mainly attributable to net redemption of financial assets at FVTPL of RMB51.4 million for the six months ended June 30, 2023 compared to the net redemption of financial assets at FVTPL of RMB818.5 million for the six months ended June 30, 2022.

For the six months ended June 30, 2023, net cash generated from financing activities was RMB334.8 million, while the cash used in financing activities was RMB215.0 million for the six months ended June 30, 2022, which was mainly attributable to net proceeds of approximately HK$474.0 million received from the Global Offering for the six months ended June 30, 2023 compared to net repayments of bank borrowings of RMB147.0 million for the six months ended June 30, 2022.

**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 June 30, 2023, the Group had (i) structured deposits which accounted for as financial assets at FVTPL of RMB587.8 million (December 31, 2022: RMB623.8 million), (ii) other financial assets at FVTPL of RMB89.0 million (December 31, 2022: RMB86.6 million), and (iii) financial assets at FVOCI of RMB26.4 million (December 31, 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 RMB36.2 million for the six months ended June 30, 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, bank borrowings and the proceeds raised from the Global Offering.

**Contingent Liabilities and Guarantees**

As of June 30, 2023, the Group did not have any significant unrecorded contingent liabilities, guarantees or any litigation against it.

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

In the first half of 2023, the Company had no material investments, material acquisitions or disposals of subsidiaries, associates and joint ventures.

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

**Turnover Ratios**

Average inventory turnover days remained relatively stable at 8.8 days and 9.2 days for the six months ended June 30, 2022 and 2023, respectively.

Average trade receivables turnover days slightly decreased from 34.1 days for the six months ended June 30, 2022 to 31.7 days for the six months ended June 30, 2023, primarily due to the Group's proactive payment collection.

Average trade payables turnover days increased from 14.5 days for the six months ended June 30, 2022 to 16.7 days for the six months ended June 30, 2023, primarily due to the continuous growth of the procurements for the Group's wholesale business.

**Employees and Employee Benefit Expenses**

As of June 30, 2023, the Group had a total of 2,850 employees, among which approximately 20.5% were from marketing department, 18.5% were from operating and store management department, 20.0% were from production and logistics department and 13.5% 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 the first half of 2023, the Group incurred total employee benefit expenses of RMB346.2 million, representing approximately 5.5% of total revenue of the Group for the same period.

**Major Suppliers and Major Customers**

For the six months ended June 30, 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 period, and the aggregate purchases from its top five suppliers in aggregate accounted for 21.2% of total purchase cost of the Group for the same period.

For the six months ended June 30, 2023, revenue contributed by the Group's largest customer accounted for approximately 1.8% of total revenue of the Group for the same period, and the aggregate revenue contributed by its top five customers accounted for approximately 8.0% of total revenue of the Group for the same period. All top five customers were the Group's franchisees.

**Reserves**

As of June 30, 2023, the Company's reserves available for distribution to Shareholders amounted to approximately RMB206.1 million.

## FINANCIAL INFORMATION

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

| | *Note* | **Six months ended 30 June 2023** *RMB'000* **(Unaudited)** | 2022 *RMB'000* (Unaudited) |
|---|---|---|---|
| Revenue | *3* | **6,294,316** | 5,914,721 |
| Cost of sales | *4* | **(5,581,784)** | (5,237,328) |
| **Gross profit** | | **712,532** | 677,393 |
| Other income | | **21,465** | 29,526 |
| Other gains, net | | **25,849** | 7,676 |
| Selling expenses | *4* | **(241,995)** | (246,184) |
| Administrative expenses | *4* | **(146,873)** | (157,205) |
| Net (provision)/reversal of impairment loss on financial assets | | **(13,943)** | 754 |
| Research and development expenses | *4* | **(74,106)** | (86,280) |
| **Operating profit** | | **282,929** | 225,680 |
| Finance income | | **20,529** | 15,423 |
| Finance costs | | **(38,432)** | (43,499) |
| Finance costs, net | | **(17,903)** | (28,076) |
| Share of profit of associates and joint ventures, net | | **7,454** | 9,444 |
| **Profit before income tax** | | **272,480** | 207,048 |
| Income tax expense | *5* | **(21,931)** | (21,498) |
| **Profit for the period** | | **250,549** | 185,550 |
| Profit/(loss) attributable to: | | | |
| Owners of the Company | | **260,807** | 194,452 |
| Non-controlling interests | | **(10,258)** | (8,902) |
| | | **250,549** | 185,550 |
| **Earnings per share for profit attributable to the owners of the Company** | | | |
| Basic and diluted (expressed in RMB cents per share) | *6* | **16.51** | 12.96 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Six months ended 30 June 2023 | 2022 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | **(Unaudited)** | (Unaudited) |
| **Profit for the period** | | **250,549** | 185,550 |
| **Other comprehensive income/(loss)** | | | |
| *Items that will not be subsequently reclassified to profit or loss* | | | |
| Changes in the fair value of financial assets at fair value through other comprehensive income ("**FVOCI**") | | **2,619** | (822) |
| Income tax relating to deferred tax items | | **(863)** | (500) |
| **Other comprehensive income/(loss) for the period, net of tax** | | **1,756** | (1,322) |
| **Total comprehensive income for the period** | | **252,305** | 184,228 |
| Total comprehensive income/(loss) for the period attributable to: | | | |
| Owners of the Company | | **262,563** | 193,130 |
| Non-controlling interests | | **(10,258)** | (8,902) |
| | | **252,305** | 184,228 |

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | *Note* | **As at 30 June 2023** ***RMB'000*** **(Unaudited)** | As at 31 December 2022 *RMB'000* (Audited) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **455,464** | 450,153 |
| Right-of-use assets | | **538,126** | 547,036 |
| Investment property | | **2,485** | 2,529 |
| Intangible assets | | **234,841** | 241,752 |
| Interests in associates and joint ventures | | **391,136** | 363,563 |
| Financial assets at FVOCI | | **26,412** | 18,413 |
| Financial assets at fair value through profit or loss ("**FVTPL**") | | **88,995** | 86,628 |
| Restricted bank deposits | | **14,009** | 1,009 |
| Long-term bank deposits | | **20,000** | 20,000 |
| Deposits, prepayments and other receivables | | **370,648** | 343,245 |
| Deferred tax assets | | **6,317** | 5,791 |
| | | **2,148,433** | 2,080,119 |
| **Current assets** | | | |
| Inventories | | **230,879** | 336,785 |
| Biological assets | | **7,485** | 6,139 |
| Trade receivables | *7* | **1,096,283** | 1,118,438 |
| Deposits, prepayments and other receivables | | **985,419** | 848,802 |
| Financial assets at FVTPL | | **587,813** | 623,800 |
| Loans to associates | | **–** | 39,512 |
| Amounts due from associates | | **19,137** | 932 |
| Restricted bank deposits | | **297,028** | 289,306 |
| Cash and cash equivalents | | **2,074,775** | 1,465,908 |
| | | **5,298,819** | 4,729,622 |
| **Total assets** | | **7,447,252** | 6,809,741 |

| | Note | As at 30 June 2023 RMB'000 (Unaudited) | As at 31 December 2022 RMB'000 (Audited) |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | | **123,640** | 103,750 |
| Other payables | | **74,960** | 66,988 |
| Contract liabilities | | **22,468** | 23,262 |
| Lease liabilities | | **462,661** | 433,392 |
| Deferred tax liabilities | | **7,493** | 7,585 |
| | | **691,222** | 634,977 |
| **Current liabilities** | | | |
| Trade payables | *8* | **528,789** | 509,916 |
| Accruals and other payables | | **1,282,592** | 1,318,170 |
| Dividend payable | *9* | **120,729** | – |
| Contract liabilities | | **22,118** | 22,503 |
| Income tax payables | | **14,890** | 13,885 |
| Amounts due to associates | | **6,188** | 25,370 |
| Bank borrowings | | **1,184,461** | 1,231,191 |
| Lease liabilities | | **33,152** | 34,238 |
| | | **3,192,919** | 3,155,273 |
| **Total liabilities** | | **3,884,141** | 3,790,250 |
| **Net assets** | | **3,563,111** | 3,019,491 |
| **Equity** | | | |
| **Equity attributable to the owners of the Company** | | | |
| Share capital | | **1,588,544** | 1,500,000 |
| Reserves | | **1,913,020** | 1,454,686 |
| Capital and reserves attributable to owners of the Company | | **3,501,564** | 2,954,686 |
| Non-controlling interests | | **61,547** | 64,805 |
| **Total equity** | | **3,563,111** | 3,019,491 |

# NOTES TO THE INTERIM CONDENSED 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**").

This interim condensed consolidated financial information is presented in Renminbi ("**RMB**"), and all values are rounded to the nearest thousand ("**RMB'000**") unless otherwise stated.

## 2 BASIS OF PREPARATION

The principal accounting policies applied in the preparation of the interim condensed consolidated financial information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

### 2.1 Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 June 2023 has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2022, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**").

### 2.2 Accounting policies

The accounting policies applied are consistent with those applied in preparation of the Group's financial statements for the year ended 31 December 2022, except for the estimation of income tax (Note 5) and the adoption of new standards, amendments to standards and interpretations as set out below.

(a) New and amended standards adopted by the Group

The following new and amended standards apply for the first time to financial reporting periods commencing on or after 1 January 2023:

| | | **Effective for annual periods beginning on or after** |
|---|---|---|
| HKFRS 17 | Insurance Contracts | 1 January 2023 |
| HKAS 1 and HKFRS Practice Statement 2 (Amendments) | Disclosure of Accounting Policies | 1 January 2023 |
| HKAS 8 (Amendments) | Definition of Accounting Estimates | 1 January 2023 |
| HKAS 12 (Amendments) | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

(b) Amended standards and interpretation that have been issued but are not effective for the year ended 31 December 2023 and have not been early adopted:

The following amended standards and interpretation have been issued but are not effective for the financial year beginning on 1 January 2024 and have not been early adopted by the Group:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKAS 1 (Amendments) | Classification of Liabilities as Current or Non-current | 1 January 2024 |
| HKAS 1 (Amendments) | Non-current Liabilities with Covenants | 1 January 2024 |
| Hong Kong Interpretation 5 (2020) | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause | 1 January 2024 |
| HKFRS 16 (Amendments) | Lease Liability in a Sale and Leaseback | 1 January 2024 |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture | To be determined |

Management is in the process of assessing the financial impact of the adoption of the above new standards, amendments to standards and interpretation. The Group will adopt the new standards, amendments to standards and interpretation when they become effective.

## 3 REVENUE AND SEGMENT INFORMATION

### (a) Description of segments and principal activities

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

The CODM assesses 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, remuneration of auditors, legal and professional fees, listing expenses, income tax expense, interest income on bank deposits and interest expenses on borrowings. Other information provided to the CODM is measured in a manner consistent with that in the interim condensed consolidated financial information.

**(b) Segment revenue and result**

| | **Franchising** *RMB'000* | **Trading** *RMB'000* | **Others** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|
| **Six months ended 30 June 2023 (Unaudited)** | | | | |
| Revenue from contracts | **6,050,703** | **465,225** | **12,117** | **6,528,045** |
| Less: Inter-segment revenue | **–** | **(226,539)** | **(7,190)** | **(233,729)** |
| Revenue from external customers | **6,050,703** | **238,686** | **4,927** | **6,294,316** |
| Segment results | **280,277** | **24,054** | **(390)** | **303,941** |
| Unallocated other gains, net | | | | **10,589** |
| Unallocated corporate expenses | | | | **(38,558)** |
| Unallocated finance income | | | | **20,529** |
| Unallocated finance cost | | | | **(24,021)** |
| Profit before income tax | | | | **272,480** |
| Income tax expense | | | | **(21,931)** |
| Profit for the period | | | | **250,549** |
| Depreciation and amortisation | **59,390** | **4,963** | **2,034** | **66,387** |
| Additions to: | | | | |
| Property, plant and equipment | **16,610** | **1,920** | **14,410** | **32,940** |
| Right-of-use assets | **16,115** | **–** | **8,684** | **24,799** |
| Intangible assets | **1,024** | **–** | **–** | **1,024** |

| | Franchising *RMB'000* | Trading *RMB'000* | Others *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **Six months ended 30 June 2022 (Unaudited)** | | | | |
| Revenue from contracts | 5,744,158 | 409,460 | 7,947 | 6,161,565 |
| Less: Inter-segment revenue | – | (245,068) | (1,776) | (246,844) |
| Revenue from external customers | 5,744,158 | 164,392 | 6,171 | 5,914,721 |
| Segment results | 245,821 | 15,654 | 5,107 | 266,582 |
| Unallocated other gains, net | | | | 7,476 |
| Unallocated corporate expenses | | | | (55,372) |
| Unallocated finance income | | | | 15,423 |
| Unallocated finance cost | | | | (27,061) |
| Profit before income tax | | | | 207,048 |
| Income tax expense | | | | (21,498) |
| Profit for the period | | | | 185,550 |
| Depreciation and amortisation | 57,521 | 1,786 | 2,112 | 61,419 |
| Additions to: | | | | |
| Property, plant and equipment | 37,000 | 2,031 | 4,581 | 43,612 |
| Right-of-use assets | 7,588 | – | – | 7,588 |
| Intangible assets | 1,391 | – | – | 1,391 |

**(c) Geographical segment**

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

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Mainland China | **6,185,315** | 5,842,379 |
| Hong Kong and other countries | **109,001** | 72,342 |
| | **6,294,316** | 5,914,721 |

All the Group's assets and liabilities are located in the PRC. Accordingly, no segment assets and liabilities by geographical segment is presented (31 December 2022: same).

There is no single external customer contributed to more than 10% of the Group's revenue during the six months ended 30 June 2023 (six months ended 30 June 2022: same).

## 4 EXPENSES BY NATURE

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Cost of inventories sold | **5,320,525** | 4,993,775 |
| Employee benefit expenses | **346,167** | 357,260 |
| Listing expenses | **2,192** | 19,096 |
| Depreciation of property, plant and equipment | **24,743** | 19,462 |
| Depreciation of right-of-use assets | **33,709** | 34,237 |
| Amortisation of intangible assets | **7,935** | 7,720 |
| Remuneration of auditors (*Note a)* | **2,400** | – |
| Legal and professional fees | **33,966** | 36,276 |
| Delivery charges | **104,938** | 108,142 |
| Marketing and promotion expenses | **31,445** | 35,143 |
| Office supplies | **2,597** | 2,439 |
| Labour cost (*Note b)* | **49,323** | 35,963 |
| Expense relating to short-term leases | **21,259** | 20,886 |
| Travelling expenses | **8,401** | 4,496 |
| Entertainment | **4,590** | 4,733 |
| Water and electricity | **8,202** | 7,035 |
| Other tax expenses | **11,820** | 10,933 |
| Others | **30,546** | 29,401 |
| | **6,044,758** | 5,726,997 |
| Representing: | | |
| Cost of sales | **5,581,784** | 5,237,328 |
| Selling expenses | **241,995** | 246,184 |
| Administrative expenses | **146,873** | 157,205 |
| Research and development expenses | **74,106** | 86,280 |
| | **6,044,758** | 5,726,997 |

*Notes:*

(a) Balance includes overseas auditor's remuneration for audit services of RMB1,700,000 (six months ended 30 June 2022: nil), as well as domestic auditor's remuneration for audit services of RMB700,000 (six months ended 30 June 2022: nil).

(b) Balance represents costs incurred by the Group for human resources companies responsible for outsourced staff working at warehouses and distribution centres.

## 5 INCOME TAX EXPENSES

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | **23,414** | 23,124 |
| Deferred tax | **(1,483)** | (1,626) |
| Income tax expense | **21,931** | 21,498 |

Income tax expense is recognised using the tax rate that would be applicable to expected total annual earnings. The tax rate used for the six months ended 30 June 2023 is 8.0%, compared to 10.4% for the six months ended 30 June 2022. The tax rate is lower in 2023 due to the increase in proportion of the Group's activities which are not subject to income tax.

## 6 EARNINGS PER SHARE FOR THE PROFIT ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

### (a) Basic earnings per share

The basic earnings per share is calculated on the profit attributable to owners of the Company divided by the weighted average number of ordinary shares outstanding during the six months ended 30 June 2023 and 2022.

| | Six months ended 30 June | |
|---|---|---|
| | **2023** | 2022 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to owners of the Company *(RMB'000)* | **260,807** | 194,452 |
| Weighted average number of shares outstanding *('000)* | **1,580,164** | 1,500,000 |
| Basic earnings per share *(expressed in RMB cent)* | **16.51** | 12.96 |

### (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 six months ended 30 June 2023 and 2022.

## 7 TRADE RECEIVABLES

| | **As at 30 June 2023** ***RMB'000*** **(Unaudited)** | As at 31 December 2022 *RMB'000* (Audited) |
|---|---|---|
| Trade receivables, gross | **1,147,957** | 1,156,260 |
| Less: loss allowance | **(51,674)** | (37,822) |
| Trade receivables, net | **1,096,283** | 1,118,438 |

The Group allows an average credit period of up to 90 days to its customers. The ageing analysis of trade receivables before the loss allowances by invoice date is as follows:

| | **As at 30 June 2023** ***RMB'000*** **(Unaudited)** | As at 31 December 2022 *RMB'000* (Audited) |
|---|---|---|
| 1 – 90 days | **1,009,962** | 803,891 |
| 91 – 180 days | **77,515** | 284,697 |
| 181 – 365 days | **19,209** | 40,157 |
| Over 1 year | **41,271** | 27,515 |
| | **1,147,957** | 1,156,260 |

## 8 TRADE PAYABLES

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

| | **As at 30 June 2023** | As at 31 December 2022 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Audited) |
| 1 to 30 days | **490,519** | 476,403 |
| 31 to 60 days | **20,704** | 21,164 |
| 61 to 90 days | **7,812** | 2,494 |
| Over 90 days | **9,754** | 9,855 |
| | **528,789** | 509,916 |

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

## 9 DIVIDENDS

The proposed 2022 final dividend of RMB0.076 per ordinary share, equivalent to a total of approximately RMB120,729,000 for the year, has been approved by the Company's shareholders at its annual general meeting and has been recognised as dividend payable in the interim condensed consolidated statement of financial position.

The board does not recommend payment of interim dividend for the period ended 30 June 2023.

## OTHER INFORMATION

### Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended June 30, 2023.

### Corporate Governance Practices

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

The Company was listed on the Stock Exchange on January 16, 2023 and the CG Code as set out in Appendix 14 to the Listing Rules was not applicable to the Company before the Listing Date. From the Listing Date to June 30, 2023, the Company complied with all applicable code provisions under the CG Code and adopted most of the best practices set out therein.

### Model Code for Securities Transactions

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

Having made specific enquiry with all the Directors and supervisors, all of the Directors and supervisors confirmed that he/she has complied with the required standards as set out in the Model Code during the period from the Listing Date to June 30, 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

During the period from the Listing Date to June 30, 2023, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## SUBSEQUENT EVENTS

As of the date of this announcement, there was no significant event affecting the Group which occurred subsequent to June 30, 2023.

## AUDIT COMMITTEE

The Board has established the Audit Committee, which comprises two independent non-executive Directors and one non-executives Directors, 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 unaudited interim condensed consolidated financial information of the Group for the six months ended June 30, 2023.

## SCOPE OF WORK OF PRICEWATERHOUSECOOPERS

The interim condensed consolidated financial information are unaudited but have been reviewed by the Group's auditor, PricewaterhouseCoopers, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

## PUBLICATION OF INTERIM RESULTS AND 2023 INTERIM REPORT

This interim 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 interim report of the Company for the six months ended June 30, 2023 containing all the information required by the Listing Rules will be despatched to the Shareholders and published on the respective websites of the Company and the Stock Exchange within the prescribed time and in accordance with the requirements under the Listing Rules.

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
August 21, 2023

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