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OVERVIEW

We are the largest producer of potted vegetable produce in Shandong province, with a market share of 14.8% in terms of sales revenue in Shandong province in 2022. With a sales revenue of RMB126.7 million, our Group accounted for approximately 3.1% of total sales revenue of potted vegetable producers and less than 0.01% of total sales revenue of vegetable producers in China in 2022. During the Track Record Period, our products were marketed under our brand “富景农业”, and included 29 potted vegetable produce species.

In 2022, Shandong province, the largest potted vegetable producing province in the PRC contributed approximately 20.3% and 19.0% in terms of the total sales volume and the total sales revenue of potted vegetable produce of the PRC, respectively. China’s vegetable produce market and potted vegetable produce market are both highly fragmented with around one million to two million vegetable producers and thousands of potted vegetable producers, respectively. Total sales revenue of potted vegetable produce accounted for less than 0.1% of total sales revenue of vegetable produce in China in 2022.

We are one of the potted vegetable producers in Shandong province of the PRC which started large scale production of potted vegetable produce with an annual production capacity of more than one million pots in 2016. Our business of cultivation and sales of potted vegetable produce commenced in 2012 in Laixi, Qingdao, Shandong province, and we have since grown into a major potted vegetable producer in the PRC. For ensuring the quality and to meet the relevant safety requirements, all of our potted vegetable produce are grown in greenhouses in our cultivation facilities, and we do not purchase potted vegetable produce from other producers. As at the Latest Practicable Date, we had been accredited with Certificate of Pollution-free Agricultural Products* (無公害農產品證書) issued by Qingdao Agricultural Rural Bureau* (青島市農業農村局) in respect of the potted vegetable produce cultivated at our Laixi Facility. We had also been awarded various awards and certifications for recognition such as Qingdao Green Vegetable Garden* (青島市綠色菜園) in 2018 by Qingdao Agriculture Commission* (青島市農業委員會) and Qingdao Municipal Vegetable Base* (青島市市控蔬菜基地) in 2014 by Bureau of Commerce, Qingdao (青島市商務局).

In recognition of our technical and quality control capabilities, we were selected by Qingdao Association of Standardisation (青島市標準化協會) in 2019 to be involved in the development of the industry standard for the industrial cultivation of potted vegetable produce in the PRC together with the Laixi Potted Vegetable Cultivation Association* (萊西市盤菜種植協會), Qingdao Fugeng Agricultural Machinery Professional Cooperative* (青島富耕農機專業合作社) and Qingdao Institute of Technology and Standards* (青島市技術標準科學研究所).

With Shandong province as our primary geographical market, we extended our geographical coverage by commencing sales of our potted vegetable produce in Xi’an, Shaanxi province and Dalian, Liaoning province in 2019. During FY2020, we further expanded our Laixi Facility by a total site area of approximately 90,000 sq.m. We sell our potted vegetable produce primarily through a network of distributors in the PRC which then on-sell our products to end-user customers in Shandong, Liaoning and Shaanxi

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provinces in the PRC, the majority of which are hotels and restaurants. These hotels and restaurants end-user customers sell both traditional vegetable produce and potted vegetable produce. However, majority of the potted vegetable produce sold by them was supplied by us.

We combine the use of greenhouses, in-pot cultivation know-how, the use of single use substrates and industrialised production, thereby achieving a stable, all-season cultivation environment unaffected by the negative effects of continuous cropping, and enabling us to cultivate a wide range of vegetable species (including those cold-sensitive species) all-year-round with up to 14 yields per annum.

As a potted vegetable producer, we are at the upstream of the value chain of the potted vegetable market. Due to the labour intensive nature of cultivation of agricultural products, we engage subcontractors to handle simple labour work in the cultivation process under our day-to-day management and supervision. Our employees perform the key processes including monitoring and/or adjusting environment parameters such as temperature, humidity, carbon dioxide density and illumination duration inside our greenhouses, monitoring vegetable's growth progress and performing quality control of our potted vegetable produce. Our subcontractors, which engage in labour subcontracting services and provide labour services to various businesses in a wide range of industries, have no specific knowledge on maintaining greenhouses, performing quality control, monitoring vegetable's growth progress and developing and formulating organic substrates for potted vegetable produce.

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Throughout FY2020, FY2021, FY2022 and 9M2023, our average selling price per pot of our potted vegetable produce remained unchanged at RMB15.1. In general, the selling price of vegetable products in the general wholesale market are affected by various factors such as seasonal variations, cultivation volume and market conditions, resulting in unstable prices with significant fluctuations. However, unlike the general wholesale market for vegetable products with a vast number of different producers and purchasers, we maintain long-term relationships with our 12 distributors, which maintain stable relationships with our end-user customers. Any price volatility of our potted vegetable produce poses many uncertainties for customers, particularly hotels and restaurants, in terms of cost control and operational management. Besides, the COVID-19 epidemic lasted from 2020 to 2022, which created uncertainties over the market and business environment. Accordingly, the Group decided to maintain a stable selling price of our products during the Track Record Period in order to maintain a long-term relationship with our distributors. However, we will review the selling price of our products to our distributors from time to time and consider adjusting the selling price if necessary.

The following table sets forth a breakdown of our revenue by sales channels during the Track Record Period:

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

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

* represents percentage ratio of less than 0.1%.

As our potted vegetable produce is sold to our customers in pots while still fresh and living, it allows our potted vegetable produce to continue to grow and maintain a longer period of freshness after delivery from our cultivation facilities.

We apply an industrial cultivation method to produce our potted vegetable produce. Such cultivation method requires the use of enclosed greenhouses together with the application of our horticultural know-how and equipment in connection with pest control, heat preservation, ventilation and/or shading of sunlight to adjust parameters such as temperature, humidity, illumination duration and carbon dioxide density during the cultivation process in our greenhouses in order to create an appropriate and ideal microclimate environment for the growth of our potted vegetable produce. Given that our products are potted vegetable produce which are perishable in nature, we strategically targeted to sell our potted vegetable produce to end-user customers in major cities who are geographically proximate to our cultivation facilities in order to shorten delivery time and

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maintain a high level of freshness of our products when they reach the end-user customers. As at the Latest Practicable Date, we had 140 greenhouses located in three cultivation facilities for cultivating our potted vegetable produce. The following table sets forth the number of greenhouses and their respective approximate total gross floor area by location as at 1 January 2020, 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and the Latest Practicable Date:

	As at 1 January 2020		As at 31 December 2020		As at 31 December 2021		As at 31 December 2022		As at 30 September 2023		As at the Latest Practicable Date	
	Number of greenhouses	Approx. total gross floor area (sq.m.)	Number of greenhouses	Approx. total gross floor area (sq.m.)	Number of greenhouses	Approx. total gross floor area (sq.m.)	Number of greenhouses	Approx. total gross floor area (sq.m.)	Number of greenhouses	Approx. total gross floor area (sq.m.)	Number of greenhouses	Approx. total gross floor area (sq.m.)
Qingdao, Shandong Province	67	72,001	107	139,134	107	139,134	104	136,801	104	136,801	104	136,801
Xi'an, Shaanxi Province	10	10,000	10	10,000	7	7,000	7	7,000	7	7,000	7	7,000
Dalian, Liaoning Province	15	6,000	29	11,600	29	11,600	29	11,600	29	11,600	29	11,600
Total	92	88,001	146	160,734	143	157,734	140	155,401	140	155,401	140	155,401

Our technical department personnel have engaged in testing of cultivation methods and techniques for the refinement of our current cultivation methods and techniques and the optimisation of species selection for our new products.


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

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have allowed us to achieve sustainable growth and profitability and maintain our leading position and competitiveness in the potted vegetable produce industry:

Leading position in the potted vegetable produce industry in Shandong province with brand recognition and high product quality

Leading market position

We are one of the potted vegetable producer in Shandong province of the PRC which started large scale production of potted vegetable produce with an annual production capacity of more than one million pots in 2016 and we have accumulated more than eight years of experiences in the cultivation of potted vegetable produce. All of our products are mainly marketed under our brand “富景农业” while we also use our registered trademark, , only for conducting online direct sales through our WeMall account. We believe that, by focusing on a brand, it helps to build brand recognition and awareness among our customers. Through consistently promoting our brand, we can increase our brand visibility

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and make it easier for customers to identify and remember our products. Moreover, we can streamline our marketing efforts, reduce brand development and maintenance costs, and allocate our resources more efficiently. With brand recognition, we have been able to secure a leading market position in the potted vegetable produce industry in Shandong province. We were the largest potted vegetable producer in Shandong province with a market share of 14.8% in terms of sales revenue in Shandong province in 2022. Meanwhile, with a sales revenue of RMB126.7 million, the Group accounted for less than 0.01% of total sales revenue of vegetable producers and approximately 3.1% of total sales revenue of potted vegetable producers in China in 2022. Our market leading position and brand recognition are not only evidenced by our sales performance, but also by the awards and certifications received, such as Qingdao Green Vegetable Garden* (青島市綠色菜園) in 2018 by Qingdao Agriculture Commission* (青島市農業委員會) and Qingdao Municipal Vegetable Base* (青島市市控蔬菜基地) in 2014 by Bureau of Commerce, Qingdao (青島市商務局). For further details of our awards, please refer to the paragraph headed “Awards” in this section of the document.

Reputation of food safety and quality control

To ensure product quality, we have implemented strict quality control measures in our cultivation process. In general, consumers would not be provided with information such as the origin of and the level of pesticides contained in the vegetable produce, whether the vegetable produce is pollution-free or not, and the quality control procedures adopted by the subject vegetable producer. The feature of our potted vegetable produce which is sold while fresh and living in pots printed with our brand, together with our reputation of food safety and quality control, can assure the confidence of consumers who pursue healthy lifestyle that they are paying for quality products. Further, we have a dedicated quality control team to ensure that our internal quality procedures are duly followed.

Certification and recognition

As at the Latest Practicable Date, we had obtained GB/T 19001–2016 idt ISO 9001: 2015 certificate for our quality management system (質量管理體系認證證書), GB/T 24001–2016 idt ISO 14001: 2015 certificate for our environmental management system (環境管理體系認證證書) and GB/T 45001–2020 idt ISO 45001: 2018 certificate for our occupational health and safety system (職業健康安全管理体系认证证书) issued by Qingdao Huazhong Century Certification Co., Ltd.* (青島華中世紀認證有限公司) in April 2020. We had also been accredited with Certificate of Pollution-free Agricultural Products* (無公害農產品證書) issued by Qingdao Agricultural Rural Bureau* (青島市農業農村局) in respect of the potted vegetable produce cultivated at our Laixi Facility. In particular, in order for us to obtain the Certificate of Pollution-free Agricultural Products* (無公害農產品證書), our products are required to fulfil the relevant national standard and requirements in relation to the environment of the product origin, production process and product quality pursuant to the relevant PRC laws and regulations. Please refer to the paragraph headed “Regulatory Overview — Regulations relating to Pollution-free Agricultural Products” in this document for further details.

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Accordingly, our Directors believe that obtaining such certificate could strengthen recognition of our brand, increase our customers' confidence in our products and attract potential customers.

Further and as confirmed by Agricultural Rural Bureau of Laixi* (萊西市農業農村局), no administrative punishment had been imposed by Agricultural Rural Bureau of Laixi to the Group for any violation of the relevant rules and regulations on quality and safety of our agricultural produce during the Track Record Period.

In recognition of our technical and quality control capabilities, we were selected by Qingdao Association of Standardisation (青島市標準化協會) in 2019 to be involved in the development of the industry standard for the industrial cultivation of potted vegetable produce in the PRC together with the Laixi Potted Vegetable Cultivation Association* (萊西市盤菜種植協會), Qingdao Fugeng Agricultural Machinery Professional Cooperative* (青島富耕農機專業合作社) and Qingdao Institute of Technology and Standards* (青島市技術標準科學研究所).

We believe the recognition of our brand and our high quality potted vegetable produce will continue to be a main factor driving our future success and we are well positioned to leverage our strength in the potted vegetable produce industry to capture future growth and to tap into new markets.

Well-established distribution network across Shandong province

We have a well-established distribution network across Shandong province consisting of distribution channels operated by distributors. We sell our potted vegetable produce primarily to distributors, which then on-sell our products to end-user customers. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, we had ten distributors for each year/period for selling of our potted vegetable produce over Shandong province and they are all experienced in selling potted vegetable produce and familiar with the market practice. Since potted vegetable produce is a fresh daily consumable, catering service providers such as hotels and restaurants would generally expect a stable supply from the producers or distributors so that the potted vegetable produce would be replenished rapidly after consumption from time to time. Hence, our distributorship model, which allow efficient delivery, is proven to be useful for our existing markets as well as for tapping into new markets in the future. Further, our distribution network allows us to benefit from our distributors' established distribution channels and resources, save cost that would otherwise be required to build up a logistic network across the area and increase the effectiveness of the penetration of our products, allowing us to distribute effectively and efficiently our products at all levels, from cities and urban centres to counties and towns. Our Directors believe that our well-established distribution network in Shandong province constitutes an important element of our strength and success given the perishable nature of our potted vegetable produce which requires speedy distribution to consumers.

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Our extensive distribution network in Shandong province is supported by our sales and marketing team who has built up our effective distribution channel management system. Our sales and marketing personnel gather market intelligence from distributors so as to monitor changing market trends, consumer preferences, sales performance of our products on a regular basis, which allows us to anticipate and respond to these changes in a timely manner as well as to facilitate our marketing strategies.

We believe our well-established distribution network will continue to allow us to successfully market and deliver our products to consumers and support our future growth.

Experienced management team with a proven track record to lead our development

Our management team is composed of knowledgeable and experienced personnel with a proven track record in the potted vegetable produce industry. Our senior management team members have extensive operational and management experience in the cultivation of vegetable produce and potted vegetable produce in the PRC. Our management is led by Mr. Zhang (being our founder, chairman of our Board, chief executive officer and our executive Director) and Mr. Pang Jinhong (being our executive Director), both have about 11 years of experience in the potted vegetable produce industry. Further, Mr. Zhang has over 17 years’ experience in the industry of cultivation and sales of vegetable produce. Prior to our inception to the potted vegetable produce industry, Mr. Zhang was inspired by the advancement of new cultivation methods and shortcomings of traditional in-ground cultivation method and had decided to convert our business model from traditional in-ground cultivation in open fields to cultivation of vegetable in pots and in greenhouses, which lead to a fast growth and expansion of our Group. Please refer to the section headed “Directors and Senior Management” in this document for details of the biographies of our Directors and senior management.

Our dedicated management team spearheads our business operations and designs our future growth plans. Their experience in, and knowledge of, the potted vegetable produce industry in which we operate also enable us to identify new business opportunities and the change of market taste and demand. Our management team has played a key role in building a corporate culture which encourages consistent delivery of high quality potted vegetable produce. Our management team contributed significantly to our continuous growth during the Track Record Period. We believe our experienced management team is a key to our success in the past and will continue to contribute to our growth of our operations and profitability in the future.

Our potted vegetable produce cultivation method ensures high productivity as compared with traditional in-ground cultivation method

Under our potted vegetable cultivation method, we do not reuse our organic substrates, and could avoid the common problems of continuous cropping. The harmful effects of continuous cropping occur when plants are repeatedly and intensively growing on the same soil for extended periods of time, or without sufficient recovery period, which would lead to the reduction of micronutrients and minerals, distortion of soil

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microenvironment and the accumulation of pathogenic substances in the soil. Hence, continuous cropping will lead to the reduction of soil fertility and productivity of the land, and will increase the use of fertiliser, pesticides and insecticide.

Since we cultivate our vegetable produce in pots filled with organic substrates in greenhouses and we do not reuse our organic substrates, we could ensure that all our potted vegetable produce is growing in organic substrates with ideal nutrients which are freshly prepared by us and are less likely to be contaminated by pollutants or harmful substances. Further, since we do not reuse our organic substrates, there is no chance for distortion of soil microenvironment and the accumulation of pathogenic substances as compared to continuous cropping. Lastly, the growth of vegetable produce in individual pots provides physical segregation between each of the vegetable produce, which could prevent the spread of crop diseases or pest infestations as it lowered the risk of cross contamination.

Our cultivation method could effectively avoid the harmful effects of continuous cropping that are commonly found in agricultural produce that grown in common fields, leading to a higher productivity compared to traditional in-ground cultivation. As advised by Professor Cui Dejie (崔德杰), our Agricultural Adviser, who is a professor of Qingdao Agricultural University who possesses more than 35 years of experience in research on soil science: (i) for vegetable producers who adopt traditional in-ground cultivation method, they are subject to the problem of continuous cropping which may lead to a significant reduction of productivity in the long run; (ii) with the use of greenhouses, single-use substrates and without being affected by the negative effects of continuous cropping, potted vegetable producers using the in-pot cultivation method will achieve high productivity, in general they are able to cultivate a maximum of ten yields to 14 yields per year, subject to the conditions of greenhouses and the optimal use of cultivation time; and (iii) whereas for traditional in-ground cultivation method, due to the negative effects of continuous cropping, it is common for vegetable producers to adopt a rest period or cultivate other crops for soil recovery between each cultivation, which limits the maximum output per year; the productivity and overall output level will also be lower for those vegetable producers without effective heat insulation facility as many species do not grow in summer or winter. As a result, it is expected that with traditional in-ground cultivation method, vegetable producers can only complete two yields to six yields of cultivation per year. Our cultivation method allows us to stand out from agricultural producers who use traditional in-ground cultivation method as we could cultivate more efficiently throughout the year and yield products with better quality.

The higher requirements and upfront investment costs in cultivation of potted vegetable produce in greenhouses differentiate us from traditional players in the vegetable produce industry

The higher requirements and the demand for significant upfront investments in cultivation of potted vegetable produce in greenhouses excluded certain market players to enter into the potted vegetable produce industry. Our enhanced greenhouses are equipped with various facilities such as rolling sun shading curtains, insulating quilts, fibreglass water duct and vegetable greenhouse environment monitoring system. The development of a large scale cultivation base with these facilities require significant investments. Historically, we

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invested over RMB100.0 million in developing our greenhouses and our infrastructure, which we believe is an effective entry barrier. Despite the high upfront investment cost, our Directors believe that the higher productivity, stable and all-year-round cultivation and better quality of goods achieved by our cultivation method could provide long-term benefit to our Group. During the Track Record Period, we recorded a gross profit margin of 44.0%, 42.4%, 41.5% and 42.9%, and our Directors believe that the use of specially formulated organic substrates and the application of our cultivation technology will continue to differentiate our Group from the traditional players in the vegetable produce industry and support our future growth.

OUR BUSINESS STRATEGIES

We intend to achieve sustainable growth in sales and profit and further strengthen our leading position in the potted vegetable produce industry in the PRC by implementing the following strategies:

Expansion of our cultivation capacity

1. Improvement and expansion of cultivation facilities in our existing geographical markets

We intend to improve and/or expand on our cultivation capacities in our existing geographical markets including Shandong, Liaoning and Shaanxi provinces in the PRC. Our expansion and improvement plan in our existing geographical market primarily comprise of (i) establishing a new cultivation facility in Jinan, Shandong province (the “**Jinan Facility**”); (ii) expanding our existing cultivation facilities through the construction of additional greenhouses; and (iii) upgrading part of our current greenhouses in our Laixi Facility and Xi’an Facility. Upon completion of the expansion and improvement plan, our Jinan Facility will have 15 enhanced large greenhouses and our Dalian Facility will have an additional of two enhanced large greenhouses. The newly constructed greenhouses in the Jinan Facility and our Dalian Facility will increase an additional 38,667 sq.m. of the total gross floor area of greenhouses. We plan to allocate approximately RMB[REDACTED] of [REDACTED] from the [REDACTED] to expand and improve the cultivation capacity in our existing geographical market. We believe our expansion and improvement plan in our existing geographical market is vital to the expansion of our operations and necessary for the following reasons:

i. Historical growth and latest expansion

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

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between FY2020 and FY2021, our revenue generated from Shandong province, our largest geographical market by revenue, increased from approximately RMB105.7 million to approximately RMB141.3 million, representing an annual growth of 33.6%. In addition, our sales volume increased from approximately 8.0 million pots in FY2020 to approximately 10.3 million pots in FY2021.

The increase in our revenue and sales volume during the Track Record Period was primarily attributable to the expansion of our cultivation capacity. During the Track Record Period, our total gross floor area of greenhouses increased from 88,001 sq.m. at the beginning of FY2020 to 155,401 sq.m. as at the Latest Practicable Date. In particular, the total gross floor area of greenhouses of our Laixi Facility, our largest cultivation facility located in Shandong province, increased from 72,001 sq.m. at the beginning of FY2020 to 136,801 sq.m. as at the Latest Practicable Date. Our Directors believe that our rapid expansion and increase in sales volume during the Track Record Period is an indication of a growing market demand for our potted vegetable produce and a testament to our commitment to the development of our business.

Although our total revenue decreased by approximately RMB28.3 million from approximately RMB154.9 million in FY2021 to approximately RMB126.7 million in FY2022, such decrease in revenue was primarily due to the temporary adverse effect of the resurgence of the COVID-19 cases which seriously affected our Shandong province market in FY2022. Our directors believe that such decrease in revenue was exceptional as a result of the one-off effect of COVID-19 epidemic in Laixi which caused the suspension of our Laixi Facility for more than a month in FY2022. However, in August 2022, we recorded a revenue of approximately RMB17.2 million, which exceeded our revenue of approximately RMB16.1 million in August 2021. In addition, we recorded a revenue of approximately RMB54.2 million from September 2022 to December 2022, which is comparable to the revenue of approximately RMB54.6 million we recorded during the same period in 2021. Our total revenue increased by approximately RMB32.7 million from approximately RMB88.6 million in 9M2022 to approximately RMB121.3 million in 9M2023, such increase in revenue was primarily due to the increase in the volume of our actual cultivation output in the corresponding period as our business operation was no longer affected by COVID-19 epidemic in 9M2023.

In view of our significant growth in Shandong province, we expanded our geographical coverage by commencing sales of our potted vegetable produce in Xi'an, Shaanxi province and Dalian, Liaoning province in 2019. Our revenue generated from Dalian was approximately RMB7.0 million in FY2020, and increased to approximately RMB7.4 million in FY2021. We expect that our growth in Dalian will continue as we further cement our sales network in the respective geographical markets.

Our Directors believe that the significant growth in our revenue in Shandong province during the Track Record Period and our latest successful expansion in Xi'an and Dalian indicates an increasing demand for our potted vegetable produce in the market and a growing need to expand our cultivation capacity to capture future market demand in our existing geographical markets.

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ii. Anticipated increase in market demand

Our expansion plan in our existing geographical markets is also formulated in view of an anticipated increase in demand for our potted vegetable produce in Shandong, Liaoning and Shaanxi provinces in the PRC. We have an established presence in the markets in which we operate. We are the largest producer of potted vegetable produce in Shandong province with a market share of 14.8% in terms of sales revenue in Shandong province in 2022. Based on the sales revenue of potted vegetable produce in Xi'an and Dalian in 2022, our market share in Xi'an and Dalian was approximately 9.9% and 6.1% in FY2022, respectively. Although we have already had a leading market position in Shandong province and considerable market share in Xi'an and Dalian, our market share in these markets do not exceed 20%, meaning that there is ample room for future growth to capture the remaining market share.

The sales volume of potted vegetable produce in Shandong province, our largest geographical market by revenue during the Track Record Period, is expected to increase from 48.5 million pots in 2022 to 61.6 million pots in 2027, representing a CAGR of 4.9%. Furthermore, the sales revenue of potted vegetable produce in Shandong province is expected to increase from RMB773.6 million in 2022 to RMB1,102.2 million in 2027, representing a CAGR of 7.3%. Similar growth is also expected in the potted vegetable produce market in Xi'an and Dalian. The sales revenue of potted vegetable produce in Xi'an is expected to increase from RMB53.7 million in 2022 to RMB80.7 million in 2027, representing a CAGR of 8.5%, and the sales revenue of potted vegetable produce in Dalian is expected to increase from RMB112.5 million in 2022 to RMB155.0 million in 2027, representing a CAGR of 6.6%. When formulating our expansion plan, we have also consulted with some of our major existing customers in respect of their anticipated demand for our potted vegetable produce. Up until the Latest Practicable Date, we have entered into five non-legally binding letters of intent with five of our existing customers whose revenue contribution together represented approximately 56.1%, 66.3%, 67.3% and 68.1% of our total revenue in FY2020, FY2021, FY2022 and 9M2023, respectively. Pursuant to the letters of intent, the relevant customers have expressed their intention to continue to purchase potted vegetable produce from us and anticipated an annual increase of approximately 10% in the next three years. Given the anticipated increase in sales volume from our existing customers and the anticipated increase in demand for potted vegetable produce, our Directors believe that the increase in our cultivation capacity will be well-received by the market in the future.

The anticipated increase in demand for potted vegetable produce in China is mainly attributable to the increase in demand for healthier food options as a result of increase concerns for improvements in personal health and well-being. Given that our potted vegetable produce is cultivated with ideal nutrients and in a manner which reduces likelihood of contamination and pollution, our Directors are of the view that the demand for our potted vegetable produce will likely grow in the future. In view of the above, we consider it vital to expand our cultivation capacity in our existing markets to accommodate for the increase in demand for potted vegetable produce.

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iii. High utilisation of our existing cultivation facilities

During the Track Record Period, the approximate utilisation rates of our cultivation facilities are as follow:

Cultivation facility	FY2020	FY2021	FY2022	9M2023
Laixi Facility	88.6%	85.8%	74.9% <i>(Note 4)</i>	91.3%
Xi’an Facility	74.5%	71.5%	63.4% <i>(Note 4)</i>	68.8%
Dalian Facility	67.2% <i>(Notes 1&2)</i>	60.8% <i>(Notes 1,2&3)</i>	54.7% <i>(Notes 1,2&4)</i>	58.5% <i>(Notes 1&2)</i>

Notes:

- (1) Among the 29 greenhouses at our Dalian Facility, 14 of them are traditional regular greenhouses which led to slightly longer cultivation time per crop in cold weather and the optimised cultivation conditions had not been met. As a result, a slightly lower utilisation rate has been recorded as compared to other cultivation facilities during the Track Record Period.
- (2) Our Dalian Facility is located in Liaoning province, which is at a higher latitude as compared to that of our Laixi Facility. Due to the lower average yearly temperature, the cultivation conditions of our Dalian Facility are slightly inferior as compared to other facilities, resulting in a relatively lower utilisation rate during the Track Record Period.
- (3) The lower utilisation rate of our Dalian Facility in FY2021 was primarily due to the outbreak of COVID-19 epidemic in Dalian between December 2020 and January 2021. In particular, the lockdown measures of Dalian had led to a temporary suspension of business activities of our Dalian Facility, resulting in a lower utilisation rate in FY2021. For further details, please refer to the paragraph headed “Impact of the outbreak of COVID-19 epidemic” in this section of the document.
- (4) The lower utilisation rate of our cultivation facilities in FY2022 was primarily due to the resurgence of COVID-19 cases which affected our business operations. In particular, the lockdown measures in Laixi and Dalian had led to the temporary suspension of business activities of our Laixi Facility and Dalian Facility between March 2022 to April 2022, and the lockdown measures in Xi’an had also affected the business activities of our Xi’an Facility in January 2022, resulting in the lower utilisation rate in FY2022. For further details, please refer to the paragraph headed “Impact of the outbreak of COVID-19 epidemic” in this section of the document.

In FY2020, FY2021, FY2022 and 9M2023, the utilisation rate of our Laixi Facility, our largest cultivation facility, maintained at a high utilisation rate of 88.6%, 85.8%, 74.9% and 91.3%, respectively, despite the COVID-19 epidemic which affected our business in FY2022. The utilisation rate of our Dalian Facility reached 67.2% in FY2020 despite it only commenced operation in November 2019. The utilisation rate of our Xi’an Facility remained consistently above 70% in average in its first two years of operation during the Track Record Period. Our Directors are of the view that the near saturated utilisation rate of our Laixi Facility during the Track Record Period, despite our continuous expansion and the addition of 40 enhanced greenhouses on our Laixi Land Parcels D and Laixi Land Parcel E with an approximate total gross floor

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area of greenhouses of 67,134 sq.m. (as compared to the approximate total gross floor area of greenhouses of 72,000 sq.m. on our Laixi Land Parcel A, Laixi Land Parcel B and Laixi Land Parcel C immediately prior to our expansion) in the third quarter of FY2020, indicates a consistent demand for our potted vegetable produce and such high utilisation rate would result in inflexibility in scheduling our potted vegetable cultivation and lack of capacity to meet additional purchase orders from existing and potential new customers. Accordingly, our Directors are of the view that there is a need to further expand the cultivation capacity in our existing geographical market. For further details of the utilisation rate of our cultivation facilities during the Track Record Period, please refer to the paragraph headed “Cultivation of our potted vegetable produce — Utilisation of our existing cultivation facilities” in this section of the document.

Our business has recovered from the impact of COVID-19 outbreak in 2023. For the 9M2023, the utilisation rate of our Laixi Facility, Xi’an Facility and Dalian Facility was approximately 91.3%, 68.8% and 58.5%, respectively, while the overall utilisation rate of our three cultivation facilities is approximately 88.1%. In view of the reasons above, we consider it vital to expand the cultivation capacity in our existing geographical markets to meet increasing customer demand for potted vegetable produce as indicated from some of our major distributors. We believe that our expansion plan in our existing geographical markets will enhance our production capacity to meet the expected demand in a timely manner and maintain our competitiveness in the future. We intend to implement the following expansion and improvement plans in our existing geographical markets:

i. Establishing our Jinan Facility

We intend to set up a new cultivation facility in Jinan, Shandong province comprised of 15 enhanced large greenhouses with a total gross floor area of greenhouses of approximately 36,000 sq.m. through a three-year period to supplement and expand our geographical coverage in the central and western part of Shandong province. During the Track Record Period, Shandong province is our largest geographical market in terms of both revenue and sales volume. Our largest cultivation facility, Laixi Facility, is strategically located at Laixi, Shandong province which allows convenient access to prominent markets in eastern and central part of Shandong province, namely Qingdao, Yantai and Weifang. Given the importance of maintaining the freshness and quality of our potted vegetable produce, it is vital for our cultivation facilities to be strategically located near our end-user customers. As such, the establishment of our Jinan Facility will not only strengthen our presence in the central part of Shandong province, namely Weifang, but also allow our Group to reach a greater number of customers in prominent markets in western Shandong province including Jinan and Liaocheng. In preparation of establishing our Jinan Facility, we have communicated with some of our existing customers and potential customers on their potential demand for potted vegetable produce in Jinan and the surrounding area. As at the Latest Practicable Date, we have entered into non-legally binding letters of intent with two existing distributors and one potential distributor for the distribution of our potted vegetable produce in Jinan and the surrounding area. Pursuant to the letters of intent, the distributors have expressed their intention to

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purchase an aggregate of 800,000 pots of potted vegetable produce in 2024. We intend to allocate approximately RMB[REDACTED] of the [REDACTED] from the [REDACTED] for the construction of the 15 enhanced large greenhouses at our Jinan Facility and we intend to fund the remaining set-up costs through our internal resources. The table below sets forth the details of our Jinan Facility:

Location	Approximate area (sq.m.)	Expected number of greenhouses	Approximate gross floor area per greenhouse (sq.m.)	Approximate total cultivation capacity
Jinan, Shandong province	36,000 sq.m.	15 enhanced large green houses	2,400	2.9 million pots per year

The estimated lead time from the construction of the premise to the actual commencement of cultivation will be approximately three months. We intend to increase the cultivation capacity of our Jinan Facility by phases and we expect to complete construction of ten enhanced large greenhouses by the second quarter of 2024 and the remaining five enhanced large greenhouses by the second quarter of 2025. Each of the additional enhanced large greenhouses in our Jinan Facility will have an approximate gross floor area of 2,400 sq.m. The following table sets forth an approximate breakdown of the cost items for the construction of an enhanced large greenhouse with a gross floor area of approximately 2,400 sq.m.:

Particulars	Estimated construction cost per greenhouse ([REDACTED])
Foundation and land works	[REDACTED]
Fitting out and renovation works	[REDACTED]
Installation works	[REDACTED]
Installation of fibreglass water duct	[REDACTED]
Total construction cost per greenhouse	[REDACTED]

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We intend to rent a parcel of land to set up our Jinan Facility. As at the Latest Practicable Date, we have not identified a parcel of land in Jinan where we will set up our Jinan Facility. The expected breakeven operating period will be around 3 months for our Jinan Facility. The breakeven operating period is the period after which the monthly revenue of the Jinan Facility is at least equal to the monthly expenses. The investment payback period is expected to be around 27 months. Investment payback period refers to the length of time to recover the initial investment cost from the accumulated net cash inflow to be generated from the Jinan Facility since the date of the initial investment cash outflow assuming there will be no material impact on our sales due to fluctuation in market demand, inflations, increase in raw material cost or labour cost.

ii. Expanding our existing cultivation facility through the construction of additional greenhouses

As part of our expansion plan in our existing geographical market, we intend to construct additional greenhouses in Dalian. We intend to construct two enhanced large greenhouses with a total gross floor area of approximately 2,667 sq.m. in our Dalian Facility. We intend to allocate approximately RMB[REDACTED] of the [REDACTED] from the [REDACTED] for the construction of the two additional greenhouses in our Dalian Facility and we intend to fund the remaining set-up costs through our internal resources. The table below sets forth details of our planned additional greenhouses in our Dalian Facility:

Cultivation facility	Number of additional greenhouses	Approximate total gross floor area (sq.m.)	Approximate gross floor area per greenhouse (sq.m.)	Approximate total cultivation capacity	Estimated total construction cost (RMB)	Estimated construction cost per greenhouse (RMB)
Dalian Facility	2 enhanced large greenhouses	2,667	1,333	0.2 million pots per year	[REDACTED]	[REDACTED]

Given the limited available space in our Dalian Facility, we intend to rent additional parcels of land to construct our additional greenhouses to expand our Dalian Facility. As at the Latest Practicable Date, we have not identified the parcels of land in Dalian on which our additional greenhouses will be constructed. In order to integrate our resources in close proximity, we intend to construct our new greenhouses

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in parcels of land that are adjacent or located close to our existing cultivation facilities. Each of the additional enhanced large greenhouses in our Dalian Facility will have an approximate gross floor area of 1,333 sq.m. The following table sets forth a breakdown of the cost items for the construction of an enhanced large greenhouse with a gross floor area of approximately 1,333 sq.m.:

Particulars	Estimated construction cost per greenhouse ([REDACTED])
Foundation and land works	[REDACTED]
Fitting out and renovation works	[REDACTED]
Installation works	[REDACTED]
Installation of fibreglass water duct	<u>[REDACTED]</u>
Total construction cost per greenhouse	<u><u>[REDACTED]</u></u>

iii. Upgrading our current greenhouses

In addition to expanding the cultivation capacity of our existing cultivation facilities, we also intend to upgrade part of our existing greenhouses through the installation of fibreglass water duct. In order to maintain the freshness and quality of our potted vegetable produce, our potted vegetable produce must be cultivated in an appropriate and ideal microclimate environment within our enclosed greenhouses to reduce exposure to environmental and natural risks. For more information of our cultivation process and growth management, please refer to the paragraph headed “Cultivation of our potted vegetable produce — Cultivation process” in this section of the document. During the Track Record Period, most of our greenhouses were constructed directly on the soil without the fibreglass water duct separating our potted vegetable produce and the ground. As such, our potted vegetable produce will still be vulnerable to the risk of pest infestation as a high level of moisture will build up on the ground when we carry out the irrigation process. Pest infestations is commonly caused by tree or shrub branches grown on soil grounds and excess moisture in the environment. During and after the irrigation process, excess water can be drained as soon as possible through the fibreglass water duct within the greenhouse to avoid build-up of moisture within the greenhouse. By minimising build-up of moisture within the greenhouse, we are able to minimise the risk of pest infestation.

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We intend to install the fibreglass water duct in 35 of our existing greenhouses with a total gross floor area of approximately 54,000 sq.m. through a three-year period. The expected total capital expenditure for the installation of fibreglass water duct is approximately RMB[REDACTED] and we intend to utilise the [REDACTED] from the [REDACTED] to fund the upgrade plan. Set forth below are details of the upgrade plan at our Laixi Facility and Xi’an Facility:

Cultivation facility	Number of greenhouses to install fibreglass water duct	Approximate total gross floor area (sq.m.)	Estimated total construction cost ([REDACTED])
Laixi Facility	28	47,000	[REDACTED]
Xi’an Facility	7	7,000	[REDACTED]

We intend to carry out our expansion and improvement plans in our existing geographical market through a three-year period and expect to complete the expansion plan by end of 2026. Subject to unforeseeable circumstances, the estimated timetable for the set up of our Jinan Facility and the expansion and upgrade of our existing cultivation facilities is as follows:

Timing of completion/ expected completion	Cultivation facility	Event	Estimated increase in cultivation capacity
Third quarter of 2024	Jinan Facility	● Construction of ten greenhouses	2.0 million pots per year
	Laixi Facility	● Upgrade of 10 greenhouses	N/A
	Xi’an Facility	● Upgrading five greenhouses	N/A
Second quarter of 2025	Jinan Facility	● Construction of five new greenhouses	1.0 million pots per year
	Laixi Facility	● Upgrading 7 greenhouses	N/A
	Xi’an Facility	● Upgrading two greenhouses	N/A
	Dalian Facility	● Construction of two new greenhouses	0.2 million pots per year
Third quarter of 2026	Laixi Facility	● Upgrading 11 greenhouses	N/A

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We expect that after the completion of the expansion and improvement plan, the maximum cultivation capacity of our Jinan Facility will be 2.9 million pots per year and the cultivation capacity of our Dalian Facility will increase by 0.2 million pots per year.

Our business strategy of improvement and expansion of cultivation facilities in our existing geographical markets will result in an increase in cultivation capacity by 3.2 million pots per year when fully completed by the end of the three-year period in 2026, representing approximately 24.7% increase in capacity when compared with our total expected cultivation output under optimal cultivation conditions for FY2022, or a CAGR of approximately 7.6%. Such 7.6% CAGR is relatively modest when compared with (i) the 27.6% growth in our revenue from FY2020 to FY2021; (ii) the 19.3% CAGR of expected cultivation output under optimal cultivation conditions from the year ended 31 December 2019 to FY2021; (iii) the 7.3% CAGR of expected increase in the sales revenue of potted vegetable produce in Shandong province between 2022 and 2027; and (iv) the 6.6% CAGR of expected increase in the sales revenue of potted vegetable produce in Dalian between 2022 and 2027.

Although we have already had a leading market position in Shandong province and considerable market share in Dalian, our market share in these markets does not exceed 20%, meaning that there is ample room for future growth to capture the remaining market share. We successfully enhanced the competitiveness of our potted vegetable produce by expanding the number of species from 15 species as at 31 December 2018 to 29 species as at 30 September 2023 and significantly improved our capability to cultivate potted vegetable produce in winter. Our Directors believe the broad range of vegetable species we can offer, our ability to supply 27 potted vegetable produce species in all seasons, our established business network and reputation due to our presence in the markets give us significant competitive edge over other potted vegetable producers to capture a higher market share and also the increasing market demand in future. Thus our Directors consider that there is sufficient existing and future demand to meet the increase in cultivation capacity under this business strategy.

2. *Establishing a new cultivation facility in new geographical market*

As part of our expansion plan, we also intend to expand our geographical reach and business operations by establishing a new cultivation facility in Hebei province. We have identified Langfang, Hebei province as our targeted geographical market to set up our new cultivation facility. Our plans to expand our geographical reach in Langfang, Hebei is based on the following reasons:

(i) Strategic location and estimated increase in market demand for potted vegetable produce

Given the importance of the location of our cultivation facility, Langfang is strategically located near Beijing, the capital city of PRC, which provides plenty of opportunities to expand our market. Accordingly, our Directors are of the view that the prime location of Langfang will allow our Group to introduce our potted vegetable produce in the geographical markets of Beijing. In addition to its close proximity to

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Beijing, Langfang itself is also one of the fastest growing economies in Hebei province and we plan to further complement our expansion in the Beijing market by developing sales channel targeting local chain restaurants in Langfang as well.

The aggregated sales revenue of potted vegetable produce in Beijing and Langfang increased from RMB58.2 million in 2017 to RMB140.0 million in 2022. The sales revenue is expected to further increase to RMB217.9 million in 2027, representing a CAGR of 9.3%. Furthermore, there are only approximately 80 to 100 potted vegetable producers in Beijing and Langfang in 2022. With around 6,500 chain restaurants in Beijing and Langfang in 2022, our Directors are of the view that the penetration rate for potted vegetable produce in the market remains relatively low and there is ample room for future growth. Furthermore, since Beijing and Langfang are close to our existing markets in Shandong province and Dalian which are all situated in Northern China, the consumers there share similar dietary habit. In view of the low penetration rate and the similarities to our existing market, we consider Beijing and Langfang are suitable markets for the expansion of our potted vegetable produce.

The anticipated increase in demand for potted vegetable produce is in part due to the rising income level of residents in the above geographical markets. The increase in income level has generally prompted a greater emphasis on personal wellness and food quality and safety. Potted vegetable produce possesses advantages in safety and freshness over vegetable produced in open fields. Given that our potted vegetable produce is cultivated with ideal nutrients and in a manner which reduces likelihood of contamination and pollution as mentioned in previous paragraphs, our Directors take the view that there will be a growing market demand for our potted vegetable produce in the above geographical markets. In view of the favourable location of Langfang and the anticipated increase in market demand for potted vegetable produce in the above geographical markets, our Directors consider our planned expansion in Langfang as a necessary step for the long-term success of our Group. We plan to implement our expansion plan by leveraging on our expertise and experience in cultivation and sales of potted vegetable produce. In preparation of establishing our cultivation facility in Langfang, we began sourcing and identifying potential local distributors in Beijing and Langfang to establish our sales network in the region. As at the Latest Practicable Date, we have entered into non-legally binding letters of intent with two potential distributors in Langfang and one potential distributor in Beijing to distribute our potted vegetable produce upon commencement of our new cultivation facility. Pursuant to the letters of intent, the said distributors have expressed their intention to purchase an aggregate of 950,000 pots of potted vegetable produce in 2024.

(ii) Historical track record of successful expansion in new geographical markets

In view of our significant growth in sales in Shandong province, we expanded our geographical coverage by commencing sales of our potted vegetable produce in Xi'an, Shaanxi province and Dalian, Liaoning province in 2019. Our revenue generated from Xi'an was approximately RMB8.7 million in FY2020, while our revenue generated from Dalian was approximately RMB7.0 million in FY2020. Our net profit generated from Xi'an was approximately RMB3.5 million in FY2020, and our net profit

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generated from Dalian was approximately RMB3.1 million in FY2020. We were able to achieve relative success in a short span of time as a result of our ability to rapidly establish a sales network in the respective geographical markets by engaging local distributors to distribute our products, which we believe is a testament to the quality of our potted vegetable produce. Given the success we achieved in our recent expansion in Xi’an and Dalian, our Directors are confident we will be able to replicate our success in Langfang.

Location and site selection

In formulating our expansion plan in new geographical markets, we place significant emphasis on identifying a suitable location to establish our cultivation facility as the location of the cultivation facility directly affects our ability to source new potential customers in the surrounding area. Given the importance of the location of our cultivation facilities, we will consider the following factors when determining the location of the cultivation facility:

- (i) the size and population of the surrounding area and the potential customer pool;
- (ii) the accessibility of the potential site for the cultivation facility; and
- (iii) the rental cost of the parcel of land and construction cost for setting up our cultivation facility.

We intend to rent a parcel of land to set up our new cultivation facility. As at the Latest Practicable Date, we have not identified specific sites in Langfang on which our new cultivation facility will be built. Our Directors estimate the typical lead time from the construction of the premises to the actual opening of a cultivation facility will be approximately three months.

Cultivation capacity of our new cultivation facilities

We intend to establish our new cultivation facility in Langfang gradually over a three-year period. We expect to complete construction of eight enhanced large greenhouses by the third quarter of 2024 and the remaining two enhanced large greenhouses by the third quarter of 2025. The table below sets forth the details of our planned new cultivation facility:

Location of proposed cultivation facilities	Approximate total gross floor area (sq.m.)	Expected time of commencement of operation	Expected number of greenhouses	Approximate gross floor area per greenhouse (sq.m.)	Expected maximum cultivation capacity
Langfang, Hebei province	24,000	Third quarter of 2024	10 enhanced large green houses	2,400	2.0 million pots per year

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We intend to allocate approximately RMB[REDACTED] of the [REDACTED] from the [REDACTED] for the construction of the ten enhanced large greenhouses at our Langfang Facility and we intend to fund the remaining set-up costs through our internal resources. The breakdown of costs for the construction of the enhanced large greenhouses is as follows:

Langfang Facility

Particulars	Estimated investment cost
Foundation and land works	[REDACTED]
Fitting out and renovation works	[REDACTED]
Installation works	[REDACTED]
Installation of fibreglass water duct	[REDACTED]
Total construction cost	[REDACTED]

The expected breakeven operating period will be around 3 months for our new cultivation facility in Langfang. The breakeven operating period is the period after which the monthly revenue of the cultivation facilities is at least equal to their monthly expenses. The investment payback period is expected to be around 27 months. Investment payback refers to the length of time to recover the initial investment cost from the accumulated net cash inflow to be generated from our new cultivation facilities since the date of the initial investment cash outflow assuming there will be no material impact on our sales due to fluctuation in market demand, inflations, increase in raw material cost or labour cost.

Although our business strategy will result in an increase in cultivation capacity in Langfang by 2.0 million pots per year when fully completed, the expansion is to be made over the 3-year period, meaning that there will be additional capacity of approximately 0.67 million pots per year on average. The average annual increment in cultivation capacity of 0.67 million pots per year represents only approximately 5.3% of our total expected cultivation output under optimal cultivation conditions for FY2022. Given Beijing and Langfang have combined permanent residents of approximately 27.3 million as at 31 December 2022, more than the aggregate permanent residents of approximately 26.8 million of Qingdao, Yantai and Weifang in Shandong province as at 31 December 2022, while the sales volume of our sales to customers in these three cities in Shandong province exceeded 7.6 million pots in FY2022, our Directors consider that the expansion plan in Langfang is modest.

The aggregated sales revenue of potted vegetable produce in Beijing and Langfang is expected to further increase from RMB140.0 million in 2022 to RMB217.9 million in 2027, representing a CAGR of 9.3%. With only approximately 80 to 100 potted vegetable producers and around 6,500 chain restaurants in Beijing and Langfang in 2022, our Directors are of the view that the penetration rate for potted vegetable produce in the market remains relatively low and there is ample room for future

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growth. Based on the above, our Directors consider that there is sufficient existing and future demand to meet the increase in cultivation capacity under this business strategy.

3. *Setting up a dedicated organic substrates preparation facility*

Our potted vegetable produce is cultivated in pots filled with our specially formulated organic substrates. Using such organic substrates allows our potted vegetable produce to be cultivated with ideal nutrients for healthy growth and reduces the likelihood of contamination and pollution compared to vegetable produce grown in open fields. The organic substrates preparation process includes three stages: (i) the procurement and proportioning of raw materials; (ii) the fermentation of the proportioned raw materials; and (iii) the further processing and fermentation of the proportioned raw materials to turn the same into organic substrates. For further details of our organic substrates preparation process, please refer to the paragraph headed “Cultivation of our potted vegetable produce — Organic substrates preparation process” in this section of the document. During the Track Record Period, we engaged suppliers to handle the first stage of the preparation process involving the procurement of raw materials and proportioning the raw materials according to our formula. Once the proportioned raw materials are delivered to us, we complete the second and third stage of the preparation process at our cultivation facilities. As such, we intend to enhance our existing cultivation capability by establishing our own organic substrates preparation facility in Laixi, Shandong province to complete all three stages of the organic substrates preparation process internally. Our Directors believe that there is an operational need to establish our own organic substrates preparation facility for the following reasons and considerations:

- (i) Developing and producing new types of organic substrates which can best suit the growth of the various species of our potted vegetable produce*

During the Track Record Period, we procured the proportioned raw materials required for making organic substrates from suppliers who are Independent Third Parties. Our suppliers procure the raw materials needed such as cow manure, fungi residue and peanut shells and then proportion the same according to our own formula and then deliver the proportioned raw materials to our cultivation facilities. We would then ferment repeatedly such proportioned raw materials to eliminate quality risks and then mix them with further raw materials, such as turfy soil and perlite, to process and turn such fermented and proportioned raw materials to the organic substrates required for our cultivation purpose. For further details of our entire cultivation process, please refer to the paragraph headed “Cultivation of our potted vegetable produce — Cultivation process” in this section of the document.

Under the current arrangement, we are restricted to one formula of organic substrates for all of our potted vegetable produce. With the establishment of our own organic substrates preparation facility, we are able to tailor make and proportion different formulas of organic substrate to maximise the quality of different species of vegetable produce. The establishment of the new organic substrates preparation facility will give us the flexibility and ability to develop and produce a variety of organic substrates dedicated for different vegetable species which can best suit the

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growth of different species of our potted vegetable produce and thus improve the productivity and quality of the same. Furthermore, given the importance of the organic substrate to the cultivation of our potted vegetable produce, the establishment of our own organic substrate preparation facility will allow us to maintain the different formulas designed for different species of vegetables in-house and prevent the dissemination of our formulas to third-parties.

(ii) Improving the quality control of the major raw materials in our cultivation process

We have placed a strong emphasis on product quality and adopted a stringent quality control system in our cultivation process to ensure that we meet our customers' requirements. Since organic substrates are the major raw materials in our cultivation process, we believe we can better control the quality of our potted vegetable produce by controlling the quality of the organic substrates with our own quality control process during organic substrates preparation. Our Directors consider that the quality of our potted vegetable produce depends to a large extent on the quality of the organic substrates used in our cultivation process. By conducting the upstream production, we will be able to have a better control of the cost of our key raw materials and thus can further ensure the quality of our potted vegetable produce and minimise the risks from sourcing low-quality proportioned raw materials produced by our supplier.

(iii) Mitigating potential risk of shortage of supply from our suppliers and hence offering us more flexibility in our cultivation process

With our own organic substrates preparation facility, our Directors believe that we will be able to control the production lead time of organic substrates which is a key raw material for our cultivation process. Further, our Directors believe that having the capability to produce our own organic substrates will mitigate the potential risk of shortage of supply from suppliers and hence give us more flexibility in our cultivation process since we can adjust the quantity of organic substrates to be produced in accordance with our cultivation plan.

(iv) Lowering cultivation cost and achieving economies of scale

By setting up and operating our own organic substrates preparation facility, we will be able to lower the production cost of our potted vegetable produce and increase our gross profit margin. We estimate that the cost of proportioned raw materials for making organic substrates prepared by us (assuming similar specifications as those we purchased from our suppliers for FY2020, FY2021 and FY2022) will be approximately RMB814 per tonne, which is approximately RMB490 per tonne (or 37.6%) lower than our average purchase cost of such proportioned raw materials from our suppliers for FY2020, FY2021 and FY2022. Assuming that the cost of producing such proportioned raw materials internally would be approximately 37.6% less than the cost of purchasing from our suppliers, the cost of producing proportioned raw materials would have been lowered by approximately RMB12.1 million in average per annum if all of such proportioned raw materials were prepared internally and transported to our cultivation facilities rather than purchased from our suppliers for FY2020, FY2021 and FY2022.

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As at the Latest Practicable Date, we have identified a potential target premise with a floor area of 3,500 sq.m. in Laixi to set up our organic substrates preparation facility. Set out below are details of the organic substrates preparation facility:

Location	Area (sq.m.)	Expected number of machineries and equipment	Expected number of personnel	Estimated annual production capacity (tonnes per year)
Jinling Industrial Park, Jiangshan Town, Laixi, Shandong province	3,500	<ul style="list-style-type: none"> • Single production line composed of production machinery equipment including primarily automatic dosing machines, granulators and roller conveyer belts. • 10 quality control machinery 	31 cultivation and quality control staff, 11 management and administration staff	50,000

We expect the total capital expenditure for setting up our organic substrates preparation facility to be approximately RMB[REDACTED], out of which approximately RMB[REDACTED] will be used for the construction and renovation works, approximately RMB[REDACTED] will be used for the acquisition of machinery and equipment required for the preparation of organic substrates and approximately RMB[REDACTED] will be for set-up costs. We intend to utilise the [REDACTED] from the [REDACTED] to fund the set up of our organic substrates preparation facility. The breakeven operating period for our new organic substrates preparation facility is expected to be around 3 months while the investment payback period is expected to be around 10 months.

We expect the lead time from the construction of the premise to the actual opening of the organic substrates preparation facility to be approximately three months. We currently plan to begin operation of the organic substrates preparation facility by the fourth quarter of 2024. Upon completion of the organic substrates preparation facility, all of the organic substrates used for the cultivation of our potted vegetable produce will be produced and supplied internally. We intend to engage independent logistics suppliers to deliver our organic substrate to our existing and planned cultivation facilities.

4. Strengthening our operational efficiency through upgrade of our information technology system

We plan to strengthen our operational efficiency and organisation through the installation of an ERP system in our operations. Our planned ERP system will include the following components: (i) supply chain management; (ii) production management; (iii) sales management; (iv) financial management; (v) accounting management; (vi) inventory management; and (vii) human resources management. The application of the ERP system will allow us to achieve better control and tracking of information and records in various stages of our operation process. Furthermore, as we begin to expand our operations by setting up new cultivation facilities in different geographical markets and establishing our new dedicated organic substrates preparation facility, the ERP system will provide a centralised and digitalised platform to collect data and records in our procurement,

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production and sales and marketing stage. Upon the commencement of our organic substrates preparation facility, all of the organic substrates used for the cultivation of our potted vegetable will be produced and supplied internally. With the new ERP system, we will be able to maintain a real time electronic database of the inventory level of our raw materials including organic substrates at different cultivation facilities. Such information allows us to ensure timely replenishment and proper allocation of raw materials, efficient production of the organic substrates and to schedule the delivery of the organic substrates ahead of time. Furthermore, we will be able to maintain an electronic database of the utilisation level of our different cultivation facilities and provide real time information on our sales orders. Our Directors are of the view that the installation of an ERP system and our transition to a centralised and digitalised system will effectively help further improve our operational efficiency and ensure the delivery of consistent and high-quality potted vegetable produce and services to our customers. We plan to utilise approximately RMB[REDACTED] of the [REDACTED] from the [REDACTED] to engage a ERP system supplier for the development, installation and maintenance of our ERP system.

OUR PRODUCTS

We are principally engaged in the cultivation and sales of potted vegetable produce, which is cultivated and sold in pots. During the Track Record Period, our potted vegetable produce was leafy vegetable species which included 29 species, with vegetable species such as crown daisy, rapeseed, Frisée, Indian lettuce, pak choi, lettuce, Chinese celery and tatsoi being our principal products offered in the market during the Track Record Period. All of our potted vegetable produce has similar life cycles and time for maturation until the point of sales ranging from approximately 22 to 31 days as affected by seasonal factors and weather conditions. For details, please refer to the paragraph headed “Seasonality” in this section of the document. The following table sets forth our sales by vegetable species for the years indicated:

Vegetable species	2020			Year ended 31 December 2021			2022			Nine months ended 30 September 2023		
	Sales volume		% of total revenue	Sales volume		% of total revenue	Sales volume		% of total revenue	Sales volume		% of total revenue
	('000 pots)	RMB'000		('000 pots)	RMB'000		('000 pots)	RMB'000		('000 pots)	RMB'000	
Crown daisy (茼蒿)	623	9,430	7.8	517	7,784	5.0	209	3,147	2.5	510	7,674	6.3
Rapeseed (油菜)	608	9,174	7.5	839	12,622	8.1	969	14,625	11.5	854	12,904	10.6
Frisée (苦菊)	567	8,526	7.0	658	9,849	6.4	390	5,847	4.6	76	1,135	0.9
Indian lettuce (油麥菜)	503	7,655	6.3	557	8,427	5.4	281	4,261	3.4	575	8,674	7.2
Pak choi (小白菜)	669	10,151	8.4	906	13,706	8.8	858	12,979	10.2	879	13,244	10.9
Lettuce (生菜)	486	7,356	6.0	440	6,607	4.3	493	7,406	5.8	416	6,250	5.2
Chinese celery (山芹)	339	5,097	4.2	751	11,319	7.3	567	8,554	6.8	788	11,917	9.8
Tatsoi (烏塌菜)	623	9,450	7.8	900	13,622	8.8	713	10,761	8.5	801	12,108	10.0
Purple lettuce (紫生菜)	456	6,919	5.7	418	6,314	4.1	213	3,200	2.5	119	1,790	1.5
Amaranth (莧菜)	150	2,261	1.9	22	327	0.2	94	1,406	1.1	—	—	—
Malabar spinach (木耳菜)	358	5,405	4.4	476	7,189	4.7	471	7,123	5.7	316	4,780	3.9
Water spinach (空心菜)	398	6,006	4.9	498	7,523	4.9	424	6,417	5.1	338	5,096	4.2
Tai cai (苔菜)	361	5,412	4.5	718	10,774	7.0	704	10,601	8.4	630	9,463	7.8
Spinach (菠菜)	233	3,511	2.9	250	3,746	2.4	296	4,442	3.5	200	3,010	2.5
Purple rapeseed (紫油菜)	544	8,208	6.8	759	11,431	7.4	633	9,572	7.6	503	7,586	6.3

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Vegetable species	Year ended 31 December						Nine months ended 30 September					
	2020			2021			2022			2023		
	Sales volume ('000 pots)	RMB'000	% of total revenue	Sales volume ('000 pots)	RMB'000	% of total revenue	Sales volume ('000 pots)	RMB'000	% of total revenue	Sales volume ('000 pots)	RMB'000	% of total revenue
Romaine lettuce (綠羅馬生菜)	454	6,902	5.7	576	8,724	5.6	440	6,649	5.2	540	8,146	6.7
Purple Romaine lettuce (紫羅馬生菜)	408	6,173	5.1	433	6,535	4.2	52	822	0.6	35	562	0.5
Panax notoginseng (田七)	51	760	0.6	186	2,786	1.8	142	2,132	1.7	169	2,539	2.1
Sedum aizoon L (養心菜)	46	686	0.6	183	2,750	1.8	147	2,200	1.7	154	2,303	1.9
Ji mao cai (雞毛菜)	54	867	0.7	49	779	0.5	13	208	0.2	—	—	—
Maixiang lettuce (麥香生菜)	22	347	0.3	—##	2	—*	—	—	—	—	—	—
Nai Bai (奶白菜)	62	994	0.8	62	989	0.6	21	337	0.3	—	—	—
Fennel (茴香)	—	—	—	72	1,087	0.7	25	374	0.3	—	—	—
Radish (水蘿蔔)	4	68	0.1	3	54	—*	1	24	—*	2	25	—*
Choi Sum (菜芯)	3	42	—*	—	—	—	—##	4	—*	2	39	—*
Turnip (大頭菜)	—	—	—	—	—	—	80	1,202	0.9	57	850	0.7
Coriander (香菜)	—	—	—	—	—	—	137	2,061	1.6	80	1,199	1.0
Garlic sprout (蒜苗)	—	—	—	—	—	—	13	194	0.2	—	—	—
Purple Tatsoi (紫烏塌)	—	—	—	—	—	—	9	146	0.1	—	—	—
Others (Note)	—##	5	—*	—##	—#	—*	—##	—#	—*	—##	—#	—*
Total	8,022	121,405	100.0	10,273	154,946	100.0	8,395	126,694	100.0	8,044	121,294	100.0

* represents percentage ratio of less than 0.1%.

represents amount less than RMB1,000.

represents amount less than 1,000 pots.

Note: Others consist of our vegetable gift boxes which contain vegetable cultivated by us.

We aim at cultivating our potted vegetable species that fit for the market demand and the changing customer taste. Further, we expand the number of species of our potted vegetable produce by taking advantage of the enhanced heat preservation and temperature regulation function of our enhanced greenhouses. Although the sale of our principal products remained generally stable, we had minor adjustments in our product mix during the Track Record Period. In 2019, we added ten new vegetable species in our product portfolio including those vegetable species that are temperature sensitive, so that our customers would have a greater variety of choice for selection and consumption. Among these ten new vegetable species, purple rapeseed, garden lettuce, Romaine lettuce and purple Romaine lettuce are the best-selling items. Meanwhile, in FY2020, we added two new species, namely radish and choi sum to our product portfolio.

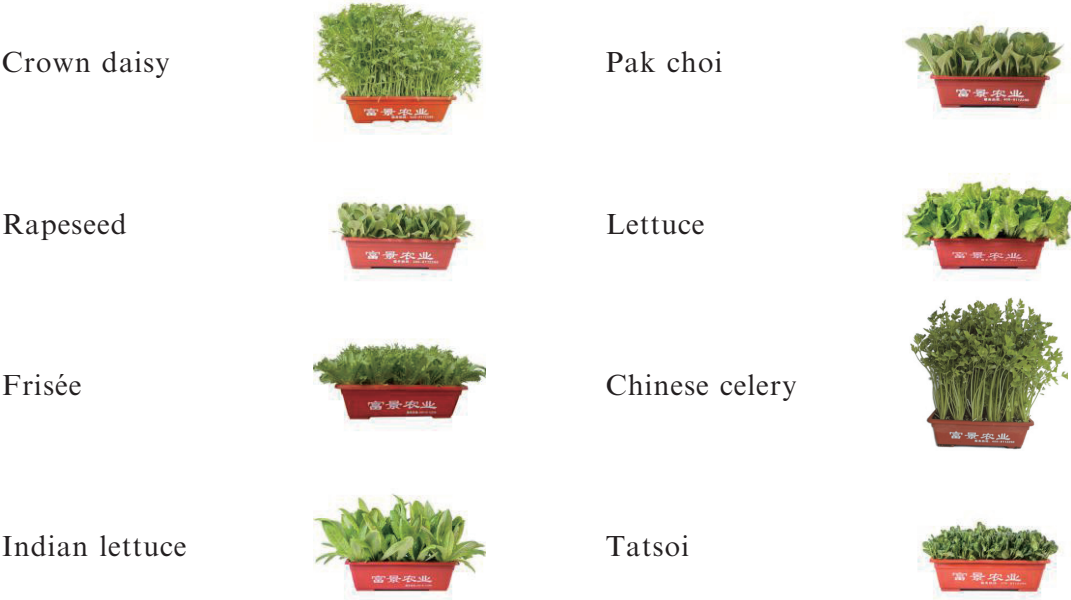
During FY2020, we suspended the cultivation of garlic chives due to its relatively high technical requirements for growth and prolonged maturation period of three to four months. Hence, we have to devote more resources and time in the cultivation of garlic chives, and therefore, the profit margin of garlic chives is lower than other vegetable species despite its higher selling price per pot. We also suspended the cultivation of garden lettuce

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in FY2020 as we focused on the cultivation of Romaine lettuce which is a similar specie of garden lettuce. In FY2022, we added four new species, namely turnip, coriander, garlic sprout and purple tatsoi to our product portfolio.

Benefited from the continuous investment in our cultivation facilities by constructing more enhanced greenhouses which could provide better regulation in temperature and cultivation conditions during the Track Record Period, we were able to cultivate certain relatively non-cold resistant vegetable species in winter and hence, increase our production capacity, flexibility of our cultivation schedule and species diversity particularly in winter. For further details, please refer to the paragraph headed “Cultivation of our potted vegetable produce — Cultivation facilities” in this section of the document.

Below are sample product photos of our principal products:



Our products are offered in the market under our brand “富景农业” during the Track Record Period. As our potted vegetable produce is sold to our customers in pots filled with organic substrates, our potted vegetable produce is sold while still fresh and living and has not been harvested upon sales. Our pots are primarily made of plastic, clay red in colour and printed with our brand “富景农业” with a standard size of approximately 42 cm in length, 23 cm in width and 11 cm in height, which are designed to be used for three years under general conditions. Selling our potted vegetable produce in pots, in contrast to vegetable produce that is harvested before sale, allows our potted vegetable produce to continue growing and maintain a longer period of freshness after delivery from our cultivation facilities.

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As at the Latest Practicable Date, we had been accredited with Certificate of Pollution-free Agricultural Products* (無公害農產品證書) issued by Qingdao Agricultural Rural Bureau* (青島市農業農村局) in respect of the potted vegetable produce cultivated at our Laixi Facility. As confirmed by our PRC Legal Advisers, it is a prerequisite for an applicant to have a cultivation area of at least 50,000 sq.m. at the relevant cultivation facility for the application of the Certificate of Pollution-free Agricultural Products. As the cultivation area of each of our Xi’an Facility and Dalian Facility is less than 50,000 sq.m., we are unable to apply for the Certificate of Pollution-free Agricultural Products for our vegetable produce cultivated at these cultivation facilities. Despite the lack of such certificate, our Directors believe that there is no material impact on the demand and pricing of our potted vegetable produce cultivated from our Xi’an Facility and Dalian Facility as we implement standardised measures and procedures in the raw materials procurement, cultivation process, growth management and quality control of our potted vegetable produce across all cultivation facilities in different locations. This can be evidenced by the fact that in FY2022, we were selling our potted vegetable produce to our distributors in Xi’an and Dalian at the price of RMB16.0 per pot under the framework distribution agreements, which is slightly above the average unit price to our distributors in Shandong province (RMB15.0 per pot) and that we have successfully established a presence in the market in Xi’an and Dalian as reflected by the increase in the sales volume in these areas. For further details on our cultivation process and such accreditations, please refer to the paragraphs headed “Cultivation of our potted vegetable produce — Cultivation process” and “Licences, permits and certificates” respectively in this section of the document.

During the Track Record Period, our products were sold to our distributors at selling prices generally ranging from RMB15.0 per pot to RMB16.0 per pot.

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DISTRIBUTION AND SALES NETWORK

Our geographical coverage

During the Track Record Period, we sold our products primarily in Shandong province where we derived 87.1%, 91.2%, 90.3% and 91.6% of our revenue during FY2020, FY2021, FY2022 and 9M2023, respectively. We extended our geographical coverage by commencing sales of our potted vegetable produce in Xi’an, Shaanxi province in May 2019, and we further extended our geographical coverage by commencing sales of our potted vegetable produce in Dalian, Liaoning province in December 2019. The table below shows a breakdown of our revenue in terms of the geographical locations of our customers during the Track Record Period:

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

Our customers

We sell our potted vegetable produce primarily through a network of distributors in the PRC, which is consistent with industry practice. Our distributors then on-sell our products to over 1,000 end-user customers in Shandong, Liaoning and Shaanxi provinces in the PRC, the majority of which are restaurants and hotels. These hotels and restaurants end-user customers sell both traditional vegetable produce and potted vegetable produce. However, majority of the potted vegetable produce sold by them was supplied by us. To a lesser-extent, we also sell our products to end-user customers through WeMall.

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The following table sets forth a breakdown of our revenue by sales channels during the Track Record Period:

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

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

* represents percentage ratio of less than 0.1%.

For FY2020, FY2021, FY2022 and 9M2023, sales to our largest customer in each year/period accounted for approximately 15.3%, 16.3%, 16.5% and 16.7%, of our total revenue, respectively. For the same years/period, our five largest customers in each year/period combined accounted for approximately 56.1%, 66.3%, 67.3% and 68.1%, respectively, of our total revenue. Please refer to the paragraph headed “Risk Factors — Risks relating to our business — We derive a significant portion of our revenue from our five largest customers and any decrease in or termination of our sales to any one of them may have a material adverse effect on our business and financial conditions” in this document for the risk on customer concentration.

During the Track Record Period, none of our five largest customers in each year/period was also our suppliers. As at the Latest Practicable Date, our five largest customers (save for Customer F which was incorporated in April 2019, Customer A which was terminated for being our distributor in July 2020 and Customer G which replaced Customer A) in each year/period during the Track Record Period had maintained business relationship with us for at least eight years. For further details about the termination of the distribution agreement with Customer A, please refer to the paragraph headed “Sales to distributors” in this section of the document. During the Track Record Period and up to the Latest Practicable Date, we did not have any material dispute with our customers.

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The following tables set forth certain information with respect to our five largest customers in each year/period during the Track Record Period:

FY2020

<u>Rank</u>	<u>Customer</u>	<u>Location</u>	<u>Principal business activity of the customer</u>	<u>Role in our sales</u>	<u>Approximate year(s) of business relationship with our Group as at the Latest Practicable Date</u>	<u>Typical credit terms and payment method</u>	<u>Approximate amount of purchase</u> <i>RMB'000</i>	<u>Approximate percentage of our total revenue</u> <i>(%)</i>
1	Customer B ^(Note 1)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Four months; bank transfer	18,608	15.3
2	Customer D ^(Note 2)	Yantai, Shandong province	Wholesale of vegetable produce	Distributor	Eight	Four months; bank transfer	14,486	11.9
3	Customer F ^(Note 4)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Five	Four months; bank transfer	13,631	11.2
4	Customer E ^(Note 3)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Four months; bank transfer	10,889	9.0
5	Customer G ^(Note 5)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Three	Four months; bank transfer	10,503	8.7

FY2021

<u>Rank</u>	<u>Customer</u>	<u>Location</u>	<u>Principal business activity of the customer</u>	<u>Role in our sales</u>	<u>Approximate year(s) of business relationship with our Group as at the Latest Practicable Date</u>	<u>Typical credit terms and payment method</u>	<u>Approximate amount of purchase</u> <i>RMB'000</i>	<u>Approximate percentage of our total revenue</u> <i>(%)</i>
1	Customer G ^(Note 5)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Three	Four months; bank transfer	25,288	16.3
2	Customer B ^(Note 1)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three to four months; bank transfer	25,068	16.2
3	Customer D ^(Note 2)	Yantai, Shandong province	Wholesale of vegetable produce	Distributor	Eight	Three to four months; bank transfer	19,482	12.6
4	Customer F ^(Note 4)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Five	Three to four months; bank transfer	17,807	11.5
5	Customer E ^(Note 3)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three to four months; bank transfer	15,003	9.7

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FY2022

Rank	Customer	Location	Principal business activity of the customer	Role in our sales	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Typical credit terms and payment method	Approximate amount of purchase <i>RMB'000</i>	Approximate percentage of our total revenue <i>(%)</i>
1	Customer G ^(Note 5)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Three	Four months, bank transfer	20,914	16.5
2	Customer B ^(Note 1)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three months, bank transfer	20,729	16.4
3	Customer D ^(Note 2)	Yantai, Shandong province	Wholesale of vegetable produce	Distributor	Eight	Three months, bank transfer	16,164	12.8
4	Customer F ^(Note 4)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Five	Three months, bank transfer	15,054	11.9
5	Customer E ^(Note 3)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three months, bank transfer	12,255	9.7

9M2023

Rank	Customer	Location	Principal business activity of the customer	Role in our sales	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Typical credit terms and payment method	Approximate amount of purchase <i>RMB'000</i>	Approximate percentage of our total revenue <i>(%)</i>
1	Customer G ^(Note 5)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Three	Four months, bank transfer	20,234	16.7
2	Customer B ^(Note 1)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three months, bank transfer	20,077	16.5
3	Customer D ^(Note 2)	Yantai, Shandong province	Wholesale of vegetable produce	Distributor	Eight	Three months, bank transfer	16,103	13.3
4	Customer F ^(Note 4)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Five	Three months, bank transfer	14,569	12.0
5	Customer E ^(Note 3)	Qingdao, Shandong province	Wholesale of vegetable produce	Distributor	Nine	Three months, bank transfer	11,661	9.6

Notes:

- (1) Customer B, which had 105 to 140 end-user customers and 12 to 16 employees during the Track Record Period, initially traded with us as a sole proprietor and later traded with us as a limited liability company incorporated in the PRC. It is owned as to 99.0% by the same sole proprietor since its incorporation in November 2018.
- (2) Customer D, which had 105 to 124 end-user customers and 13 to 17 employees during the Track Record Period, initially traded with us as a sole proprietor and later traded with us as a limited liability company incorporated in the PRC. It is owned as to 99.0% by the same sole proprietor since its incorporation in May 2019.

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- (3) Customer E, which had 76 to 110 end-user customers and 10 to 12 employees during the Track Record Period, initially traded with us as a sole proprietor and later traded with us as a limited liability company incorporated in the PRC. It is solely owned by the same sole proprietor since its incorporation in March 2019.
- (4) Customer F, which had 87 to 102 end-user customers and 11 to 13 employees during the Track Record Period, traded with us as a limited liability company incorporated in the PRC.
- (5) Customer G, which had 114 to 150 end-user customers and 17 to 20 employees during the Track Record Period, traded with us as a limited liability company incorporated in the PRC.

To the best knowledge of our Directors, none of our Directors or their associates, or any Shareholders, who owns more than 5% of our issued share capital, had any interest in any of our five largest customers in each year/period for the Track Record Period and up to the Latest Practicable Date.

Sales to distributors

Our major distributors consist of distributors who are principally engaged in the wholesale of vegetable produce and are primarily involved in the on-selling of our potted vegetable produce to end-user customers in their respective designated regions. The end-user customers of our distributors are mainly hotels and restaurants. Each distributor is assigned with an exclusive geographical area to avoid cannibalism and undue competition among our distributors. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, we had 12 distributors, respectively. In FY2020, FY2021, FY2022 and 9M2023, sales to our distributors (which were all based in the PRC) amounted to approximately RMB121.0 million, RMB154.9 million, RMB126.7 million and RMB121.3 million, respectively, representing approximately 99.7%, 100.0%, 100.0% and 100.0% of our revenue during the same periods, respectively. Through our distributors, our potted vegetable produce was sold to over 1,000 end-user customers in Shandong, Liaoning and Shaanxi provinces in the PRC during the Track Record Period, the majority of which are hotels and restaurants. Our distributors generally place their purchase orders every day. The delivery vehicles of our distributors would normally come to our cultivation facilities every day to pick up the potted vegetable produce. To the best knowledge of the Directors, the Group’s distributors would generally deliver most of the potted vegetable produce on the delivery vehicles to their hotels and restaurants end-user customers directly from the cultivation facility within the same day or the next day. The following table sets out the major stage of our transaction and the estimated time required for a typical transaction cycle:

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Major stage of the transaction:	Estimated time required:
(1) receipt of purchase orders from our distributors	the first day
(2) Our distributors come to our cultivation facility to pick up the potted vegetable produce and deliver the potted vegetable produce to their hotels and restaurants end-user customers	The second/third days after order placing by our distributors
(3) receipt of funds by us from the distributors	2-4 months from the date of order by our distributors (subject to the credit period we granted to the respective distributors)

Throughout the Track Record Period, we engaged 12 distributors, who then on-sell our products to over 1,000 end-user customers. To the best knowledge of our Directors, before the Track Record Period, 7 of our distributors were engaged in the business of distributing traditional agricultural products, 3 of our distributors worked in the catering industry and 3 of our distributors were ex-employees of our Company who are familiar with the potted vegetable produce market. Our distributors build connections with the end-user customers through pre-existing customer relationships, past work experience and visits to end-user customers as a distributor of our potted vegetable produce. All of our distributors have a long standing relationship of three years or more with over 50% of their respective end-user customers. Although some of our distributors were engaged in other business before, all of our distributors currently solely sell our potted vegetable produce. The transitions of our distributors' business scope, to the best knowledge of our Directors, were mainly attributable to the higher profit margin and stable supply of our products and the exclusivity nature of distributing our potted vegetable produce in designated geographical locations.

Reasons for adopting distributorship model

Our potted vegetable produce is a consumable product that is for the daily consumption by the general public and it is quite common that the potted vegetable produce needs to be delivered to customers, such as hotels and restaurants, located in numerous different premises for the consumption by the consumers. As a result, it is an industry practice for vegetable and potted vegetable producers to sell their products through distributors in the PRC.

On the one hand, our end-user customers usually need to prepare a variety of different food ingredients to satisfy the public's needs, but on the other hand, our end-user customers are only able to keep limited stock on food ingredients in order to preserve the freshness. It is typical for them to order from a wide range of suppliers in small quantity per order and require frequent replenishment.

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Furthermore, the mass market of the catering industry is notably diverse and scattered, ranging from different style of cuisines and scale of catering service operation. It is also a constantly changing market, where the consumers' taste and preference change rapidly and the demand from each individual hotel and restaurant tightly follows consumers' preference. To liaise with and accommodate the needs of each individual hotel and restaurant will involve substantial cost and efforts.

In addition, since the cultivation facilities of agricultural producers are usually located in suburban area, save for a handful of customers which are located closely proximate to the cultivation facility, it is extremely rare that the operators of hotels and restaurants in the city would attend to the cultivation facility to pick up the products they ordered as it is not cost-effective to do so given the small quantity per order and the frequency of delivery required to maintain freshness of the agricultural produce. As a result, distributorship model is widely adopted in the agricultural industry as it effectively and cost-efficiently connects the agricultural producers and the end-user customers.

Our Directors believe that the adoption of distributorship model in supplying the potted vegetable produce to the market is beneficial to the long term development of our Group after taking into consideration the following factors:

- (i) **Frequency of delivery:** our potted vegetable produce needs to reach the end-user customers as soon as possible once reaching maturity and our end-user customers usually request replenishment on a day-to-day basis. Given the need for frequent delivery of small quantity of potted vegetable produce to each individual end-user customer, it would not be cost effective for our Group to establish our own delivery fleet. It is estimated that we will incur an additional transportation cost of RMB2.0 per pot and an initial investment of approximately RMB10.1 million (comprising cost of investment in vehicles of approximately RMB8.6 million and working capital of approximately RMB1.5 million which is equivalent to additional operating expense for one month), based on our business scale in FY2020;
- (ii) **Business focus on cultivation and quality of our produces:** as the core competitive strength of our Company is our experience in the cultivation and the quality of our potted vegetable produce, it is considered that such factors should remain as our core focus in the future. During the Track Record Period, we had more than 1,000 active end-user customers from five cities and their subordinate towns. It would be unduly burdensome in reaching out to such vast number of end-user customers. If we conduct direct sales to them, we would have to establish more local offices and recruit more local (i) sales and marketing and (ii) logistic and delivery staff in order to penetrate into and develop our business in these cities and towns;
- (iii) **Clientele coverage:** our end-user customers consist of restaurants and hotels which spread over a wide area in different cities that cover an area of over 2,200 sq.km, whilst our sales and marketing team is a small team consisting of four staff members, which is insufficient for establishing a sizeable distribution and sales

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network. The distributorship model allows our Company to leverage on the client network, local market insights and sales and marketing experience of the distributors and penetrate the products into different geographical regions more quickly and effectively; and

- (iv) **Special transportation requirement:** due to the special feature of our products, the use of distributorship model would facilitate the collection of used pots by our distributors from their customers and to reuse the pots in our next round of cultivation. Under the current arrangement, our distributors could coordinate the collection of used pots from their end user customers and return the used pots to us.

By taking advantage of our distributor network which includes their local market knowledge, resources, established distribution and sales channels and concrete commitment to the promotion and expansion of the end-user customer base, we are able to avoid the significant capital investment that would otherwise be required to establish a sizeable distribution and sales network. We believe that our distribution model not only allows us to reach more geographical regions in the PRC and penetrate our products into the market more quickly and effectively, but also minimises operational risk to our Group and allows us to focus on our core competitive strengths in cultivation, despite the extra variable cost of approximately RMB1.3 per pot (derived from the spread that our distributor could earn (i.e. approximately RMB3.3 per pot) in FY2020 minus the additional transportation cost of approximately RMB2.0 per pot), which we would have incurred if we delivered our potted vegetable produce directly to our end-user customers.

Apart from our distribution model, we sell a small percentage of our products through WeMall, a channel which presents online promotion and enhanced brand visibility opportunities for our Group. As the main current purpose of our sales through WeMall is for marketing and branding, it does not contradict with our adoption of the distributorship model. For further details, please refer to the paragraph headed “Sales to end-user customers” in this section of the document.

Criteria for selecting distributors

In view of the advantages of distributorship as discussed above, we engaged local distributors since 2015. Given the nature of the potted vegetable produce that requires frequent delivery of small quantity of potted vegetable produce we expect each distributor to devote focused effort on establishing customer base with a large number of end-user customers in a relatively small region (e.g. one city or even one region within a major city). Thus, our management believes it is in our interests to engage several regional distributors, being sole proprietors in some cases, each of them having local knowledge and networks in their confined regions, rather than to engage a sizable distributor with a provincial coverage. For such reasons, historically we engaged some distributors which were sole proprietors before the Track Record Period. This strategy is proven to be successful, as our Group has recorded a sustainable growth in revenue and profit during the Track Record Period. In year 2019, for the purpose of enhancing corporate governance and better management of our distributors, we encouraged our major distributors to become

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incorporated entities and required any new distributor to be a limited liability company. Thus, our then major distributors (except for one of these major distributors which was already a limited liability company in 2019) converted from sole proprietors to limited liability companies. As confirmed by the Directors, none of our distributors was a sole proprietor as at the Latest Practicable Date. In China, it is an entrenched tradition that agricultural related activities are conducted by villagers in the capacity of sole proprietor or in the form of small family business. Among the wholesalers of agricultural produce, more than 80% of them are trading as a sole proprietor or registered individual businesses in 2022 in Shandong province. Hence, due to the prevalence of sole proprietorship in the agricultural industry, it is common and practically inevitable, for agricultural producers to engage various sole proprietors for the distribution of their products in the regional market.

We have established an internal system to assess whether a candidate is eligible and suitable to be engaged as a distributor. The key criteria we apply in assessing whether a candidate shall be engaged as our distributor (regardless of whether they are owned or operated by the Independent Third Parties or our ex-employees) are (i) local industry knowledge; (ii) distribution network coverage; (iii) potential client base; (iv) the resources to be devoted in developing the customer base; (v) creditworthiness; (vi) their business track record in catering, sales of agricultural products or related business; and (vii) their plan on how they will establish a customer base for our potted vegetable produce. In the course of our assessment, our senior management enquires with the candidate and requests it to provide all material background information such as its relevant experience in the vegetable industry and clientele for our verification and consideration. We will also further evaluate their distribution capability by reviewing the scale of their distribution workforce and their distribution efficiency. We will only enter into distribution agreement if the candidate can substantially satisfy our requirements under our internal assessment.

We have established an appropriate, adequate and effective internal control measures on engaging distributors, as we (i) have conducted suitable pre-engagement procedures before entering into distributor agreement with our distributors, including conducting interviews with the potential distributors, performing site visits and reviewing the background of the potential distributors; (ii) have internal controls on managing credit terms granted to the distributors, including performing background check, preparing credit assessment form before accepting a distributor, and re-assessing the credit terms for those with long outstanding trade receivable; and (iii) have review the performance of the existing distributors on a regular basis.

We adopt a flexible approach in relation to the expansion of our distributorship network. Factors that we may consider including (i) the geographical location of the potential market, (ii) the expected cultivation output required for the expansion and the remaining cultivation capacity of our existing cultivation facilities, (iii) our financial conditions if capital investment is needed for construction of new greenhouses, (iv) the estimation of demand in the new market by the distributor(s) and us; and (v) the general economy and market conditions. To balance the risk and uncertainty in new geographical

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market expansion, unless there is clear market demand in the region, as a usual practice, we prefer not to engage too many new distributors at the same time so as to control and mitigate the risk of over expansion.

Change of distributors during the Track Record Period

The following table sets forth the changes in the number of our distributors for the periods indicated:

	Year ended 31 December			Nine months ended 30 September
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
Number of distributors at the beginning of the year/period	12	12	12	12
Number of distributors added during the year/period	1	0	0	0
Number of existing distributors terminated during the year/period	(1)	0	0	0
Net increase in the number of distributors during the year/period	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Number of distributors at the end of the year/period	<u>12</u>	<u>12</u>	<u>12</u>	<u>12</u>

In 2019, we engaged two new distributors in Yantai, one new distributor in Weifang, one new distributor in Xi’an and one new distributor in Dalian. We had one new distributor to replace an old distributor for selling of our potted vegetable produce for FY2020 and nil new distributor for the remaining of the Track Record Period.

Termination of distribution agreement with Customer A in FY2020

In July 2020, we terminated our distribution agreement with Customer A, which is one of our customers during the Track Record Period, under mutual agreement. The termination of distribution agreement with Customer A was due to the violation of the terms of our distribution agreement by Customer A who sold our potted vegetable produce beyond the designed geographical location as stipulated in the distribution agreement. For details about how we identified the breach of the distribution agreement by Customer A, please refer to the paragraph headed “Management of our distributors” in this section of the document.

Due to the incident, we issued a letter to Customer A to notify it our intention to terminate the distribution agreement. However, since we have over nine years of business relationship with Customer A and would like to minimise and mitigate the cost and impact of such termination, instead of unilaterally terminate the agreement with Customer A, we mutually agreed with Customer A that the termination shall be subject to the condition that Customer A agrees to pass to our Group certain market information and its customers list.

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While we were advised by our PRC Legal Advisers that we are entitled to file a claim in the relevant court for compensation for the breach of contract, it is uncertain as to the time, the final amount of compensation and the legal cost that could be recovered in legal proceedings. Moreover, unilaterally terminating the agreement with Customer A would bring significant disruption to the business of our Group as neither our Group nor the successor of Customer A was in possession of the full list and all the contact details of the end-user customers of Customer A, and it would take a considerable amount of time to re-establish the clientele at the relevant region. The management of our Group had thoroughly considered the situation and decided that mutual termination is most favourable to our Group as it could alleviate, to the greatest extent, the impact on our business operation and our end-user customers, and could promote a smooth transition for the change of distributors, which was the prime objective in this matter. To the best knowledge of our Directors, such mutual termination arrangement also brings benefits to our Group and Customer A in avoiding significant time and costs to be incurred by both parties in legal proceedings.

In occurrence of such incident, we were exploring a new distributor to replace Customer A and we identified Customer G which subsequently passed our internal evaluation with our assessment criteria as set out in the paragraph headed “Distribution and sales network — Sales to distributors — Criteria for selecting distributors” in this section of the document regardless of whether Customer G will obtain Customer A’s assistance or take up the end-user customers of Customer A. Eventually in July 2020, Customer A, Customer G and our Group signed a tripartite agreement in which, Customer A undertook to properly handover and voluntarily assist Customer G in communication with the end-user customers for the change of distributors. In August 2020, our Group signed a distribution agreement with Customer G to take up the designated geographical region for distribution we originally assigned to Customer A. In addition, our sales and marketing personnel had closely followed up and coordinated with Customer G to ensure it ran smoothly at the initial stage of business operation. Both Customer A and Customer G are Independent Third Parties and are independent from each other. Save as disclosed, there was no other side agreement, arrangement or understanding among the Group, Customer A and Customer G, and there was no other relationship between Customer A or its owner with the Group or with Customer G.

From 1 August 2020 to 31 December 2020, the total revenue from Customer G amounted to RMB10.5 million, accounting for approximately 8.7% of our total revenue in FY2020. Since Customer G has taken up the role as one of our distributors in August 2020 and up to December 2021, Customer G sourced 83 new end-user customers which contributed additional revenue of approximately RMB11.0 million to our Group. Between August 2020 and December 2021, our Group generated revenue of approximately RMB35.8 million from Customer G, representing monthly revenue of approximately RMB2.1 million, which is higher than the monthly revenue of approximately RMB1.2 million as generated from Customer A for the FY2020. Thus it is demonstrated that Customer G is capable of sourcing new customers and promoting our potted vegetable produce in the market, and our Directors believe that Customer G has satisfactorily taken over the relevant geographical region of distribution and the termination of distribution agreement with Customer A has no significant impact on the business operation and financial performance

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of our Group. To the best knowledge of the Directors, Customer A had ceased its business operation for the sale of potted vegetable produce immediately after the said termination of the distribution agreement and it was subsequently deregistered on 8 September 2021.

All of the distributors who ceased to be our distributors, including Customer A, had settled their trade receivables with the Group during the Track Record Period.

Our cooperations with our three ex-employee distributors

During the Track Record Period and up to the Latest Practicable Date, we had three distributors (i.e. Customer E and two other distributors in Shandong province) which were wholly-owned by our ex-employees. We first started our business in cultivation, marketing and sale of potted vegetable produce in 2012. In light of a growing demand of pollution-free potted vegetable produce in the local market which brought about positive business prospects, we decided to expand our business in 2014 by hiring more employees. During the expansion stage in 2014, we had hired a total of 15 employees in 2014. The said three ex-employees were employed by our Group as our sales and marketing representatives in April 2014. In 2015, to cope with our continuous expansion, we decided to adopt the distributorship model to reach more end-user customers and penetrate deeper into existing markets. Seeing that the ex-employees were equipped with in-depth knowledge of our products and were willing to help expand our market presence in the Qingdao area, we were desirous to engage them as our distributors. Thus, we initiated discussion with the said three ex-employees to explore the opportunity for cooperation under the distributorship model. As the said three ex-employees also showed great interest in setting up their own distribution businesses, they left our Group in 2015. We then reached distribution agreements with the said three ex-employees in 2015. Since then they set up their own business for selling vegetable produce and becoming our distributors. Our Directors confirm that our sales to such distributors had been on normal commercial terms which were consistent with the terms offered to other distributors. Our Directors also confirm that none of those ex-employees had ever acted as distributors while still being our employees at the same time. Our Directors believe that engaging these ex-employees, who are familiar with our market practice and possess adequate product knowledge, as our distributors would be beneficial to the business development of our Group. In identifying and assessing whether a candidate shall be engaged as our distributor, we apply the same set of criteria to all candidates regardless of whether they are owned or operated by the Independent Third Parties or our ex-employees.

During the Track Record Period, the total revenue from our said three ex-employee distributors amounted to approximately RMB23.3 million, RMB31.4 million, RMB25.2 million and RMB24.7 million, respectively, accounting for approximately 19.2%, 20.3%, 19.9% and 20.4% of our total revenue, respectively.

To the best knowledge of our Directors, save for the disclosure above, during the Track Record Period and up to the Latest Practicable Date, all of our five largest distributors in each year/period during the Track Record Period were Independent Third Parties, and none of our five largest distributors in each year/period during the Track Record Period was owned by our current or ex-employees.

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Designated geographical region

We impose geographical restriction to our distributors by assigning designated areas for distribution in the distribution agreements. We believe there is no potential cannibalisation or undue competition among our distributors because (i) our distributors are prohibited from selling our products in areas beyond the designated geographical areas and we are entitled to unilaterally terminate the distribution agreements with our distributors if they are in breach of such restriction pursuant to the framework distribution agreements; (ii) the designated geographical areas of each distributor do not overlap; (iii) we arrange our sales and marketing personnel to conduct regular on-site inspections on our distributors and keep track of any potential cannibalisation or competition among them; and (iv) we maintain a relatively low number of distributors of 12 as at the Latest Practicable Date considering the extensiveness and size of the potted vegetable produce markets in Qingdao, Yantai, Weifang, Xi'an and Dalian.

Minimum purchase requirement, sales targets and rebates

We set monthly minimum purchase requirements in the framework distribution agreements to our distributors to ensure a minimum amount of purchase of potted vegetable produce from our distributors and we are entitled to unilaterally terminate the distribution agreement with our distributors if they fail to meet the minimum purchase requirements for three consecutive months. Terms of such minimum purchase requirements are negotiated and determined with reference to various criteria, including the past performance of the distributor, the market conditions and our own estimated annual cultivation volume. We do not provide sales targets nor rebates to our distributors in the distribution agreements. During the Track Record Period and as at the Latest Practicable Date, none of our distributors has failed to meet the minimum purchase requirements.

We recognise our revenue from sales at the point of time when control over our products has transferred, being after our distributors' acknowledgment of acceptance of our products. Following the acknowledgement of acceptance of our products, our distributors have full discretion over the manner of distribution within the designated geographical region and price to sell our products, and bears the risks of obsolescence and loss in relation to our products. Our distributors will not be entitled to any recourse, such as obtaining refund or asking for return of products from our Group if they fail to on-sell our products to their customers.

Management of our distributors

We have entered into framework distribution agreements with our distributors to govern our transactions with them and to manage our distributors efficiently in a consistent and systematic manner. Further, we arrange our sales and marketing personnel to conduct surprise spot check from time to time on our distributors and the end-user customers and conduct regular assessments with our distributors to collect, among others, information about inventory levels of our distributors and their distribution network, check whether our distributors distribute our potted vegetable produce within the designated geographical area, monitor the number of distributors in any given area and keep track of any potential competition among our distributors. Through these spot checks and assessments, we seek to

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ensure that the terms and conditions of the distribution agreements are being complied with throughout our distribution and sales network. In addition, we also arrange our staff to handle complaints and whistleblowers.

We will terminate the distribution agreement if there is any material breach of the agreement by our distributors such as the provisions relating to geographical restrictions and minimum purchase requirements. For instance, in FY2020, we received a complaint that Customer A sold our potted vegetable produce beyond the designated geographical location. In view of such, we arranged our sales and marketing personnel to conduct secret inspections to gather evidence of the said alleged breach of Customer A. As our sales and marketing personnel in the subsequent inspections discovered that Customer A continued to breach the geographical restrictions as to distribution despite our warnings, we terminated our distribution agreement with Customer A in July 2020. Hence, we believe that our current arrangement in respect of our distributors has allowed us to have better credit control and distribution management.

Consistent with market practice, our distributors do not keep material amount of inventories as the distributors will on-sell our products to end-user customers within a short period of time after they receive our products due to the perishable nature of our potted vegetable produce. During the Track Record Period and up to the Latest Practicable Date, we were not aware of any material accumulation of stock by our distributors. As confirmed by our five largest customers in each year/period during the Track Record Period, the amount of unsold potted vegetable produce held by each of our five largest customers as at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023 were not more than 17 pots.

We regularly evaluate the performance of our distributors based primarily on the following factors:

- purchase amount under the distribution agreement;
- payment history; and
- maintenance of their creditworthiness

We normally renew the relevant distribution agreements every one year to two years with the distributors who pass our performance evaluation.

Framework distribution agreements

We enter into legally-binding framework distribution agreements with our distributors, who maintain buyer and seller relationships with us. All distributors purchase our products by making requests to us specifying the type and quantity of products they want from time to time. We are not obligated to accept any return of products that have not been sold by our distributors, and our distributors would bear any loss for unsold products. During the Track Record Period, we did not accept any return of unsold products from our distributors.

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The following table sets forth a summary of the principal terms of our framework distribution agreements with our distributors:

Term of agreement	One year to two years
Geographical restriction for distribution	The distributors are only allowed to sell our products within the designated geographical areas stipulated in the agreement
Pricing	Fixed prices stipulated in the agreement
Minimum purchase amount	The distributors promised to order from us for each month not less than a specific amount of our products as stipulated in the agreement
Delivery cost	Distributors bear the cost
Payment method	By bank transfer
Credit terms	60 days to 120 days
Passing of risk	Risk of the goods passes to the distributors upon their acknowledgment of acceptance of the goods
Early termination right	We are entitled to unilaterally terminate the agreement if the distributors (i) fail to meet the minimum purchase requirements for three consecutive months; or (ii) on-sell our products outside the designated geographical area. The agreement is also terminable by either party by giving one month prior notice to the other party and the parties shall liaise and agree with each other for any early termination arrangement
Renewal	No automatic renewal; the parties would have to enter into a separate agreement to continue business relationship upon expiry of the agreement

Our framework distribution agreements do not impose any restriction on our distributors on how they fix the selling price of our potted vegetable produce. To the best knowledge of our Directors, our distributors were generally selling our potted vegetable produce to their customers at an average price of RMB18.4 per pot in FY2020 and RMB18.5 per pot in FY2021, FY2022 and 9M2023, with a price range of approximately RMB17 per pot to RMB22 per pot during the Track Record Period.

Our framework distribution agreements do not impose any restriction on our distributors from selling vegetables which are supplied to them by other vegetable producers (including potted vegetable produce and/or vegetable produce cultivated by other cultivation methods). As the end-user customers of our potted vegetable produce are mainly restaurants and hotels which purchase a wide variety of vegetable produce on a daily basis, we believe that there is an on-going demand for vegetable produce of different kinds, and

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thus it would not cause material impact to our business if our distributors sell other vegetable species. Moreover, our potted vegetable produce and other vegetable produce cultivated using traditional in-ground cultivation methods are highly differentiable as our potted vegetable produce is sold while still fresh and living, often displayed in restaurants to arouse consumers’ interest. Further, we believe that our ability to supply 27 potted vegetable produce species all-year-round gives us significant competitive edge over other potted vegetable producers. Although there is no such restriction on our distributors from selling vegetable produce supplied by other vegetable producers, to the best knowledge of our Directors, our distributors did not sell any potted vegetable produce from other vegetable producers during the Track Record Period and up to the Latest Practicable Date.

As confirmed by the Directors, all of our distributors only sold the Group’s potted vegetable produce but not other agricultural produce during the Track Record Period. To the best knowledge of the Directors, due to (i) the leading position of the Group in the potted vegetable produce market in Shandong province; (ii) the different sale and delivery requirement of potted vegetable produce; (iii) the limited resources of the distributors who would like to focus on a subsector (i.e. the potted vegetable industry) which is more profitable and less competitive as compared to traditional vegetable market; and (iv) the lack of synergetic effects of selling ordinary vegetable or other food at the same time, it is commercially reasonable for all of our distributors to rely on the Group as their sole supplier during the Track Record Period. To the best knowledge of the Directors, save as disclosed in this document, there were or are no other past or present relationship or dealings (including family, business, employment, trust, fund flow, financing or otherwise) between our Group and each of our distributors, their respective shareholders, directors or senior management or any of their respective associates. Our Directors also confirmed that, they had not, and none of their family members and/or any of their investee entities had, directly or indirectly, provided any financing or guarantees/security in respect of any financing arrangement (whether past or present), for the funding of the establishment or operation of the Group’s distributors.

Financial impact of adopting distributorship model

In FY2020, FY2021, FY2022 and 9M2023, the spread between the wholesale price (i.e. the average price at which our Group sells to our distributors) and the retail price (i.e. the average price at which our distributors sell to hotel and restaurants) were approximately RMB3.3 per pot, RMB3.4 per pot, RMB3.4 per pot and RMB3.4 per pot on average, respectively. The market price spread generally ranges between RMB2.0 per pot to RMB5.0 per pot. Based on this, our Directors are of the view that the said price spread was in line with the market range. Should the Company decide to deliver our potted vegetable produce to end-user customers by its own fleet and employees, it is estimated that our Group will incur an additional transportation cost of RMB2.0 per pot, and need to make an initial investment cost of approximately RMB10.1 million (comprising cost of investment in vehicles of approximately RMB8.6 million and working capital of approximately RMB1.5 million which is equivalent to additional operating expense for one month), based on the scale of operation in FY2020. Considering the transportation cost of RMB2.0 per pot and the investment cost of approximately RMB10.1 million, our Group is of the view that the profit margin of our distributors is slim and reasonable, as they have to make substantial investment, maintain a large number of distribution workforce and to bear the various business risks. Having considered (i) the various reasons for adopting distributorship model as explained in the paragraph headed “Distribution and Sales Network — Sales to

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distributors — Reasons for adopting distributorship model” in this section above; (ii) the saving of cost and investment in adopting distributorship model; and (iii) the lower business risks which are born by our distributors, our Directors are of the view that adopting distributorship model is in the interests of our Company and our Shareholders as a whole.

Customer concentration

For FY2020, FY2021, FY2022 and 9M2023, our revenue attributable to our five largest customers in each year/period amounted to approximately 56.1%, 66.3%, 67.3% and 68.1%, while our revenue attributable to our largest customer in each year/period for the corresponding period amounted to approximately 15.3%, 16.3%, 16.5% and 16.7%, respectively. To diversify our customer base in Yantai, we expanded our geographical coverage to other regions, such as Weifang, Dalian and Xi’an since 2019 by appointing new distributors in these regions.

In respect of our top five largest customers, the concentration of credit risk associated with them was 58.8%, 63.1%, 69.1% and 69.2% of the total gross trade receivables and among which, only 14.0%, 18.1%, 18.6% and 21.9% was due from the Group’s largest customer as at 31 December 2020, 2021, 2022 and 30 September 2023, respectively. As of the Latest Practicable Date, the five customers with the largest trade receivables balance aging over 90 days as of 30 September 2023 had fully settled their respective outstanding trade receivables as of 30 September 2023. Based on the above and the fact that we have internal controls policies in place to manage our customers, we consider the risk of default to be limited. Our management considers that there was no significant concentration of credit risk with any single customer as of 30 September 2023. There has been no material change in credit risk since 30 September 2023 and the amount of trade receivables that have been settled as of 30 September 2023 was in line with our management’s expectations, having taken into consideration of the enterprise customers’ ongoing business activities, market conditions, as well as their financial strength and shareholder background. Based on the actual repayment pattern exhibited by our customers during the Track Record Period and up to the Latest Practicable Date, the recoverability of the trade receivables was in line with the management’s expectation and we did not have material collection issues with any of our customers, thus there was no material deviation that indicates an adjustment in expected credit loss rate for trade receivables.

Reasons for our customer concentration

Our Directors consider that our customer concentration during the Track Record Period is contributed by a combination of the following key factors:

(1) Our Group is able to maintain a stable and mutual beneficial relationship with our major distributors

Save for Customer F which was incorporated in April 2019 and Customer G which replaced Customer A, which was terminated for being our distributor in July 2020, our Group maintained over eight years business relationship with our five largest customers in each year/period during the Track Record Period as at the Latest Practicable Date. Our Directors believe that the long term business relationship and

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stable demand from our five largest customers demonstrate that our five largest customers and their respective end-user customers are satisfied with our products and therefore continued to place orders to us. Despite our reliance on the distribution network of our five largest customers, our five largest customers are also mutually dependent on our Group for the supply of potted vegetable produce. To the best knowledge of our Directors, our Group is the sole supplier of potted vegetable produce and the major supplier of vegetable produce of our five largest customers in each year/period during the Track Record Period. Further, since our potted vegetable produce is perishable in nature and needs to be delivered to a large number of different premises for the consumption by the consumers, it is necessary for our five largest customers to maintain a high business turnover in order to attain a reasonable profit margin. Hence, our stable and large quantity of supply would enable our five largest customers to achieve economies of scale. Our Directors believe that our five largest customers treat our Group as their valued business partner, and that we have established a long-term strategic relationship with them and such relationship will have mutual benefits. As such, our Directors believe that it would be commercially sensible for our five largest customers to continue to place orders for our products and the likelihood of termination of our relationship with our five largest customers is low.

(2) Our Group strategically focused on Shandong province market, which has growing demands on potted vegetable produce

We have been focusing on Shandong province potted vegetable market since our commencement of cultivation of our potted vegetable produce in 2012. Our largest cultivation facility is strategically located at Laixi, which allows convenient access to prominent markets at major cities in Shandong province. The sales volume of potted vegetable produce in Shandong province increased from 23.7 million pots in 2017 to 48.5 million pots in 2022, representing a CAGR of approximately 15.4%. Further, the sales volume of potted vegetable produce in Shandong province is expected to reach 61.6 million pots in 2027, representing a CAGR of approximately 4.9% from 2022 to 2027. During the Track Record Period, all our five largest customers in each year/period were our distributors for the Shandong province market. Our Directors believe that we had built up a business network and reputation in Shandong province market which fostered our foundation to maintain our market share and capture future growth.

Sustainability of our business model

Our Directors believe that our business model is sustainable and we are not reliant on any single distributor despite such customer concentration due to the following reasons:

(1) Shandong province is still a fast-growing market

The sales volume of potted vegetable produce in Shandong province is expected to reach 61.6 million pots in 2027, representing a CAGR of approximately 4.9% from 2022 to 2027, and the sales of potted vegetable produce in Shandong province is likely to maintain a growing trend with a CAGR of approximately 7.3%, reaching

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RMB1,102.2 million in 2027. Our Directors believe that we would be able to leverage on our abundant experience and the business network in Shandong province market to strive for maintaining the market share there.

(2) We have been expanding our geographical coverage to other regions in the PRC

We are expanding our geographical coverage to other regions in the PRC. In 2019, we engaged two new distributors in Yantai, one new distributor in Weifang, one new distributor in Xi’an and one new distributor in Dalian.

Before Track Record Period, we have extended our geographical coverage by commencing sales of our potted vegetable produce in Xi’an, Shaanxi province and Dalian, Liaoning province in 2019. As a result, the proportion of our revenue contribution from our five largest customers had declined from the year ended 31 December 2019 to FY2020. The aggregated revenue contribution from our five largest customers accounted for 70.1% of our total revenue in the year ended 31 December 2019, which was reduced to 56.1%, 66.3%, 67.3% and 68.1% of our total revenue in FY2020, FY2021, FY2022 and 9M2023.

Going forward, we will continue endeavour to broaden our customer base and geographical coverage by establishing a new cultivation facility in Langfang, Hebei province. For details, please refer to the paragraph headed “Business — Our business strategies — Expansion of our cultivation capacity — 2. Establishing a new cultivation facility in new geographical market”.

(3) We are able to replace our distributors if they are in violation of the terms of the distribution agreement

We generally maintained good relationships with our five largest customers in each year/period during the Track Record Period. As confirmed by our Directors, we did not receive any material complaints from our five largest customers in each year/period during the Track Record Period and as at the Latest Practicable Date. Further, we aim to develop long term business relationship with our distributors or potential distributors in both existing and new markets. In order to properly manage our distributors, we perform regular inspections on our distributors to ensure that they comply with the terms of our distribution agreement. During FY2020, we terminated the distribution agreement with Customer A, one of our customers during the Track Record Period, who violated the terms of the distribution agreement by selling our potted vegetable produce beyond the designated geographical location as stipulated in the distribution agreement. Since we have signed a distribution agreement with a new distributor to take up the designated geographical region for distribution originally assigned to Customer A immediately upon the termination with Customer A, the termination of distribution agreement with Customer A has no significant impact on the business operation and financial performance of our Group. For further details, please refer to the paragraph “Sales to distributors” in this section of the document.

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Sales to end-user customers

To a lesser-extent, we also directly sell our potted vegetable produce to end-users customers. For FY2020, FY2021, FY2022 and 9M2023, our direct sales to end-users customers amounted to approximately RMB0.4 million, RMB9,000, RMB2,000 and RMB2,000, respectively, representing 0.3%, less than 0.1%, less than 0.1% and less than 0.1% of our total revenue during the same periods, respectively. To the best knowledge of our Directors, during the Track Record Period and as at the Latest Practicable Date, all of our end-user customers were Independent Third Parties.

Our Group initially conducted direct sales to the end-user customers such as hotels and restaurants at the beginning of our business operations. Since the potted vegetable produce is a small segment of the traditional vegetables market, we granted a longer credit period to such end-user customers to facilitate the sale of our products to them. Such practice continued to apply to such end-user customers in FY2020 and, accordingly, 180 days credit period was granted to them in FY2020. From 2021 onwards, we discontinued our direct sales to hotels and restaurants. This was primarily driven by the increased maturity and proven efficiency of the distributorship model, which our Group had adopted in 2015.

Apart from conducting direct sales to the end-user customers such as hotels and restaurant, our Group sells our products to consumers through an online platform, WeMall. Selling potted vegetable produce directly to consumers through WeMall presents online promotion and enhanced brand visibility opportunities for our Group. This enables individual consumers to experience the fresh and living potted vegetable produce by purchasing directly from our Group. Such business model does not contradict with the distributorship model as the main purpose of selling the products through WeMall is for marketing and brand building.

During the Track Record Period, we generated total revenue of approximately RMB8,000, RMB9,000, RMB2,000 and RMB2,000 for each of FY2020, FY2021, FY2022 and 9M2023 respectively from selling to end-users customers online by using WeMall. We signed a service contract with an independent e-commerce provider in November 2018 for the sale of our potted vegetable produce at a fixed service fee via WeMall for a term of three years, and we extended the service contract by one year in November 2021 and further extended the service contract by two years in December 2022.

Pricing policy

Our sales and marketing department determines the selling prices of our products on the basis of cost-plus method. In determining our pricing strategies, we primarily consider factors such as the market demand and supply of our products, cost of our raw materials and cultivation overheads. We review the selling prices of our products occasionally based on these factors and other general market conditions and adjust the selling prices if necessary.

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We have limited control over the prices at which our customers are willing to purchase our products as prices are driven mainly by economic factors such as demand and supply. We also do not have control over the prices at which our distributors on-sell our products to their customers.

Payment terms and credit terms

Except for online end-user customers of WeMall who pay immediately upon purchase, during the Track Record Period, we grant a credit period of around 60 days to 120 days to our distributors and a credit period of around 180 days to our end-user customers, depending on their credit history, relationship with us and business scale. At the beginning of the Track Record Period, a longer credit period of 120 days was granted to our distributors, in line with the relatively long credit period that our distributors granted to their respective end-user customers. As the potted vegetable produce was a pricey and high-end segment to the traditional vegetable produce market and those end-user customers a relatively long credit period was initially granted by our distributors to expand the customer base. As such, our Group agreed to grant a longer credit period to these distributors for the benefit of the Group. Because of the relatively high profit margin of our Group, our Directors believe that our Group is able to continue to offer more competitive and longer credit terms to our distributors so that our distributors can secure the relationships with more respective end-user customers. Our Group in such scenario can ultimately develop our distributorship network and thus strength our position in the potted vegetable produce market in the PRC.

We regularly review our credit term with our distributors from time to time. During the Track Record Period, having considered that the distributors have gained larger bargaining power over their respective end-user customers with an enlarged customer base of over 1,000 hotels/restaurants, our Group gradually shortened the credit period granted to most of our distributors from 120 days in FY2020 to the range of 60 — 120 days for FY2021, FY2022 and 9M2023, with 12, 6, 4 and 4 of our distributors granted credit terms of 120 days, nil, 4, 6 and 6 of our distributors granted credit terms of 90 days, and nil, 2, 2 and 2 of our distributors granted credit terms of 60 days as at 31 December 2020, 2021, 2022 and 30 September 2023 respectively. In addition, our distributors had also shortened the credit period granted to their customers when we gradually shortened the credit period we granted to them during the Track Record Period. The overall credit period granted by our distributors to their respective end-user customers were lowered gradually from 90 — 120 days in FY2020 to 60 — 120 days in FY2021, FY2022 and 9M2023. Our credit term policy has been enforced throughout the Track Record Period except in FY2022 when we have been more flexible in enforcing our credit terms for distributors in light of the uncertainty over the business environment in relation to the lockdown measures in various regions in China during the COVID-19 epidemic. Therefore our average trade receivables turnover days for FY2022 was 144.3 days and was higher than our credit term range. As the PRC government has substantially lifted its COVID-19 prevention and control policies since December 2022, we have urged our distributors for faster settlement of trade receivables and enforced our credit terms in 2023. However, since the third quarter of the year is our peak season, we recorded a monthly average revenue of approximately RMB16.7 million in the third quarter of 2023, as compared to the monthly average revenue of approximately

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RMB13.5 million for 9M2023. As a result, our trade receivable balance increased from approximately RMB53.4 million as at 31 December 2022 to approximately RMB58.4 million as at 30 September 2023. Due to the increase in revenue in 9M2023, our trade receivables turnover days decreased slightly to 126.1 days in 9M2023. However, it is still higher than our credit terms for distributors which ranged from 60 to 120 days mainly because of our high trade receivable balances as at 31 December 2022 which led to higher average trade receivable balances for the 9M2023.

The trade receivable recovery period of vegetable suppliers in the PRC generally ranges from one to six months in general, and the credit period granted by our Group was within the range of and in line with the general practice of the catering industry and comparable to the norm of the potted vegetable industry in the PRC.

Further, considering that (i) we do not offer a lower selling price for shorter credit term granted to our distributors; and (ii) the credit period granted to our distributors generally range from 60 to 120 days during the Track Record Period, which is less than one year, our Directors consider, and the Reporting Accountants concur, the said credit term granted to our distributors does not constitute financing from our Group and no financing income has been recognised in accordance with HKFRS 15.

For each of FY2020, FY2021, FY2022 and 9M2023, our trade receivables turnover days were approximately 99.2 days, 93.0 days, 144.3 days and 126.1 days, respectively. Our finance and accounting department carries out monthly reconciliation exercise of all outstanding accounts receivables and produces receivables reconciliation reports every month. If a distributor or end-user customer does not settle its outstanding receivables when they are due, our sales and marketing personnel will contact such customer by telephone, issue demand letters and/or visit such customer’s premises to follow up on the overdue debts. In the event that such customer continues to be delinquent, we would take legal enforcement action to recover the relevant debts. Our finance and accounting department monitors our receivable balances on an ongoing and regular basis and considers whether bad or doubtful debt provisions are necessary. As at 31 December 2020, 31 December 2021, 31 December 2022 and 30 September 2023, our allowance for doubtful debts was approximately RMB1.2 million, RMB1,000, RMB0.2 million and RMB0.1 million, respectively, representing approximately 1.0%, less than 0.1%, 0.1% and 0.1% of our respective revenue. For these reasons, our Directors consider our credit management policy as appropriate and do not consider there being any material liquidity risk associated with our credit policy. For further details regarding our credit control policy, please refer to the paragraph headed “Financial Information — Analysis of selected statement of financial position items — Trade receivables” in this document.

Product return, warranty and after-sales service

All of our framework agreements do not provide for product returns or warranty periods. As our distributors and end-user customers conduct inspections on our products before acknowledging acceptance, we generally do not accept any return of our products nor do we accept any warranty claims once such customer has acknowledged acceptance of the products sold and at such point, all titles and risks in connection with our products will

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be passed to the customer. During the Track Record Period, we did not record any amount of sales return from our customers. Further, we did not incur any expenses as a result of providing any after-sales services or receive any requests for after-sales services from our customers during the Track Record Period.

Seasonality

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

During the Track Record Period, we also experienced seasonal fluctuations in sales of our potted vegetable produce due to customers’ purchase patterns. We recorded higher revenue from the sale of our potted vegetable produce in the third quarter of the year. For specific regional markets, the potted vegetable market may show seasonality fluctuations in line with the catering market. For example, the catering market in Qingdao generally gains larger revenue in summer and autumn due to the growing number of visitors attracted by various festivals including the Qingdao beer festival in August. Hence, the demand for our potted vegetable produce generally increases during this period in line with the growing catering market.

We recorded lower revenue from the sale of our potted vegetable produce in the first quarter of the year, which was in line with the industry norm. Since the end-user customers of our distributors are mainly hotels and restaurants, their operation time will affect the demand of our potted vegetable produce. Most of the restaurants will be temporarily closed for business for around seven days during the Chinese New Year holidays and therefore, the reduction of demand from restaurants during this period may lead to a lower revenue from sale of potted vegetable produce in the first quarter of the year. Moreover, potted vegetable producers in Shandong province generally record a lower sales revenue in the first quarter of the year due to the lower cultivation volume in winter as a result of the longer growth cycle of potted vegetable produce caused by the lower temperature and shorter illumination duration in the region.

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The following table sets forth a breakdown of our revenue by quarters for the periods indicated:

	Year ended 31 December					
	2020		2021		2022	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
First quarter	21,342	17.6	28,763	18.6	19,204 ^(Note 2)	15.2
Second quarter	24,132	19.9	42,224 ^(Note 1)	27.3	23,443 ^(Note 2)	18.5
Third quarter	38,676	31.8	46,243	29.8	45,979	36.3
Fourth quarter	37,255	30.7	37,716	24.3	38,068	30.0
Total	<u>121,405</u>	<u>100.0</u>	<u>154,946</u>	<u>100.0</u>	<u>126,694</u>	<u>100.0</u>

Notes:

- (1) There was a significant increase in revenue generated in the second quarter of 2021 as compared to that of 2020, mainly due to the conversion of traditional regular greenhouses to enhanced large greenhouses during the third quarter of 2020 in our Laixi Facility which enabled us to cultivate more potted vegetable produce during the winter season in 2020 and, therefore, contributed to the increase in revenue in the second quarter of 2021.
- (2) Operation of Laixi Facility, our largest cultivation base, was suspended for more than a month between March and April 2022, which caused the temporary suspension of our production and sales activities leading to a decrease in revenue in the first two quarters of 2022.

MARKETING AND PROMOTIONAL ACTIVITIES

We believe we attract and retain our customers through the quality and safety of our potted vegetable produce and the reliability of our supply. We invite our distributors and end-user customers to visit our cultivation facility to demonstrate our industrial cultivation method, cultivation scale and quality control procedures. To promote recognition of our brand “富景农业”, enhance the visibility and marketability of our products and expand our customer base, we have engaged in a variety of marketing and promotional activities, such as attending trade shows and exhibitions relating to our industry and we have also engaged in advertising our products on our website. We intend to continue to participate in various trade shows and exhibitions of our industry to further increase the awareness of our brand in the markets and make our products more visible to potential customers as well as allowing us to collect updated information on market trends and consumer preferences.

Our sales and marketing personnel are generally experienced in sales and marketing activities. They are primarily responsible for approaching and liaising with potential and existing customers, promoting our products, formulating and implementing our marketing strategies, gathering market information including market trends and estimates, conducting regular inspections and collecting information on our distributors.

For FY2020, FY2021, FY2022 and 9M2023, we incurred advertising and promotional expenses of RMB12,000, RMB8,000, nil and RMB1,000, respectively, representing less than 0.1%, less than 0.1%, nil and less than 0.1% of our total revenue during the same periods, respectively.

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CULTIVATION OF OUR POTTED VEGETABLE PRODUCE

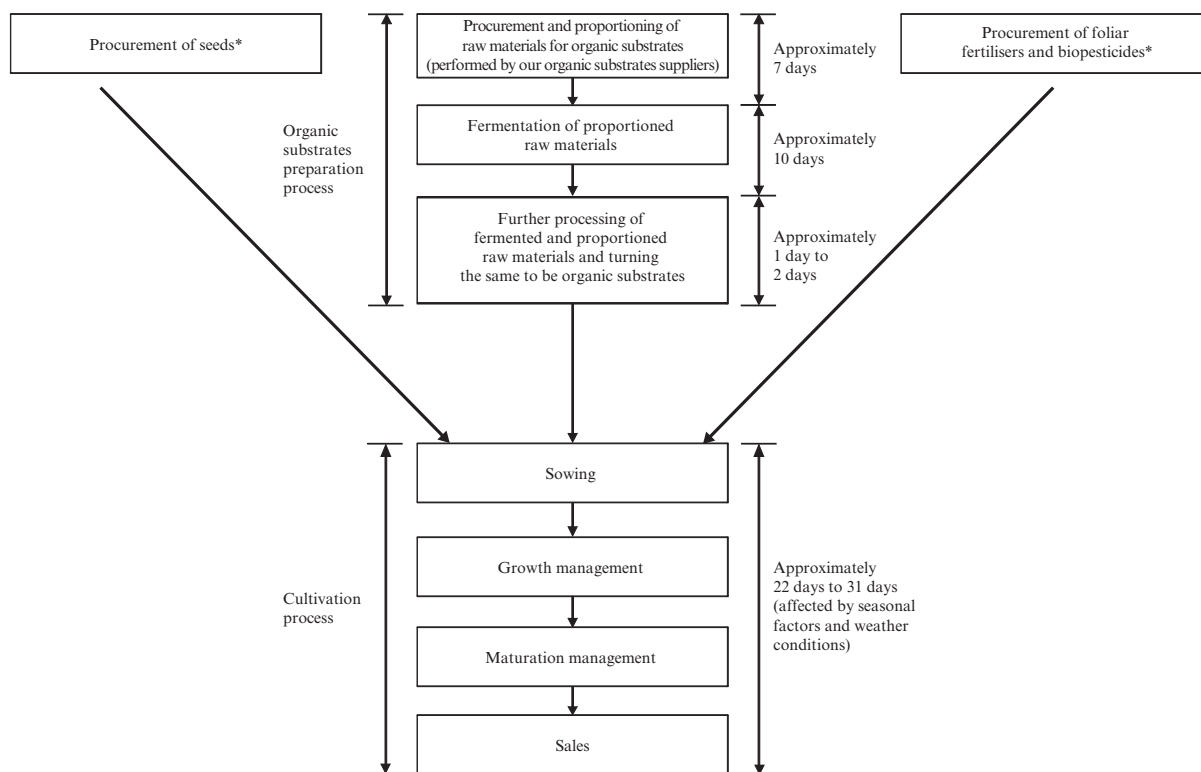
Cultivation process

We cultivate our vegetable produce in greenhouses and in pots filled with our specially formulated organic substrates, which are made primarily from raw materials such as cow manure, fungi residue and peanut shells that are proportioned, mixed and processed through high-temperature fermentation. Using such organic substrates allows our potted vegetable produce to be cultivated with ideal nutrients for healthy growth, and reduces the likelihood of contamination and pollution compared to vegetable produce grown in open fields.

We apply an industrial cultivation method to produce our potted vegetable produce. Such cultivation method requires the use of enclosed greenhouses together with the application of our horticultural know-how and equipment in connection with pest control, heat preservation, ventilation and/or shading of sunlight to adjust parameters such as temperature, humidity, illumination duration and carbon dioxide density during the cultivation process in our greenhouses in order to create an appropriate and ideal microclimate environment for the growth of our potted vegetable produce. Our industrial cultivation method standardises cultivation process, stabilises vegetable yield, improves product quality and reduces exposure to environmental and natural risks. As a result, it makes all-year-round cultivation of our potted vegetable produce possible and allows us to cultivate potted vegetable produce that is of superior quality with desirable appearance, freshness and size.

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The entire cultivation process of potted vegetable produce commencing from procurement of raw materials to delivery takes approximately 40 days to 50 days, depending on the species of vegetable produce cultivated and the season of cultivation. We have adopted horticultural techniques and have developed proprietary horticultural know-how for our cultivation process. The chart below illustrates the major steps of cultivation of our potted vegetable produce:



* Since we procure seeds, foliar fertilisers and biopesticides on regular occasions during our cultivation process in accordance to our cultivation schedule and the remaining inventories level, the procurement of seeds, foliar fertilisers and biopesticides usually will not take up additional time.

Organic substrates preparation process:

Procurement and proportioning of raw materials for organic substrates:

Our supplier sources the raw materials needed, such as cow manure, fungi residue and peanut shells and then proportion the same according to our formula. The supplier will then supply the proportioned raw materials for our organic substrates to us for our fermentation.

Fermentation of proportioned raw materials:

We ferment repeatedly at our cultivation facility the proportioned raw materials which we procure from our supplier. The fermentation temperature is required to reach a minimum of 65 °C in order to eliminate quality risks from harmful pathogens, insect eggs and weed seeds.

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Further processing of fermented and proportioned raw materials and turning the same to be organic substrates:

Further raw materials, such as turfy soil and perlite, are added to the fermented and proportioned raw materials, which are then mixed evenly and preserved to turn the same to be organic substrates.

Cultivation process:

Sowing:

Sower machine is used for filling pots with organic substrates and sowing seeds. We vary the sowing density, sowing depth and water content according to our horticultural know-how on the different ideal growth conditions across vegetable species.

Growth management:

After two to three days from sowing, seedlings sprout from the seeds. Growth of the seedlings are then managed according to our horticultural know-how by controlling cultivation conditions.

For our enhanced regular greenhouses and enhanced large greenhouses, we regulate (i) temperature inside our greenhouses by using insulating quilts to trap heat inside our greenhouses (especially during the cold winter) and through adjusting the air vents to control the inflow and outflow of air; and (ii) the level of illumination by rolling sun shading curtains over the roofs of our greenhouses to block excessive sunlight as well as to lower the greenhouses' temperature especially during the hot summer.

For certain of our enhanced regular greenhouses, we utilise a vegetable greenhouse environment monitoring system to monitor parameters such as pH value of organic substrates, temperature, humidity, carbon dioxide density and illumination duration inside our greenhouses. Our vegetable greenhouse environment monitoring system consist of various sensors and electronic displays which provide real-time data on the temperature and humidity in our greenhouses, the intensity of illumination, carbon dioxide density and the pH value in our organic substrate. Our cultivation staff monitor these important parameters and manually adjust the equipment in our greenhouses, such as air vents, sun shading curtains and insulation quilts if necessary according to the changing circumstances for the purpose of effectively and efficiently maintain the optimal cultivation condition.

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We also manage water application on our potted vegetable produce through irrigation systems and we apply foliar fertilisers and biopesticides if necessary. Similar to other agricultural produce in general, our potted vegetable produce is vulnerable to infestations of pests and we rely on a comprehensive pest control system which is operated by our staff to protect our potted vegetable produce. Our comprehensive pest control system comprises pest killer lamps, insect traps and physical barrier such as insect proof nets. Further, the cultivation of vegetable produce in greenhouses also prevents the invasion of pests such as crickets and diamondback moths as the translucent plastic greenhouse films or glass structures would serve as an effective physical barrier to the pests from the external environment. In addition, our cultivation personnel would also conduct regular inspection to check our pest control level and may adjust our pest control measures or apply biopesticides if necessary.

Maturation management: When the vegetable produce have reached maturity, withered and damaged leaves are removed from the vegetable produce.

Sales: The matured vegetable produce is sold and delivered to our customers.

Cultivation facilities

As at the Latest Practicable Date, we had three cultivation facilities in operation for cultivating our potted vegetable produce, comprising of (i) Laixi Facility; (ii) Xi’an Facility; and (iii) Dalian Facility. The aggregate land area of our cultivation facilities covers approximately 431,605 sq.m..

At the commencement of the Track Record Period, our Laixi Facility initially comprised (i) the Laixi Land Parcel A; (ii) the Laixi Land Parcel B; and (iii) the Laixi Land Parcel C. In 2019, we entered into lease agreements with Independent Third Parties to lease the lands and the greenhouses for our Xi’an Facility and Dalian Facility. To cope with our recent expansion, in the third quarter of 2020, we further leased from the People’s Government of Rizhuang Town of Laixi the Laixi Land Parcels D and from an Independent Third Party the Laixi Land Parcel E which are geographically proximate to our Laixi Land Parcel A, Laixi Land Parcel B and Laixi Land Parcel C for cultivation of potted vegetable produce. For further details of the above properties, please refer to the paragraphs headed “Properties — Owned properties”, “Properties — Leased properties” and “Properties — Other property interests in relation to the Laixi Land Parcel C” in this section of the document.

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The table below sets forth the location, size and the year of commencement of operation of our existing three cultivation facilities as at the Latest Practicable Date:

<u>Cultivation facilities</u>	<u>Address</u>	<u>Total owned land area</u> <i>(sq.m.)</i>	<u>Total leased land area</u> <i>(sq.m.)</i>	<u>Other land area</u> <i>(sq.m.)</i>	<u>Number of greenhouses</u>	<u>Total gross floor area of greenhouses</u> <i>(sq.m.)</i>	<u>Year of commencement of operation</u>	<u>Expiry date of leasehold/right of use</u>
Laixi Facility	Laixi, Qingdao, Shandong Province	148,137 <i>(Note 1)</i>	N/A	N/A	23	38,000 <i>(Note 4)</i>	2010 <i>(Note 5)</i>	N/A
		N/A	121,801 <i>(Note 2)</i>	N/A	41	70,468 <i>(Note 4)</i>	2010 for Laixi Land Parcel B, 2020 for Laixi Land Parcels D and Laixi Land Parcel E <i>(Note 5)</i>	26 December 2060, 30 June 2030 and 1 October 2029, respectively, for the Laixi Land Parcel B, the Laixi Land Parcels D, and the Laixi Land Parcel E
		N/A	N/A	128,334 <i>(Note 3)</i>	40	28,333 <i>(Note 4)</i>	2010 <i>(Note 5)</i>	16 June 2056
Xi'an Facility	Gaoling District, Xi'an, Shaanxi Province	N/A	13,333	N/A	7	7,000	2019	31 July 2025
Dalian Facility	Jinzhou District, Dalian, Liaoning Province	N/A	20,000	N/A	29	11,600	2019	30 September 2028
		148,137	155,134	128,334	140	155,401		

Notes:

- (1) The total owned land area of approximately 148,137 sq.m. of our Laixi Facility (i.e. the Laixi Land Parcel A) excludes a parcel of slopy land of approximately 66,667 sq.m. we leased to an Independent Third Party for a term of five years since 1 April 2019 for planting of trees. Please refer to the paragraph headed “Properties — Owned properties” in this section of the document for further details about the land.
- (2) The total leased land area of our Laixi Facility consists of three parts (i) the land with a site area of approximately 34,467 sq.m. (i.e. the Laixi Land Parcel B) we leased from the People’s Government of Rizhuang Town of Laixi since December 2010; (ii) the land with a site area of approximately 76,667 sq.m. (i.e. the Laixi Land Parcels D) we leased from the People’s Government of Rizhuang Town of Laixi since July 2020; and (iii) the land with a site area of approximately 13,333 sq.m. (i.e. the Laixi Land Parcel E) we leased from an Independent Third Party since July 2020. The site area of Laixi Land Parcel E was slightly reduced to approximately 10,667 sq.m. in FY2022 due to the resumption of land by the government for road widening works adjacent to our Laixi Land Parcel E.
- (3) Other land area of our Laixi Facility refers to the land (i.e. the Laixi Land Parcel C) that our Group obtained the land use rights under the Land Reservation Agreement we entered into with the People’s Government of Rizhuang Town of Laixi. Please refer to the paragraph headed “Properties — Other property interests in relation to the Laixi Land Parcel C” in this section of the document for further details.
- (4) The total gross floor area of greenhouses of our Laixi Facility is approximately 136,801 sq.m., which is smaller than its total land area of approximately 398,272 sq.m. by approximately 261,471 sq.m., because the total land area includes areas of greenery, ponds, storage and roads, etc at our Laixi Facility. As confirmed by our Directors, some land parcels at our Laixi Facility (i.e. Laixi Land

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Parcel A, Laixi Land Parcel B and Laixi Land Parcel C) consist of greenery areas of approximately 73,667 sq.m., fragmented areas between greenhouses of approximately 37,933 sq.m., storerooms and office of approximately 13,333 sq.m., roads of approximately 40,000 sq.m., slopy lands of approximately 9,667 sq.m. and water channel and ponds of approximately 41,333 sq.m.. Thus, the unusable land area amounts to approximately 215,933 sq.m.

- (5) The year of commencement of operation refer to the time that we have commenced cultivation of non-potted vegetable produce at our Laixi Facility.

In determining the location of our cultivation facilities, we primarily take into account the market demand and the proximity to the location of our potential customers, in order to shorten delivery time and maintain a high level of freshness of our products when they reach the location of our customers. Our largest cultivation facility is strategically located at Laixi, which allows convenient access to prominent markets at major cities in eastern part of Shandong province, namely Qingdao, Yantai and Weifang. The following map shows the location of our Laixi Facility and our major markets in Shandong province:



As we adopt an industrial cultivation method to produce our potted vegetable produce, the greenhouses in our cultivation facilities play an important role in our cultivation process. All of our greenhouses (including our traditional greenhouses and enhanced greenhouses) offer basic protection to our potted vegetable produce by avoiding direct exposure to external environment, and therefore our potted vegetable produce is less susceptible to the damage that may be caused by adverse weather (such as rainstorm or typhoon) and pest infestation. Our greenhouses are also designed with venting features which allow the staff in our cultivation facilities to regulate the temperature, humidity, airflow and carbon dioxide density by adjusting the air vents during the day if so required. Over the years since we commenced our potted vegetable cultivation business in 2012, we acquired the know-how and technique to improve our greenhouse facilities to fit the

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environment optimal for planting our potted vegetables. Since 2012, we developed our enhanced greenhouses that are made to our specifications and equipped with rolling sun shading curtains and insulating quilts for the regulation of illumination duration and temperature inside our greenhouses to protect our perishable vegetables. These features in our greenhouses, along with other facilities/equipment and the application of our horticultural know-how, are essential in providing an appropriate and ideal microclimate environment for the growth of our potted vegetable produce.

As at the Latest Practicable Date, the greenhouses in our cultivation facilities can be categorised into (i) traditional regular greenhouse; (ii) traditional large greenhouse; (iii) enhanced regular greenhouse; and (iv) enhanced large greenhouse. The table below illustrates the basic characteristics of our different greenhouses:

Type	Features/facilities/equipment	Principal functions	Approximate gross floor area per greenhouse (sq.m.)	Approximate construction cost per greenhouse (RMB'000)
Traditional regular greenhouse	Steel frame structure with translucent plastic films, air vents and thermometer	Basic greenhouse functions (e.g. rain-water proof and natural ventilation)	400	N/A <i>(Note 1)</i>
Traditional large greenhouse	Glass structure, sidewall vents, mechanical ventilation fan and thermometer	(i) Basic greenhouse functions (e.g. rain-water proof and natural or mechanical ventilation); and (ii) temperature regulation	1,333 or 3,333 <i>(Note 2)</i>	1,066 and 1,920
Enhanced regular greenhouse	Concrete and steel frame structure with translucent plastic films, air vents, thermometer, rolling sun shading curtains and insulating quilts	(i) Basic greenhouse functions (e.g. rain-water proof and natural ventilation); (ii) illumination duration regulation; and (iii) enhanced heat preservation and temperature regulation	400 or 667	348 <i>(Notes 3&4)</i>
	Additional features in some of the enhanced regular greenhouses: fibreglass water duct and vegetable greenhouse environment monitoring system	Additional functions in some of the enhanced regular greenhouses: (i) Weeds and moisture prevention; (ii) electronic temperature and humidity monitoring; (iii) illumination intensity detection; (iv) carbon dioxide density sensing; and (v) pH detection for organic substrate		

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Type	Features/facilities/equipment	Principal functions	Approximate gross floor area per greenhouse (sq.m.)	Approximate construction cost per greenhouse (RMB'000)
Enhanced large greenhouse	Concrete and/or steel frame structure with translucent plastic films, air vents, thermometer, rolling sun shading curtains and insulating quilts	(i) Basic greenhouse functions (e.g. rain-water proof and natural ventilation); (ii) illumination duration regulation; and (iii) enhanced heat preservation and temperature regulation	800 to 3,533	203 to 925

Notes:

1. As at the Latest Practicable Date, we have 14 traditional regular greenhouses at our Dalian Facility which were rented from Independent Third Party, hence, the estimation of construction cost per greenhouse is inapplicable.
2. As at the Latest practicable Date, we have two traditional large greenhouses at our Laixi Facility. 3,333 sq.m. is the cultivation area of our larger tradition large greenhouse. The gross area of the larger traditional large greenhouse is in fact larger than 3,333 sq.m. as it contains an area of approximately 500 sq.m. for the operation of our automatic sowing machine.
3. The construction cost per greenhouse refer to the estimated construction cost of the enhanced regular greenhouses which were constructed by us at our Laixi Facility. The gross floor area of each of these greenhouses is approximately 667 sq.m. The enhanced regular greenhouses at our Dalian Facility were rented from Independent Third Party, and the enhanced regular greenhouses on our Laixi Land Parcel E were acquired from Independent Third Party, therefore, these greenhouses are not included in the estimation of construction cost per greenhouse.
4. The construction cost per greenhouse does not include the cost of installation of fibreglass water duct and vegetable greenhouse environment monitoring system in those enhanced regular greenhouses that equipped with these latest features. This is because fibreglass water duct and vegetable greenhouse environment monitoring system are not standard basic features and are only installed in some enhanced regular greenhouses and thus the cost of installation of such facilities is not included in the calculation of the construction cost per greenhouse.

Before the Track Record Period, our Group invested an aggregate sum of approximately RMB96.5 million in improving the infrastructure at our Laixi Facility. The improvement works include, for example, levelling of land and/or site formation, building of roads, and setting up utilities on the levelled land at our Laixi Facility. After completion of these infrastructure works in around 2017, we started expanding our greenhouses in the Laixi Facility. In 2018, the total gross area of our greenhouses in the Laixi Facility increased by 44% from approximately 68,000 sq.m. as at 1 January 2018 to approximately 98,001 sq.m. as at 31 December 2018.

As at 1 January 2018, we were operating 98 traditional regular greenhouses, which represents approximately 79.7% of the total number of greenhouses that we have at our Laixi Facility and Chengyang Facility at that time. Due to the simple structure and flexibility of our traditional regular greenhouses, we constructed certain traditional regular

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greenhouses on the vacant lands at our Laixi Facility during 2018 to increase our production capacity quickly for meeting the market demand for the peak season. However, our Directors understand the limitations of our traditional regular greenhouses and their insufficiency in heat preservation and temperature regulation. Therefore, for the long term benefits of our Group, we started to develop more enhanced greenhouses since 2018 for the purpose of increasing our cultivation capacity particularly for the colder seasons. During 2018, our Group had constructed 32 enhanced regular greenhouses at our Laixi Facility and the said construction had costed us an investment sum of approximately RMB11.2 million. From 1 January 2018 to 31 December 2018, we had a net increase of 29 enhanced regular greenhouses at our Laixi Facility as we phased out three enhanced regular greenhouses which were in dilapidated condition. As at 1 January 2019, we were operating a total number of 167 greenhouses, among them 112 were the traditional regular greenhouses located at our Laixi Facility, which represents approximately 67.1% of our total number of greenhouses. The reduction in percentage of our traditional regular greenhouses during the year were primarily due to our gradual transformation of our operation from traditional regular greenhouses to enhanced regular greenhouses at our Laixi Facility.

In order to further reduce reliance on traditional regular greenhouses, during 2019, we gradually demolished our traditional regular greenhouses and started the construction of 22 enhanced large greenhouses which commenced operation in the last quarter of 2019. The construction of these 22 enhanced large greenhouses had costed us approximately RMB13.1 million in total. The commencement of operation of these 22 enhanced large greenhouses had contributed to the increase of cultivation capacity at our Laixi Facility. By 1 January 2020, we had closed down most of our traditional regular greenhouses.

In FY2020, we constructed a total of 31 enhanced large greenhouses on our Laixi Land Parcels D with an investment cost of approximately RMB15.0 million and we acquired from an Independent Third Party two enhanced regular greenhouses and seven enhanced large greenhouses on our Laixi Land Parcel E with consideration of approximately RMB3.0 million. During FY2021, we phased out three enhanced large greenhouses at our Xi'an Facility which were in dilapidated condition. During FY2022, we closed down a total of three greenhouses (i.e. two enhanced regular greenhouses and one enhanced large greenhouse) on our Laixi Land Parcel E due to the resumption of land by the government for road widening works adjacent to our Laixi Land Parcel E. The owner of Laixi Land Parcel E had paid to us compensation in the sum of approximately RMB0.4 million for the said land resumption in FY2022.

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The following table sets forth the types and numbers of greenhouses and their respective approximate total gross floor area at each of our cultivation facilities as at 1 January 2020, 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and as at the Latest Practicable Date:

	As at 1 January 2020		As at 31 December 2020		As at 31 December 2021		As at 31 December 2022		As at 30 September 2023		As at the Latest Practicable Date	
	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)
Qingdao, Shandong Province:												
Laixi Facility												
Traditional large greenhouse	2	4,667	2	4,667	2	4,667	2	4,667	2	4,667	2	4,667
Enhanced regular greenhouse	43	28,667	45	30,000	45	30,000	43	28,667	43	28,667	43	28,667
Enhanced large greenhouse	22	38,667	60	104,467	60	104,467	59	103,467	59	103,467	59	103,467
Total of Qingdao, Shandong Province	67	72,001	107	139,134	107	139,134	104	136,801	104	136,801	104	136,801
Xi'an, Shaanxi Province — Xi'an Facility												
Enhanced large greenhouse	10	10,000	10	10,000	7	7,000	7	7,000	7	7,000	7	7,000
Dalian, Liaoning Province — Dalian Facility												
Traditional regular greenhouse	0	0	14	5,600	14	5,600	14	5,600	14	5,600	14	5,600
Enhanced regular greenhouse	15	6,000	15	6,000	15	6,000	15	6,000	15	6,000	15	6,000
Sub-total:	15	6,000	29	11,600	29	11,600	29	11,600	29	11,600	29	11,600
Total:	92	88,001	146	160,734	143	157,734	140	155,401	140	155,401	140	155,401

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The following table sets forth the aggregated number of greenhouses at all of our cultivation facilities by types and their respective approximate total gross floor area as at 1 January 2020, 31 December 2020, 31 December 2021, 31 December 2022, 30 September 2023 and as at the Latest Practicable Date:

	As at 1 January 2020		As at 31 December 2020		As at 31 December 2021		As at 31 December 2022		As at 30 September 2023		As at the Latest Practicable Date	
	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)	Number of greenhouses	Approximate total gross floor area (sq.m.)
All of our cultivation facilities:												
Traditional regular greenhouse	0	0	14	5,600	14	5,600	14	5,600	14	5,600	14	5,600
Traditional large greenhouse	2	4,667	2	4,667	2	4,667	2	4,667	2	4,667	2	4,667
Sub-total:	2	4,667	16	10,267	16	10,267	16	10,267	16	10,267	16	10,267
Enhanced regular greenhouse	58	34,667	60	36,000	60	36,000	58	34,667	58	34,667	58	34,667
Enhanced large greenhouse	32	48,667	70	114,467	67	111,467	66	110,467	66	110,467	66	110,467
Sub-total:	90	83,334	130	150,467	127	147,467	124	145,134	124	145,134	124	145,134
Total:	92	88,001	146	160,734	143	157,734	140	155,401	140	155,401	140	155,401

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Benefited from the improved heat preservation and temperature regulation abilities of the enhanced regular greenhouses and the enhanced large greenhouses, we are able to cultivate our potted vegetable produce in our enhanced greenhouses all-year-round and certain relatively non-cold-resistant vegetable species that could not tolerate cold temperature in winter at our traditional regular greenhouse are now cultivable at our enhanced regular greenhouses or enhanced large greenhouses, and hence, it diversified the vegetable species that we can offer during the colder season. The following table sets forth the cultivation capabilities of different types of greenhouses in different seasons:

	All seasons except for winter:	Winter:
<p>Enhanced greenhouses <i>(Note)</i></p>	<p>All of our vegetable species can be cultivated.</p>	<p>27 vegetable species can be cultivated. Water spinach and Malabar spinach are not cultivable or unfavourable to growth in winter since they are cold sensitive.</p>
<p>Traditional greenhouses <i>(Note)</i></p>	<p>All of our vegetable species can be cultivated. However, since the ventilation of traditional greenhouses is less sophisticated than our enhanced greenhouses, the growth rate of certain heat sensitive species in summer in traditional regular greenhouses is lower than the same growing in enhanced greenhouses as the cultivation conditions in traditional regular greenhouses are not favourable to certain heat sensitive species during the hot summer.</p>	<p>We may have to temporarily close down our traditional regular greenhouses during winter since agricultural products generally cannot tolerate and survive in low temperature in the traditional regular greenhouses.</p> <p>Although our traditional large greenhouses can still be open during the winter season, given that we have less control over the temperature regulation function of such greenhouses as it is largely dependent on the heat preservation nature of the glass structure of such greenhouses, the usage of such greenhouses during the winter will cause uncertainty to our cultivation schedule.</p>

Note: The approximate number of species cultivable in our enhanced greenhouses and traditional greenhouses are determined based on the past cultivation experience of our Group and as confirmed by our Directors, the actual number of species cultivable in the relevant seasons (in particular, for traditional greenhouses) may be affected by weather conditions of the year.

Due to the above reasons, we prefer to grow our potted vegetable produce in our enhanced greenhouses as the temperature and cultivation conditions are better regulated in enhanced greenhouses throughout the year.

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Utilisation of our existing cultivation facilities

The table below sets forth the expected annual cultivation output under optimal cultivation conditions, actual cultivation volume and utilisation rate of our cultivation facilities for the period indicated.

Cultivation facility	Expected cultivation output under optimal cultivation conditions for FY2020 ^(Note 1)	FY2020	
		Actual cultivation output in FY2020	Approximate utilisation rate ^(Note 2)
	<i>(pots)</i> <i>(‘000)</i>	<i>(pots)</i> <i>(‘000)</i>	<i>(%)</i>
Laixi Facility	8,254	7,315	88.6
Xi’an Facility	757	564	74.5
Dalian Facility	<u>683</u>	<u>459</u>	<u>67.2</u> ^(Notes 3&4)
Overall	9,694 ^(Note 7)	8,338	86.0

Cultivation facility	Expected cultivation output under optimal cultivation conditions for FY2021 ^(Note 1)	FY2021	
		Actual cultivation output in FY2021	Approximate utilisation rate ^(Note 2)
	<i>(pots)</i> <i>(‘000)</i>	<i>(pots)</i> <i>(‘000)</i>	<i>(%)</i>
Laixi Facility	11,395	9,774	85.8
Xi’an Facility	573	410	71.5
Dalian Facility	<u>835</u>	<u>508</u>	<u>60.8</u> ^(Notes 3, 4&5)
Overall	12,803 ^(Note 7)	10,692	83.5

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Cultivation facility	Expected cultivation output under optimal cultivation conditions for FY2022 <i>(Note 1)</i>	FY2022 Actual cultivation output in FY2022	Approximate utilisation rate <i>(Note 2)</i>
	<i>(pots)</i> <i>(’000)</i>	<i>(pots)</i> <i>(’000)</i>	<i>(%)</i>
Laixi Facility	11,284	8,455	74.9 <i>(Note 6)</i>
Xi’an Facility	573	363	63.4 <i>(Note 6)</i>
Dalian Facility	835	457	54.7 <i>(Notes 3,4&6)</i>
Overall	12,692 <i>(Note 7)</i>	9,275	73.1 <i>(Note 6)</i>
		9M2023	
Cultivation facility	Expected cultivation output under optimal cultivation conditions for 9M2023 <i>(Note 1)</i>	Actual cultivation output in 9M2023	Approximate utilisation rate <i>(Note 2)</i>
	<i>(pots)</i> <i>(’000)</i>	<i>(pots)</i> <i>(’000)</i>	<i>(%)</i>
Laixi Facility	8,403	7,671	91.3
Xi’an Facility	430	296	68.8
Dalian Facility	636	372	58.5 <i>(Notes 3&4)</i>
Overall	9,469	8,339	88.1

Notes:

- (1) The expected cultivation output under optimal cultivation conditions for the respective financial years during the Track Record Period is calculated by assuming that (i) the maximum number of 3,900 pots is cultivated in each mu, as derived by actual measurement; and (ii) the potted vegetable produce is growing under optimised cultivation conditions such that a maximum of 14 yields are cultivated in each year/period as advised by the Agricultural Adviser. The expected cultivation output of each greenhouse under optimal cultivation conditions equals to the gross floor area of the greenhouse in mu multiplied by (i) 3,900 pots cultivable per unit of cultivation area in mu in each cultivation cycle; (ii) 14 yields in the relevant year; and (iii) the time proportion the relevant greenhouse was actually in use during the relevant year.
- (2) The approximate utilisation rate is calculated by dividing the actual cultivation volume by the expected cultivation output under optimal cultivation conditions multiplied by 100%.

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- (3) Among the 29 greenhouses at our Dalian Facility, 14 of them are traditional regular greenhouses which led to slightly longer cultivation time per crop in cold weather and the optimised cultivation conditions had not been met. As a result, a slightly lower utilisation rate has been recorded as compared to other cultivation facilities during the Track Record Period.
- (4) Our Dalian Facility is located in Liaoning province, which is at a higher latitude as compared to that of our Laixi Facility. Due to the lower average yearly temperature, the cultivation conditions of our Dalian Facility are slightly inferior as compared to other facilities, resulting in a relatively lower utilisation rate during the Track Record Period.
- (5) The lower utilisation rate of our Dalian Facility in FY2021 was primarily due to the outbreak of COVID-19 epidemic in Dalian between December 2020 and January 2021. In particular, the lockdown measures of Dalian had led to a temporary suspension of business activities of our Dalian Facility, resulting in a lower utilisation rate in FY2021. For further details, please refer to the paragraph headed “Impact of the outbreak of COVID-19 epidemic” in this section of the document.
- (6) The lower utilisation rate of our cultivation facilities in FY2022 was primarily due to the resurgence of COVID-19 cases which affected our business operations. In particular, the lockdown measures in Laixi and Dalian had led to the temporary suspension of business activities of our Laixi Facility and Dalian Facility between March 2022 to April 2022, and the lockdown measures in Xi’an had also affected the business activities of our Xi’an Facility in January 2022, resulting in the lower utilisation rate in FY2022. For further details, please refer to the paragraph headed “Impact of the outbreak of COVID-19 epidemic” in this section of the document.
- (7) The increase of expected annual cultivation output under optimal cultivation conditions during the Track Record Period was primarily due to the increase of the total gross floor area of our greenhouses from approximately 88,001 sq.m. as at 1 January 2020 to approximately 155,401 sq.m. as at the Latest Practicable Date, as a result of the significant capital expenditures of approximately RMB44.4 million, RMB14.4 million and RMB1.5 million for FY2020, FY2021 and FY2022, respectively.

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Equipment

Our cultivation facilities are equipped with a variety of cultivation equipment for carrying out the cultivation process of our potted vegetable produce and most of them are sourced from suppliers located in the PRC. As at 30 September 2023, the principal cultivation equipment used during the cultivation process of our potted vegetable produce comprised the following:

<u>Name of equipment</u>	<u>Principal function(s)</u>	<u>Number of unit(s)</u>	<u>Estimated average useful life^(Note 1) (years)</u>	<u>Estimated average remaining useful life as at the Latest Practicable Date^(Note 2) (years)</u>
Fully automatic sowing machine	Filling pots and sowing	1	10	3
Semi-automatic sowing machine	Filling pots and sowing	1	10	1
Sowing machine	Filling pots and sowing	6	10	8
Substrate crusher	Breaking down of proportioned raw materials for organic substrates	4	10	5
Curtain rolling machine	Extending and retracting sun shading curtains	6	10	2
Pesticide residue monitor	Quality control testing	3	10	4
Excavator	Transporting proportioned raw materials for organic substrates	3	10	5
Water irrigation system	Water irrigation	1	10	3
Submersible pump	Water extraction	3	10	2
Bulldozer	Transporting proportioned raw materials for organic substrates	1	10	7
Seed germinating container	Seed germination	1	10	2

Notes:

- (1) The average useful life is the average number of years an equipment is considered usable before its value is fully depreciated. As per the accounting policies adopted by our Group, depreciation of our equipment is calculated using straight-line method.
- (2) Calculation of remaining useful life is based on the average useful life minus the year of the acquisition of the relevant equipment.

Our technical department is responsible for equipment maintenance. Our technical department personnel are responsible for carrying out weekly inspections and routine daily cleaning and maintenance of our cultivation equipment. During the Track Record Period and up to the Latest Practicable Date, our Directors consider that our existing equipment

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was generally in good operating condition, and we also had not experienced any material or prolonged interruptions to our cultivation process due to equipment or machinery failure during the Track Record Period.

RAW MATERIALS, SUPPLIERS AND SUBCONTRACTORS

Raw Materials

Our raw materials primarily include (i) components of organic substrates; (ii) seeds; and (iii) fertilisers (such as foliar fertilisers) and biopesticides (such as matrine). The following table sets forth the cost of the components of organic substrates, seeds and fertilisers and biopesticides and their percentage of our cost of sales for the periods indicated:

	Year ended 31 December						Nine months ended 30 September			
	2020		2021		2022		2022		2023	
	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	<i>% of cost</i>	
	<i>RMB'000</i>	<i>of sales</i>	<i>RMB'000</i>	<i>of sales</i>	<i>RMB'000</i>	<i>of sales</i>	<i>RMB'000</i>	<i>of sales</i>	<i>RMB'000</i>	<i>of sales</i>
	(unaudited)									
Components of										
organic substrates	31,267	46.0	40,100	45.0	32,727	44.1	22,920	43.0	31,258	45.1
Seeds	1,265	1.9	1,549	1.7	1,386	1.9	1,013	1.9	988	1.4
Fertilisers and										
biopesticides	834	1.2	1,069	1.2	873	1.2	612	1.1	834	1.2
Total	33,366	49.1	42,718	47.9	34,986	47.2	24,545	46.0	33,080	47.7

Our Directors believe that the fluctuations of the prices of the primary raw materials we used in the cultivation of our products during the Track Record Period are dependent primarily on the supply of and demand for such raw materials in the PRC during the relevant period.

We are generally able to pass on increases in cost of raw materials of our products to our customers by increasing the prices of our products accordingly. When the prices of certain raw materials are expected to fluctuate significantly, our procurement personnel are required to report to other relevant departments in time and take precautionary measures accordingly. For further details of the sensitivity of our net profit during the Track Record Period in relation to movements in our cost of raw materials, please refer to the paragraph headed “Financial Information — Description of selected statements of profit or loss items — Cost of sales” in this document.

Our procurement policy adopts the following cost control measures: (i) collecting market data on the prices of our raw materials on a regular basis and analysing the same to predict potential changes in the market prices of our raw materials; (ii) negotiating and determining the purchase prices of raw materials with our suppliers, with reference to the market data collected and analysed; and (iii) identifying alternative raw materials suppliers who may provide more competitive and stable prices. By adopting these cost control

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measures, our Directors believe that we are able to obtain a more comprehensive and better understanding on the trends and reasons for price fluctuation of our raw materials, and increase our bargaining power to obtain more competitive prices when negotiating purchase agreements framework with our suppliers.

Our procurement personnel procure raw materials according to our procurement plan, which is formulated according to our cultivation schedule prepared by our cultivation personnel based on market information collected by our sales and marketing department. Our procurement personnel then contact suppliers who can meet our raw materials requirements. We source various raw materials of the same product from different suppliers to compare prices and increase our negotiation leverage with suppliers. We believe this comparative procurement system enables us to obtain more competitive prices.

Suppliers

We maintain a qualified suppliers list, from which we typically select our suppliers for purchasing raw materials. As the quality of our products are heavily dependent on the quality of our primary raw materials, before engaging new suppliers, we adopt an internal supplier evaluation procedure which contains a stringent set of criteria, including quality, price, service, quality control, production capability and credibility. Before engaging new suppliers, we will also make on-site inspection of the supplier's premises and conduct assessments on the quality of sample raw materials to be supplied in accordance with our quality requirements. We annually evaluate each of our existing suppliers on the quality of their raw materials supplied. We will only engage suppliers who can satisfy all our internal selection criteria. We did not experience any significant problems with the quality of raw materials provided by our suppliers during the Track Record Period and up to the Latest Practicable Date.

We typically enter into purchase agreement frameworks with our suppliers on an annual basis. The following table sets forth a summary of the principal terms of our purchase agreement frameworks with our suppliers:

Type of the goods	Product description
Pricing	Fixed prices stipulated in the agreement
Minimum purchase amount	We promised to order from the supplier not less than a specific amount of the goods
Credit terms	15 days to 20 days

During the Track Record Period, we did not encounter any shortage of supply of our raw materials.

All of our raw materials are procured in the PRC. Under the purchase agreement frameworks, our suppliers are responsible for arranging delivery of the raw materials to our cultivation facilities at their own cost. During the Track Record Period, we did not encounter any delay in delivery of raw materials by our suppliers that significantly affected our cultivation process. Upon receiving the raw materials, we would perform quality checks and are entitled to return raw materials which fail to meet our quality standards to our suppliers. For further details of our quality control measures on our raw materials, please refer to the paragraph headed "Product safety and quality control — Raw materials quality control" in this section of the document.

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In FY2020, FY2021, FY2022 and 9M2023, our cost of raw materials (including seeds, components of organic substrates and fertilisers) was the largest component of our cost of sales accounting for approximately 49.1%, 47.9%, 47.2% and 47.7% of our total cost of sales. Hence, cost control on raw materials is important in maintaining our competitiveness in the market. In this regard, we constantly obtain quotations from different raw materials suppliers and conduct regular appraisal on their competitiveness.

Shandong province is an agricultural oriented province which has an ample supply with numerous suppliers of the raw materials used in our production (i.e. components of organic substrates, seeds, fertilisers and biopesticides) and thus the agricultural raw material supply market of Shandong province is buyer-led, competitive and fragmented. For instance, there were approximately 6,000, 5,000 and 3,000 suppliers of seeds, fertilisers and component of organic substrates respectively in Shandong province in 2022. Hence, we can procure the same or substitutable raw materials from different suppliers and thus have the flexibility to switch to procure from different suppliers with no impact on our operations. Therefore, in general, our Group does not enter into any long term agreement with our suppliers of raw materials, which is in line with the industry practice. As a result of the above, our raw materials suppliers changed each year during the Track Record Period and the length of the relationship between our suppliers and us was relatively short. Among our five largest suppliers for each of FY2020, FY2022 and 9M2023, we only maintained approximately one year of business relationship with two, one and one suppliers, respectively.

In operation, we would keep monitoring the price of raw materials and obtain at least 2 quotations regularly from our various shortlisted suppliers before making a procurement decision. While we are price sensitive in procuring raw materials, we would also take into account of other factors, including quality, service and credibility to work out the most competitive offer. That said, our Directors confirm that the fact that our suppliers for raw materials changed each year during the Track Record Period did not affect our cultivation and operation, or cause any delay in delivery of raw materials that affect our cultivation process.

For FY2020, FY2021, FY2022 and 9M2023, purchases from our largest supplier in each year/period accounted for approximately 70.3%, 62.9%, 50.8% and 40.6%, respectively, of our total purchases. For the same periods, our five largest suppliers in each year/period combined accounted for approximately 94.3%, 99.7%, 99.7% and 98.7%, respectively, of our total purchases. Please refer to the risk in the paragraph headed “Risk Factors — Risks relating to our business — We are dependent on our major suppliers, and our business, financial conditions and results of operations could be adversely affected if our relationships with these major suppliers are terminated, interrupted, or modified in any way adverse to us” in this document. Our purchase from Supplier G, our largest supplier in FY2020, amounted to approximately RMB26.4 million (or 70.3% of our total purchase) in FY2020. We purchased components of organic substrates in bulk from Supplier G throughout FY2020 as in the course of monitoring the price of raw materials, we worked out that the offer from Supplier G in respect of the components of organic substrates was the most competitive. That said, our Directors consider that our Group is not overly reliant on Supplier G and could seek alternate suppliers where appropriate. For this reason, in

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FY2021, we shifted to purchase more of the components of organic substrates in bulk from Supplier L, who is our second largest suppliers in FY2020 and our largest supplier in FY2021, as its offer was the most competitive as compared to the others. Despite such concentration of suppliers during the Track Record Period, our Directors consider that we are not overly reliant on any single supplier including Supplier G and Supplier L and thus there is no material risk arising from such concentration because:

- (i) we maintain a list of qualified suppliers, which is reviewed and updated by us periodically. We procure from a number of suppliers for certain materials and in the event that a supplier ceases to supply to our Group, we could select qualified suppliers from the list as replacement to prevent disruption to the supplies and ensure the quality thereof; and
- (ii) our Directors consider that the supplies of the raw materials used in our production are ample in the market with numerous suppliers, and that our Group can seek alternative suppliers as and when appropriate in the market without material limitations.

During the Track Record Period, none of our five largest suppliers in each year/period was also our customers.

The following tables set forth certain information with respect to our five largest suppliers in each year/period during the Track Record Period:

FY2020

Rank	Supplier	Location	Business activities of our supplier	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Type(s) of products provided to our Group	Typical credit terms and payment method	Approximate	Approximate
							amount of purchase	percentage of our total purchases
							<i>RMB'000</i>	<i>(%)</i>
1	Supplier G <i>(Note 1)</i>	Laixi, Shandong province	Retail of seeds, organic substrates and fertilisers	One	Components of organic substrates	Within 15 days after delivery; bank transfer	26,365	70.3
2	Supplier L <i>(Note 1)</i>	Laixi, Shandong province	Sale of organic substrates	Two	Components of organic substrates	Within 15 days after delivery; bank transfer	5,501	14.7
3	Supplier J <i>(Note 1)</i>	Laixi, Shandong province	Wholesale of groceries and pots	One	Pots	Within 15 days after delivery; bank transfer	1,406	3.8
4	Supplier D <i>(Note 1)</i>	Laixi, Shandong province	Sale of seeds and fertilisers	Six	Vegetable seeds	Within 15 days after delivery; bank transfer	1,193	3.2
5	Supplier I <i>(Note 1)</i>	Laixi, Shandong province	Wholesale and retail of pesticides and fertilisers	Six	Foliar fertilisers and biopesticides	Within 15 days after delivery; bank transfer	850	2.3

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FY2021

Rank	Supplier	Location	Business activities of our supplier	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Type(s) of products provided to our Group	Typical credit terms and payment method	Approximate	Approximate
							amount of purchase	percentage of our total purchases
							RMB'000	(%)
1	Supplier L ^(Note 1)	Laixi, Shandong province	Sale of organic substrates	Two	Components of organic substrates	Within 15 days after delivery; bank transfer	28,151	62.9
2	Supplier O	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	8,863	19.8
3	Supplier P	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	5,021	11.2
4	Supplier D ^(Note 1)	Laixi, Shandong province	Sale of seeds and fertilisers	Six	Vegetable seeds	Within 15 days after delivery; bank transfer	1,542	3.4
5	Supplier I ^(Note 1)	Laixi, Shandong province	Wholesale and retail of pesticides and fertilisers	Six	Foliar fertilisers and biopesticides	Within 15 days after delivery; bank transfer	1,077	2.4

FY2022

Rank	Supplier	Location	Business activities of our supplier	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Type(s) of products provided to our Group	Typical credit terms and payment method	Approximate	Approximate
							amount of purchase	percentage of our total purchases
							RMB'000	(%)
1	Supplier O	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	20,292	50.8
2	Supplier P	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	15,702	39.3
3	Supplier Q	Qingdao, Shandong province	Sale of groceries and pots	One	Pots	Within 15 days after delivery; bank transfer	1,500	3.8
4	Supplier D ^(Note 1)	Laixi, Shandong province	Sale of seeds and fertilisers	Six	Vegetable seeds	Within 15 days after delivery; bank transfer	1,407	3.5
5	Supplier I ^(Note 1)	Laixi, Shandong province	Wholesale and retail of pesticides and fertilisers	Six	Foliar fertilisers and biopesticides	Within 15 days after delivery; bank transfer	910	2.3

9M2023

Rank	Supplier	Location	Business activities of our supplier	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Type(s) of products provided to our Group	Typical credit terms and payment method	Approximate	Approximate
							amount of purchase	percentage of our total purchases
							RMB'000	(%)
1	Supplier P	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	13,496	40.6
2	Supplier O	Laixi, Shandong province	Sale of organic substrates	Three	Components of organic substrates	Within 15 days after delivery; bank transfer	10,226	30.7
3	Supplier R	Laixi, Shandong province	Sale of organic substrates	One	Components of organic substrates	Within 15 days after delivery; bank transfer	7,289	21.9
4	Supplier D ^(Note 1)	Laixi, Shandong province	Sale of seeds and fertilisers	Six	Vegetable seeds	Within 15 days after delivery; bank transfer	996	3.0
5	Supplier I ^(Note 1)	Laixi, Shandong province	Wholesale and retail of pesticides and fertilisers	Six	Foliar fertilisers and biopesticides	Within 15 days after delivery; bank transfer	832	2.5

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Note:

- (1) represents suppliers who traded with us as registered individual businesses* (個體工商戶) in the PRC.

To the best knowledge of our Directors, none of our Directors or their associates, or any Shareholders, who owns more than 5% of our issued share capital, had any interest in any of our five largest suppliers in each year/period during the Track Record Period and up to the Latest Practicable Date. We did not have any material dispute with our suppliers during the same period.

Subcontractors

As we expanded the scale of our operation in the Laixi Facility throughout the Track Record Period, and established our new Xi'an Facility and Dalian Facility in 2019, we required more labour in carrying out the cultivation work in three provinces and there was an increasing need for recruitment, monitoring, coordination and supervision of work. We believe that engaging subcontractors to handle the simple labour work such as sowing and watering in the cultivation process would provide us with more flexibility in management, reduce our administrative workload and allow us to manage effectively our cultivation process and meet our demand for workforce in a timely manner to cope with our recent expansion. It also allows our experienced staff to focus on the quality control procedures to uphold the quality of our products and conduct testing for the refinement of our current cultivation methods and techniques which are our core competitive advantages. We engage subcontractors by entering into standard labour subcontracting agreements (勞務外包合作協議書) with companies engaging in labour supply services which are Independent Third Parties and completely outsourced all of our simple labour work since the Track Record Period. In fact, it is an industry practice for potted vegetable producers in the PRC to engage subcontractors to assist in cultivation.

The division of work between our employees and subcontracting labours are set forth in the following table:

Nature of work	Our employees	Subcontracting labours
Supervising and monitoring our subcontractors and subcontractors labour	Yes	No
Maintenance and operation of our cultivation facilities	Yes	No
Performance of quality control of our raw materials and potted vegetable produce	Yes	No
Monitoring vegetable's growth progress, adjusting the use of fertilisers, biopesticides, etc.	Yes	No

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Nature of work	Our employees	Subcontracting labours
Monitoring and/or adjusting environment parameters such as pH value of organic substrates, temperature, humidity, carbon dioxide density and illumination duration inside our greenhouses	Yes	No
Managing greenhouse spaces, determining species to be planted	Yes	No
Pest and crop disease control in greenhouses	Yes	Yes
Sowing and watering our potted vegetable produce	No	Yes
Transporting our potted vegetable produce within our cultivation facilities	No	Yes

During the Track Record Period, we have engaged seven, five, five and four subcontractors. As confirmed by our Directors, as at the Latest Practicable Date, the total number of subcontracting workforce involved in our cultivation process is approximately 300 labours. As confirmed by our Directors, there was no injury claim against us by any subcontracting labour during the Track Record Period.

The following table sets forth a summary of the principal terms of the labour subcontracting agreement:

Term of agreement:	Typically one year
Obligations of the subcontractor:	The subcontractor is required to supply qualified workers to work at our cultivation facility according to our demands, comply with our internal guidelines including guidelines on production safety and occupational hygiene, and keep our trade secrets confidential. The subcontractor is also responsible for procuring the employment related insurance and be responsible for any work-related injury claims and labour dispute for their own subcontracting labours.

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Subcontracting fees: Subcontracting fees are settled on a monthly basis to be calculated based on the quality passing rate of each batch of potted vegetable produce cultivated by our subcontractors.

If the subcontractors achieve a quality passing rate between 85% to 95%, they will be entitled to the basic subcontracting fee per pot for the batch they cultivate. If the quality passing rate is above 95%, the subcontractors will be entitled to an additional subcontracting fee of RMB0.5 per pot on top of the basic subcontracting fee for the batch they cultivate. If the quality passing rate is below 85% (except due to force majeure events), the subcontractors will not be entitled to any subcontracting fee.

Early termination right: If the subcontractor provides false qualification certifications (i.e. an invalid business operation licence) and does not have legal qualifications to carry out the agreement, or if it breaches other relevant PRC laws or terms in the agreement, we have a right to terminate the agreement. If we fail to pay the subcontractor within the stipulated timeline, the subcontractor has a right to terminate the agreement.

The quality passing rate of the batch of potted vegetable cultivated by the subcontractor is determined by the inspection conducted by our cultivation staff. During the inspection, our staff will check the potted vegetable produce based on a set of internal specifications for different vegetable species, for example, colour and appearance, any withered or damaged leaves, number of leaves/stems and the overall volume of the vegetable, etc. to determine whether the products can pass our inspection. We will then count the total number of potted vegetable produce that can pass our inspection to calculate the quality passing rate.

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The tables below set out the basic information of our five largest labour subcontractors in each year/period engaged during the Track Record Period:

FY2020

Rank	Name of the subcontractor	Location	Background and principal business of the subcontractor	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Major services procured from the subcontractor	Typical credit terms and payment method	Approximate amount of subcontractor charge <i>(approximately RMB'000)</i>	Approximate percentage of total subcontractor charge <i>(%)</i>
1	Labour subcontractor B <i>(Note 1)</i>	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Four	Labour subcontracting services	One month; bank transfer	14,587	50.4
2	Labour subcontractor A	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	7,053	24.4
3	Labour subcontractor E	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	3,967	13.7
4	Labour subcontractor C	Xi'an, Shaanxi province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	1,928	6.7
5	Labour subcontractor G	Dalian, Liaoning province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	592	2.0

FY2021

Rank	Name of the subcontractor	Location	Business activity of the subcontractor	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Major services procured from the subcontractor	Typical credit terms and payment method	Approximate amount of subcontractor charge <i>(RMB'000)</i>	Approximate percentage of total subcontractor charge <i>(%)</i>
1	Labour subcontractor A	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	13,508	36.2
2	Labour subcontractor B <i>(Note 1)</i>	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Four	Labour subcontracting services	One month; bank transfer	13,406	36.0
3	Labour subcontractor E	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	7,388	19.8
4	Labour subcontractor G	Dalian, Liaoning province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	1,520	4.1
5	Labour subcontractor C	Xi'an, Shaanxi province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	1,443	3.9

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FY2022

Rank	Name of the subcontractor	Location	Business activity of the subcontractor	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Major services procured from the subcontractor	Typical credit terms and payment method	Approximate amount of subcontractor charge (RMB'000)	Approximate percentage of total subcontractor charge (%)
1	Labour subcontractor A	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	19,948	62.3
2	Labour subcontractor E	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	5,107	15.9
3	Labour subcontractor B	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Four	Labour subcontracting services	One month; bank transfer	4,305	13.4
4	Labour subcontractor G	Dalian, Liaoning province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	1,390	4.3
5	Labour subcontractor C	Xi'an, Shaanxi province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	1,277	4.0

9M2023

Rank	Name of the subcontractor	Location	Business activity of the subcontractor	Approximate year(s) of business relationship with our Group as at the Latest Practicable Date	Major services procured from the subcontractor	Typical credit terms and payment method	Approximate amount of subcontractor charge (RMB'000)	Approximate percentage of total subcontractor charge (%)
1	Labour subcontractor A	Qingdao, Shandong province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	26,738	92.4
2	Labour subcontractor C	Xi'an, Shaanxi province	A private company engaged in the labour dispatch and labour subcontracting services	Five	Labour subcontracting services	One month; bank transfer	1,032	3.6
3	Labour subcontractor G	Dalian, Liaoning province	A private company engaged in the labour dispatch and labour subcontracting services	Three	Labour subcontracting services	One month; bank transfer	923	3.2
4	Labour subcontractor H	Dalian, Liaoning province	A private company engaged in the labour dispatch and labour subcontracting services	One	Labour subcontracting services	One month; bank transfer	238	0.8

Note:

- (1) Labour subcontractor B consists of two limited liability companies owned by a common controlling shareholder.

Before engaging our subcontractors, we adopt an internal evaluation procedure which involves consideration of a set of criteria such as their reputation, productivity, production quality, occupational safety and credibility. We conduct reviews on our subcontractors from time to time to ensure they continue to satisfy our internal requirements. We require our subcontracting workers to undergo training conducted by us to ensure that they understand our potted vegetable cultivation and operational standards. We have also implemented quality control procedures to ensure the quality of the potted vegetable

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produce cultivated by our subcontractors. For further details on our quality control procedures, please refer to the paragraph headed “Product safety and quality control — Production process quality control” in this section of the document.

As at the Latest Practicable Date, we engaged four subcontractors, who were all Independent Third Parties. Our Group has maintained good relationships with our subcontractors and we have renewed the contracts of our subcontractors who satisfied our internal requirements. In FY2020, FY2021, FY2022 and 9M2023, the total amount of subcontracting fees amounted to approximately RMB28.3 million, RMB37.2 million, RMB30.3 million and RMB29.0 million, which represents approximately 41.6%, 41.7%, 40.9% and 41.8% of our total cost of sales for the same period, respectively. Our Directors consider that there is no over-reliance on any individual subcontractor and no material risk of disruption to our normal operations since (i) we maintain a list of qualified subcontractors which is updated by us periodically, and (ii) there are many subcontracting companies of comparable size and quality available in the market. Our Directors believe that we can replace one subcontractor with another with no undue difficulty.

During the Track Record Period, we did not experience any material issue or dispute in relation to product quality with any of our subcontractors.

To the best knowledge of our Directors, none of our Directors or their associates, or any Shareholders, who owns more than 5% of our issued share capital, had any interest in any of our five largest subcontractors in each year/period during the Track Record Period and up to the Latest Practicable Date.

PRODUCT SAFETY AND QUALITY CONTROL

To ensure the quality of our potted vegetable produce, we have established stringent quality control measures over our entire production process, from selection of suppliers and sourcing of raw materials to our cultivation process, inspection of finished products and inventory storage. Our quality control department is responsible for formulating our quality control system in accordance with the relevant PRC laws and regulations, and monitoring our entire production process at each key stage to ensure our products meet the required quality standards. Further, our quality control department reviews the implementation of our quality control system on a regular basis to recommend improvement procedures and ensure continuous improvement in the quality of our products.

Our quality control department is led by our quality control department manager who has more than seven years of relevant experience in implementing quality control measures in cultivation of our potted vegetable produce as at the Latest Practicable Date. Our quality control department personnel are required to acquire relevant knowledge in relation to product quality assessment.

In recognition of our technical and quality control capabilities, we were selected by Qingdao Association of Standardisation (青島市標準化協會) in 2019 to be involved in the development of the industry standard for the industrial cultivation of potted vegetable

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produce in the PRC together with the Laixi Potted Vegetable Cultivation Association* (萊西市盤菜種植協會), Qingdao Fugeng Agricultural Machinery Professional Cooperative* (青島富耕農機專業合作社) and Qingdao Institute of Technology and Standards* (青島市技術標準科學研究所).

Raw materials quality control

As the quality of our potted vegetable produce is heavily dependent on the quality of our primary raw materials, we have implemented stringent procedures in the selection of our suppliers. Please refer to the paragraph headed “Raw materials, suppliers and subcontractors — Our suppliers” in this section of the document for further details.

In addition, we have also implemented an inspection and testing procedure whereby raw materials delivered to our cultivation facilities are sampled for inspection and testing in accordance with our quality requirements before they are accepted. For example, we will conduct visual examination on the seeds supplied by our suppliers to ensure that they are not adulterated with other wild seeds that are not required for our cultivation. Moreover, as our internal quality control measures, we will conduct searches to check whether our seeds producers possess valid qualification certificate. We will also examine the packaging of the seeds, foliar fertilisers and biopesticides to check their manufacturing date to ensure that no near-expiry goods are delivered to us by the suppliers. We will also conduct sample testing on the seeds’ germination rate with the organic substrates prepared and fermented from the raw materials supplied by our suppliers to examine whether the raw materials they provided could yield the organic substrates with satisfactory quality and be able to cultivate our potted vegetable produce efficiently. We have also implemented storage control procedures in relation to the storage of raw materials. Please refer to the paragraph headed “Inventories and logistics — Inventories management” in this section of the document for the details of our raw materials storage.

Production process quality control

Our cultivation process is closely monitored by our quality control department, which conducts quality sample testing and inspection on our potted vegetable produce at various stages of our cultivation process. Our quality control department is responsible for ensuring that (i) our cultivation procedures, including the use of raw materials, follow our internal production guidelines; (ii) the size and appearance of our potted vegetable produce are satisfactory in accordance with our internal standards; (iii) there is no contamination and pollution of our products; and (iv) our products meet our quality standards. Only those products which pass our quality checks can be sold to our customers.

In order to ensure our potted vegetable produce is growing in an environment that is free from hazardous chemicals and pollutants and to minimise the risk of contamination and pollution from the environment, we have implemented certain control measures in respect of the growing environment of our potted vegetable produce. These measures include the careful selection of water source and suppliers for the raw materials of our organic substrates. We have also engaged a third party inspection institution to conduct sample testing on our organic substrates and water for irrigation to ensure their qualities in respect of their pH value and residual level of heavy metals comply with the environmental

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requirements for origin of pollution-free agricultural products. We have been accredited with Certificate of Origin of Pollution-free Agricultural Products* (無公害農產品產地認定證書) from Qingdao Agriculture Commission* (青島市農業委員會) in December 2017.

According to the Measures for the Management of Pollution-free Agricultural Products (2007 Amendment) (無公害農產品管理辦法 (2007修正)) (the “**Management Measures**”), pollution-free agricultural products are unprocessed or pretreated edible agricultural products which passed the relevant national standards and requirements in relation to the environment of origin, production process and product quality, and the products will be certified and allowed to use the pollution-free agricultural products logos. Our Group has standard procedure in cultivation to ensure that our Group’s potted vegetable produce is in compliance with the relevant requirements set out in the Management Measures; fertilisers (such as foliar fertilisers) and biopesticides (such as matrine) will only be applied by our Group in cultivation if necessary in strict compliance with the Management Measures. As confirmed by our Directors, our Group has not applied any restricted chemicals or any material or substance in cultivation that would lead to the residual levels of the restricted chemicals exceeding the prescribed limits in the potted vegetable produce. Our Group had conducted sample checking and the independent third party inspection institution engaged by us had not detected any restricted chemicals that exceeded the prescribed limits in our Group’s potted vegetable produce.

We have implemented quality control procedures to ensure the quality of the potted vegetable produce cultivated by our subcontractors. Pursuant to the labour subcontracting agreements, we require our subcontractors to comply with our internal production requirements on production safety and occupational hygiene. Our quality control department closely monitors our subcontractors’ cultivation process and provide guidance at various stages. We are responsible for procuring and providing raw materials to our subcontractors, who utilise such raw materials in accordance with our instructions and training provided to them. Further, we calculate the subcontracting fees on a monthly basis based on the quality passing rate of each batch of potted vegetable produce cultivated by our subcontractors, the subcontractors would be entitled to receive a higher subcontracting fee per pot of potted vegetable produce if they could achieve a higher quality passing rate for the batch they cultivate.

Finished product quality control

We perform sample-tests and inspections on our matured potted vegetable produce to ensure that the relevant quality standards have been met. We conduct sample testing on our potted vegetable with pesticide residue testing machines to ensure that our potted vegetable produce would not contain residual pesticide that exceeds the safety limits. For our Laixi Facility, the pesticide residue testing machine is connected to Qingdao Agricultural Rural Bureau* (青島市農業農村局), and the testing results were reported back to Qingdao Agricultural Rural Bureau. We have also engaged a third party inspection institution to conduct sample testing on our potted vegetable produce for checking the residue level of (i) heavy metals such as cadmium and lead; and (ii) pesticides such as carbofuran, omethoate and phorate in accordance with the relevant national standards mentioned in the guideline issued by the Ministry of Agriculture of the PRC. The investigation result revealed that

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none of the samples of our potted vegetable produce had been detected with the heavy metals or pesticides that exceed the safety limits set out in the relevant national standards. We have been granted with Certificate of Pollution-free Agricultural Products* (無公害農產品證書) by Qingdao Agricultural Rural Bureau* (青島市農業農村局) in respect of the potted vegetable produce cultivated at our Laixi Facility as at the Latest Practicable Date.

INVENTORIES AND LOGISTICS

Inventories management

Our inventories primarily consist of pots and agricultural materials which mainly include seeds, fertilisers and biopesticides which were not utilised at the end of each of the Track Record Period. We utilise a computerised enterprise inventories management system to record the incoming and outgoing inventories. Such system allows us to monitor levels of inventories on a regular basis in order to maintain adequate quantities of our pots and agricultural materials.

Our cultivation facility employees regularly conduct stock-take of our agricultural materials and are required to prepare monthly records on our inventory levels. We keep an adequate level of inventories in accordance with the cultivation schedule of our potted vegetable produce. During the Track Record Period, we did not experience any shortage of inventories.

Each of our cultivation facilities has a storeroom for storage of our agricultural materials. Our agricultural materials are stored in designated areas within our storerooms according to their product categories. Our storerooms are maintained to be dry and well-ventilated in order to prevent deterioration of our agricultural materials. We also undertake fire safety and pest control measures to minimise fire hazards and risk of damage to our agricultural materials.

Logistics

For sales to our distributors, we are not responsible for the delivery of our products and our distributors will arrange for their own delivery from our cultivation facilities to their premises or customers at their own cost. Any risk of liability relating to transportation accidents, delivery delays and losses in respect of delivery to our distributors will be borne by our distributors.

For sales to our end-user customers, we generally arrange for delivery of our products to their premises using our own fleet of delivery vehicles. Any risk of liability relating to transportation accidents, delivery delays and losses in respect of delivery will be borne by us.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any significant delay in delivery that materially affected our business operations.

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AWARDS

We have been granted a number of awards and certificates in recognition of our business development, details of which are set forth as follows:

Year of grant	Award/Accreditation	Awarding Body
2020	GB/T 19001-2016 idt ISO 9001: 2015 Certificate of Quality Management System (質量管理體系認證證書)	Qingdao Huazhong Century Certification Co., Ltd.* (青島華中世紀認證有限公司)
2020	GB/T 24001-2016 idt ISO 14001: 2015 Certificate of Environmental Management System (環境管理體系認證證書)	Qingdao Huazhong Century Certification Co., Ltd.* (青島華中世紀認證有限公司)
2020	GB/T 45001-2020 idt ISO 45001: 2018 Certificate of Occupational Health and Safety Management System (職業健康安全管理体系認證證書)	Qingdao Huazhong Century Certification Co., Ltd.* (青島華中世紀認證有限公司)
2018	Qingdao Green Vegetable Garden* (青島市綠色菜園)	Qingdao Agriculture Commission* (青島市農業委員會)
2015	March 15 — the Most Socially Trustworthy Brand* (3•15最具社會誠信品牌)	Peninsula Metropolitan Newspaper* (半島都市報社)
2014	Qingdao Municipal Vegetable Base* (青島市市控蔬菜基地)	Bureau of Commerce, Qingdao (青島市商務局)

KNOW-HOW AND INTELLECTUAL PROPERTY RIGHTS

Our potted vegetable cultivation business is different from typical crop cultivation and requires a body of specialised knowledge including seed and specie selection, substrate development and greenhouse facility management. Over the years since we commenced our potted vegetable cultivation business in 2012, through our operation experience and continuous testing efforts, we have accumulated knowledge and experience in relation to the cultivation of potted vegetable produce in terms of method, process and organic substrate formula which are part of our essential proprietary technical know-how. Our technical department personnel have engaged in continuous testing for the refinement of our current cultivation methods and techniques and the optimisation of species selection for new products. As a result of our continuous testing of cultivation method, the number of species we cultivated has grown from 15 species as at 31 December 2018 to 29 species as at 30 September 2023. Hence, the accumulation and effective protection of proprietary

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information and technical know-how are essential to our operations. As some of our proprietary information and know-how are not patented, we are vulnerable to unauthorised disclosure of such proprietary information to our competitors.


Through our past experience, we also acquired the know-how and technique to improve and utilise our greenhouse facilities to develop the environment optimal for planting our potted vegetables. We developed our enhanced greenhouses that are made to our specifications and equipped with a combination of facilities or equipment for monitoring and improving the cultivation environment such as thermometer, rolling sun shading curtains, insulating quilts, fibreglass water duct and vegetable greenhouse environment monitoring system.

As at the Latest Practicable Date, we had ten registered patents. The details of the ten registered patents which represent the equipment developed or invented by us for improving the operation of potted vegetable cultivation are set out below:

Name of invention	Type of invention	Place of registration	Expiry date
Vegetable greenhouse environment monitoring system* (一種蔬菜大棚環境監測系統)	Invention patent (發明專利)	PRC	1 January 2037
Automatic sowing machine* (自動播種機)	Invention patent (發明專利)	PRC	27 February 2039
Automatic sowing machine* (自動播種機)	Utility model patent (實用新型專利)	PRC	27 February 2029
Sun blocking curtain device* (遮陽網捲簾裝置)	Utility model patent (實用新型專利)	PRC	21 February 2029
New type of watering device* (一種新型灌溉裝置)	Utility model patent (實用新型專利)	PRC	26 December 2028
Greenhouse vent opening and closing device* (大棚通風口開閉裝置)	Utility model patent (實用新型專利)	PRC	22 May 2029
New type of planting device* (一種新型種植裝置)	Utility model patent (實用新型專利)	PRC	25 February 2031
Automatic blending and feeding machine* (一種自動攪拌上料機)	Utility model patent (實用新型專利)	PRC	25 February 2031
New type of sowing machine* (一種新型播種機)	Utility model patent (實用新型專利)	PRC	25 February 2031
New type of planting tray* (一種新型種植盤)	Utility model patent (實用新型專利)	PRC	25 February 2031

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As at the Latest Practicable Date, we also had (i) nine registered trademarks and two trademark registration applications in the PRC; (ii) two registered trademarks in Hong Kong; and (iii) two registered domain names. For details of our intellectual properties, please refer to the paragraph headed “B. Further information about business of our group — 2. Intellectual property rights of our Group” in Appendix VI to this document.

During the Track Record Period, we did not register “富景农业” as a trademark in the PRC. To safeguard the Group’s legal rights in our brand “富景农业”, we have submitted the application for trademarks “富景农业” and “” on 13 November 2023, and the estimated time to complete the application is approximately 12 to 18 months, which is in line with the typical time required for trademark registration. Our PRC Legal Advisers are of the view that, in the absence of unforeseen circumstances, there is no administrative or legal impediment to complete the registration of such trademarks for the following reasons:

- (i) according to the search conducted on the official website of the Trademark Office, “富景农业” or “富景農業” has not been registered as a trademark under Class 31 (cereals and agricultural, horticultural, and forestry products not falling within other categories; live animals; fresh fruits and vegetables; seeds; plants and flowers; animal feed; malt) in the PRC;
- (ii) according to the search conducted on the Trademark Office’s online database, there are two registered and currently valid trademarks that contain “富景” under Class 31 in the PRC. To the best of our Directors’ knowledge, the business operated by us and the owners of the registered and currently valid trademarks that contain “富景” are different. Based on the understanding of the businesses of the owners of these registered trademarks through telephone communication, the owners do not operate business related to vegetables. Therefore, the registered and currently valid trademarks that contain “富景” are not for use on goods identical with or similar to those offered by us; and
- (iii) the registered and currently valid trademarks that contain “富景” are text-graphic combination trademarks and each of them has an overall layout arrangement and combination and cannot be used separately. Our brand “富景农业” is only a text mark without graphic combination. There is an obvious difference in the overall vision. Therefore, our brand “富景农业” is not identical with or similar to these registered trademarks according to Articles 14 and 15 of the Notice by the China National Intellectual Property Administration of Issuing the Trademark Infringement Judgment Standard (國家知識產權局關於印發〈商標侵權判斷標準〉的通知) and will not cause confusion.

Based on the above, our Directors and the PRC Legal Advisers are of the view that our continuous use of the brand “富景农业” will not infringe the intellectual property rights of any third parties, and the risk of we facing any related trademark disputes or potential disputes is remote, and the businesses operated by these owners do not pose a threat to our business.

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For details of the risks associated with the non-registration of “富景农业” as a trademark in the PRC, please refer to the paragraph headed “Risk Factors — We did not register “富景农业” as a trademark in the PRC during the Track Record Period and there is no assurance that the trademark application will be successful. Our ability to compete may be hampered if our rights to our brand are infringed by third-parties or, on the other hand, if we are alleged or found to have infringed the intellectual property rights of others”.

We rely on intellectual property laws in the PRC to protect our intellectual property rights. We also rely on a combination of trade secrets, confidentiality procedures and contractual provisions to protect our know-how and intellectual property rights. Our employees who have access to our confidential information are generally required to enter into confidentiality agreements with us, pursuant to which our employees undertake to keep our trade secrets confidential during and after the termination of their employment with us. Moreover, we have entered into confidentiality agreements with our current suppliers of components of organic substrates in order to protect our rights in relation to the formula of our organic substrates. In respect of our engagement of subcontractors, although our subcontractors only involve in simple labour work, we have included a confidentiality clause in our labour subcontracting agreements which require our subcontractors to keep our trade secrets confidential. If any infringement of our intellectual property rights is found, we will seek to take appropriate action to defend our rights. In addition, we participate in the Qingdao Agricultural Produce Safety Monitoring Platform* (青島市農產品質量安全監管平台) provided by Qingdao Agriculture Commission* (青島市農業委員會) by affixing QR code on some of the pots in every batch of our potted vegetable produce cultivated in Laixi Facility. Consumers may identify the cultivation particulars of the batch and the name of producer and prove the genuineness of our potted vegetable produce by scanning the QR code on the pots. Our Directors believe that the implementation of the said identification and tracking system could avoid counterfeiting of our products and protect our intellectual property rights.

Our testing expenses for testing of cultivation methods and techniques and developing our know-how amounted to approximately RMB1.1 million, RMB1.7 million, RMB0.2 million and RMB0.1 million representing approximately 0.9%, 1.1%, 0.1% and 0.1% of our revenues in FY2020, FY2021, FY2022 and 9M2023, respectively. Our testing expenses mainly represent substrates and raw materials used in testing our cultivation methods.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any infringement of our intellectual property rights having a material adverse effect on our business, and we were not involved in any actual or alleged dispute, litigation or legal proceedings for violation of intellectual property rights of third parties. Please refer to the paragraph headed “Risk Factors — Risks relating to our business — We are exposed to possible infringements of our intellectual property rights, or we could face claims for infringement of the intellectual property rights of others, which may materially and adversely affect our sales, reputation, business operations and financial performance” in this document.

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EMPLOYEES

As at the Latest Practicable Date, our Group had a total of 33 full-time employees in the PRC, of whom 24, 5 and 4 were based in our Laixi Facility, Xi’an Facility and Dalian Facility respectively. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

Function	Number of employees
Procurement	1
Sales and marketing	1
Cultivation	11
Quality control	3
Technical	5
Finance and accounting	8
Human resources	1
Management and administration	<u>3</u>
Total	<u><u>33</u></u>

None of our full-time employees hired during the Track Record Period and up to the Latest Practicable Date was hired through employment agencies. Our recruitment policy is based on a number of factors including the level of knowledge and experience we require of our staff. We provide introductory training at the time when members of our staff first join us and thereafter regular on-the-job training, depending on his or her role. In addition, it is our policy to provide training to our staff on an as-needed basis to enhance their technical and industry knowledge. We believe such initiatives have contributed to the increased employee productivity.

Pursuant to the relevant PRC regulations, we are required to participate in various employee benefit plans including social insurance and housing provident funds for our employees (except for direct casual labour). Save for the non-compliance incidents relating to social insurance contributions and housing provident fund contributions during the Track Record Period as disclosed in the paragraph headed “Non-compliance” in this section of the document, we are advised by our PRC Legal Advisers that we have complied with the applicable labour laws and regulations in all material aspects during the Track Record Period and up to the Latest Practicable Date.

We enter into a standard employment contract with all our employees which set out terms such as remuneration and period of employment. During the Track Record Period, our staff cost (including directors’ emoluments and the fees to subcontractors) was approximately RMB31.6 million, RMB40.1 million, RMB34.8 million and RMB30.7 million in FY2020, FY2021, FY2022 and 9M2023, respectively.

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Although we have a relatively small number of employees during the Track Record Period, we are relatively small in scale and have subcontracted all our labour work. As such, we have internal control in place to ensure the proper segregation of duties and risk management in each business function. There is no employee responsible for overseeing and performing multiple business functions. For the routine business functions, the responsibilities of different business functions will be borne by different Executive Directors for ensuring proper segregation of duties while for the non-routine business decisions will involve board of Directors for a balanced decision and if any conflict of interest arises, the respective Director will abstain from voting in the respective resolution. There are also regular meetings held between the Executive Directors to review and monitor the business and financial performance against the targets, the progress of receipts from customers and payments to suppliers, the efficiency in the use of resources in comparison to the budgets, and the operational matters to ensure we have complied with the regulations that have material impact to our business. The aim is to enhance the communication and accountability of the Executive Directors so that significant strategic, financial, operational and compliance risks or potential deviations are timely and properly identified and dealt with in a proper manner, while significant issues are reported to the Board for their attention. The management also compiles monthly reports to the Board to update the latest financial performance, position and prospects of our Group. For further details, please refer to the section headed "Directors and Senior Management" in this document.

For the three business functions each with only one employee (i.e. procurement, sales and marketing and human resources), we require the employee to have a high requirement on the relevant experience and competency. Specifically, the three relevant employees of procurement, sales and marketing and human resources functions have worked with the Group for over five years and all of them (i) possess at least 15 years of relevant work experience; (ii) completed relevant occupational training for at least 10 hour per year; and (iii) obtained university degrees or professional certificate. The three relevant employees are capable of performing their routine daily work duties based on our Directors' belief and are also required to report from time to time and obtain approvals from the Executive Director(s) who are responsible for their respective functions. Nevertheless, our Executive Directors are heavily involved in monitoring the performance of these employees to ensure their works are in order and the smooth operation of these business functions. Since the establishment of the Group in 2006, the Group had not experienced any operational difficulty or hindrance in managing our business functions notwithstanding a relatively small number of employees during the Track Record Period.

During the Track Record Period, there was no material dispute with our employees in the course of our operations. We believe that we maintain a positive working relationship with our employees.

BUSINESS

COMPETITION

China’s vegetable produce market and potted vegetable produce market are both highly fragmented with around one million to two million vegetable producers and thousands of potted vegetable producers, respectively. In 2022, our Group, with a sales revenue of RMB126.7 million, accounted for approximately 3.1% of total sales revenue of potted vegetable producers in China and less than 0.01% of total sales revenue of vegetable producers.

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

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

ENVIRONMENTAL PROTECTION AND OCCUPATIONAL HEALTH AND SAFETY

We are committed to promoting corporate social responsibility and sustainable development and integrate them into our business operations. Our Directors believe that other than being responsible for the interests of our Shareholders and maximising profits, our Company must also assume responsibility for the society in order to achieve a cohesive and sustainable relationship between our Company, the economy and the society. Accordingly, our Company has adopted a series of policies in relation to environmental protection, occupational health and safety and employee trainings. We plan to set targets for Environmental, Social and Governance (the “ESG”) issues and to review our key performance on a regular basis.

Our ESG Governance Structure

We regard ESG commitments as part of its responsibilities and is committed to take ESG considerations into account in its decision-making process. We take a top-down approach to ESG issues. The Board has overall responsibility for the our ESG approach and strategy and has delegated certain execution of ESG strategy to a working group as explained below. It is responsible for ensuring the effectiveness of the our risk management and internal controls, assessing, prioritizing and managing significant ESG-related issues, adopting ESG strategies and targets, and semi-annually reviewing progress in achieving our targets.

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To enhance the effectiveness of the our ESG efforts, we have established an ESG working group (the “**Working Group**”) and hire ESG consultant (the “**ESG Consultant**”). The Working Group comprises core members from different departments of the Company including head of sales, production, human resource, finance department and ESG Consultant and is responsible for collecting and analyzing ESG-related information, determining and assessing the ESG risks of the Company, reviewing and implementing ESG-related policies, guidelines and measures, and semi-annually reviewing the progress of related targets. The Working Group also identifies, evaluates and prioritizes important ESG issues through materiality assessments, which are further reviewed and approved by the Board. In addition, the Working Group will report regularly to the Board on ESG-related issues for the Board’s evaluation and subsequent implementation or revision of our ESG strategy and management approach, and to ensure that appropriate risk management is applied to the ESG issues.

For any material ESG issue was identified by the Working Group, the ESG Consultant, would perform:

- Risk ranking process involves analysing the inherent likelihood and impact of the material identified ESG risk in order to facilitate the management to prioritise the identified ESG risk items and identify the responsible risk owners. The Working Group is responsible for this function of the Company.
- Risk acceptance is a formal decision to accept the ESG risk. In this step, the ESG Consultant should analyse the measures that put in the risk response table based on risk priorities. Starting point is the risk priority number as calculated from probability and severity and the risk threshold as defined at the risk assessment process.
- Once the decision to mitigate the significant ESG risk has been made and the strategy is identified, a mitigation plan should be formulated.

There are also regular meetings held between the Board, Working Group and the ESG Consultant to review and monitor both the qualitative and quantitative performance against the ESG targets, the efficiency in the use of our resources, and the operational matters to ensure we have complied with the regulations that have material impact to our business.

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Environmental protection

Our operations are subject to the current environmental protection laws and regulations promulgated by the PRC government. For details, please refer to the section headed “Regulatory Overview — Laws and regulations relating to environmental protection” in this document. We are committed to minimising the effect of pollution as a result of our operation. For example, we recycle and reuse pots for growing our potted vegetable produce. Our overall environmental protection efforts are managed by our guideline and we believe that our environmental protection measures are effective in reducing the negative environmental impact.

There is no assurance that the relevant environmental laws and regulations will remain unchanged. If the PRC government imposes more stringent environmental protection laws and regulations, we may need to spend additional capital to upgrade our system to remain in compliance or our cultivation operation may be interrupted. For more details, please refer to “Risk Factors — Risks relating to the industry which we operate in — We are subject to environmental regulations and may be exposed to liability and potential cost for environmental compliance” in this document.

As advised by our PRC Legal Advisers, we had complied with the relevant PRC laws and regulations in relation to environmental protection in all material aspects during the Track Record Period and up to the Latest Practicable Date.

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Emission and consumption

Air emission

The table below sets forth a breakdown of our gas emission from use of our motor vehicles during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2020 <i>(kg)</i>	2021 <i>(kg)</i>	2022 <i>(kg)</i>	2023 <i>(kg)</i>
Gas emissions				
Nitrogen oxides ^(Note 1)	140.273	127.851	101.244	64.360
Sulphur oxides ^(Note 1)	0.424	0.325	0.257	0.165
Particulate matter ^(Note 1)	13.441	12.251	9.701	6.167
Total	154.138	140.427	111.202	70.692
Emission density ^(Note 2)	1.270	0.906	0.878	0.558

Notes:

- (1) Refers to the gas emissions resulting from the consumption of fuel in our Group’s daily operations, taking into account the relevant emission rates and driving distances.
- (2) Refers to the emission of gas per million of revenue in the corresponding years/period.

Our Group emits gas amid our daily operations from the consumption of gaseous fuels, such waste gas mainly include pollutants such as nitrogen oxides (NOx) and sulphur oxides (SOx), and respiratory suspended particles such as particulate matter. In FY2020, FY2021, FY2022 and 9M2023, our Group emitted a total of approximately 154.138 kg, 140.427 kg, 111.202 kg and 70.692 kg of waste gas, respectively. The increase in air emission in FY2020 are mainly due to use of more vehicles for our operation.

The decrease in air emission in FY2021 and FY2022 are mainly due to the use of vehicles with lower emissions.

The emission density has decreased since FY2020 mainly due to i) the use of vehicles with lower emissions, and ii) the enjoyment of economic benefits resulting from increasing revenue.

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The table below sets forth a breakdown of our greenhouse gas emission during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2020	2021	2022	2023
	<i>(kg of CO₂e)</i>	<i>(kg of CO₂e)</i>	<i>(kg of CO₂e)</i>	<i>(kg of CO₂e)</i>
Greenhouse gas emissions				
Scope 1: Direct emission ^(Note 1&2)	77,868	59,281	45,948	29,410
Scope 2: Indirect emission ^(Note 1&3)	152,921	169,743	167,670	128,182
Scope 3: Other indirect emission ^(Note 1&4)	8,936	11,926	10,077	6,978
Total	239,725	240,950	223,695	164,570
Emission density ^(Note 5)	1,975	1,555	1,766	1,357

Notes:

- (1) The above greenhouse gas emissions are applicable to our Group and are classified into three scopes according to the “Reporting Guidance on Environmental KPIs” issued by the Stock Exchange.
- (2) Scope 1 emission refers to direct emissions from operations that are owned or controlled by our Group.
- (3) Scope 2 emission refers to energy indirect emissions resulting from the generation of purchase or acquired electricity, heating, cooling and steam consumed within our Group.
- (4) Scope 3 emission refers to all other indirect emissions that occur outside our Group including both upstream and downstream emissions.
- (5) Emission density refers to the emission of greenhouse gas per million of revenue in the corresponding years.

Our Group generates direct and indirect emissions of greenhouse gases due to consumption of fuel and electricity, usage of paper and business travel by our employees. In FY2020, FY2021, FY2022 and 9M2023, there was approximately 239,725 kg, 240,950 kg, 223,695 kg and 164,570 kg of carbon dioxide equivalent greenhouse gases emitted from our Group’s operation, respectively.

The increase in total greenhouse gas emissions in FY2020 and FY2021 are mainly due to the expansion of the cultivation facilities during FY2020 and FY2021.

The decrease in the total greenhouse gas emissions for FY2022 is mainly due to the more effective adoption of waste management and resource consumption policies. However, as the emission is mainly due to the consumption of stationary electricity for administrative purposes, therefore, when our revenue decreases, emissions density increases. Hence, the emission density is lower in FY2021 as we recorded higher revenue in FY2021.

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Energy consumption

The table below sets forth a breakdown of our energy consumption during the Track Record Period:

	Year ended 31 December			Nine months ended 30 September
	2020 <i>(kWh)</i>	2021 <i>(kWh)</i>	2022 <i>(kWh)</i>	2023 <i>(kWh)</i>
Electricity consumed	137,990	153,170	151,299	115,667
Gasoline consumed	270,476	184,533	146,130	93,179
Diesel consumed	8,970	29,883	23,661	15,599
Total	417,436	367,586	321,090	224,445
Energy consumption density <i>(Note 1)</i>	3,438.51	2,372.36	2,534.38	1,850.42

Note:

(1) Refers to the consumption of energy per million of revenue in the corresponding years.

In FY2020, FY2021, FY2022 and 9M2023, our consumption of energy was approximately 417,436 kWh, 367,586 kWh, 321,090 kWh and 224,445 kWh, respectively. The increase in energy consumption in FY2020 and FY2021 are mainly due to the continuous increase in the scale of our operation.

The decrease in the electricity consumption for FY2022 is mainly due to the more effective adoption of resource consumption policy.

However, as the emission is mainly due to the consumption of stationary electricity for administrative purposes. Therefore, when our revenue decreases, the emissions density increases.

Waste management

There are three major types of wastes produced during cultivation: i) unsold vegetable; ii) used pots; and iii) used organic substrates.

Unsold vegetable

Wastage of unsold vegetable from daily operation mainly came from i) defects and ii) unnecessary movement during transportation. To reduce the waste of overproduction and defects, we create and implement standard production procedures so that our planting team have guidance for each task and do not spend more than the recommended time and usage of materials on any one step. Also, our planting team are well trained to know the right methods and quality expected. Furthermore, we have scheduled regular maintenance for

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devices and machines. To reduce waste of transport, our staff at cultivation facilities should keep aisles and the site clutter-free so that transport vehicles can drive freely and staff do not have to find alternative routes. In general, our scrap rate is between 3%-5%.

Unlike the first lockdown in 2020 when our cultivation facilities were still in operation and our distributors were able to pick up potted vegetable produce from us and sold them to residents in local residential estates through property management companies, during the lockdown in 2022 distributors were not allowed to pick up potted vegetable produce from us and no sales took place during the lockdown, resulting in direct loss of unsold vegetable produce of approximately 557,000 pots during the lockdown. Most of the unsold potted vegetable produce from our Laixi Facility was donated to the government for the distribution to the local residents for their consumption during the lockdown period of the COVID-19 epidemic in FY2022. Other unsold vegetables will be reused by feeding the vegetable waste to livestock or giving the vegetable culls to local food banks.

Used pots

We regularly reuse our pots by collecting them from our customers and cleaning them for reuse. We also require our customers to return used pots to us, reducing the amount of waste that ends up in landfills. There are insignificant amount of pots are damaged and not reusable due to wear and tear. Broken pots are returned to the pot manufacturer for recycling.

Used organic substrates

Organic substrates are made primarily from raw materials such as cow manure, fungi residue and peanut shells that are proportioned, mixed and processed through high temperature fermentation. Organic substrates have long storage time. In addition, the production of organic substrates is based on sales orders, and we maintain a low level of inventory of organic substrates. Our use of organic substrates is based on our cultivation plan and we do not have any waste of organic substrates. We regularly collect used organic substrate when collecting pots. We will send the used organic substrate to a recycler for recycling. Our recycler is engaged in the tree planting business. It provides us with free recycling of used organic substrates services by collecting used organic substrates from us for free and extracting and reusing useful materials from the substrates. No income or expense is generated or incurred by us for sending the used organic substrates to recycler.

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The table below sets forth details of our waste during the Track Record Period:

	Wastage			Nine
	Year ended 31 December			months
	2020	2021	2022	ended 30
				September
				2023
Pots (unit)	84,948	94,333	92,168	76,829
Scrap rate of pots	1.0%	0.9%	1.1%	0.9%
Unsold vegetable due to overproduction, or defects or damaged (pot)	316,233	419,301	331,304	295,025
Unsold vegetable due to lockdown and travel restriction (pot)	—	—	556,954	—
Scrap rate of unsold vegetable	3.8%	3.9%	10.2%	3.5%

Water consumption

Our business is subject to environmental protection laws and regulations promulgated by the PRC government. For example, we are required to meet appropriate standards for the sake of prevention of the pollutions of soil, underground water and agricultural products, and to discharge water pollutants in accordance with national and local standards. We must discharge water pollutants in accordance with national and local standards. For details, please refer to the section headed “Regulatory Overview — Laws and regulations relating to environmental protection” in this document. If we breach any environmental-related laws and regulations, or faces any accusation of negligence in environmental protection, in addition to the potential fines and penalties, such incidents may also adversely affect reputation and creditability of the Company. The environmental related costs may increase, and the expansion of the production capacity may be constrained if PRC’s environmental protection laws become more onerous, and any non-compliance with relevant environmental protection laws could lead to the imposition of fines and penalties.

In almost every agricultural operation, irrigation is an indispensable process for crops to flourish, the Company’s agricultural business is no exception to this necessity. In order to avoid excessive or unnecessary irrigation, we regularly check the moisture level in the soil. Our main water supply for irrigation at Laixi Facility is water from the Chanzhi Reservoir, while the main water supply for irrigation at Xi’an Facility and Dalian Facility is from public supply of drinking water in Xi’an and Dalian.

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According to the information published by the Shandong Provincial People’s Government, water resources in Shandong province are insufficient and unevenly distributed. According to the Shandong Province Water Resources Bulletin 2022, the water consumption per capita in Shandong province was approximately 214 m³, on the other hand, the local water supply per capita in Shandong province only amounted to approximately 140 m³ (which include local surface water and underground water of approximately 72 m³ and approximately 68 m³ respectively), demonstrating that water resources generated from Shandong province is insufficient to meet the local demand.

Notwithstanding the scarcity of water resources in Shandong province, our Directors consider the water supply for our cultivation in Laixi Facility is not affected as Laixi Facility is strategically situated immediately next to and directly connected to the Chanzhi Reservoir, the second largest reservoir in Shandong province with maximum capacity of approximately 402 million m³. In general, water supply of Chanzhi Reservoir will be primarily for users with close proximity. Chanzhi Reservoir serves multiple purposes such as flood control, irrigation and water supply, etc. Testing of the water quality of Chanzhi Reservoir is regularly performed by Laixi Branch of the Qingdao Municipal Ecological and Environment Bureau* (青島市生態環境局萊西分局), and the water quality exceeds the agricultural level and meets the drinking water level according to the Surface Water Environmental Quality Standards* (地表水環境質量標準) (GB3838–2002). Hence, our Directors considered that the risk of water pollution that may affect the quality of water supply in our Laixi Facility is low.

During the Track Record Period, our maximum annual water consumption for Laixi Facility was approximately 330,000 m³, representing only a minimal portion of the capacity of Chanzhi Reservoir of approximately 402 million m³. The quality of water extracted from the Chanzhi Reservoir exceeds the agricultural level as explained above. In light of the proximity of our Laixi Facility to a stable supply of high quality water resources for our cultivation and regular testing of water quality performed by the government authority, our Directors consider that the risk of potential water shortage and water pollution in Shandong province on our business is minimal. In addition, taking into account (i) the water resources per capita in Shaanxi province and Liaoning province are approximately 925 m³ and 1,333 m³ respectively, which are higher than the water demand per capita in Shaanxi province and Liaoning province are approximately 240 m³ and 300 m³ respectively in 2022; and (ii) in respect of water environment quality ranking according to the Ministry of Ecology and Environment (生態環境部), both Shaanxi province and Liaoning province rank higher on water quality than Shandong province in 2022, our Directors considered that the risks of potential water shortage and water pollution that may affect our Xi’an Facility and Dalian Facility are minimal.

To further mitigate the risks of water shortage and water pollution in Shandong province, we have also:

- retained a water pond in our Laixi Facility for collecting rain water which can be further filtered and used as our additional water supply in case of severe water shortage, which the water pond is sufficient to cover the water consumption of our Laixi Facility for approximately seven months;

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- built a well our Laixi Facility for extracting underground water in case of severe water shortage, which the well is sufficient to cover the water consumption of our Laixi Facility for approximately two days; and
- engaged and will continue to engage a third-party inspection institution to conduct testing of water quality. The purpose of this test is to ensure that the pH value and residual level of heavy metals in our irrigation water comply with the environmental requirements for producing pollution-free agricultural products. It is our internal control policy to conduct regular testing of the water quality.

The water consumption during the Track Record Period are as follows:

	KPI			Nine months ended
	Year ended 31 December			30 September
	2020	2021	2022	2023
	<i>m³</i>	<i>m³</i>	<i>m³</i>	<i>m³</i>
Water consumed (<i>Note 1</i>)	280,778	359,660	293,661	182,745
Water consumption density (<i>Note 2</i>)	2,312	2,320	2,318	1,507

Notes:

1. The water consumed for the Laixi Facility was approximately 247,000 m³, 330,000 m³, 267,000 m³ and 164,000 m³ for each of the FY2020, FY2021, FY2022 and 9M2023 respectively.
2. Refer to the consumption of energy per million of revenue in RMB in the corresponding years/period.

Goal target achievement

Our Board will set targets for each material KPI at the beginning of each financial year in accordance with the disclosure requirements of Appendix C2 to the Listing Rules and other relevant rules and regulations upon the [REDACTED]. The relevant targets on material KPI will be reviewed on an annual basis. In setting targets for the KPIs, our Group has taken into account their respective historical levels during the Track Record Period, and has considered our future business expansion in a thorough and prudent manner with a view of balancing business growth and environmental protection to achieve sustainable development. The Working Group is responsible for semi-annually reviewing progress in achieving our targets.

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We strive to improve the utilization rate of energy and resources, undertake energy saving and consumption reduction activities to save water and electricity and reduce paper consumption. As part of our commitment to environmental protection, we have set the following environmental targets for our operation:

Item	Target for FY2022	Actual KPI FY2022	Target for the financial year ended 31 December 2023
Greenhouse gas emission	238,541	223,695	236,155
Energy consumption	363,910	321,091	360,271
Water consumption	356,063	293,661	352,503

After reviewing the achievement of the KPI FY2022, we believe that we can achieve the target in the financial year ended 31 December 2023. Our actual KPI for FY2022 is considerably lower than our target for FY2022 mainly because of our lower revenue and business activity level in FY2022. The goal target set for the financial year ended 31 December 2023 are expected to decrease by 1% of goal target FY2022.

Basis of the goal target setting

We have established specific ESG-related goals, targets, and policies that focus on reducing our air pollutant emission, reducing energy and water consumption.

To reduce our air pollutant emissions by approximately 5% by 2026 (i.e. 1% annually), using 2021 as a baseline, we will implement a number of initiatives as follows:

- Planting more trees: Planting more trees is an effective way of reducing air pollution since they absorb carbon dioxide and other pollutants from the atmosphere;
- Continuing with the switch to low-emission vehicles; and
- Adopting the use of clean energy: We will consider installing solar panels in our cultivation facilities to promote the use of renewable energy.

To reduce our energy consumption by 1%, we will implement a number of initiatives as follows:

- Energy efficiency standards: We can mandate energy efficiency standards for appliances, buildings, and vehicles. This will help reduce energy consumption by ensuring that all new products consume less energy; and
- Adopting the use of clean energy: We will consider installing solar panels in our cultivation facilities to promote the use of renewable energy.

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To reduce our water consumption by 1%, we have implemented a number of policies and initiatives as follows:

- **Water-efficient technologies:** The use of water-efficient technologies can help in reducing water consumption. These technologies include low-flow water fixtures, water-efficient irrigation systems, and water harvesting systems; and
- **Efficient agriculture practices:** Agriculture accounts for a significant amount of water consumption. We will promote efficient agriculture practices such as drip irrigation and water-efficient crops to reduce water consumption in the agricultural sector.

The targets were set with reference to two comparable companies listed on the Hong Kong Stock Exchange in the vegetable cultivation business. The ESG targets of these two listed companies are reducing emission/consumption ranged from around 0.7% to 3% annually in general. Thus our Directors consider that our ESG targets are within the market range and reasonable.

Our progress towards achieving our ESG goals is reviewed semi-annually by Working Group. We also work with ESG consultant to assess our performance and identify areas for improvement.

Benefits of achieving the goal target

Financial impacts

There are several potential financial impacts on our Group that could be resulted from actions taken for achieving ESG targets.

- **Increase in investment:** measures such as tree planting and switching to low-emission vehicle represent one-off investment cost to our Group;
- **Cost savings:** On the other hand, by becoming more efficient in our operations, such as switching to low-emission vehicle, energy saving and water saving, will reduce our on-going cost; and
- **Improved reputation and selling price:** Achieving targets can also lead to improved brand recognition and reputation. This may make it easier for us to attract new customers, retain existing customers, and may potentially increase our selling price due to better branding.

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Non financial impacts

There are several non-financial impacts on the Group that could be resulted from achieving ESG targets as below:

- **Increased awareness:** Setting targets for ESG saving and taking of various measures to achieve the targets create awareness among our management and employees about the importance of water and energy conservation and the needs for adherence to the best practice.
- **Improved efficiency:** Water/Energy-saving measures can lead to improved efficiency in operations. For example, using recycled water for non-potable uses can reduce the need for fresh water, which in turn reduces the energy required for water treatment and distribution.
- **Lower compliance risk:** Our policy of regularly reviewing and achieving ESG targets will enable our Group to have better performance in terms of environment protection and thus we will potentially be better prepared for more stringent environment regulations that may be introduced in future.

Climate Change

Climate change can affect the agricultural production by altering the temperature, precipitation, pests, diseases, and water availability in our regions of operation. Our Board has identified two main climatic issues that affect our physical environment and our operations: (i) extreme weather events, such as droughts, floods, heat waves, storms, and hailstorm, in the short run that can damage our potted vegetable produce and greenhouses, reduce yields and quality, and increase production costs and risks; and (ii) changes in temperature and precipitation patterns, in the long run that can stimulate plant growth and water use efficiency in some crops, but also increase their susceptibility to pests and diseases. For instance, the occurrence of a severe hailstorm in Qingdao in May 2020 which may be a result of climate change damaged seven of our greenhouses in our Laixi facility and led to some damaged or unsellable pots of vegetable produce and a loss of potential sales revenue in FY2020.

Climate change, in the long run, can also create opportunities for our business by increasing the demand for climate-resilient crops and sustainable practices. A warming climate may provide opportunities for agriculture in certain regions with an expansion of the growing season in response to milder and shorter winters. This might increase productivity and allow the use of new and potentially more profitable crops.

To mitigate the risks and capture the opportunities mentioned above, we have developed a sustainable strategy based on our industrial cultivation method. This method involves using enhanced greenhouses and our horticultural expertise and equipment to create an ideal microclimate for our potted vegetable produce. We adjust factors such as temperature, humidity, light duration and carbon dioxide level to optimize the growth of our plants. For example, we plan to install fibreglass water ducts in some of our existing greenhouses. During and after the irrigation process, excess water can be drained as soon as

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possible through the fibreglass water duct within the greenhouse to avoid build-up of moisture within the greenhouse. By minimising build-up of moisture within the greenhouse, we are able to minimise the risk of pest infestation. Our extensive use of greenhouse also provides better protection for our crops from severe weather.

Our industrial cultivation method standardises the process, stabilises the yield, improves the quality and reduces the exposure to environmental and natural risks. It enables us to grow potted vegetables all year round with superior appearance, freshness and size. This reduces the scrap rate and ensures a steady supply of high-quality products to our customers. As a result, we can secure our revenue and reputation, improve profitability by increasing the operating efficiency.

Social Responsibility

We value diversity within our organization and treat all employees equally and with respect in terms of employment, training, benefits, and professional and personal development. While striving to provide equal career opportunities for each employee, we also promote work-life balance and create a collaborative culture in the workplace for all employees. For details, please refer to the paragraph headed "Employees" in this section of the document.

The safety and quality of our products are of paramount importance to our operations. We have developed a comprehensive standard operation procedure to ensure the safe and quality products provided to customers consistently. We have also designed and implemented a rigorous quality assurance policy that covers the whole process of our production. We adhere to strict our production standards by providing regular training for our workers in order to update and maintain the required technical and practical skills.

Also, in order to achieve the goal target, we have provided relevant training to educate our staffs the importance of saving resources.

During the Track Record Period, we neither have any material incidents involving personal injury or property damage, nor any material claims, litigations, fines or penalties as a result of material incidents.

Staff Composition

In FY2020, FY2021, FY2022 and 9M2023, we employed a total of 48 staff, 47 staff, 41 staff and 32 staff, including cultivating operational office and back office division. All staff members are allocated in the PRC.

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a) Employee’s Age and Gender Distribution

Age Group	2020		2021		2022		9M2023	
	Male	Female	Male	Female	Male	Female	Male	Female
19 — 30	6%	4%	11%	6%	2%	5%	0%	3%
31 — 45	31%	19%	28%	17%	32%	19%	25%	25%
46 — 60	15%	15%	15%	13%	15%	15%	16%	13%
= 61/>61	6%	4%	6%	4%	7%	5%	9%	9%
Total	58%	42%	60%	40%	56%	44%	50%	50%

b) Employee’ s Geographical Distribution

Location	2020		2021		2022		9M2023	
	Male	Female	Male	Female	Male	Female	Male	Female
Hong Kong	0%	0%	0%	0%	0%	0%	0%	0%
PRC	58%	42%	60%	40%	56%	44%	50%	50%
Total	58%	42%	60%	40%	56%	44%	50%	50%

c) Employee’ s Position by Gender Distribution

Position	2020		2021		2022		9M2023	
	Male	Female	Male	Female	Male	Female	Male	Female
Senior Management	6%	2%	6%	2%	7%	2%	9%	3%
Middle level staff	8%	4%	9%	4%	7%	5%	9%	6%
Junior staff	44%	36%	45%	34%	42%	37%	32%	41%
Total	58%	42%	60%	40%	56%	44%	50%	50%

Employment and Labour Practices

We place a significant emphasis on developing human capital, providing competitive remuneration and welfare packages. Promotion opportunities and salary adjustments are benchmarked against individual performance. Employees are entitled to benefits such as annual leave, sick leave, maternity leave, marriage leave, funeral leave and medical coverage in accordance with local regulations.

We emphasise on equal opportunities for all personnel in respect of hiring, pay rates, training and development, promotion and other terms of employment. We are committed to providing a work environment free from any form of discrimination on the basis of ethnicity, gender, religion, age, disability or sexual orientation.

We have a wide diversity of cultures including employees with different genders, ages, skills, educational backgrounds, industry experiences and other qualifications in order to achieve the most suitable composition and balance.

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The human resource policies and procedures of the Group's PRC subsidiaries had been developed in accordance with the Labour Law of the PRC and has been distributed to our employees since joining the Company. The remuneration policies are determined on the basis of performance, qualification and experience of individual employee. The remuneration generally includes salaries and allowances.

Occupational health and safety

We hold regular worksite inspection to eliminate all potential workplace hazard that may negatively affect the health and safety of our employees. Also, we hold safety trainings for our employees to enhance their awareness of occupational health and safety issue. Moreover, we have kept a proper system of recording and handling accidents. During the Track Record Period, we did not experience significant operational accident as a result of implementation of our comprehensive occupational safety measures.

Employee trainings

We place significant emphasis on employee trainings and development. We hold training sessions to teach our employees on how to improve the quality of our products and operate our cultivation equipment from time to time. We will continue to invest in the education and training programmes for our employees with the purpose of upgrading their skills and knowledge on the latest development of the industry, market and technology.

Our continuing efforts in protecting the environment and the health and safety of our employees have been recognised, as shown by various certificates that we have obtained. In 2020, we obtained GB/T 24001-2016 idt ISO 14001:2015 certificate for our environmental management system. Moreover, in the same year, we obtained GB/T 45001-2020 idt ISO 45001:2018 certificate for our occupational health and safety management system.

Our Directors have the collective and overall responsibility for establishing, adopting and reviewing our policies in relation to environmental protection, occupational health and safety and employee trainings as mentioned above, and evaluating, determining and addressing the relevant risks involved at least once a year. Our Directors may assess or engage Independent Third-Party(ies) to evaluate the relevant risks and review our existing strategy, target and internal controls. Necessary measures will then be taken to mitigate the risks.

Supply Chain Management

We expect our major suppliers to adhere to the same environmental, social responsibility, health and safety, and governance policies as our Group.

We also have the following measures in place to ensure our suppliers prioritize environmental and social responsibility:

Supplier selection: Before entering into business with new or existing suppliers, we carefully assess factors such as product quality, price, reliability, delivery, capabilities, and overall supply chain sustainability. We give priority to suppliers who offer environmentally

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preferable products or demonstrate higher environmental performance. We will gather information of the products directly from our suppliers or from online sources in assessing whether the raw materials are environmentally preferable products.

Supplier evaluation: We conduct regular assessments of our suppliers based on predetermined criteria, including the evaluation of production pollution through site visits or interviews.

Monitoring and performance assessment: We continuously review our suppliers' environmental performance to ensure ongoing compliance with sustainability requirements, such as the Environmental Protection Law of the People's Republic of China, on a semi-annual basis.

Communication and education: Our procurement department is trained to thoroughly consider all aspects of these policies when evaluating suppliers, and we ensure that tendering procedures are clearly and effectively communicated to suppliers.

Community involvement

During the COVID-19 epidemic in FY2022, some of our potted vegetable produce remains unsold due to the lockdown and travel restrictions. Those unsold potted vegetable produce were donated to the residents in local residential estates during the lockdown in the neighboring cities through the PRC government.

Governance

We are committed to complying with ESG reporting requirements upon [REDACTED]. We expect to comply with the standards of Appendix C2 to the Listing Rules to cover, among others, (i) the appropriate risk governance on ESG matters, (ii) ESG governance structure and ESG strategy formation procedures, (iii) ESG risk management and monitoring, and (iv) the identification of key performance indicators, the relevant metrics and mitigating measures.

INSURANCE

We have purchased food safety insurance for our products and property insurance for our owned greenhouse facilities. Our Directors are of the view that our insurance coverage is sufficient and adequate and is in line with customary industry practices.

During the Track Record Period, we have filed two property insurance claims. In FY2020, we have filed a property insurance claim with the insurer for the damages of seven greenhouses caused by the severe hailstorm occurred in May 2020 in Qingdao, Shandong province for a sum of approximately RMB0.3 million. The damaged greenhouses had been suspended for production for approximately one to three months in FY2020 due to the incident depending on the degree of damage of the greenhouses. In FY2021, we have filed property insurance claims with the insurer for the damages of four greenhouses caused by a fire incident in January 2021 for a sum of approximately RMB30,000. The damaged

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greenhouses had been suspended from production for approximately two to three months in FY2021 due to the incident. Save for the above, we did not submit any material insurance claims.

PROPERTIES

We hold and/or occupy certain properties in the PRC in connection with our business operations.

Property valuation

BMI Appraisals, an independent property valuer, has valued our major owned properties as of 31 December 2023. For the full property valuation report, please refer to the property valuation report as set out in Appendix IV to this document. Having considered the implications of Rule 5.01A(ii) of the Listing Rules, the property interest not subject to valuation is the property interest that does not form part of our property activities and the carrying amount of such property interest is not above 15% of our total assets.

Owned properties

As at the Latest Practicable Date, we held a total of two parcels of land in Laixi, Qingdao. We owned the land use rights of one parcel of state-owned land (i.e. the Laixi Land Parcel A) with an aggregate site area of approximately 214,804 sq.m. with various agricultural structures constructed thereon located at Rizhuang Town, Laixi, Qingdao which form part of our Laixi Facility for the cultivation of our potted vegetable produce. We also owned the land use rights of one parcel of state-owned land (the “**Laixi Land and Buildings for Investment Purpose**”) with a site area of approximately 25,679 sq.m. and a total of eight buildings constructed thereon with an aggregate gross floor area of approximately 12,284 sq.m. located at Dianbu Town, Laixi, Qingdao which was leased by us to an Independent Third Party for the purpose of cold storage and related uses.

The following table sets forth the details of our owned properties:–

No.	Description	Location	Approximate site area (sq.m.)	Approximate total gross floor area (sq.m.) of the immovable buildings	Market value as at 31 December 2023 (RMB)	Principal purpose
1.	The Laixi Land Parcel A	Nanbu Village, Rizhuang Town, Laixi, Qingdao, Shandong Province	214,804	N/A	97,300,000	Cultivation
2.	The Laixi Land and Buildings for Investment Purpose	Dongzhuangtou Village, Dianbu Town, Laixi, Qingdao, Shandong Province	25,679	12,284	23,700,000	Leased to an Independent Third Party

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As advised by our PRC Legal Advisers, we have obtained all of the relevant land use rights certificate and the real estate right certificate for the above properties (i.e. the land use rights certificate for the Laixi Land Parcel A and the real estate right ownership certificate for the Laixi Land and Buildings for Investment Purpose). For further details of our property interests, please refer to the property valuation report as set out in Appendix IV to this document.

The Laixi Land Parcel A has been mortgaged in favour of a bank as security for the credit facilities granted to our Group. The Laixi Land and Buildings for Investment Purpose have been mortgaged in favour of a bank as security for the credit facilities granted to our Group. As at the Latest Practicable Date, the said property was leased to an Independent Third Party at an annual rental of RMB400,000 until 31 August 2024.

On 20 March 2019, we entered into a lease agreement to lease out a small portion of the Laixi Land Parcel A of approximately 66,667 sq.m. to an Independent Third Party commencing from 1 April 2019 to 31 March 2024 at an annual rental of RMB240,000. The said portion of the land is slopy and unsuitable for construction of greenhouses and is being used by the Independent Third Party for planting of trees as at the Latest Practicable Date. As confirmed by the Independent Third Party, the Independent Third Party use the portion of the land to grow trees for sale. Our Directors believe that the leasing out of the said land is beneficial to our Group as it could maximise the land use and allow us to capitalise on our unusable land.

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Leased properties

As at the Latest Practicable Date, we leased certain properties under five tenancy agreements with Independent Third Parties and we leased one office premises under a tenancy agreement with a connected person. The particulars of such leased properties are as follows:

No.	Description	Lessee	Location	Approximate site area/ gross floor area (sq.m.)	Rental	Term	Purpose
Laixi Facility							
1.	The Laixi Land Parcel B	Fujing Agriculture	Nanbu Village, Rizhuang Town, Laixi	34,467	RMB2 million for 50 years	From 27 December 2010 to 26 December 2060	Cultivation
2.	The Laixi Land Parcels D	Fujing Agriculture	Baogezhuang Village, Hebeitkuang Village, Dongbaishi Mountain Village and Xujiazhai Village, Rizhuang Town, Laixi	76,667	RMB57,500 per annum	From 1 July 2020 to 30 June 2030	Cultivation
3.	The Laixi Land Parcel E	Fujing Agriculture	Maozhichang Village, Laixi	10,667	RMB20,000 per annum	From 2 July 2020 to 1 October 2029	Cultivation
Xi'an Facility							
4.	The Xi'an Land and structures	Fujing Agriculture (Xi'an branch)	Jingwu Village, Gaoling District, Xi'an	13,333	RMB40,000 per annum for the first year; and RMB45,000 per annum from the second year	From 1 August 2019 to 31 July 2025	Cultivation
Dalian Facility							
5.	The Dalian Land and structures	Fujing Agriculture	Shanju Village, Sanshilipu, Jinzhou District, Dalian	20,000	RMB70,000 per annum for the first year; and RMB50,000 per annum from the second year	From 31 August 2019 to 30 September 2028	Cultivation
Office							
6.	Our office premises ^(Note)	Fujing Agriculture	3rd Floor, Block 68, No. 85 Beijing East Road, Laixi	560	RMB36,000 per annum	From 13 February 2021 to 12 February 2025	Office

Note: We rent the property in Laixi for our office use from Qingdao Yongzheng Real Estate Development Co. Ltd.* (青島永正房地產開發有限公司) which is a connected person of our Group. For details, please refer to the section headed “Continuing Connected Transactions — Exempt continuing connected transaction — Tenancy agreement in respect of our office premises” in this document. As confirmed by our PRC Legal Advisers, the leasing of the office premises to our Group is valid, enforceable and legally binding on the parties under the relevant applicable laws and regulations in the PRC.

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Leasehold arrangement in relation to our Laixi Facility

On 27 December 2010, we entered into a lease agreement with the People’s Government of Rizhuang Town of Laixi (萊西市日莊鎮人民政府) for the lease of a parcel of collectively-owned land located at Nanbu Village, Rizhuang Town, Laixi, i.e. the Laixi Land Parcel B, with a site area of approximately 34,467 sq.m. for a period commencing from 27 December 2010 to 26 December 2060. As advised by our PRC Legal Advisers, the village committee should first obtain the consent from at least two-thirds of the members of the rural collective economic organisation or villager representatives of Nanbu Village before the entering of the lease agreement pursuant to the relevant PRC regulations. A villager representative meeting was held in Nanbu Village on 18 August 2015 which passed a resolution for ratifying the lease of the collectively-owned land to our Group and the village committee of Nanbu Village has issued a letter confirming the said lease on the same date. According to the Civil Code of the PRC (中華人民共和國民法典), the lease term shall not exceed 20 years. The part of lease term exceeding 20 years is invalid. Our PRC Legal Advisers are of the view that for those lease agreements with a lease term exceeding 20 years, the leased land can still be effectively used within the 20-year lease period. After the initial 20-year lease period, which will expire on 26 December 2030, we will negotiate and renew the lease agreement according to the relevant national laws and regulations. As confirmed by our PRC Legal Advisers, in the event that the parties fail to renew the lease agreement, our Group is entitled to ask for the return of the excessive rent paid by our Group according to the Civil Code of the PRC. Our PRC Legal Advisers have confirmed that the leasing of the said collectively-owned land to our Group for the initial 20-year period up to 26 December 2030 is valid, enforceable and legally binding on the parties under the relevant applicable laws and regulations in the PRC.

To cope with our expansion in FY2020, on 1 July 2020, we entered into a lease agreement with the People’s Government of Rizhuang Town of Laixi for the lease of four parcels of collectively-owned lands i.e. the Laixi Land Parcels D, with a total site area of approximately 76,667 sq.m. located at various villages in Rizhuang Town of Laixi for a period commencing from 1 July 2020 to 30 June 2030. Further and on 2 July 2020, we entered into a lease agreement with an Independent Third Party for the lease of a parcel of land i.e. the Laixi Land Parcel E, with a site area of approximately 13,333 sq.m. located at Maozhichang Village of Laixi for a period commencing from 2 July 2020 to 1 October 2029. The site area of our Laixi Land Parcel E was slightly reduced to approximately 10,667 sq.m. due to the resumption of land by the government for road widening works adjacent to our Laixi Land Parcel E. Our PRC Legal Advisers have confirmed that the leasing of the said lands to our Group is valid, enforceable and legally binding on the parties under the relevant applicable laws and regulations in the PRC.

Leasehold arrangement in relation to our Xi’an Facility

On 1 August 2019, we entered into a lease agreement with an Independent Third Party for the lease of the land with a site area of approximately 13,333 sq.m. with ten greenhouses erected thereon located at Gaoling District, Xi’an (i.e. the Xi’an Land and

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structures) for a term of one year. On 31 July 2020, the lease was renewed for a term of five years to 31 July 2025. As at the Latest Practicable Date, the Independent Third Party had not filed the lease agreement with the relevant government authority despite of the requests we sent to the lessor reminding it to complete the record filing. As advised by our PRC Legal Advisers, the absence of record filing will not affect the validity of the lease agreement. Our PRC Legal Advisers further confirmed that our Group is not responsible for the record filing and the relevant PRC rules and regulations do not currently provide for any penalties for failure to complete such filing procedure and our Group shall not be responsible for any penalties or fines arising thereof. As at the Latest Practicable Date, we confirmed that we have not received any such request by the relevant government authority. Our PRC Legal Advisers confirmed that the said lease is valid, enforceable and legally binding on the parties under the relevant applicable laws and regulations in the PRC.

Leasehold arrangement in relation to our Dalian Facility

On 31 August 2019, we entered into a lease agreement with an Independent Third Party for the lease of the land with a site area of approximately 20,000 sq.m. with 29 greenhouses and various structures erected thereon located at the Jinzhou District, Dalian (i.e. the Dalian Land and structures) for a term of nine years commencing from 31 August 2019 to 30 September 2028. Our PRC Legal Advisers have confirmed that the said lease agreement is valid, enforceable and legally binding on the parties under the relevant PRC laws and regulations.

Other property interests in relation to the Laixi Land Parcel C

Background of the title defects:

On 17 June 2006, we entered into the Land Reservation Agreement (土地預約協議) with the People's Government of Rizhuang Town of Laixi (萊西市日莊鎮人民政府) for, among others, reservation of a parcel of state-owned land (國有土地) for the purpose of agricultural and ecological development for a period of 50 years, and we began to use the said land (i.e. clearing the land and conducting site formation) after signing the Land Reservation Agreement. The following table sets forth a summary of the principal terms of the Land Reservation Agreement:

Location:	a parcel of state-owned land for agricultural and ecological development, located within Rizhuang Town, south of Huanhu Road, in front of Nanbu Village and west of Haimengyuan (actual area subject to measurement by the Lands and Resources Bureau of Laixi* (萊西市國土資源局)).
Consideration:	RMB26,000 per mu (the consideration will include the compensation for land clearance, plant clearance and all the fees necessary for the transfer of title of the land)

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Payment method:	RMB1.0 million to be paid by our Group upon signing of the agreement; the remaining balance to be paid upon completion and issuance of the land use right certificate
Obligation of the People's Government of Rizhuang Town of Laixi:	(i) to complete the transfer of the said land to our Group by December 2006; (ii) to commence clearance of the land within one month upon receiving payment from our Group and to handover the land to our Group before November 2006; and (iii) to procure the issuance of the land use rights certificate with a term of 50 years to our Group.
Obligation of our Group:	to pay the fee in accordance with the terms and conditions of the Land Reservation Agreement
Consequence of default:	the People's Government of Rizhuang Town of Laixi shall strictly follow the terms and conditions of the Land Reservation Agreement. In the event that any damage is suffered by our Group arising from the default of the People's Government of Rizhuang Town of Laixi, it shall return all the money paid by our Group and shall pay to our Group an amount equivalent to the sum that our Group has paid as compensation

However, instead of issuing the land use rights certificate to our Group, on 22 May 2013, the Municipal Government of Laixi (萊西市人民政府) issued the land use rights certificate in respect of the relevant land to Qingdao Changyang Investment and Development Co., Ltd.* (青島昌陽投資開發有限公司) ("**Changyang Investment**"), a company wholly-owned by a subordinate department of the Municipal Government of Laixi. As advised by our PRC Legal Advisers, according to the Provisional Regulations of the Grant and Transfer of the Right of Use of State-owned Lands of the PRC (中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例), the utilisation of state-owned allocated lands should be approved by the relevant land department of the municipal government at the city or county level (i.e. the Municipal Government of Laixi instead of the People's Government of Rizhuang Town of Laixi). Nevertheless, during 2006 to 2018, our Group had paid a total amount of approximately RMB4.4 million to the government in relation to the use of the relevant land by various instalments.

To clarify the situation, the Lands and Resources Bureau of Laixi* (萊西市國土資源局) has issued an explanatory letter on 7 August 2015 which confirmed that the use of the relevant land by our Group is in compliance with the intended purpose and utilisation plan of the relevant land. Further and in accordance to the Notice of

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Optimisation Measures for the Management of State-owned land at Chanzhi Reservoir (關於做好產芝水庫部分國有土地管理的通知) promulgated by the Municipal Government of Laixi on 5 March 2020, the People’s Government of Rizhuang Town of Laixi should be responsible for the daily management of the relevant state-owned land. Pursuant to the said notice, on 23 March 2020, the People’s Government of Rizhuang Town of Laixi signed the Supplemental Agreement with our Group which confirms the use and occupation of the land with a site area of approximately 128,334 sq.m. by our Group and confirms that our Group had paid all the fees in relation to the use of the said land under the Land Reservation Agreement. The following table sets forth a summary of the principal terms of the Supplemental Agreement:

Location:	a parcel of state-owned land with a site area of 192.5 mu, located within Rizhuang Town, south of Huanhu Road and in front of Nanbu Village
Term of agreement:	from 2006 to 2056, for a period of 50 years as specified in the Land Reservation Agreement
Consideration:	our Group is not required to pay any other consideration during the term of the agreement
Rights of our Group:	our Group may use the relevant land for vegetable cultivation, cultivation and sales of crops, research of vegetable and crops and leisure agricultural tourism etc. Our Group may also reasonably use the relevant land including subletting the relevant land
Right of the People’s Government of Rizhuang Town of Laixi:	The People’s Government of Rizhuang Town of Laixi may supervise the use of the relevant land to ensure its reasonable use by our Group
Obligation of our Group:	our Group shall reasonably use the relevant land. Our Group bears the legal liabilities for any safety or economic disputes arising during the use of the relevant land

Furthermore, each of Laixi Land Parcel A, Laixi Land Parcel B and Laixi Land Parcel C is located in close proximity to the Chanzhi Reservoir which is considered as protected area pursuant to the Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) and the Regulations on the Prevention and Control of Pollution in Drinking Water Source Protection Areas (飲用水水源保護區污染防治管理規定), given its nature of being the source of drinking water. In accordance with the Environmental Impact Assessment Law of the PRC (中華人民共和國環境影響評價法), the Group is required to (i) file an environmental impact assessment report; and (ii) pass the requisite inspection on relevant environmental protection facilities before the commencement of any operation and production on these lands. In this regard, we submitted, and the Qingdao Environmental Protection Bureau approved, the environmental impact assessment report in relation to our

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production project in 2013. Major environmental protection measures taken by the Group for this project include the construction of an artificial wetland system for water purification so as to prevent pollution of the Chanzhi Reservoir. Nonetheless, due to the unfamiliarity with the regulatory and timing requirements on inspection on relevant environmental protection facilities of our staff who was responsible for monitoring and managing the construction works on the protected area, the requisite inspection did not take place until July 2018. As confirmed by our PRC Legal Advisers, the inspection conducted in the said timeline would not have any impact to our business operation on the relevant lands.

As advised by our PRC Legal Advisers, no additional measure or condition is imposed on our Group for operating on the protected area.

Relevant government authority(ies) interviews and confirmation:

(i) Interview with and written confirmation issued by Natural Resources Bureau of Laixi

Pursuant to the interview with the legal compliance officer (法規辦主任) of Natural Resources Bureau of Laixi* (萊西市自然資源局) (as advised by our PRC Legal Advisers, Natural Resources Bureau of Laixi has taken up the responsibilities of Lands and Resources Bureau of Laixi* (萊西市國土資源局) after the departmental reform of the government and has become the competent authority to confirm the compliance of the Provisional Regulations of the Grant and Transfer of the Right of Use of State-owned Lands of the PRC) on 23 December 2020, it confirmed, among other things, that (i) prior to the issuance of the land use rights certificate to Changyang Investment, no party was holding the land use rights certificate of the Laixi Land Parcel C; (ii) the issuance of the land use rights certificate to Changyang Investment is for the proper management of state-owned lands; and (iii) the use of the Laixi Land Parcel C by our Group is in compliance with the relevant laws and regulations of the PRC.

We obtained a written confirmation from the Natural Resources Bureau of Laixi, being the responsible land department of the Municipal Government of Laixi under the Provisional Regulations of the Grant and Transfer of the Right of Use of State-owned Lands of the PRC as advised by our PRC Legal Advisers, on 22 March 2021, which confirmed that, among other things:

- (i) Fujing Agriculture is entitled to use the Laixi Land Parcel C for agricultural production during the period as specified in the Land Reservation Agreement and the Supplemental Agreement;
- (ii) Fujing Agriculture has paid the relevant fees under the Land Reservation Agreement to the People's Government of Rizhuang Town of Laixi in full by installments during the period between 2006 and 2018; provided that Fujing Agriculture has obtained the consent of the People's Government of Rizhuang Town of Laixi and no objection is raised from Changyang Investment, Fujing Agriculture is entitled to continue to use the Laixi Land Parcel C in the future without paying any other fees;

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- (iii) the possibility of Fujing Agriculture being requested to stop using the Laixi Land Parcel C is low; if Fujing Agriculture is requested to do so, the Natural Resources Bureau of Laixi, the People's Government of Rizhuang Town of Laixi or Changyang Investment will provide reasonable compensation to Fujing Agriculture;
- (iv) the Natural Resources Bureau of Laixi fully implements the arrangements relating to the Laixi Land Parcel C as specified in the Notice of Optimisation Measures for the Management of State-owned land at Chanzhi Reservoir and has no objection to the contents of the Land Reservation Agreement and the Supplemental Agreement; and
- (v) there is no illegality or irregularity in the use of the Laixi Land Parcel C by Fujing Agriculture.

(ii) Interview with the People's Government of Rizhuang Town of Laixi

Pursuant to the interview with the deputy governor (副鎮長) of the People's Government of Rizhuang Town of Laixi on 23 December 2020, it confirmed that our Group had paid all the fees which we are required to pay for the usage of the Laixi Land Parcel C under the Land Reservation Agreement to the government by various instalments from 2006 to 2018 and, as a result, we are not required to make any further payment for our continuing use of the land since then. Moreover, it was confirmed that the issuance of the land use rights certificate to Changyang Investment is due to the proper management of state-owned lands but it does not affect the People's Government of Rizhuang Town of Laixi's right to decide on how to manage the relevant land and the letting-out of the relevant land to any third party for reasonable use. The People's Government of Rizhuang Town of Laixi further confirmed that our Group has the right to continue to use the relevant land without payment for any penalties.

(iii) Interview with and written confirmation issued by Changyang Investment

On 11 December 2020, Changyang Investment has issued a confirmation letter to ratify the use of the relevant land by our Group during 22 May 2013 to 5 March 2020 (i.e. from the date Changyang Investment obtained the land use rights certificate to the date of promulgation of the Notice of Optimisation Measures for the Management of State-owned Land at Chanzhi Reservoir by the Municipal Government of Laixi), and irrevocably agrees with the use of the land by our Group and the arrangement stipulated under the Notice of Optimisation Measures for the Management of State-owned land at Chanzhi Reservoir and the Supplemental Agreement.

Pursuant to the interview with the deputy general manager (副總經理) of Changyang Investment on 23 December 2020, it confirmed that the ownership of the relevant land was assigned by the government to Changyang Investment for the proper management of state-owned lands and Changyang Investment had not paid any consideration for the said assignment. Changyang Investment further acknowledged and confirmed that our Group has the right to use the relevant land pursuant to the

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terms stipulated in the Land Reservation Agreement and the Supplemental Agreement, and that Changyang Investment will not letting-out the relevant land to any third party during the period when our Group is using the land.

Views of our PRC Legal Advisers:

Based on the above information, under the authorisation of the Municipal Government of Laixi, and in view of the confirmation letters issued by Natural Resources Bureau of Laixi and Changyang Investment confirming and ratifying the land use by our Group under the Land Reservation Agreement and the Supplemental Agreement, our PRC Legal Advisers are of the view that if our Group continue to use the relevant land for agricultural purpose in accordance to the terms of the said Land Reservation Agreement and the Supplemental Agreement, the chance of being asked by the relevant land department of the Municipal Government of Laixi to return the land is relatively low.

Contingency arrangement for the cultivation facilities on our Laixi Land Parcel C

As confirmed by our Directors, the total gross floor area of our greenhouses erected on Laixi Land Parcel C is approximately 28,333 sq.m., representing approximately 17.6% of the total gross floor area of all of our greenhouses. Having consulted and obtained the views from our PRC Legal Advisers, while our Directors consider that the risk of being requested to relocate our cultivation facilities away from the Laixi Land Parcel C is remote, we have formulated a contingency arrangement. In the event that we are required by the government to relocate our cultivation facilities on Laixi Land Parcel C, we shall make use of the existing available land in our Laixi Facility and identify a new parcel of land near our Laixi Facility and construct greenhouses on such lands to restore the reduction in production capacity caused by the removal. Based on our past experiences in locating new lands for our expansion, we do not foresee significant obstacles in finding another parcel of land for relocation. During the period before we secure a new land for relocation, we may reallocate our resources and cultivation capacity to our existing greenhouses on Laixi Land Parcel A, Laixi Land Parcel B, Laixi Land Parcels D and Laixi Land Parcel E to take up the production capacity originally carried out by the greenhouses on our Laixi Land Parcel C.

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LICENCES, PERMITS AND CERTIFICATES

We obtained product certificates for our potted vegetable produce. The following table sets forth details of our product certificates we obtained during the Track Record Period:

No.	Certificates	Issuing Authority	Date of Issue	Date of expiry ^(Note 6)	Recipient
1.	Certificate of Origin of Pollution-free Agricultural Products* (無公害農業品產地認定證書) ^(Note 1)	Qingdao Agriculture Commission* (青島市農業委員會)	4 December 2017	November 2020 ^(Note 1)	Fujing Agriculture
2.	Certificate of Pollution-free Agricultural Products* (無公害農產品證書)	Centre for Quality and Safety of Agricultural Products of Ministry of Agriculture of the PRC* (中國農業部農產品質量安全中心) ^(Note 2)	14 December 2017	13 December 2020 ^(Note 2)	Fujing Agriculture
3.	Certificate of Pollution-free Agricultural Products* (無公害農產品證書) ^(Note 3)	Qingdao Agricultural Rural Bureau* (青島市農業農村局) ^(Note 4)	27 November 2018 ^(Note 5)	10 November 2024	Fujing Agriculture
4.	Certificate of Pollution-free Agricultural Products* (無公害農產品證書) ^(Note 3)	Qingdao Agricultural Rural Bureau* (青島市農業農村局) ^(Note 4)	2 December 2020	1 December 2023	Fujing Agriculture

Notes:

- As confirmed by our PRC Legal Advisers, pursuant to the Notice of Optimisation Measures and the Follow-up Actions for the Harmonisation of Certificates of Pollution-free Agricultural Products in the PRC (關於做好有效期內全國統一認證無公害農產品後續跟進管理服務工作的通知) promulgated by Centre for Quality and Safety of Agricultural Products of Ministry of Agriculture of the PRC* (中國農業部農產品質量安全中心) on 8 April 2018, the Certificate of Origin of Pollution-free Agricultural Products held by our Group will be combined with Certificate of Pollution-free Agricultural Products issued by Qingdao Agricultural Rural Bureau* (青島市農業農村局) on 2 December 2020.
- As confirmed by our PRC Legal Advisers, pursuant to the Notice of Adjusting the Approval Process of Certification of Pollution-free Agricultural Products and Geographical Symbol of Agricultural Products (關於調整無公害農產品認證、農產品地理標誌審查工作的通知) promulgated by the General Office of Ministry of Agriculture of the PRC on 29 December 2017, the Ministry of Agriculture of the PRC delegated the responsibility for issuing Certificate of Pollution-free Agricultural Products to the relevant agricultural bureau at the provincial agricultural administrative departments and working institutions (i.e. the then Qingdao Agriculture Commission* (青島市農業委員會) and Qingdao Agricultural Rural Bureau* (青島市農業農村局) after the recent departmental reform).

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3. The two Certificates of Pollution-free Agricultural Products issued by Qingdao Agricultural Rural Bureau* (青島市農業農村局) are for the Group’s different potted vegetable species (i.e. malabar spinach for the certificate issued on 27 November 2018, and pak choi, Frisée and Indian lettuce for the certificate issued on 2 December 2020). Due to the expansion of the Laixi Facility, the Company applied for and obtained another Certificate of Pollution-free Agricultural Products in 2020 in addition to the Certificate of Pollution-free Agricultural Products issued on 27 November 2018. The Certificates of Pollution-free Agricultural Products would typically specify the species, the area and scale of production of the cultivation facility that qualified for the production of pollution-free agricultural products.
4. As confirmed by our PRC Legal Advisers, Qingdao Agriculture Commission* (青島市農業委員會)’s responsibility of issuing Certificate of Pollution-free Agricultural Products has been taken up by Qingdao Agricultural Rural Bureau* (青島市農業農村局) after the recent departmental reform in 2019.
5. The Certificate of Pollution-free Agricultural Products issued on 27 November 2018 was renewed on 11 November 2021.
6. Pursuant to the Implementation Notice issued by the Office of Agricultural Rural Bureau* (農業農村部辦公廳) on 24 September 2022, the Agricultural Rural Bureau will not accept any new applications (including renewal) of Certificate of Pollution-free Agricultural Products with effective from the date of the Implementation Notice. However, the existing Certificate of Pollution-free Agricultural Products will still be valid before they expired.

As advised by our PRC Legal Advisers, we are not required to possess any specific licence, permit or certification to carry out our business activities of potted vegetable produce cultivation under the relevant PRC laws and regulations, and during the Track Record Period and up to the Latest Practicable date, we have obtained all the requisite licences, qualifications and permits from the relevant PRC regulatory authorities for our operations in all material aspects. For a summary of such relevant PRC laws and regulations, please refer to the paragraph headed “Regulatory Overview — Laws and regulations relating to safety of agricultural products” in this document.

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NON-COMPLIANCE
Regulatory compliance

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we had complied with all applicable laws and regulations in the PRC and Hong Kong in all material aspects, and we had not been involved in any material non-compliance incidents that had led to fines, enforcement actions or other penalties that could, individually or in the aggregate, have a material adverse effect on our business, financial condition and results of operations, save for the non-compliance incidents set out below:

No.	Non-compliance incident and reasons for non-compliance	Possible legal consequence and maximum liabilities	Remedial actions	Enhanced internal control measures taken	
1.	<p>During the Track Record Period, we failed to make contribution to social insurance in full in respect of certain employees of our Group. The aggregate amounts of unpaid social insurance contribution were approximately RMB30,000, RMB54,000, RMB53,000 and RMB5,000 for FY2020, FY2021, FY2022 and 9M2023, respectively.</p> <p>Certain employees of our Group were not willing to register or make payments for social insurance in Laixi, Xi'an and Dalian where Fijing Agriculture and our branch companies are located for (i) having already participated, and made contribution to the New Rural Social Insurance Scheme* (新型农村社会养老保险), or 农村合作养老保险; or (ii) being registered elsewhere with his former employers.</p> <p>We were unable to make social insurance contributions for certain employees because they were not willing to contribute. Without their consent, we were unable to make contributions on their behalf or compel deductions from their salaries.</p>	<p>As advised by our PRC Legal Advisers, according to the Social Insurance Law of the PRC (《中华人民共和国社会保险法》), if an employer fails to make timely social insurance contributions in full amount in accordance with the relevant PRC laws and regulations, it may be ordered by the relevant social insurance authority to pay the overdue amount within the prescribed time limit with an overdue fine at a daily rate of 0.05% of the overdue amount from the due date within a prescribed time limit. Failing which, the relevant administrative authorities may impose a fine of one to three times of the overdue amount.</p> <p>According to the certificate issued on 22 December 2023 by Human Resources and Social Security Bureau of Laixi* (莱西市人力资源和社会保障局), a competent authority as advised by our PRC Legal Advisers, the said Bureau confirmed that Fijing Agriculture had duly made all relevant social insurance contributions for our employees in accordance with the relevant PRC laws and regulations, that it would not demand us to make payment for the past outstanding social insurance contributions or penalise us in respect thereof, and that it had no records of Fijing Agriculture being penalised for breach of any laws and regulations in the PRC relating to social insurance or being involved in any disputes relating to social insurance contribution in full since the incorporation of Fijing Agriculture up to the date of the said certificate.</p> <p>According to the certificate issued on 26 December 2023 by Jinpu New Area Human Resources and Social Security Bureau of Dalian* (大连金普新区人力资源和社会保障局), a competent authority as advised by our PRC Legal Advisers, the said Bureau had no records of our branch company in Dalian being penalised for breach of any laws and regulations in the PRC relating to social insurance contribution.</p>	<p>Since January 2020, we have duly registered with the relevant social insurance authorities and made social insurance contributions in full for all our eligible employees in accordance with the relevant PRC laws and regulations, except for those employees who have voluntarily waived their rights in relation to the social insurance (in which case we should make social insurance contributions in full or pay any shortfall in the social insurance contributions within a prescribed period if required by the relevant competent authorities) and have undertaken in writing to bear all consequences and liabilities resulting from, or in connection to, our failure to register with the relevant social insurance authorities and make social insurance contribution for them. Such employees were no longer employed by us as at the Latest Practicable Date.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among other things, any costs, expenses and losses which we may incur in the event that we are required by the relevant competent authorities to pay any of the outstanding social insurance contributions, overdue fines and penalties or claimed by the employees for compensation for this non-compliance incident.</p>	<p>We have formulated written policies and procedures to strengthen our internal control, specifying that:</p> <p>(a) the registration and account opening for social insurance and housing provident fund contributions of all employees will be completed within the prescribed time limit;</p> <p>(b) personnel of our human resources department with relevant knowledge and expertise will be responsible for the calculation of social insurance and housing provident fund contributions in accordance with the relevant PRC laws and regulations, which shall then be checked by human resources manager to ensure the correctness and compliance with regulatory requirements;</p> <p>(c) training will be provided to the relevant personnel of our human resources department on the social insurance and housing provident fund contributions requirements under the relevant PRC laws and regulations; and</p> <p>(d) Mr. Zhang, our chairman, and Ms. Guo Zeqing, our executive Director and financial controller, will regularly review policies and procedures in relation to the social insurance and housing provident fund contributions to ensure compliance with the regulatory requirements.</p>	<p>Our Directors confirm that our Group will require a confirmation from any new employees which we may employ that he/she will be willing to contribute to social insurance before they are employed as employees of our Group.</p>
		<p>As advised by our PRC Legal Advisor, based on the aforesaid confirmations from the relevant competent authorities and the remedial actions taken, we have fully rectified this non-compliance as at the Latest Practicable Date and the risk for us to be penalised is low.</p> <p>As advised by our PRC Legal Advisor, based on the aforesaid confirmations from the relevant competent authorities and the remedial actions taken, we have fully rectified this non-compliance as at the Latest Practicable Date and the risk for us to be penalised is low.</p>			

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No.	Non-compliance incident and reasons for non-compliance	Possible legal consequence and maximum liabilities	Remedial actions	Enhanced internal control measures taken
2.	<p>During the Track Record Period, we failed to register with the relevant housing provident fund authority in the PRC and go through the formalities of opening housing provident fund accounts on behalf of certain employees of our Group and make contribution to housing provident funds in full in respect of certain employees of our Group. The aggregate amounts of unpaid housing provident fund contribution were approximately RMB62,000, RMB20,000, RMB13,000 and RMB4,000 for FY2020, FY2021, FY2022 and 9M2023 respectively.</p> <p>Certain employees of our Group were not willing to contribute to housing provident fund in Laixi, Xi'an and Dalian where Fujing Agriculture and our branch companies are located for (i) being rural registered permanent residence with rural residence land and thus having no needs to purchase commercial housing; or (ii) being registered elsewhere with their former employers.</p> <p>We were unable to make social insurance contributions for certain employees because they were not willing to contribute. Without their consent, we were unable to make contributions on their behalf or compel deductions from their salaries.</p>	<p>Possible legal consequence and maximum liabilities</p> <p>As advised by our PRC Legal Advisers, according to the Administrative Regulations on Housing Provident Funds (住房公积金管理条例), if an employer fails to register with the relevant authority or go through the formalities of opening housing provident fund accounts for its employees, the relevant authority may order it to go through all the formalities within a prescribed time limit. If such employer fails to do so, at the expiration of the prescribed time limit, a fine of not less than RMB10,000 nor more than RMB50,000 may be imposed upon such employer. Failure to pay on time or pay in full its contributions, the relevant housing provident fund authority may order it to make payment of contributions within a prescribed time limit. Failing which, the relevant authority may apply to the court for mandatory enforcement of retrieval of such payment.</p> <p>According to the certificate issued on 23 December 2023 by the Laixi Office of Housing Provident Fund Management Centre of Qingdao* (青岛市住房公积金管理中心莱西管理处), a competent authority as advised by our PRC Legal Advisers, the said Centre confirmed that Fujing Agriculture had duly gone through the formalities of opening housing provident fund accounts and made contribution to housing PRC laws and regulations, that it would not demand us to make payment for the past outstanding contributions to housing provident funds or penalise us in respect thereof, and it had not received any complaint against Fujing Agriculture in relation to housing provident funds.</p> <p>According to the certificate issued on 22 December 2023 by the Housing Provident Fund Management Centre of Dalian* (大连市住房公积金管理中心), a competent authority as advised by our PRC Legal Advisers, up to the date thereof, the said Centre had no records of our branch company in Dalian being penalised for breach of any laws and regulations in the PRC relating to housing provident funds.</p>	<p>Remedial actions</p> <p>Since January 2020, we have duly gone through the formalities of opening housing provident fund accounts and made contribution to housing provident funds for all our eligible employees in accordance with the relevant PRC laws and regulations, except for those employees who have voluntarily waived their rights in relation to the housing provident funds (in which case we should make contribution to housing provident funds in full or pay any shortfall in the housing provident funds contributions within a prescribed period if required by the relevant competent authorities) and have undertaken in writing to bear all consequences and liabilities resulting from or in connection to our failure to go through the formalities of opening housing provident fund accounts and make contribution to housing provident funds for them. Save for one of them which we have made contribution to housing provident funds in full for him since July 2023, these employees were no longer employed by us as at the Latest Practicable Date.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders have undertaken to fully indemnify us against, among other things, any costs, expenses and losses which we may incur in the event that we are required by the relevant competent authorities to pay any of the outstanding housing provident funds contributions, overdue fines and penalties or claimed by the employees for compensation for this non-compliance incident.</p> <p>As advised by our PRC Legal Advisor, based on the aforesaid confirmations from the relevant competent authorities and the remedial actions taken, we have fully rectified this non-compliance as at the Latest Practicable Date and the risk for us to be penalised by the relevant PRC competent authorities with respect to housing provident funds contributions is low.</p>	<p>Enhanced internal control measures taken</p> <p>Please refer to the internal control measures taken by our Group in relation to social insurance contribution above.</p>

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Having considered the confirmation from the relevant authorities, the advice of our PRC Legal Advisers, the indemnities provided by our Controlling Shareholders and the enhanced internal control measures taken by our Group, our Directors considered that no provision is required to be made in our consolidated financial statements in relation to the abovementioned non-compliance incidents as they would not have a material adverse effect on our business, financial condition and results of operations in light of the above considerations.

RISK MANAGEMENT AND INTERNAL CONTROL

Our Directors are responsible for the formulation and overseeing the implementation of our internal control measures and effectiveness of quality and risk management system.

To manage our external and internal risks and to ensure the smooth operations of our business, we have engaged an internal control consultant to assist our Group to review and provide recommendations on improving our internal control system. Our internal control consultant reviewed and provided recommendations on our internal control system in August 2020; and conducted follow up reviews in August 2022 and June 2023 based on the recommendations, and concluded that all remedial measures have been implemented. In particular, we have adopted a series of internal control policies, procedures and programmes designated to achieve effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

All Executive Directors are assigned for specific responsibilities and periodic reviews and audits of the processes are conducted to identify any potential issues or gaps in segregation of duties. For further details, please refer to the paragraph headed “Employees” in this section of the document.

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The major findings, together with the internal control enhanced measures based on the recommendations from the internal control consultant, are set out below:

Major findings	Recommendations	Corresponding rectification measures taken by our Group
<p>During the Track Record Period, our Group did not provide adequate social insurance contributions and housing provident fund for all of our employees in the PRC. For details, please refer to the paragraph headed “Non-compliance” in this section.</p>	<p>Our management should conduct a review of the contributions for social insurance and housing provident fund for our subsidiaries in the PRC and establish procedures to ensure that the housing provident funds and all other social insurance are properly and correctly paid in accordance with laws and regulations in the PRC, including but not limited to the following:</p> <ul style="list-style-type: none"> ● establishment of the social insurance and housing provident funds contribution management policy to guide the adoption of payment basis, calculation and declaration of social insurance and housing provident funds and regular review of employee contribution status by the administrative or human resources staff by our management; ● checking the compliance status and conducting risk assessment of the current compliance status regarding social insurance and housing provident fund contributions by our human resources staff and such work is to be reviewed by our chief executive officer; and ● training in relation to social insurance and housing provident funds shall be provided to employees in relevant departments to strengthen employees’ knowledge of regulations. 	<p>For the rectification measures taken by our Group, please refer to the paragraph headed “Non-compliance” in this section of the document.</p>
<p>CCTVs are not installed in the warehouse and not all greenhouses are installed with CCTVs.</p>	<p>The Company should carefully evaluate the appropriateness and adequacy of the physical safeguard over inventory, including but not limited to the following:</p>	<p>We have formulated written policies and procedures in strengthening the physical safeguard over inventory, specifying that:</p>

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Major findings	Recommendations	Corresponding rectification measures taken by our Group
<p>Moreover, we did not engage 24-hour security guard for our warehouse.</p>	<ul style="list-style-type: none"> ● CCTV should be installed in both warehouse and greenhouse; and ● The security guard should perform 24-hours monitoring. 	<ul style="list-style-type: none"> ● at the existing cultivation facilities, there is a gate stationed by a 24-hour security guard to perform the in-out control of the potted vegetable produce. ● monthly stock count will be performed. ● all inventory movement must be recorded through a computer system. <p>The Company has commenced the installation of CCTV, the installation is in progress as at the Latest Practicable Date and is expected to be completed before [REDACTED].</p>

To monitor the ongoing implementation of our risk management policies and corporate governance measures after [REDACTED], we have adopted or will adopt, among others, the following corporate governance and internal control measures:

- the establishment of an audit committee responsible for overseeing the financial records, internal control procedures and risk management systems of our Company;
- the appointment of Grande Capital Limited as our compliance adviser upon [REDACTED] to advise us on compliance with the Listing Rules; and
- the engagement of external legal advisers to advise us on compliance with the Listing Rules and to ensure we will not be in breach of any relevant regulatory requirements or applicable laws, where necessary.

LEGAL PROCEEDINGS

We may from time to time be involved in disputes or legal proceedings arising from the ordinary course of our business. As at the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against us or any of our Directors which could have a material adverse effect on our business, financial condition or results of operations.

IMPACT OF THE OUTBREAK OF COVID-19 EPIDEMIC

China was hit by the outbreak of COVID-19 epidemic since January 2020 until the end of 2022. The outbreak of the COVID-19 disease had prompted the PRC government to place many provinces into lockdown at various time during this period, stipulate measures aiming at reducing mobilities and close non-essential businesses which affected our business to different extent.

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In early 2020, government policies were issued to require that during the prevention and control of outbreak of COVID-19, normal supply of agricultural production materials shall be ensured. The PRC government’s policies such as the “green channel” policy was implemented to ensure the smooth transportation of fresh agricultural products to maintain the normal market supply.

The following table sets forth the several outbreaks of COVID-19 epidemic which affected the operation of our cultivation facilities during the Track Record Period:

Affected period and duration:	Facilities and markets being affected by the COVID-19 epidemic:	Whether our cultivation activities were interrupted, and impact on our business operations:	Direct loss of potted vegetable produce and the estimated loss of potential sales revenue during the lockdown:
1. February 2020 to March 2020 (approximately one month)	Laixi Facility and Shandong province market	No, the lockdown and travel restrictions were mainly imposed in the Qingdao city. Our Laixi Facility, which is located in suburban area was still in operation, and we were encouraged by the government to continue to supply agricultural products to maintain the normal market supply during the COVID-19 epidemic. Hotels and restaurants were temporarily closed. Our distributors sold our potted vegetable produce to residents in local residential estates through property management companies which mitigated the impact of the lockdown measures and the closure of hotels and restaurants.	N/A
2. 22 December 2020 to 15 January 2021 (approximately 24 days)	Dalian Facility and Liaoning province market	Yes, the lockdown measures limited the operation of our Dalian Facility and caused temporary suspension of our sales activities in Dalian. Hotels and restaurants were temporarily closed. Our suppliers had difficulties in reaching our Dalian Facility.	Direct loss of unsold vegetable produce: approximately 15,000 pots Estimated direct loss of potential sales revenue: approximately RMB0.2 million <i>(Note 1)</i>

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Affected period and duration:	Facilities and markets being affected by the COVID-19 epidemic:	Whether our cultivation activities were interrupted, and impact on our business operations:	Direct loss of potted vegetable produce and the estimated loss of potential sales revenue during the lockdown:
3. 23 December 2021 to 24 January 2022 (approximately one month)	Xi'an Facility and Shaanxi province market	Yes, lockdown and travel restrictions were imposed in certain areas of Xi'an which limited the operation of our Xi'an Facility and caused the temporary suspension of our sales activities. Hotels and restaurants were temporarily closed. Our suppliers outside of Xi'an had difficulties in reaching our Xi'an Facility and our subcontractors were also affected due to the home isolation and quarantine policy which restricted the movement of local residents and supply of workforce.	Direct loss of unsold vegetable produce: approximately 9,000 pots Estimated direct loss of potential sales revenue: approximately RMB0.1 million <i>(Note 2)</i>
4. 5 March 2022 to 10 April 2022 (approximately one month)	Laixi Facility and Shandong province market	Yes, lockdown and travel restrictions were imposed in Laixi. Our Laixi Facility was suspended for more than a month which caused the temporary suspension of our sales activities in Shandong province. Hotels and restaurants were temporarily closed. Our distributors in Shandong province were unable to pick up potted vegetable produce from our Laixi Facility; suppliers outside of Laixi also had difficulties in reaching our Laixi Facility and our subcontractors were also affected due to the home isolation and quarantine policy which restricted the movement of local residents and supply of workforce.	Direct loss of unsold vegetable produce: approximately 549,000 pots Estimated direct loss of potential sales revenue: approximately RMB8.2 million <i>(Note 3)</i>
5. 14 March 2022 to 10 April 2022	Dalian Facility and Liaoning province market	Yes, lockdown and travel restrictions were imposed in the Jinpu New Area of Dalian. Our Dalian Facility was suspended which caused the temporary suspension of our sales activities in Liaoning province. Hotels and restaurants were temporarily closed. Our distributor in Dalian was unable to pick up potted vegetable produce from our Dalian Facility. Our suppliers outside of Dalian had difficulties in reaching our Dalian Facility and our subcontractors were also affected due to the home isolation and quarantine policy which restricted the movement of local residents and supply of workforce.	Direct loss of unsold vegetable produce: approximately 8,000 pots Estimated loss of potential sales revenue: approximately RMB0.1 million <i>(Note 1)</i>

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Notes:

1. The estimated loss of potential sales revenue is calculated based on the average selling price of our potted vegetable produce in Liaoning province of approximately RMB16.0 per pot in FY2020, FY2021 and FY2022
2. The estimated loss of potential sales revenue is calculated based on the average selling price of our potted vegetable produce in Shaanxi province of approximately RMB16.0 per pot in FY2021 and FY2022
3. The estimated loss of potential sales revenue is calculated based on the average selling price of our potted vegetable produce in Shandong province of approximately RMB15.0 per pot in FY2022

In February and March 2020, in light of the closure of some hotels and restaurants and the government policy of home isolation and quarantine which restricted the movement of local residents, as a temporary and extraordinary arrangement, our distributors sold 524,900 pots of our potted vegetable produce to residents in local residential estates through property management companies, accounting for revenue of our Group of approximately RMB7.8 million (or 6.5% of our total revenue in FY2020). This arrangement, together with the fact that the COVID-19 epidemic happened at around the Chinese New Year holiday in 2020 which is not our peak season, mitigated the effect of the closure of hotels and restaurants on our sales performance. Most restaurants and hotels were reopened and local residents were allowed to dine out by the end of March 2020. To the best knowledge and belief of our Directors, most of the restaurant and hotel end-user customers resumed operation in March 2020. In view of the above and that our potted vegetable produce are targeted to food and beverage industry rather than household daily consumption, such temporary and extraordinary arrangement was ceased after March 2020, and we focus instead on selling our potted vegetable produce through our distribution channel which mainly aims at food and beverage industry.

The series of lockdown measures in Dalian and various areas in Shandong province due to the COVID-19 epidemic in 2022 has temporary adverse impact on our business in FY2022. Our revenue derived from Laixi Facility and the Dalian Facility has dropped by approximately RMB26.8 million and RMB0.5 million, or 19.0% and 7.2% between FY2021 and FY2022 respectively. Consequently, our Group’s revenue dropped by approximately RMB28.3 million or 18.2% between FY2021 and FY2022. Such lockdowns have more serious impact on our business and financial performance than lockdown in prior years due to the following reasons:

- (i) the lockdown affected our Laixi Facility and Shandong province market which accounts for most of our revenue. Sales in Shandong province accounted for approximately 87.1%, 91.2% and 90.3% of our revenue for FY2020, FY2021 and FY2022 respectively;
- (ii) the lockdown in our Laixi Facilities and Dalian Facilities that lasted for around one month took place between March and April 2022. In comparison with the first lockdown in 2020 that took place between February and March 2020 during our slack season around the Chinese New Year holiday, the impact on our revenue is more significant in 2022;

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- (iii) unlike the first lockdown in 2020 when our cultivation facilities were still in operation and our distributors were able to pick up potted vegetable produce from us and sold them to residents in local residential estates through property management companies, during the lockdown in 2022 distributors were not allowed to pick up potted vegetable produce from us and no sales took place during the lockdown, resulting in direct loss of unsold vegetable produce of approximately 557,000 pots and estimated direct loss of potential sales revenue of approximately RMB8.3 million during the lockdown. Most of the unsold potted vegetable produce from our Laixi Facility was donated to the government for the distribution to the local residents for their consumption during the lockdown period of the COVID-19 epidemic in FY2022. Our changes in fair value of biological assets for FY2022 included approximately RMB4.6 million which represented the unsold vegetable produce as a result of the temporary suspension of our facilities due to the outbreak of COVID-19 epidemic during March 2022 to April 2022; and
- (iv) the COVID-19 epidemic was particularly serious in Shandong province in March 2022. Hence, during the initial period of our resumption of operation of Laixi Facility in April 2022, some of the lockdown and travel restrictions were still partially in force in various parts of Shandong province. Similarly, some of the lockdown and travel restrictions were still partially in force in Dalian during the initial period of our resumption of operation of Dalian Facility in April 2022. To the best knowledge and belief of the executive Directors, due to the prolonged lockdown in 2022 that restricted the operation of some of our end-user customers in Shandong province and Dalian, it took several months for our overall sales to pickup and gradually resume to normal level. Our revenue in August 2022 of approximately RMB17.2 million, eventually exceeded our revenue of approximately RMB16.1 million in August 2021.

Between March and July 2022, our revenue in Shandong province and Dalian fell short of the revenue in the same period in 2021 by approximately RMB26.6 million and RMB1.0 million respectively. Such shortfall includes the estimated direct loss of potential sales revenue for unsold potted vegetable produce of approximately RMB8.2 million and RMB0.1 million for Laixi Facility and Dalian Facility respectively as explained in the table on page 270 of this document. Our Directors believe such shortfall is principally attributed to the series of lockdown measures in Dalian and various areas in Shandong province due to the COVID-19 epidemic in 2022. By August 2022, our sales have fully resumed and we recorded a revenue of approximately RMB17.2 million in August 2022, which exceeded our revenue of approximately RMB16.1 million in August 2021. We recorded a revenue of approximately RMB54.2 million from September 2022 to December 2022, which is comparable to the revenue of approximately RMB54.6 million we recorded during the same period in 2021. As confirmed by the Directors, most of the hotels and restaurants end-user customers of the Group's distributors resumed normal operation since August 2022. The Group's operations and financial position since September 2022 was no longer materially affected by the COVID-19 epidemic.

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The PRC government has substantially lifted its COVID-19 prevention and control policies since December 2022. Our business continued to recover from the impact of COVID-19 outbreak in 2023, as our business operation was no longer affected by COVID-19 epidemic. We recorded a revenue of approximately RMB121.3 million in the nine months ended 30 September 2023, which slightly exceeded the revenue of approximately RMB117.2 million for the nine months ended 30 September 2021. Our Directors are of the view that it is unlikely that the COVID-19 pandemic will have a material adverse impact on our business going forward. Save as disclosed above, our Directors confirmed that there was no material adverse impact on our operation, our sales to our customers, our suppliers and our subcontractors in relation to our business due to the COVID-19 epidemic during the Track Record Period and up to the Latest Practicable Date. We had adopted additional internal control and hygiene measures since the outbreak of COVID-19 epidemic. These measures include monitoring of employees health conditions and travel record, disinfection of office areas, procurement of epidemic prevention materials such as masks, disinfection alcohol spray, and thermometers, strengthening education on epidemic prevention and control and formulating emergency response guidelines.