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## **RISK FACTORS**

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*You should carefully consider all the information set forth in this document, including the risks described below, before making any [REDACTED] in our Shares. The occurrence of any of the following risks may have a material adverse effect on our business, financial conditions, results of operations and future prospects. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and our business and operations are conducted in the PRC and are governed by a legal and regulatory environment which in certain aspects differs from that prevailing in other jurisdictions. For details regarding the regulations of the PRC, please see the section headed “Regulatory Overview” in this document. The trading price of the [REDACTED] could decline due to any of these risks, as well as additional risks and uncertainties not presently known to us, and you may lose part or all of your [REDACTED].*

### **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**

There was notable concentration in our customer base during the Track Record Period. In FY2020, FY2021, FY2022 and 5M2023, the total revenue from our five largest customers in each year amounted to approximately RMB68.1 million, RMB102.6 million, RMB85.1 million and RMB38.7 million, respectively, accounting for approximately 56.1%, 66.3%, 67.3% and 68.8% of our total revenue, respectively, while the total revenue from our largest customer in each year amounted to approximately RMB18.6 million, RMB25.3 million, RMB20.9 million and RMB9.5 million, respectively, accounting for approximately 15.3%, 16.3%, 16.5% and 16.8% of our total revenue, respectively. These customers are expected to continue to account for a significant portion of our total revenue in the future.

There are risks associated with having a small number of major customers contributing to a significant portion of our revenue. We cannot assure that we will be able to maintain or improve our relationships with our major customers, and we cannot assure that we will be able to continue to supply our products to them at current levels on similar terms, or at all. In addition, our business is materially affected by the businesses of our major customers, which depend to a significant extent on their continuing ability to sell to their own customers. Any deterioration in the businesses of our major customers could lead to a decline in their purchase from us or a change in our business relationships with our major customers. Our use of resources and management attention to continue our business relationships with our major customers and meet their purchase orders may also reduce resources devoted to our other customers. Even if we manage to secure other customers, it would take time and resources for us to develop our relationship with new customers. If we cannot secure other customers, our business performance and financial conditions may be adversely affected. If any of our major customers substantially reduces its purchase orders with us or terminates its business relationship with us, we may not be able to obtain orders from other existing customers or new customers to timely replace such lost sales on comparable terms, or at all, in which case our business, results of operations, financial conditions and prospects may be materially and adversely affected.

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Although we have diversified our customer base during the Track Record Period by entering into distribution agreement with new customers and by expanding our geographical coverage, there is no assurance that we can continue to diversify the composition of our customer base and attract other new customers. Should any of the risks above materialises, our business and financial position could be adversely affected.

**We rely on our distributors to sell our products. Any changes in our relationships with our distributors may have a material and adverse effect on our sales, results of operations and financial conditions**

We rely on our distributors to sell our products. We sell our potted vegetable produce primarily through our distributors, which then on-sell our potted vegetable produce to end-user customers. During the Track Record Period, the sale to distributors represented approximately 99.7%, 100.0%, 100.0% and 100.0% of our revenue, respectively. However, the effectiveness of our distributors in selling and distributing our products could be affected by a number of factors and since we mainly sell and distribute our products through distributors, if any of the following events occur, there may be fluctuations or decline in our revenue which could have adverse effect on our business and financial performance:

- reduction, delay or cancellation of orders from our distributors;
- inability to appoint or replace distributors in a timely manner upon the loss of one or more of our distributors;
- failure to maintain relationship with our existing distributors or to renew our distribution agreements with favourable terms;
- inability of our distributors to promote our products;
- failure of our distributors to distribute our products in a timely manner or in accordance with the terms of our distribution agreement;
- failure of our distributors to distribute our products in accordance with the applicable PRC laws and regulations;
- deterioration of relationship between our distributors and their customers; and
- deterioration of their own financial performance of our distributors.

We may not be able to maintain our competitiveness in the market, especially if our existing or future competitors launch marketing campaigns by offering more favourable arrangements with their distributors. We cannot assure that we can maintain good relationship with our distributors, in the event that we lose any of our distributors, our business and financial performance may be adversely affected.

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**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**

Our success depends on our ability to maintain a good and continued relationship with our major suppliers and our ability to purchase raw materials from such suppliers on favourable terms. In FY2020, FY2021, FY2022 and 5M2023, the aggregate purchases from our five largest suppliers in each year amounted to approximately RMB35.3 million, RMB44.7 million, RMB39.8 million and RMB15.3 million, respectively, accounting for approximately 94.3%, 99.7%, 99.7% and 99.9% of our total purchases, respectively, while the purchases from our largest supplier in each year amounted to approximately RMB26.4 million, RMB28.2 million, RMB20.3 million and RMB8.1 million respectively, accounting for approximately 70.3%, 62.9%, 50.8% and 52.8% of our total purchases, respectively. Please refer to the paragraph headed “Business — Raw materials, suppliers and subcontractors” in this document for further details of our major suppliers and principal terms of our supply arrangement.

We cannot assure that our current suppliers will continue to supply raw materials to us on terms acceptable to us, or that we will be able to establish new or extend current supplier relationships to ensure a steady supply in a timely and cost-efficient manner. If our relationships with our major suppliers are terminated, interrupted, or modified in any way adverse to us, our business, financial conditions and results of operations could be adversely affected. In particular, we may face the following risks that may have a significant adverse effect on our operations, business and results of operations:

- there can be no assurance that we would be able to identify alternative suppliers for replacement in a timely manner if any of our major suppliers were to substantially reduce the amount of supplies to us or to cease business relationship with us entirely;
- there may be material interruptions to our operations and business before we can secure supply from other suppliers for the raw materials that we may need, and it may take time for us to negotiate for purchase terms with the other suppliers; and
- even if we are able to purchase from other suppliers, there can be no assurance that the provision of raw materials from such suppliers would be on terms and conditions acceptable to us, and/or in sufficient quantity to meet our imminent demands.

**We do not enter into long-term agreements with our raw material suppliers and therefore our cultivation or production cost and schedules, financial conditions and results of operation may be adversely affected if we are unable to secure supply**

The key raw materials required for the cultivation of our products include (i) components of organic substrates; (ii) seeds; and (iii) fertilisers and biopesticides. We do not enter into any long-term supply agreements with our raw material suppliers as we intend to take advantage of the flexibility in the contractual relationship with our suppliers. We select our new suppliers based on our internal supplier evaluation procedure which contains a stringent set of criteria, including quality, price, service, quality control, production

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capability and credibility. We will only appoint suppliers who can satisfy all our internal selection criteria. Each of our suppliers is subject to our annual evaluation of quality of the raw materials supplied. For more details, please refer to paragraphs headed “Business — Raw materials, suppliers and subcontractors” and “Business — Product safety and quality control” in this document. However, we cannot assure that we will be able to seek satisfactory supplier, or our suppliers will be able to supply the required raw materials to our satisfaction in a timely manner or that they will not significantly increase the prices at the time of our purchases. If we are unable to secure supply, or if we cannot pass the increase in the cost of raw materials to our customers, our cultivation or production cost, cultivation or production volume and schedule, financial conditions and results of operations may be materially and adversely affected.

**Our business may be affected by fluctuations in the cost of raw materials for our potted vegetable produce**

One of the major operating cost for our business is the cost of raw materials for cultivating our potted vegetable produce. Our raw materials primarily include (i) components of organic substrates; (ii) seeds; and (iii) fertilisers and biopesticides. For FY2020, FY2021, FY2022 and 5M2023, our raw material cost accounted for approximately 50.7%, 49.7%, 49.4% and 48.9% of our total cost of sales, respectively. Any shortage in the supply of, or any upsurge in demand for, such raw materials would lead to an increase in their prices. There is no assurance that we will be able to anticipate and react to such price fluctuations by adjusting the selling prices of our potted vegetable produce on a timely basis or to pass on any increase in the cost of raw materials to our customers accordingly. In the event that we are unable to anticipate and react to such price fluctuations, our profitability may be adversely affected.

**Any safety problems relating to our raw materials could adversely affect our reputation, brands’ image, ability to sell our products and financial performance**

The quality and quantity of our products could be adversely affected if our raw materials are substandard, spoiled, contaminated or tampered with. Contamination and pollution of our raw materials may occur during production, transportation or distribution due to unknown reasons or for reasons that are out of our control. Some of our raw materials may also contain harmful substances or chemicals of which we are unaware of due to adulteration by our suppliers. Such harmful substance or chemical, which may not be suitable for human consumption, may be absorbed by our potted vegetable produce and eventually be consumed by our customers and cause health and food safety issue. We cannot assure that our suppliers will not intentionally or inadvertently contaminate our raw materials or provide us with substandard raw materials. Any food safety problem attributable thereto may adversely affect our reputation, sales and thus our financial performance.

While we have quality control measures in place to uphold the quality of our raw materials, we cannot assure that we will be able to detect substandard or defective raw materials in every circumstance. For further details of our quality control measures on our raw materials, please refer to the paragraph headed “Business — Product safety and quality control — Raw materials quality control” in this document. In the event that we fail to detect defective raw materials, the quality of our products could be adversely affected. We

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may be required to recall certain of our affected products and may subject to product liability claims, adverse publicity, investigation or imposition of penalties by relevant regulatory authorities. In such case, our reputation, brands’ image, business and financial conditions would be materially and adversely affected. For further details on the relevant laws and regulations applicable to the production of our potted vegetable produce, please refer to the paragraphs headed “Regulatory Overview — Laws and Regulations Relating to Safety of Agricultural Products — Agricultural Products Quality Safety Law” and “Regulatory Overview — Laws and Regulations Relating to Safety of Agricultural Products — Food Safety Law” in this document.

**Changes in consumer tastes, perceptions and preferences may have a material and adverse effect on our business, results of operations and financial conditions**

The sale of our potted vegetable produce is subject to changes in consumer tastes, perceptions and preferences. The level and pattern of spending by the PRC consumers depends on various factors which include the consumer tastes, perceptions and preferences, consumer income, consumer confidence in the safety and quality of the potted vegetable produce. Any changes in consumer tastes, perceptions and preferences, decrease in consumer income or decline in consumer confidence in our produce may lead to reduction of sale, which could have an adverse effect on our sales and profits.

Our continuous success depends on the popularity of our potted vegetable produce, our ability to sensibly predict on the change in consumer tastes, perceptions, preferences and their spending habits and to flexibly adjust our marketing strategies to fit for the changes from time to time. Shifts in consumer tastes, perceptions and preferences away from our potted vegetable produce to our competitor’s potted vegetable produce or to other kinds of food products may adversely affect our business. Consumers in the PRC are increasingly conscious of agricultural product safety and quality and how their daily consumption of foods would affect their health. If we are not able to effectively react to the changes in consumer tastes, perceptions and preferences, the demand for our potted vegetable produce may decline and our business and financial performance may be adversely affected.

**Our operations are principally based in Shandong Province, and we are susceptible to trends and developments in this region**

A significant portion of our revenue is concentrated in Shandong Province. For FY2020, FY2021, FY2022 and 5M2023, approximately 87.1%, 91.2%, 90.3% and 92.5% of our revenue was derived from Shandong Province, respectively. We expect that Shandong Province will remain to account for a significant portion of our operations in the near future. Due to such concentration, any adverse development in economic conditions, policies and regulations of local government or business environment in Shandong Province could materially and adversely affect our business, financial position and results of operations.



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**We may encounter difficulties in expanding our distribution and sales network into new regions, which may limit our growth prospects and, in turn, have an adverse effect on our business, financial conditions and results of operations**

As part of our business strategy, we plan to expand our distribution and sales network to grow our business. However, the success of our expansion plan is subject to, among others, the following factors:

- the existence and availability of suitable regions and locations for expansion of our distribution and sales network;
- other ability to negotiate favourable cooperation terms with our distributors;
- the availability of adequate management and financial resources;
- the availability of suitable distributors;
- competition from local competitors;
- our ability to hire, train and retain skilled personnel; and
- the adaptation of our logistics and other operational and management systems to an expanded distribution and sales network.

Expanding into new geographical location involve uncertainties and challenges as we may be less familiar with local regulatory practices and customs, customer preferences and behaviour, the reliability of subcontractors, suppliers and business practices. There is no guarantee that we will be successful in managing our growth and expansion into new region and cities. Accordingly, we cannot assure that we will be able to achieve our expansion goals or effectively integrate any new distributors into our existing network. If we encounter difficulties in expanding our distribution and sales network, our growth prospects may be limited, which could in turn have an adverse effect on our business, financial conditions and results of operations.

**Our results of operations are subject to biological asset fair value adjustments, which are subject to a few assumptions. Any increase in the selling prices of our biological assets will increase both our sales revenue and net changes in fair value of our biological assets, and vice versa.**

Since we are a company principally engaged in the cultivation and sales of potted vegetable produce, a certain portion of our assets are biological assets. Our biological assets comprise various kind of potted vegetable produce, including but not limited to crown daisy, rapeseed and Frisée. Our historical results of operations had been affected by biological asset fair value adjustments as a result of changes in fair value less cost to sell of our potted vegetable produce, which are non-cash in nature. In FY2020, our results of operations were positively affected by the gain arising from change in fair value less cost to sell of biological assets of approximately RMB1.1 million. In FY2021, our results of operations were positively affected by the gain arising from fair value changes less cost to sell of biological assets of approximately RMB0.2 million. In FY2022, our results of operations were negatively affected by the loss from fair value changes less cost to sell of

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biological assets of approximately RMB0.8 million. In 5M2023, our results of operations were negatively affected by the loss arising from fair value changes less cost to sell of biological assets of approximately RMB1.0 million. We expect that our results of operation will continue to be affected by these biological asset fair value adjustments. For details on the biological asset fair value adjustments, please refer to the paragraphs headed “Financial Information — Significant accounting policies, judgements and estimates”, “Financial Information — Analysis of selected statement of financial position items — Biological assets” and “Financial Information — Valuation of biological assets” in this document.

The fair values of our biological assets at each reporting date during the Track Record Period were determined by an independent professional valuer and we intend to engage an independent professional valuer to determine the fair values of our biological assets going forward. The valuation of our biological assets during the Track Record Period by Savills was performed by relying on the accuracy and reliability of historical data of biological assets such as quantity held, sales volume, selling prices and cost provided by us. Savills also conducted market research, checked academic material and relied on our internal control over inventory systems for the accuracy and reliability of these historical data. Savills has relied on a number of assumptions in applying valuation methods (including market and cost approaches). Please refer to the paragraph headed “Financial Information — Valuation of biological assets — Key assumptions and inputs” in this document for the key assumptions and inputs for determining the fair value of our biological assets.

The fair value of our biological assets could be affected by, among others, the accuracy of the assumptions including but not limited to, (i) the fluctuation in the market price of our biological assets; (ii) the variation in the growth rate, maturity cycle and quality of our biological assets; (iii) the stability and continuity of our business operation, management and technical personnel; and (iv) the changes in the potted vegetable industry and/or political, legal, technological, tax, fiscal or macroeconomic conditions of the PRC. The fair value of our biological assets would be inaccurate if the assumptions relied on are inaccurate. The valuation conducted by Savills, and the valuation to be conducted in the future, are subject to the caveat that our independent professional valuer relied substantially on the completeness, accuracy and reasonableness of the various assumptions and other data provided by us in preparing the valuation report. As a result of revaluations of our biological assets from period to period, our financial position and results of operations may change significantly from period to period. In addition, any increase or decrease in market prices for biological assets will increase or reduce our profit, and gains or losses arising from changes in fair value less cost to sell of biological assets, which makes our profit more volatile and susceptible. We cannot assure that there will be no significant deviation in the future. We cannot assure that the fair value gain on our biological assets will not decrease in the future. Any decrease in the fair value gain of our biological assets may have a material and adverse effect on our profitability, overall financial conditions and results of operations. As a result, when evaluating our results of operations and profitability, investors should consider our profits and profit margins without taking into account the effects of these biological asset fair value adjustments.

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**We are subject to the potential adverse consequences due to the title issue in relation to part of the land at our Laixi Facility**

We entered into the Land Reservation Agreement (土地預約協議) on 17 June 2006 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 for the purpose of agricultural and ecological development for a period of 50 years and the People’s Government of Rizhuang Town of Laixi should be responsible to complete the transfer procedure and procure the issuance of the land use rights certificate to our Group according to the terms of the agreement. 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, 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). If the said land is expropriated by the government due to the title defect, our financial condition and business operation will be adversely affected. For details of the title issue of the said land, please refer to the paragraph headed “Business — Other property interests in relation to the Laixi Land Parcel C” in this document.

**We may be affected by the changes in or cessation of preferential tax treatment which may have an adverse effect on our financial conditions and results of operations**

Under the EIT Law, enterprises in the PRC are generally subject to a uniform 25% EIT rate on their worldwide income. Our PRC subsidiary which is engaged in qualifying agricultural business, which includes growing and selling of potted vegetable produce was exempted from the EIT in the PRC during the Track Record Period under the EIT Law. The EIT saved under the EIT Law were approximately RMB11.0 million, RMB11.8 million, RMB8.0 million and RMB4.6 million for FY2020, FY2021, FY2022 and 5M2023, respectively. There is no assurance that the preferential EIT treatment will continue to apply to our subsidiaries. Any removal, loss, suspension or reduction of such preferential tax treatment may have an adverse effect on our financial conditions and results of operation.

**The price of our potted vegetable produce may fluctuate, which may adversely affect our profitability and result of operations**

We are subject to business risks arising from the fluctuation of the price of our potted vegetable produce resulting from the ever-changing market force of supply and demand. External factors, such as environmental regulations, adverse weather conditions and diseases, which we have little or no control may also greatly affect our potted vegetable produce price. In FY2020, FY2021, FY2022 and 5M2023, the average selling prices of our potted vegetable produce per pot were RMB15.1, RMB15.1, RMB15.1 and RMB15.1, respectively. If the price of our potted vegetable produce decreases, our revenue, profit and results of operations may be adversely affected.



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### **We are dependent on our contractual arrangements with Independent Third Parties in respect of the cultivation of our potted vegetable produce**

We entered into lease agreements with Independent Third Parties in respect of the lands for our Xi'an Facility and Dalian Facility and part of the lands of our Laixi Facility. We cannot assure that the respective Independent Third Parties would renew such lease agreements with us upon expiry. If we are unable to secure new lease agreements on commercially viable terms with the Independent Third Parties for the cultivation facilities, we may not be able to satisfy orders from our customers for our potted vegetable produce, and accordingly, our business, financial conditions and results of operations may be materially and adversely affected.

We also entered into labour subcontracting agreements (勞務外包合作協議書) with Independent Third Parties for performing simple labour work such as watering, sowing and transporting under our management and supervision. While our labour subcontracting agreements are entered into in accordance with the Civil Code of the PRC, there is no assurance that the Independent Third Parties will comply with the terms of the relevant labour subcontracting agreements and provide the requisite labour services. There is also no assurance that our labour subcontractors will be fully cooperative. In the event of such non-compliance and we are not able to obtain the alternative labour services at competitive prices or at all, our business, financial conditions and results of operations will be materially and adversely affected.

### **We have limited control over the quality and performance of our labour subcontractors and subcontracting labour force**

To allow us to effectively manage our cultivation process and meet the demand for workforce in a timely manner, we outsource our simple labour work to our labour subcontractors. Nevertheless, as we have limited control over the quality and performance and the availability of subcontracting labour force, if such subcontracting labour force is not as experienced or capable as we had assessed and causes any food safety issue, we may be exposed to potential litigation claims from our customers. We may also be subject to litigations relating to compliance with applicable laws and regulations of the PRC. If we were found liable on such claims, we could be liable for significant damages and subject to government sanctions. While we may initiate claims for compensation against our labour subcontractors for any liability arising from subcontracting labour, there is no assurance that our labour subcontractors will be financially capable of compensating us in full. Further, there is no assurance that our claims will be settled in a speedy and efficient manner. In such event, our business, reputation, financial condition and results of operations could be materially and adversely affected.

### **Any failure in maintaining effective internal controls over the compliance of national health and safety standards may materially and adversely affect our business, results of operation and brand's image**

Any failure to meet relevant government requirements or any instance of contamination in operations resulting from our ineffective internal control could result in fines, suspension of operations, and in more extreme cases, criminal proceedings against our

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Company and our management. Moreover, negative publicity could be generated from false, unfounded or nominal liability claims or recalls. Any of these failures or occurrences could negatively affect our business and financial performance.

We are subject to the agricultural product quality and safety laws and regulations of the PRC. Please refer to the section headed “Regulatory Overview” in this document for more information concerning the relevant agricultural product quality and safety laws and regulations. In light of recent agricultural product quality and safety concerns in the PRC, there may be increasingly stringent enforcement of agricultural product quality and safety rules and regulations and implementation of new agricultural product quality and safety rules and regulations. In such event, our production and distribution cost may increase, and we may be unable to pass these additional cost on to our customers.

**We may fail to continuously develop new products or our new products may not be successful, leading to a potential adverse effect on our business, results of operations and financial conditions**

The potted vegetable produce industry in the PRC is a highly fragmented industry with a large number of players. In light of the fragmented nature and volatile environment, we will need to continuously develop and launch new products in order to respond to consumers’ demand and maintain our competitiveness and market share. We cannot assure that we will be able to continuously develop new products or our new products in the future will attract sufficient consumer demand or gain sufficient market share to be profitable. In addition, we cannot assure that our new products in the future will continue to be of high quality. Failure to recover development, production and marketing cost of unsuccessful new products or maintain the high quality of our new products in the future could adversely affect our business, results of operations and financial conditions.

**We are exposed to the credit risk of our distributors and end-user customers. If our distributors or end-user customers default on their payments to us, our profitability, liquidity and financial position may be materially and adversely affected**

We are exposed to the credit risk of some of our distributors who are granted credit terms of 60 days to 120 days and our end-user customers who are granted credit terms of 180 days. Should our customers experience cash flow difficulties or face possibilities of liquidation due to deterioration in their business performance or financial position, our profitability, cash flow and financial position may be materially and adversely affected as our customers may default on their payments to us. As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 May 2023, our average trade receivables turnover days were approximately 99.2 days, 93.0 days, 144.3 days and 131.5 days, respectively. Please refer to the paragraph headed “Business — Payment terms and credit terms” in this document for details on our credit policy.

As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 May 2023, the carrying amount of our trade receivables (net of allowance for doubtful debts) were approximately RMB31.1 million, RMB46.6 million, RMB53.4 million and RMB44.2 million, respectively. As at 31 December 2020, 31 December 2021, 31 December 2022 and 31 May 2023, we made allowance for doubtful debts of approximately RMB1.2 million, RMB1,000, RMB0.2 million and RMB0.1 million, respectively. In the event that any material portion of such trade receivables becomes bad debt and cannot be collected by us,

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our operations and financial conditions may be adversely affected. In addition, in the event that our trade receivables could not be collected timely, we may need to finance our working capital requirement by internal resources or borrowings, and any increase in interest rate may adversely affect our financial position due to increase in finance cost.

**Our business, reputation and brands’ image may be adversely affected by product liability claims, consumer complaints or adverse publicity in relation to our products**

We may be subject to product liability claims if our products are found to be unfit for consumption. Our products may be rendered unfit for consumption due to contamination and pollution, whether intentional or not, delay in delivery, poor handling, poor condition of storage facilities of suppliers or distributors, or unauthorised tampering by distributors or third parties during the transit of products. The occurrence of such problems may result in recalls of our products and significant damage to our brand reputation. During the Track Record Period and up to the Latest Practicable Date, we did not record product recall and had not received any material complaints or product liability claims from our customers due to quality defects. However, we cannot assure that such incidents will not occur in the future. We may incur legal liabilities and have to compensate consumers for any loss or damage they suffer in respect of valid product liability claims and, in addition, we may also be subject to administrative or other government sanctions or penalties. In addition, adverse publicity from these types of concerns, whether valid or not, may discourage customers from purchasing our products. If customers lose confidence in our brand, we may experience long term declines in our sales, which may have an adverse effect on our business, results of operation and financial conditions.

**Our workers are subject to risks of serious injury caused by the use of production machinery and equipment, which may result in a material and adverse effect on our business, results of operations and financial conditions**

We use machinery and equipment such as substrate crusher, excavator and bulldozer, which are potentially dangerous in our operations. Any significant accident caused by the use of such equipment or machinery could interrupt our operations and result in legal and regulatory liabilities. During the Track Record Period and up to the Latest Practicable Date, we had not had any incidents, claims or complaints which had materially and adversely affected our operations. However, we cannot guarantee that we will not encounter significant cost, legal or regulatory liabilities as a result of personal injury of our employees in the future. In accordance with relevant PRC labour laws and regulations, we pay occupational injury insurance fund for our employees. However, our occupational injury insurance fund may not sufficiently cover, or cover at all, losses and liabilities we may encounter in respect of personal injury of our employees. Further, although our labour subcontractors should be responsible for the occupational liability of their own workers in the event of occupational injury, there is no assurance that our labour subcontractors will not seek compensation or indemnification from our Group for any injury suffered by their staff for any negligence or contractual liability against our Group. Therefore, in such events, we may incur significant cost which could materially and adversely affect our business, results of operations and financial conditions.

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**Our insurance may not sufficiently cover, or may not cover at all, losses and liabilities we may encounter**

We have purchased food safety insurance for our products and property insurance for our owned greenhouse facilities. We have not maintained insurance for all of our properties or fixed assets. The insufficiency of insurance coverage exposes us to risks associated with our business, including damages, liabilities or losses we may incur in the course of our business, which may be significant. Any uninsured occurrences of loss or damage to our cultivation facilities and other properties or fixed assets may result in the disruption of our business operations, the incurrence of substantial cost by our Group and the diversion of our resources, which may have a material and adverse effect on our business, financial position and results of operations. If we are held responsible for any such damages, liabilities or losses due to insufficiency or unavailability of insurance, there could be a material adverse effect on our business, financial position and results of operations. Please refer to the paragraph headed “Business — Insurance” in this document for further details.

**The occurrence of adverse weather conditions or natural disasters may materially and adversely affect our business and financial performance**

Our business operations and cultivation facilities are susceptible to adverse weather conditions and natural disasters such as floods, typhoon, hailstorm, earthquakes and environmental hazards. Although our greenhouses could provide certain degree of protection to our potted vegetable produce, there is no assurance that our cultivation facilities or potted vegetable produce would not be destroyed under adverse weather conditions or natural disasters. Occurrence of any of the above events in or in close proximity to our cultivation facilities, and/or the facilities of our suppliers from whom we purchase necessary raw materials used in our production may interrupt our cultivation, or cause a reduction in our production output or delay and/or increased cost in our procurement of raw materials. For instance, the occurrence of a severe hailstorm in Qingdao in May 2020 damaged seven of our greenhouses in our Laixi facility and led to around 33,000 damaged or unsellable pots of vegetable produces (the estimated cost of which was approximately RMB0.3 million) and a loss of potential sales revenue of approximately RMB0.5 million based on the average selling price of our potted vegetable produce in Shandong province of approximately RMB15.0 per pot in FY2020. It is estimated that the suspension further led to the drop of the production volume of approximately 156,000 pots and a loss of potential sales revenue of approximately RMB2.3 million based on the average selling price of our potted vegetable produce in Shandong province of approximately RMB15.0 per pot in FY2020 during the suspension. The occurrence of any circumstances above may have a material and adverse effect on our business, prospects and financial performance.

**Disruption of operations of our cultivation facilities may materially and adversely affect our business operations and financial performance**

Our ability to efficiently and stably cultivate potted vegetable produce at our cultivation facilities is critical to our success. As at the Latest Practicable Date, we had established three cultivation facilities for cultivating our potted vegetable produce, namely our (i) Laixi Facility; (ii) Xi'an Facility; and (iii) Dalian Facility.

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Damage or disruption to our operations at our cultivation facilities can result from the following factors, among others:

- utility supply disruptions, terrorism, strikes or other force majeure events;
- forced closure or suspension of our cultivation facilities;
- major disease outbreaks at or around our cultivation facilities;
- pollution of underground water resources;
- failure to comply with applicable regulations and quality assurance guidelines;
- labour disputes affecting our employees;
- accidents in any of our cultivation facilities, including major equipment failures or fires, which may result in suspension of operations, property damage, severe personal injuries or even fatalities; and
- other production or distribution problems, including limitations to production capacity due to regulatory requirements, changes in the types of products produced or physical limitations that could impact continuous supply.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruptions to our cultivation facilities. However, we cannot assure that the events and factors mentioned above or any other events will not occur and result in a material disruption to the operations at our cultivation facilities in the future. If we fail to take adequate steps to mitigate the likelihood or potential impact of such events or factors, or to effectively respond to such events or factors if they occur or materialise, our business, results of operations and financial conditions may be materially and adversely affected.

**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**

We believe that our current intellectual property rights and those for which we have pending applications provide protection to our business and are necessary for our operations. We were not aware of any violation or infringement of our intellectual property rights during the Track Record Period and as at the Latest Practicable Date. However, there is no assurance that our intellectual property rights will not be infringed upon and that measures taken by us to protect our trademarks and patents are adequate to prevent infringement, product imitation and counterfeiting by others. In the event that third parties infringe upon our intellectual property rights, we may face great difficulties and costly litigation in order to fully protect our intellectual property rights, which may in turn affect our profitability. In the event that we are unsuccessful in policing the violation of our intellectual property rights, the availability of counterfeit goods in the market may affect consumers' perception of our product quality and reduce the demand for our products, which may adversely affect our brand reputation and financial performance.



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Over the years, we have accumulated knowledge and experience in relation to the cultivation method, process and organic substrate formula of cultivation materials of potted vegetable produce which is part of our essential proprietary technical know-how. Thus, effective protection of proprietary information and technical know-how in our business operations is critical to our business. As certain of our proprietary information and technical know-how are not patented, we are vulnerable to unauthorised disclosure of such proprietary information to our competitors, which may adversely affect our business.

In addition, we may also be subject to claims or litigations in respect of infringement of patents, trademarks or other intellectual property rights of others. These claims or litigations could adversely affect our relationships with current or future customers, divert management attention and resources and result in substantial expenses, thereby adversely affecting our business, financial condition, results of operations and prospects.

### **Our future success depends on the continuing services of certain key personnel and our ability to attract and retain talented personnel**

Our continued success is significantly dependent on the continuing services of our senior management and other key personnel and their expertise and experience. For more details on our Directors and senior management, please refer to the section headed “Directors and Senior Management” in this document. Our Directors and senior management have extensive experience in the potted vegetable produce industry. For instance, Mr. Zhang (being our founder and executive Director who founded our Group in December 2006) and Mr. Pang Jinhong (being our executive Director who has joined our Group since February 2013), have about 16 years and 10 years of management and operational experiences in our Group respectively. If one or more of the members of our senior management team are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial conditions and results of operations may be adversely affected.

Our future success is further dependent upon our ability to attract and retain personnel who have the necessary experience and expertise. If we cannot recruit and retain the employees necessary to maintain our operations, our capabilities may be limited which could reduce our profitability and limit our ability to grow.

### **Cultivation and sales of our potted vegetable produce are subject to seasonality fluctuations**

Cultivation and sales of our potted vegetable produce are subject to seasonality fluctuations. During the Track Record Period, we experienced seasonality fluctuations in the cultivation of our potted vegetable produce due to weather conditions. According to our experience, our potted vegetable produce have longer growth cycles in colder seasons. We also experienced seasonality fluctuations in sales of our potted vegetable produce due to customers’ purchase patterns. During the Track Record Period, we recorded higher revenue from the sale of our potted vegetable produce in the third quarter of the year due to increase of demand in summer and autumn in line with the catering market as a result of growing number of visitors in Qingdao. We also recorded lower revenue from the sale of our potted vegetable produce in the first quarter of the year due to the closure of business of some of the hotels and restaurants during the Chinese New Year holidays. For details of the

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## **RISK FACTORS**

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seasonality fluctuations, please refer to the paragraph headed “Business — Distribution and sales network — Seasonality” in this document. Hence, our sales and operating results for any particular period will not necessarily be indicative of our results for the full year or future periods, and our interim result may not proportionally reflect our annual results.

### **Risks relating to non-compliance with the PRC employee social welfare contribution regulations could lead to the imposition of fines or penalties**

Pursuant to the relevant PRC laws and regulations, employers in the PRC shall make social insurance funds and housing provident funds contributions for their employees. During the Track Record Period, we were not in full compliance with the applicable contribution requirements for our employees in PRC. For details of our non-compliance incidents, please refer to the paragraph headed “Business — Non-compliance” in this document.

Under the applicable PRC laws and regulations, the relevant social insurance and housing provident fund authorities have discretion as to the manner and amount of penalties to be imposed on our Group. While our PRC Legal Advisers advised that the risk for our Group being penalised by the relevant social insurance and housing provident fund authorities for our previous non-compliances is remote, there is no assurance that there will not be any employee complaint or claim against us in respect of our failure to make full contributions to the relevant social insurance fund or housing provident fund in the past. There is also no assurance that we will not receive any order or notice from the PRC authorities in relation to the non-compliance incidents. In such case, we may incur additional cost to comply with the laws and regulations and even be subject to fines or penalties arising from above non-compliance, which may have an adverse effect on our business, financial condition and results of operations.

### **The outbreak of COVID-19 has caused, and may continue to cause, damage to the economy and as a result may adversely affect our business, financial condition and results of operations**

The outbreak of COVID-19 in the end of 2019 and the resurgence of COVID-19 cases in early 2022 have already caused, and may continue to cause, an adverse and prolonged impact on both economic and social conditions in China, and the exacerbation, continuance or reoccurrence of COVID-19 in China may interrupt our business operations.

The outbreak of the COVID-19 disease had prompted the PRC government to place many provinces into lockdown, extend the Chinese New Year holidays, stipulate measures aiming at reducing mobilities and close non-essential businesses which, to a certain extent, affected our business.

Save as disclosed and as of the Latest Practicable Date, COVID-19 outbreak did not have any material adverse impact on our overall business, financial condition or results of operations. Please refer to the paragraphs headed “Business — Impact of the outbreak of COVID-19 epidemic” and “Summary — Recent development and no material adverse change” for further details of the impact of COVID-19 outbreak on our Group.

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## **RISK FACTORS**

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In order to prevent the COVID-19 epidemic, many countries issued travel advisories restricting travels to affected areas (including China). Such policies have seriously undermined the local and cross-border business activities in these areas. The effect includes substantial decrease in the number of tourists, business exchange events and social functions and the slackening of the economy in the affected countries and territories. The global financial markets have experienced extreme volatilities and the risk of the world headed into a recession has significantly increased. There is no assurance that there will not be any direct or indirect adverse impact on our business, financial condition and results of operations arising from any effect on the PRC economy or other parts of the world as a result of any outbreak, exacerbation, continuance or reoccurrence of COVID-19. There is no assurance that the overall economic performance of the affected countries and territories will improve shortly even after the containment of COVID-19 outbreak and the withdrawal of such policies and recommendations by the governments of China and other countries and thus our business could be materially and adversely affected. Although we have closely tracked the health status of our employees and we have not received reports of any confirmed or suspected cases of COVID-19, there is also no assurance that our employees will not be infected, in which event the operations of our cultivation facilities might need to be suspended and their staff might need to be quarantined. Furthermore, there is no assurance that another major COVID-19 or other disease outbreak will not happen in the future. If any of these events eventuate, our business, financial condition and results of operations may be materially and adversely affected.

### **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**

The potted vegetable produce industry we operate in is characterised as highly fragmented with a large number of players and we compete with a number of existing PRC domestic potted vegetable producers, as well as potential new entrants to the market. Some of our competitors may have, in comparison to us, lower cost of operation, greater expertise and more extensive technical capabilities, greater resources to invest in product development and customer support, longer operating histories, greater pricing flexibility and name recognition, larger customer bases and/or stronger technical and professional teams. In addition, more specialised producers with greater financial resources may enter our market in the future. Our ability to compete successfully in the industry depends on various factors, including our reputation, brands' image, high quality products and strong relationships with our customers. We cannot assure that we will be able to compete effectively against current and future competitors. Intensified competition may result in price reduction of our products, a decrease in our profit margins, loss of market share and increased difficulty in market penetration, which may have a material adverse effect on our business, prospects, financial conditions and results of operation.

#### **If the potted vegetable produce market does not grow at a rate as we expect, or at all, or if we fail to keep pace with consumer preferences and demands, our business, results of operation and financial conditions may be adversely affected**

Our growth depends, to a significant extent, on the continuous growth in the demand for our potted vegetable produce. Any future reduced demand or economic downturn may materially and adversely affect our sales and profitability. Furthermore, we are subject to

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## **RISK FACTORS**

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the changing consumer preferences and demands. If there is a change in market preference or if we fail to keep pace with these changes, we may not be able to achieve the growth as expected and our business and financial conditions may be adversely affected.

**Consumer concerns about the safety and quality of our potted vegetable produce may adversely affect the sales of our produce and our financial performance**

Consumer demand may be affected by factors such as negative publicity resulting from the publication of industry findings, research reports or health concerns concerning food safety of products produced in the potted vegetable produce industry or the PRC in general, given that the consumption of contaminated or spoiled food products may result in illness, disease or, in extreme cases, death. Adverse publicity and news about the safety and quality of domestically produced food products, and counterfeiting and imitation of food products are not uncommon in the PRC. Although we had not been affected by any safety or quality concerns on potted vegetable produce or any actual or alleged counterfeiting or imitation of potted vegetable produce during the Track Record Period and up to the Latest Practicable Date, we cannot assure that these events will not occur in the future. Also, we cannot assure that our suppliers or distributors will be in full compliance with all the relevant hygiene, health and safety standards. In case such complaints and negative publicity occur in respect of the potted vegetable industry or our potted vegetable produce, regardless of their merits, we may suffer a loss of consumer confidence, reduction in the demand for our products, and consequently our business operations, financial performance and prospects may be adversely affected. We may also not be able to handle the negative comments effectively and in a timely manner and additional resources may be required to rebuild our reputation.

**Change in existing agricultural product quality and safety laws may expose us to additional cost for compliance and affect our business operations**

As agricultural products are intended for direct human consumption, we are subject to extensive governmental laws and regulations in relation to agricultural product quality and safety in the PRC. For instance, the PRC agricultural product quality and safety laws set out requirements in the following aspects to ensure that the quality of agricultural products will comply with the protective requirements for human health and safety, namely (i) quality safety standards for agricultural products; (ii) place of origin of the agricultural products; (iii) production process of agricultural products; and (iv) packaging and identification marks of agricultural products.

Failure to comply with the agricultural product quality and safety laws in the PRC may result in fines, suspension of sale, confiscation of the proceeds obtained from the sale of the infringed products and, in more extreme cases, criminal proceedings against us and our management. Any of these events will have an adverse impact on our production, business, results of operations and financial conditions.

There is no assurance that the PRC government will not impose additional or stricter laws or regulations on edible agricultural product quality and safety in the future, providing for more comprehensive monitoring and regulation over edible agricultural product producers and distributors in areas including, but not limited to, agricultural product quality and safety and distribution, which may lead to an increase in our cost of complying with such regulations. We may be unable to pass these additional cost on to our customers, which may result in an adverse effect on our results of operations.

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### **We are subject to environmental regulations and may be exposed to liability and potential cost for environmental compliance**

Our operations are subject to national, provincial and local environmental laws, rules and regulations which, among others, require manufacturers to conduct an environmental impact assessment before engaging in certain construction projects. Any violation of these regulations may result in warning, payment of damages, fines, restriction or suspension of production or an order to halt production. There is no assurance that we will not incur future obligations or material liabilities relating to environmental laws and regulations.

Further, the government may adopt more stringent environmental regulations and there is no assurance that we will be in full compliance with these regulatory requirements at all times. Due to the possibility of unanticipated regulatory developments, the amount and timing of future environmental expenditures may vary substantially from those currently anticipated. If there is any unanticipated change in environmental regulations, we may be required to incur additional capital expenditures to, among others, install, replace, upgrade or supplement our equipment relating to pollution control and the use, storage, handling and disposal of hazardous materials and chemicals, or make operational changes to limit any adverse impact, whether actual or potential, on the environment in order to comply with new environmental protection laws and regulations. If such cost becomes prohibitively expensive, we may be forced to modify, curtail or cease certain aspects of our business operations.

### **RISKS RELATING TO CONDUCTING BUSINESS IN CHINA**

#### **Changes in the PRC legal system may adversely affect our business and limit the legal protection available to you**

Our operating subsidiary and operations are mainly located in the PRC. Our business in the PRC is subject to the PRC laws and regulations applicable to foreign investment in the PRC. The PRC legal system is a civil law system based on written statutes. Unlike the common law legal system, prior court decisions in a civil law system have little precedential value and can only be used as a reference. Furthermore, PRC's statutes are subject to interpretation by legislative bodies, judicial authorities and enforcement bodies, which increase uncertainty. When the PRC government started its economic reforms in 1978, it began to build a comprehensive system of laws and regulations to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving foreign investment, corporate organisation and governance, commercial transactions, taxation and trade. Many of these laws and regulations are relatively new and are subject to further implementation and interpretation. There may also be new laws and regulations to cover new economic activities in the PRC. We cannot predict future developments in the PRC legal system.



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## **RISK FACTORS**

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**Our dividend income from our PRC subsidiaries may be subject to a higher rate of withholding tax than that which we currently anticipate**

The EIT Law and its implementation rules provide that PRC-sourced income of foreign enterprises, such as dividends paid by a PRC subsidiary to its equity holders that are non-PRC resident enterprises, will normally be subject to PRC withholding tax at a rate of 10%, unless any such foreign investor’s jurisdiction of incorporation has a tax treaty with China that provides for a different withholding arrangement.

Pursuant to the Arrangement Between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排), the withholding tax rate on dividends paid by our PRC subsidiary to our Hong Kong subsidiary would generally be reduced to 5%, provided that our Hong Kong subsidiary is a Hong Kong tax resident as well as the beneficial owner of the PRC-sourced income, and our Hong Kong subsidiary directly holds 25% or more interests in our PRC subsidiary. On 3 February 2018, the State Administration of Taxation issued the Announcement on Certain Issues Concerning the Beneficial Owners in a Tax Agreement (關於稅收協定中“受益所有人”有關問題的公告), also known as Circular 9, which provides guidance for determining whether a resident of a contracting state is the “beneficial owner” of an item of income under China’s tax treaties and similar arrangements. According to Circular 9, a beneficial owner generally must be engaged in substantive business activities and an agent will not be regarded as a beneficial owner. Accordingly, if our Hong Kong subsidiary is not regarded as the beneficial owner, there is no assurance that the reduced withholding tax rate will be available in the future.

**We may be treated as a PRC tax resident enterprise under the EIT law, which may result in our PRC-sourced income, dividends payable by us to our foreign investors and gains on the sale of our Shares being subject to PRC withholding taxes and may have a material adverse effect on the value of your investment**

Under the EIT Law and its implementation regulations, withholding tax at 10% will normally apply to dividends payable to investors that are non-PRC resident enterprise by PRC resident enterprise or on gain recognised by the non-PRC investors with respect to the sale of shares of the PRC resident enterprise as such dividend or gain is derived from sources within PRC. PRC withholding tax at a 20% rate may apply to dividends paid to and any gain realised by non-resident individual shareholders. If we are deemed by the PRC tax authorities as a PRC resident enterprise for tax purpose in the future, the dividends to be distributed by our Company and the gain with respect to the sale of Shares of our Company may be regarded as income from “sources within China” and be subject to PRC income tax, unless such tax is reduced by an applicable income tax treaty between China and the jurisdiction of the non-PRC investors. It is unclear whether non-PRC shareholders of our Company would be able to claim the benefits of any tax treaties between their country of tax residence and the PRC and if we are required under the EIT Law to withhold PRC income tax on our dividends payable to our Shareholders, or if our Shareholders are required to pay PRC income tax on the transfer of the shares, the returns on our Shareholders’ investment in our Shares will be reduced.

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## **RISK FACTORS**

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### **We may not be able to obtain government grants, which are non-recurring in nature**

For FY2020, FY2021, FY2022 and 5M2023, we received government grants of approximately RMB3.6 million, RMB0.5 million, RMB0.2 million and RMB0.1 million, respectively, which were recognised as our other income. Government grants are recognised in the statement of financial position initially when there is reasonable assurance that the grants will be received and that we will comply with the conditions attaching to them. The government grants we received during the Track Record Period includes financial subsidies in relation to agricultural development, greening purposes, subsidising the interest payment of our borrowing in 2018 and supporting the listing of local enterprises provided by the Municipal Government of Laixi in FY2020, which are dependent on the government’s allocation. Moreover, since there can be changes in the laws, regulations and governmental policies of the PRC, we face uncertainty relating to the availability of government grants and we cannot guarantee that we will record such income of similar amount, or at all, in the future. Any eliminations or alterations to any of the incentives provided to us by the governments would have an adverse effect on our financial performance and results of our operations.

### **We may be subject to penalties (including restriction on our ability to inject capital into our PRC subsidiary and our PRC subsidiary’s ability to distribute profits to us), which may have a material adverse impact on our business and financial conditions, if our PRC resident shareholders or beneficial owners fail to comply with relevant PRC foreign exchange regulations**

SAFE issued the Notice of the SAFE on Relevant Issues concerning Foreign Exchange Administration relating to Domestic Residents offshore Investment and Financing and Round-trip Investment through Special Purpose Vehicles (國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知), or SAFE Circular No. 37, which became effective on 4 July 2014. Circular No. 37 requires “PRC residents”, including PRC individuals and enterprises, to register with SAFE or its local branches in relation to their direct establishment or indirect control of an offshore special purpose vehicle. An offshore special purpose vehicle is an offshore entity used for the purpose of overseas investment and financing with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests. In addition, such PRC residents must update their foreign exchange registrations with SAFE when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions.

On 13 February 2015, SAFE promulgated the Notice of the SAFE on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment (國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知), or SAFE Circular No. 13, which came into effect on 1 June 2015, pursuant to which local banks shall review and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration under SAFE Circular No. 37, while the application for remedial registrations shall still be submitted to, reviewed and handled by the relevant local branches of SAFE.

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## **RISK FACTORS**

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If any shareholder holding interest in an offshore special purpose vehicle, who is a “PRC resident” as determined by Circular No. 37, fails to fulfil the required foreign exchange registration with the local SAFE branches pursuant to Circular No. 37 and Circular No. 13, the PRC subsidiaries of that offshore special purpose vehicle may be prohibited from distributing their profits and dividends to their offshore parent company or from carrying out other subsequent cross-border foreign exchange activities, and the offshore special purpose vehicle may be restricted in its ability to contribute additional capital to its PRC subsidiaries. Moreover, failure to comply with the SAFE registration requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

There remains uncertainty as to the interpretation and implementation of the latest SAFE rules at practice level. Due to the inherent complexity in the implementation of the regulatory requirements by the PRC authorities, such registration might not be always practically available in all circumstances as prescribed in those regulations. In addition, we may not always be fully aware or informed of the identities of our beneficiaries who are PRC nationals or entities, and may not be able to compel them to comply with SAFE Circular No. 37 or other regulations. We cannot assure that all of our Shareholders or beneficiaries will at all times comply with, or in the future make or obtain any applicable registrations or approvals required by SAFE rules or other regulations. We cannot assure that the SAFE or its local branches will not release explicit requirements or interpret the relevant PRC laws and regulations otherwise. Failure by any such Shareholder to comply with SAFE rules or other regulations may result in prohibition of the distribution of profits and dividends to us by the PRC subsidiary or restrictions on the subsequent cross-border foreign exchange activities of our PRC subsidiary and may also subject the relevant PRC resident or entity to penalties under the PRC foreign exchange administration regulations. In addition, we may also be restricted in our ability to contribute additional capital to our PRC subsidiary, which may adversely affect our business and have a material adverse effect on our financial conditions.

### **We are subject to the PRC governmental control of currency conversion**

The PRC government imposes controls on convertibility of RMB into foreign currencies and remittance of currency out of the PRC in certain cases. Substantially, we receive all of our revenues in RMB. Shortages in availability of foreign currencies may restrict the ability of our PRC subsidiary to remit sufficient foreign currencies to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations, if any. Under the existing PRC foreign exchange regulations, payments of certain current account items can be made in foreign currencies without prior approval from the local SAFE branch by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required where RMB is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as repayment of bank borrowings denominated in foreign currencies. If we fail to fulfill the requirements of the PRC foreign exchange control system, we may not be able to pay dividends in foreign currencies to our Shareholders.

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## **RISK FACTORS**

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**PRC regulations on loans provided by, and foreign direct investment by, an offshore holding company to PRC entities may delay or prevent us from using the [REDACTED] from the [REDACTED] to fund our business operations in the PRC**

As an offshore entity, any capital contributions or loans that our Company makes to our PRC subsidiary, including from the [REDACTED] from the [REDACTED], are subject to PRC regulations. For example, any of our loans to our PRC subsidiary cannot exceed the difference between the total amount of investment our PRC subsidiary is approved to make under relevant PRC laws and the registered capital of this PRC subsidiary (if applicable), and such loans must be registered with a local branch of SAFE. We cannot assure that we can obtain the required government approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to use the [REDACTED] from the [REDACTED] to fund our operations in the PRC would be negatively affected, which would in turn materially and adversely affect our liquidity and our ability to expand our business.

**Our investors may experience difficulties in effecting service of process, enforcing foreign judgements or bringing original actions in the PRC against us or our Directors or officers**

We are a company incorporated under the laws of the Cayman Islands, but substantially all of our operations and assets are located in the PRC. Most of our Directors and officers reside in the PRC, and substantially all of their assets are located in the PRC. As a result, it may be difficult or impossible for our investors to effect service of process upon us or our Directors and officers.

Moreover, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgements awarded by courts in the United States, the Cayman Islands and most other western countries. As a result, recognition and enforcement in the PRC of the judgement of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may need additional procedures compared to the local judgements. Furthermore, an original action may be brought in the PRC against us or our Directors or officers only upon satisfaction of the conditions for institution of a cause of action pursuant to the PRC Civil Procedure Law (中華人民共和國民事訴訟法). As a result of the conditions set forth in the PRC Civil Procedure Law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, whether our investors will be able to bring an original action in the PRC in this fashion still need to be determined case by case.

### **RISKS RELATED TO THE [REDACTED]**

**The shares of Fujing Agriculture, our principal operating subsidiary, were quoted on NEEQ from 25 November 2015 to 22 May 2019, and the characteristics of NEEQ and the Hong Kong share market may differ**

The shares of Fujing Agriculture, our principal operating subsidiary, had been quoted on the NEEQ from 25 November 2015 to 22 May 2019. On 22 May 2019, the shares of Fujing Agriculture ceased to be quoted on the NEEQ. With different trading characteristics, the Stock Exchange and the NEEQ have divergent trading volumes, liquidity and investor bases, as well as different levels of retail and institutional investor

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## **RISK FACTORS**

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participation. As a result, the trading performance of the NEEQ may not be comparable to that of the Stock Exchange. Due to the different characteristics of the Stock Exchange and the NEEQ, the historical prices of the NEEQ may not be indicative of the performance of our Shares. You should therefore not place undue reliance on our prior trading history on the NEEQ when evaluating an [REDACTED] in our Shares.

**You should not place any reliance on the information published regarding to Fujing Agriculture’s prior quotation on the NEEQ**

As the shares of Fujing Agriculture were quoted on the NEEQ from 25 November 2015 to 22 May 2019, Fujing Agriculture was required to comply with the then PRC regulations on periodic reports and other disclosures. Accordingly, Fujing Agriculture published its relevant information on the NEEQ or other media designated by the CSRC. However, the information published on the NEEQ was based on the regulatory requirements and market practices of the PRC securities regulatory authorities and the financial information published on the NEEQ was prepared based on accounting principles generally accepted in the PRC which may be different from that applicable to the [REDACTED]. Therefore, such published information does not form a part of this document. As a result, prospective [REDACTED] in our Shares are reminded that, when making their [REDACTED] decisions as to whether to purchase our Shares, they should rely only on the financial, operating and other information included in this document and the [REDACTED]. By applying for the [REDACTED], you will be deemed to have agreed that you will not rely on any information other than that contained in this document, the [REDACTED] and other formal announcements made by us regarding the [REDACTED] in Hong Kong.

**There has been no prior public market for our Shares and an active trading market for our Shares may not develop or be sustained**

Prior to the [REDACTED], no public market for our Shares existed. Following the completion of the [REDACTED], the Stock Exchange will be the only market on which the Shares will be [REDACTED] traded. We cannot assure that an active trading market for our Shares will be developed or be sustained after the [REDACTED]. In addition, we cannot assure that our Shares will be traded in the public market subsequent to the [REDACTED] at or above the [REDACTED]. The [REDACTED] for the Shares is expected to be fixed by the [REDACTED], and may not be indicative of the [REDACTED] price of our Shares following the completion of the [REDACTED]. If an active trading market for our Shares does not develop or is not sustained after the [REDACTED], the [REDACTED] price and liquidity of our Shares could be materially and adversely affected.

**The [REDACTED] price and volume of our Shares may be volatile, which could result in substantial loss to our [REDACTED]**

The [REDACTED] price of our Shares may be volatile and could fluctuate widely in response to factors beyond our control, including (i) variations in the level of liquidity of our Shares; (ii) changes in securities analysts’ (if any) estimates of our financial performance; (iii) investors’ perceptions of our Group and the general investment environment; (iv) changes in laws, regulations and taxation systems which affect our operations; and (v) the general market conditions of the securities markets in Hong Kong.



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In particular, the trading price performance of our competitors whose securities are listed on the Stock Exchange may affect the [REDACTED] price of our Shares. These broad market and industry factors may significantly affect the [REDACTED] price and volatility of our Shares, regardless of our actual operating performance.

In addition to market and industry factors, the price and [REDACTED] volume of our Shares may be highly volatile for specific business reasons. In particular, factors such as variations in our revenue, or net income and cash flow, the success or failure of our efforts in implementing business and growth strategies; our involvement in material litigation as well as recruitment or departure of key personnel, could cause the [REDACTED] price of our Shares to change unexpectedly. Any of these factors may result in large and sudden changes in the volume and [REDACTED] price of our Shares.

As there will be a gap of several days between the pricing and the [REDACTED] of our [REDACTED], holders of our [REDACTED] are subject to the risk that the price of our [REDACTED] could fall during the period before [REDACTED] of our [REDACTED] begins. The [REDACTED] of our Shares is expected to be determined on the [REDACTED]. However, our Shares will not commence [REDACTED] on the Stock Exchange until the [REDACTED]. As a result, [REDACTED] may not be able to sell or otherwise deal in our Shares during the period between the [REDACTED] and the [REDACTED].

Accordingly, holders of our Shares are subject to the risk that the price of our Shares could fall before [REDACTED] begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time [REDACTED] begins.

**Our investors will experience immediate dilution and may experience further dilution if we issue additional Shares in the future**

We may need to raise additional funds due to changes in business conditions, or to finance our future plans, whether in relation to our existing operations or any future acquisitions. If additional funds are raised by way of issuing Shares or equity-linked securities other than on a pro rata basis to our existing Shareholders, our existing Shareholders' shareholding may be reduced, the earnings per Share and the net tangible asset value per Shares would diminish and/or such newly issued securities may have rights, preferences and privileges superior to the Shares of our existing Shareholders.

**Future disposal or perceived disposal of a substantial number of Shares of our existing Shareholders in the [REDACTED] could materially and adversely affect the prevailing [REDACTED] price of our Shares**

Disposal of substantial amounts of our Shares in the [REDACTED]t after the completion of the [REDACTED], or the perception of such disposal could adversely affect the [REDACTED] price of our Shares and materially impair our future ability to raise capital through offerings of our Shares. There is no assurance that our major Shareholders would not dispose of their respective shareholdings, subject to the requirements of the Listing Rules. Any significant disposal of our Shares by any of the major Shareholders could materially affect the prevailing [REDACTED] price of our Shares. In addition, these

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## **RISK FACTORS**

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disposals may make it more difficult for us to issue new Shares in the future at a time and price we deem appropriate, thereby limiting our ability to raise further capital. We cannot predict the effect of any significant future disposal on the [REDACTED] price of our Shares.

**Investors should read the entire document and should not rely on any information contained in press articles or other media coverage regarding us and the [REDACTED]**

We strongly caution our investors not to rely on any information contained in press articles or other media regarding us and the [REDACTED]. Prior to the publication of this document, there may be press and media coverage regarding the [REDACTED] and us. Such press and media coverage may include references to certain information that does not appear in this document, including certain operating and financial information and projections, valuations and other information. We have not authorised the disclosure of any such information in the press or media and do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information or publication.

We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this document, we disclaim responsibility for it and our investors should not rely on such information.

**Certain facts, forecast and other statistics in this document obtained from government and official sources have not been independently verified and may not be reliable**

Certain facts, forecast and other statistics in this document are derived from various government and official resources. However, our Directors cannot guarantee the quality or reliability of such source of materials. We believe that the sources of the said information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Nevertheless, such information has not been independently verified by us, the Sole Sponsor, the [REDACTED], the Joint [REDACTED], the [REDACTED] or any of their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics. Further, we cannot assure our investors that such forecast and statistics are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, our investors should consider carefully how much weight or importance should be attached to or placed on such facts or statistics.