

CONNECTED TRANSACTIONS

OVERVIEW

As at the Latest Practicable Date, we have entered into the following non-exempt continuing connected transactions with our connected persons (as defined under Chapter 14A of the Listing Rules), namely, the Framework Sales Agreement (I) (as defined below), the Framework Sales Agreement (II) (as defined below) and the Factory Lease Agreement (as defined below). Upon the [REDACTED], the transactions contemplated under each of the Framework Sales Agreement (I), Framework Sales Agreement (II) and the Factory Lease Agreement will constitute as continuing connected transactions of our Group within the meaning of the Listing Rules:

| Name of agreement under which the transactions are contemplated | Waiver(s) Sought | Proposed annual cap (in RMB million) for the year ending 31 December | | | | |
|-----------------------------------------------------------------|--------------------------------|---------------------------------------------------------------------------|--------------------------------------|------|------|-------------------------------------------------|
| | | 2024 | 2025 | 2026 | | |
| Non-exempt continuing connected transactions | | | | | | |
| 1. | Framework Sales Agreement (I) | Requirements as to annual review, reporting, | 25.0 | 28.0 | 30.0 | |
| 2. | Framework Sales Agreement (II) | announcement, circular and independent Shareholders' approval | 0.2 | 0.2 | 0.2 | |
| | | Aggregated annual caps | 25.2 | 28.2 | 30.2 | |
| | | | Proposed annual cap (in RMB million) | | | |
| | | | for the year ending 31 December | | | for the seven months ending 31 July |
| | | | 2024 | 2025 | 2026 | 2027 |
| 3. | Factory Lease Agreement | Requirement as to continuing connected transactions not more than 3 years | 2.0 | 2.2 | 2.3 | 1.4 |

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NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Framework Sales Agreement (I)

Langfang Yijiao Food Co., Ltd. (廊坊一餃食品有限公司) ("Langfang Yijiao")

Relationship between parties:

Mr. Yao Hongjian (姚宏健) is a brother-in-law of Mr. Yao Wei, one of our Executive Director. As at the Latest Practicable Date, Mr. Yao Hongjian owned 80% of the registered capital in Langfang Yijiao. As such, each of Mr. Yao Hongjian and Langfang Yijiao is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The sale of flour products by our Group to Langfang Yijiao will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

Reasons for the transactions:

Our Group is a leading manufacturer of flour products in the PRC, and we have been selling flour products and flour by-products under our brand "Shenhua (參花)" for over 20 years. Langfang Yijiao has been our customer during the Track Record Period, and it is one of our top five customers for the year ended 31 December 2021. As at the Latest Practicable Date, Langfang Yijiao engages in the food production and processing business including products made with flours and is therefore, in demand of flour for its business operation.

Principal terms of the transaction:

Langfang Yijiao and Shenhua Flour entered into a framework sales agreement for the sale of flour ("**Framework Sales Agreement (I)**"). The following is a summary of the principal terms of the Framework Sales Agreement (I):

| | |
|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date: | [●] 2024 |
| Parties: | (1) Langfang Yijiao (as purchaser); and (2) Shenhua Flour (for itself and on behalf of other members of our Group) (as supplier) |
| Term (period): | From [●] 2024 to 31 December 2026 |
| Subject matter: | Langfang Yijiao agrees to purchase, on a non-exclusive basis, from Shenhua Flour flour products pursuant to the terms of the Framework Sales Agreement (I). |

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Operational Agreement(s): Pursuant to the Framework Sales Agreement (I), Langfang Yijiao may, during the term of the Framework Sales Agreement (I), upon Langfang Yijiao indicating its intention to purchase and Shenhua Flour providing fee quote, enter into separate sales order(s) in respect of the purchases covered by the Framework Sales Agreement (I), which will specify, among others, the types, price and quantity of flour products to be purchased and the method of payment, provided that such sales order(s) shall always be subject to the terms of the Framework Sales Agreement (I).

Basis of pricing: The price under the sales order(s) will be determined in the ordinary course of business on normal commercial terms and based on the following principles:

The purchase price of flour is to be determined based on the prevailing market price of relevant flour products charged by Shenhua Flour to all other customers as indicated in its product price list as in force from time to time. As an internal control measure, we will compare the prices of flour products charged to Langfang Yijiao with those charged to at least three other customers to ensure that price offered by us to Langfang Yijiao is the same as that offered to Independent Third Parties.

Termination: By mutual agreement or in the event of a breach committed by either party as specified in the Framework Sales Agreement (I).

Historical amount:

During the Track Record Period, the revenue generated from the sale of flour products to Langfang Yijiao by our Group are set out below:

| | Year ended 31 December | | |
|---------------------------------------------------------|-------------------------------|----------------------|------------------------|
| | 2021 | 2022 | 2023 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| Total revenue from the sale of flour to Langfang Yijiao | 24.4 | 30.3 | 12.5 ^(Note) |

Note: As confirmed by Langfang Yijiao, the decrease in amount of purchase by Langfang Yijiao from Shenhua Flour for FY2023 was primarily due to Langfang Yijiao's then intention to diversify its procurement source. Langfang Yijiao confirmed that, considering the stable supply, quality of our flour products and relatively low transportation costs given the proximity between Langfang Yijiao and Shenhua Flour, Langfang Yijiao will consider increasing the amount of procurement of flour products from Shenhua Flour going forward.

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Annual caps and basis of determination:

Our Directors estimate that the annual transaction amount for the sale of flour products to Langfang Yijiao for the three years ending 31 December 2026 will not exceed the following annual caps set forth in the table below:

| | Year ending 31 December | | |
|---------------------------------------------------------|-------------------------|---------------|---------------|
| | 2024 | 2025 | 2026 |
| | (RMB million) | (RMB million) | (RMB million) |
| Total revenue from the sale of flour to Langfang Yijiao | 25.0 | 28.0 | 30.0 |

In determining the above annual caps, our Directors have considered generally:

- (a) the historical amount as set out above;
- (b) the anticipated demand for our flour products by Langfang Yijiao for the three years ending 31 December 2026; and
- (c) the anticipated market price of flour products in the PRC market for the three years ending 31 December 2026.

Listing Rules implications:

Please see “— 2. Framework Sales Agreement (II) — Langfang Ceyuan Food Co., Ltd. (廊坊策元食品有限公司) — Listing Rules implications” in this section below.

Directors’ view:

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Framework Sales Agreement (I), are of the view that the Framework Sales Agreement (I) and the transactions contemplated thereunder have been entered into on normal commercial terms (or on terms which are no less favourable to our Group), in the ordinary and usual course of business of our Group and the terms of the Framework Sales Agreement (I) as well as the proposed annual caps (and the aggregated annual caps together with those of the Framework Sales Agreement (II)) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

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2. Framework Sales Agreement (II)

Langfang Ceyuan Food Co., Ltd. (廊坊策元食品有限公司) ("Langfang Ceyuan")

Relationship between parties:

Mr. Yao Hongjian (姚宏健) is a brother-in-law of Mr. Yao Wei, one of our Executive Director. As at the Latest Practicable Date, Mr. Yao Hongjian owned 99.9% of the registered capital in Langfang Ceyuan. As such, each of Mr. Yao Hongjian and Langfang Ceyuan is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The sale of flour products by our Group to Langfang Ceyuan will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

Reasons for the transactions:

As at the Latest Practicable Date, Langfang Ceyuan engages in the food production and processing business including products made with flours and is therefore, in demand of flour for its business operation. Langfang Ceyuan has been our customer since FY2022.

Principal terms of the transaction:

Langfang Ceyuan and Shenhua Flour entered into a framework sales agreement for the sale of flour ("Framework Sales Agreement (II)"). The following is a summary of the principal terms of the Framework Sales Agreement (II):

| | |
|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Date: | [●] 2024 |
| Parties: | (1) Langfang Ceyuan (as purchaser); and (2) Shenhua Flour (for itself and on behalf of other members of our Group) (as supplier) |
| Term (period): | From [●] 2024 to 31 December 2026 |
| Subject matter: | Langfang Ceyuan agrees to purchase, on a non-exclusive basis, from Shenhua Flour flour products pursuant to the terms of the Framework Sales Agreement (II). |

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Operational Agreement(s): Pursuant to the Framework Sales Agreement (II), Langfang Ceyuan may, during the term of the Framework Sales Agreement (II), upon Langfang Ceyuan indicating its intention to purchase and Shenhua Flour providing fee quote, enter into separate sales order(s) in respect of the purchases covered by the Framework Sales Agreement (II), which will specify, among others, the types, price and quantity of flour products to be purchased and the method of payment, provided that such sales order(s) shall always be subject to the terms of the Framework Sales Agreement (II).

Basis of pricing: The price under the sales order(s) will be determined in the ordinary course of business on normal commercial terms and based on the following principles:

The purchase price of flour is to be determined based on the prevailing market price of relevant flour products charged by Shenhua Flour to all other customers as indicated in its product price list as in force from time to time. As an internal control measure, we will compare the prices of flour products charged to Langfang Ceyuan with those charged to at least three other customers to ensure that price offered by us to Langfang Ceyuan in the same as that offered to Independent Third Parties.

Termination: By mutual agreement or in the event of a breach committed by either party as specified in the Framework Sales Agreement (II).

Historical amount:

During the Track Record Period, the revenue generated from the sale of flour to Langfang Ceyuan by our Group are set out below:

| | Year ended 31 December | | |
|---------------------------------------------------------|------------------------|---------------|---------------|
| | 2021 | 2022 | 2023 |
| | (RMB million) | (RMB million) | (RMB million) |
| Total revenue from the sale of flour to Langfang Ceyuan | Nil | 0.2 | 0.1 |

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Annual caps and basis of determination:

Our Directors estimate that the annual transaction amount for the sale of flour products to Langfang Ceyuan for the three years ending 31 December 2026 will not exceed the following annual caps set forth in the table below:

| | Year ending 31 December | | |
|---------------------------------------------------------|-------------------------|---------------|---------------|
| | 2024 | 2025 | 2026 |
| | (RMB million) | (RMB million) | (RMB million) |
| Total revenue from the sale of flour to Langfang Ceyuan | 0.2 | 0.2 | 0.2 |

In determining the above annual caps, our Directors have considered generally:

- (a) the historical amount as set out above;
- (b) the anticipated demand for our flour products by Langfang Ceyuan for the three years ending 31 December 2026; and
- (c) the anticipated market price of flour products in the PRC market for the three years ending 31 December 2026.

Listing Rules implications:

For the reasons that:

- (1) the Framework Sales Agreement (I) and Framework Sales Agreement (II) involve parties who are connected to each other by virtue of Langfang Yijiao and Langfang Ceyuan each being held as to 80% and 99.9% by Mr. Yao Hongjian, respectively; and
- (2) the subject matter of the agreements involves the sale of flour products,

the Stock Exchange [has aggregated] the continuing connected transactions contemplated under the Framework Sales Agreement (I) and Framework Sales Agreement (II). Accordingly, the aggregated annual caps for the three years ending 31 December 2026 are RMB25.2 million, RMB28.2 million and RMB30.2 million, respectively. Since the aggregated annual caps exceeds HK\$10 million and the relevant percentage ratios (as defined in Rule 14.07 of the Listing Rules) also exceeds 5% but are less than 25%, the transactions contemplated under the Framework Sales Agreement (I) and the Framework Sales Agreement (II) are subject to the annual reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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Directors' view:

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Framework Sales Agreement (II), are of the view that the Framework Sales Agreement (II) and the transactions contemplated thereunder have been entered into on normal commercial terms (or on terms which are no less favourable to our Group), in the ordinary and usual course of business of our Group and the terms of the Framework Sales Agreement (II) as well as the proposed annual cap (and the aggregated annual caps together with Framework Sales Agreement (I)) are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

3. Factory Lease Agreement

On 1 March 2021, Langfang Yijiao entered into a lease agreement with Shenhua Flour (the "Factory Lease Agreement"), pursuant to which Langfang Yijiao agreed to lease from Shenhua Flour certain factory space with a gross floor area of approximately 7,404 sq.m. located in our Group's current production base in Gu'an County, Langfang City, Hebei Province, the PRC (the "Property") for its food production and processing business. The term of the lease is six years and five months commencing from 1 March 2021 and up to 31 July 2027. The parties can further negotiate for a further terms of lease, upon Langfang Yijiao indicating to Shenhua Flour its intention for a further term 30 days prior to the expiry of the Factory Lease Agreement. On the same terms and conditions, Langfang Yijiao shall have the priority on renewing the lease agreement with us.

Relationship between parties:

As mentioned in the paragraph headed "1. Framework Sales Agreement (I)" in the section above, each of Mr. Yao Hongjian and Langfang Yijiao is regarded as an associate of Mr. Yao Wei, and hence a connected person of our Company pursuant to Rule 14A.21(1)(b) of the Listing Rules. The rental of the Property by Langfang Yijiao pursuant to the Factory Lease Agreement will continue after the [REDACTED], thereby constituting continuing connected transaction of our Company under the Listing Rules.

Reasons for the transactions:

Langfang Yijiao has been leasing our factory space as its food production and processing business and has been our customer during the Track Record Period. Given the proximity location with our Group's production base, Langfang Yijiao, through entering into the Factory Lease Agreement with us, can obtain the required flour products as raw materials for its food production and processing business within a short period of time with minimal transportation costs.

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Historical amount:

During the Track Record Period, the rental amount paid by Langfang Yijiao to our Group for the years ended 31 December 2021, 2022 and 2023 are set out below:

| | Year ended 31 December | | |
|--------------------------|-------------------------------|----------------------|----------------------|
| | 2021 | 2022 | 2023 |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> |
| Rental ^(Note) | Nil | Nil | 0.8 |

Note: Free rent period from 1 March 2021 to 31 July 2023 was in place to ensure that Langfang Yijiao would have sufficient time to refurbish and equip its production workshop before it was put into use.

Annual caps and basis of determination:

The maximum annual amount payable by Langfang Yijiao pursuant to the Factory Lease Agreement for the years ending 31 December 2024, 2025, 2026 and for the seven months ending 31 July 2027 (being the annual caps during the terms of the Factory Lease Agreement) is set out below:

| | Year ending 31 December | | | Seven months ending |
|--------|--------------------------------|----------------------|----------------------|-------------------------------------|
| | 2024 | 2025 | 2026 | 31 July |
| | <i>(RMB million)</i> | <i>(RMB million)</i> | <i>(RMB million)</i> | 2027 <i>(RMB million)</i> |
| Rental | 2.0 | 2.2 | 2.3 | 1.4 |

The annual rental amount was arrived at after arm's length negotiations with reference to:

- (i) the prevailing market rents of similar properties in the nearby areas or similar locations in the PRC;
- (ii) the conditions of the Property, including but not limited to the location of the Property as well as the facilities associated with the Property; and
- (iii) the historical trend and the expected increase in the rents in the PRC property market for the three years ending 31 December 2026 and for the seven months ending 31 July 2027.

Cushman & Wakefield Limited, an independent property valuer, has confirmed that the terms and the rental payable by Langfang Yijiao under the Factory Lease Agreement are fair and reasonable and in line with prevailing market rate.

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Listing Rules implication:

Since the proposed annual caps are less than 0.1% of all the percentage ratios (other than the profits ratio) as defined in Rule 14A.76 of the Listing Rules, the transactions contemplated under the Factory Lease Agreement are exempt from annual reporting, annual review, announcement, circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.52 of the Listing Rules, the period for the agreement for a continuing connected transaction must not exceed three years, except where the nature of the transaction requires the agreement to be of a duration longer than three years. Our Directors are of the view that such a longer lease term is necessary for providing a stable production base for Langfang Yijiao to conduct its food production and processing business and to further strengthening business collaboration, and in line with normal business practice. As such, entering into the Factory Lease Agreement for a period of more than three years will foster our business relationship with Langfang Yijiao and is beneficial to our Company and Shareholders as a whole.

Directors' view:

Our Directors (including our Independent Non-executive Directors), after reviewing the terms of the Factory Lease Agreement, making reference to the market rental rate, and considering the benefit to the business relationship with Langfang Yijiao, are of the view that the Factory Lease Agreement and the transactions contemplated thereunder have been entered into on normal commercial terms or better and the rent in particular is comparable to market rate in the same area and the terms of the Factory Lease Agreement as well as the proposed annual caps are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor, having reviewed the relevant information and historical figures relating to the non-exempt continuing connected transactions, concurs with our Directors and is of the view that:

- (i) the non-exempt continuing connected transactions are and will be entered into in our Group's ordinary and usual course of business on normal commercial terms or better, and are fair and reasonable and in the interest of our Company and our Shareholders as a whole;
- (ii) in respect of the Framework Sales Agreement (I) and the Framework Sales Agreement (II), the proposed annual caps are fair and reasonable and in the interest of our Company and our Shareholders as a whole; and
- (iii) in respect of the Factory Lease Agreement, the more than three years' term under the Factory Lease Agreement is in line with normal business practice.

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APPLICATION FOR WAIVER

We expect the non-exempt continuing connected transactions disclosed above will be carried out on a continuing basis and will extend over a period of time, and our Directors consider that strict compliance from the Listing Rules would be unduly burdensome and would impose unnecessary administrative costs on our Company. Accordingly, pursuant to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted] to us, a waiver from strict compliance from the Listing Rules requirements once the Shares are [REDACTED] on the Stock Exchange in respect of such non-exempt continuing connected transactions. We will, however, comply at all times with the other applicable provisions under Chapter 14A of the Listing Rules in respect of such continuing connected transactions. Our Directors confirm that, for all non-exempt continuing connected transactions to be entered into by our Group (if any), our Company will comply with the applicable Listing Rules, unless a separate application for waiver is made for the dispensation with the applicable announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.