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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in "Risk Factors". You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in "Definitions and Glossary".*

### OVERVIEW

We are the second largest fully integrated white-feathered broiler producer in the PRC in terms of commercial broiler production volume in 2019 with a market share of 3.1% according to the Frost & Sullivan Report. With track record of exporting both raw and processed white-feathered broilers products overseas, we are also the largest fully integrated white-feathered broiler meat exporter in the PRC in terms of export revenue and export volume in 2018 with a market share of 8.6% and 10.4%, respectively, according to the Frost & Sullivan Report. Our market share in the total production of white-feathered broilers and yellow-feathered broilers in the PRC in 2019 is 1.7% in terms of number of birds produced and 1.4% in terms of tonnes produced, according to the Frost & Sullivan Report.

We are principally based in Shandong in the PRC. We produce our chicken meat products substantially from white-feathered broilers. We also manufacture and market a wide range of processed chicken meat products. Our main products include (1) chicken meat products, which mainly consist of raw chicken meat products and processed chicken meat products; and (2) chicken breeds. For the four years ended 31 December 2016, 2017, 2018 and 2019, our raw chicken meat products contributed to approximately 62.4%, 54.7%, 53.8% and 48.1% of our total revenue, respectively, and our processed chicken meat products contributed to approximately 26.7%, 37.4%, 37.0% and 36.5% of our total revenue, respectively. We also produce a small portion of chicken meat products from Sichuan Mountain Black Bone Chicken bred in Sichuan in the PRC, in which part of our production facilities are based, with their sales amounting to approximately nil, 0.03%, 0.12% and 0.22% of our total revenue for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Apart from our leading domestic market position in the PRC, we have an established and growing export business supplying a wide range of premium quality chicken meat products to overseas customers in Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. Our white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals. Our major domestic and overseas customers include internationally renowned food processors and traders as well as sizeable fast food restaurant chains operators (and their poultry meat suppliers and sourcing agents). Throughout the Track Record Period, the proportion of revenue generated from domestic sales was approximately 70% and overseas sales was approximately 30%.

We adopt an integrated "poultry to plate" model which enables us to control every stage of the poultry lifecycle, allowing us to effectively manage quality and cost throughout the process starting from the breeding of broilers to the distribution and sale of chicken meat products. As at the Latest Practicable Date, we had 22 breeder farms, three hatcheries, 45 broiler farms (11 of which have been modified from cage-free systems into battery cage systems), eight slaughtering and processing plants, two feedmills and one organic fertiliser plant.

## SUMMARY

Our poultry business encompasses three divisions: (i) chicken breeding; (ii) slaughtering and processing; and (iii) sales of chicken meat products, chicken breeds and other products (including certain non-poultry products). For the four years ended 31 December 2016, 2017, 2018 and 2019, the total number of white-feathered broilers we bred was approximately 111.6 million, 111.4 million, 103.8 million and 101.7 million, respectively. Our slaughtering and processing division includes chicken slaughtering and production of raw and processed chicken meat products. For the four years ended 31 December 2016, 2017, 2018 and 2019, the total volume of white-feathered broilers we processed was approximately 177,000 tonnes, 184,000 tonnes, 174,000 tonnes and 174,000 tonnes, respectively. Our sales division is responsible for our domestic and overseas sales of our chicken meat products, chicken breeds and other products.

We produce a wide range of raw and processed chicken meat products and sell them through both business-to-business (B2B) and business-to-consumer (B2C) models. Our products are sold under B2B sales model through direct sales and distributors to our domestic and overseas customers, mainly include (i) foodservice or industrial customers; (ii) quick service restaurants; and (iii) retail groceries. For our B2C sales model, we sell and market our chicken meat products under our brands, including “鳳祥食品 (Fovo Foods)” and “優形 (iShape)” brands through online and offline sales platforms within the PRC. We intend to further develop our B2C business model through advertising and promotion campaign and through expansion of our sales platforms, in particular, e-commerce channels, to increase our brand awareness in the processed chicken meat market. In addition, we sell chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties.

Our revenue has an increasing growth trend at a CAGR of 18.6% from approximately RMB2,354.1 million in 2016 to approximately RMB3,926.2 million in 2019. Our profit decreased from approximately RMB119.8 million in 2016 to approximately RMB37.1 million in 2017, but edged up to approximately RMB136.6 million in 2018. Our profit significantly increased to approximately RMB837.4 million in 2019, which was mainly attributable to the increase in the market price of chicken meat products and chicken breeds and partially attributable to the decrease in the average purchase cost of the raw materials in 2019, such as, soybean meal.

The table below sets forth our revenue (after elimination of inter-segment transactions) by product segments for the years indicated.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Raw chicken meat products .....	1,469,917	62.4	1,330,977	54.7	1,719,278	53.8	1,887,398	48.1
Processed chicken meat products .....	627,971	26.7	910,018	37.4	1,183,568	37.0	1,433,227	36.5
Chicken breeds .....	149,367	6.3	69,875	2.9	172,110	5.4	426,448	10.9
Others .....	106,849	4.6	123,522	5.0	122,143	3.8	179,144	4.5
<b>Total</b> .....	<u>2,354,104</u>	<u>100.0</u>	<u>2,434,392</u>	<u>100.0</u>	<u>3,197,099</u>	<u>100.0</u>	<u>3,926,217</u>	<u>100.0</u>

## SUMMARY

The table below sets forth our sales volume, average selling price and gross profit by product segments for the years indicated.

Product segment <sup>(4)</sup>	For the year ended 31 December											
	2016			2017			2018			2019		
	Sales volume <sup>(1)</sup>	Average selling price <sup>(2)</sup>	Gross profit <sup>(3)</sup>	Sales volume <sup>(1)</sup>	Average selling price <sup>(2)</sup>	Gross profit <sup>(3)</sup>	Sales volume <sup>(1)</sup>	Average selling price <sup>(2)</sup>	Gross profit <sup>(3)</sup>	Sales volume <sup>(1)</sup>	Average selling price <sup>(2)</sup>	Gross profit <sup>(3)</sup>
	('000)	(RMB)	(RMB)	('000)	(RMB)	(RMB)	('000)	(RMB)	(RMB)	('000)	(RMB)	(RMB)
Raw chicken meat products .....	169,884	8.7	1.2	158,603	8.4	0.9	173,267	9.9	1.1	159,901	11.8	3.5
Processed chicken meat products .....	31,857	19.7	3.5	47,726	19.1	3.3	61,192	19.3	2.7	69,566	20.6	4.7
Chicken breeds .....	47,892	3.1	1.6	47,446	1.5	-0.2	46,666	3.7	1.9	60,446	7.1	5.2

*Notes:*

- (1) Per kg for raw chicken meat products and processed chicken meat products segments, and per bird for chicken breeds segment.
- (2) RMB/kg for raw chicken meat products and processed chicken meat products segments, and RMB/bird for chicken breeds segment. The average selling price has been rounded to one decimal place.
- (3) RMB/kg for raw chicken meat products and processed chicken meat products segments, and RMB/bird for chicken breeds segment. For details of the gross profit and gross profit margins of our product segments during the Track Record Period, see “Financial Information — Results of Our Operations”.
- (4) The “others” product segment comprises a variety of different products with different measurement basis and average selling prices. Accordingly, sales volume and average price for the “others” product segment is not available.

The average selling prices of our raw chicken meat products and chicken breeds increased by approximately 19.2% and 91.9%, respectively, from the year ended 31 December 2018 to the year ended 31 December 2019 due to the outbreak of African Swine Fever in August 2018, which led to an increase in consumption demand for chicken meat to compensate for the abrupt drop in pork consumption.

The white-feathered broiler and broiler meat products industry in the PRC have historically been affected by certain factors that demonstrate cyclicity, including outbreaks of avian influenza, African Swine Fever or similar diseases that occurred from time to time as well as the level of pork consumption and pork prices which is a cyclical industry. For instance, the occurrence of H7N9 avian influenza in 2013 to 2014 and 2017 affected broiler production volume and prices in general, and the occurrence of African Swine Fever in 2018 increased the consumption demand for and average prices of white-feathered broiler from RMB9.2 per kg in 2017 to RMB10.4 per kg in 2018 to compensate for the abrupt drop in pork consumption. Nevertheless, the average prices of white-feathered broilers and processed white-feather broiler meat products in the PRC realised an overall growth at a CAGR of approximately 7.2% and 2.4% between 2015 and 2019, respectively. As such, the Company’s business has benefited from the market growth between 2015 and 2019 based on the historical actual average prices. For details of the factors that may affect the selling prices of our chicken meat products and the industry in general, see “Risk Factors — Risks Relating to Our Business — Our results of operations are substantially affected by the selling prices of our poultry products, which affect our revenue, and by fluctuations in the purchase prices of raw materials or interruption in the supply of raw materials, which affect our costs” and “Industry Overview — Future Trend in China Broiler Market”.

According to the Frost & Sullivan Report, it is projected that the annual average price of white-feathered broiler meat products in China will continue to gradually increase, as a result of the following factors which would increase the demand for white-feathered broiler meat products going forward: (i) distribution method modernisation and increasing popularity of e-commerce; (ii) the

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declining consumption of pork as another major protein source due to its higher prices; (iii) increasing urbanisation in the PRC both through e-commerce platforms and offline channels; and (iv) increasing diversification of processed broiler meat products. However, as a result of the cyclicity factors set out above, when large scale outbreaks of avian influenza or similar diseases occur in the future, the price of our raw and processed chicken meat products may be adversely affected.

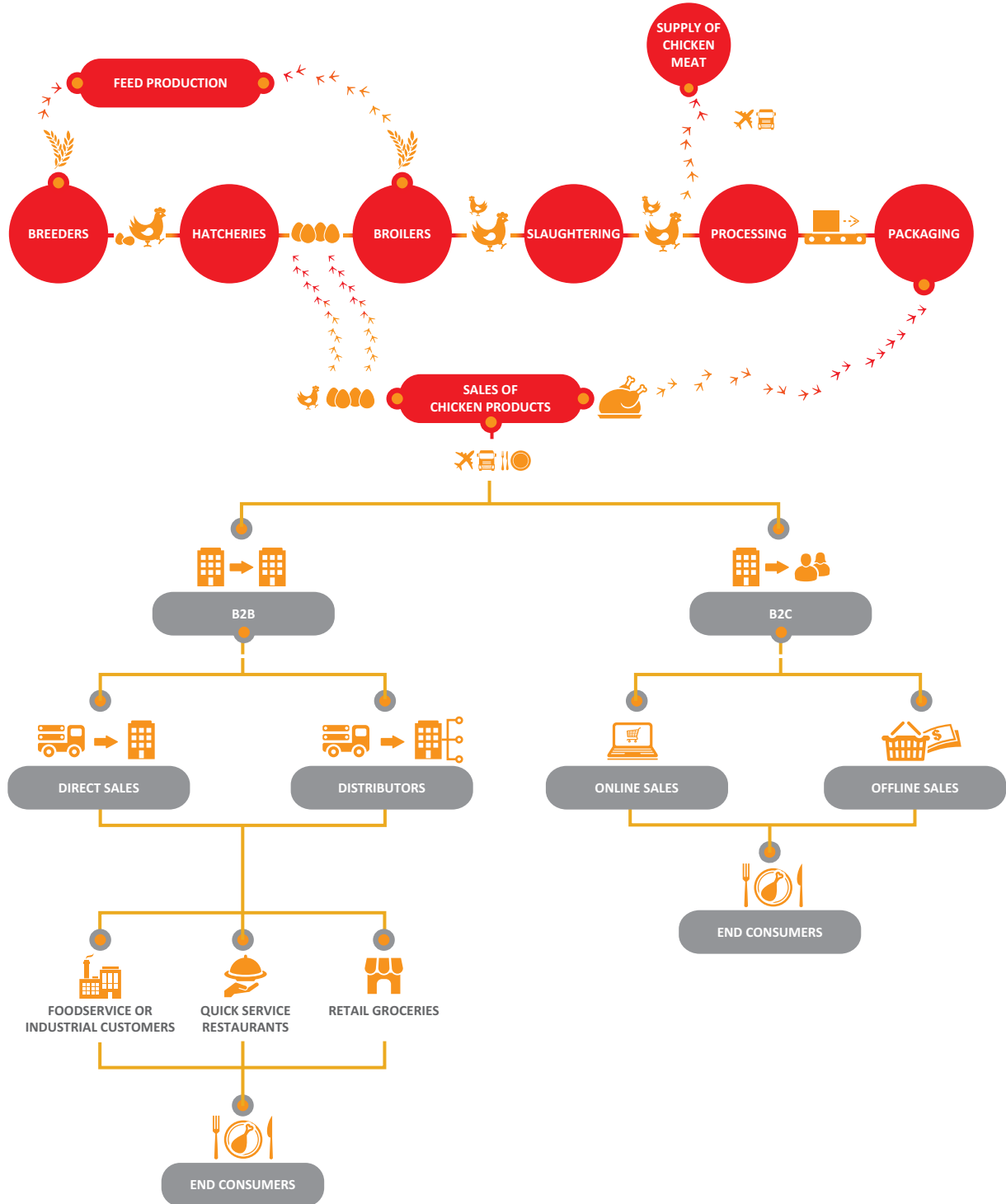
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### OUR BUSINESS MODEL AND BUSINESS SEGMENTS

Our vertically integrated business model extends across the entire poultry industry value chain including feed production, chicken breeding, slaughtering and processing, distribution and sale of poultry products. Our vertically integrated “poultry to plate” business model helps us to ensure food safety and the quality of our products and allows us to capture value across the entire poultry industry value chain. Our business model is summarised below.



Note: We also sell chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties.

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### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- Our vertically integrated business model allows us to (1) enhance our production efficiency and (2) possess a strong capability and flexibility in adapting to and capturing different customers' demands;
- We have established a stable and diversified customer base with major renowned customers in local and overseas markets;
- We have established a strict and comprehensive food safety and hygiene system and quality control system to effectively ensure high standards of product quality and safety;
- We have mature and advanced production technology and market-oriented research and development capabilities, which allow us to meet increasing market demand for safe and high-quality chicken meat products; and
- We have an experienced management team and professional working team.

### OUR BUSINESS STRATEGIES

We plan to further implement the following strategies:

- Expand our production capacities for white-feathered broilers production to further enhance our vertically integrated business model;
- Continue to expand our sales and distribution network and tap into new markets;
- Continue to expand and diversify our product portfolio with a focus on processed chicken meat products;
- Strengthen our research and development capacities to diversify our product portfolio and to improve our expertise and technical knowhow; and
- Pursue appropriate strategic alliance, joint ventures or other acquisition opportunities.

### MARKET AND COMPETITION

The chicken meat production industry has a high entry barrier for potential market players and is capital-intensive in nature. The market players have to place significant amount of resources on food safety and hygiene and this industry requires crucial human capital. White-feathered broiler production industry in China was relatively scattered with top five producers taking a market share of 19.9% in terms of production volume in 2019, where the leading fully integrated white-feathered broiler producer had an annual production of roughly 505.2 million birds, representing a market share of 9.5%, followed by the Group who had an annual production of approximately 162.3 million birds, representing a market share of 3.1%. The market size of white-feathered broiler meat by sales revenue increased from RMB69.2 billion in 2015 to RMB83.1 billion in 2019, realised an CAGR of 4.7% over the past five years. In the long term, the market is projected to increase with a CAGR of 10.1% from 2019 to 2024 with the increased demand and recovery of domestic production. The product categories of exported broiler meat products comprises raw broiler meat and processed broiler meat. Among the fully-integrated broiler meat exporters, the Group ranked the first among its competitors in China in terms of export revenue and export volume in 2018, with a market share of 8.6% and 10.4%, respectively. The top five players accounted for an aggregate market share of 29.9% and 28.7% in terms of export revenue and export volume, respectively. See "Industry Overview" for details.

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### PRODUCTION FACILITIES

We have our own production facilities for our white-feathered broilers, which are located in Shandong, the PRC. We are capable of (i) breeding approximately 113 million broilers per year; (ii) slaughtering approximately 120 million broilers per year; and (iii) processing approximately 230,000 tonnes of chicken meats per year. As at the Latest Practicable Date, our production team comprised 6,923 employees. The following table sets out the details of our production facilities for our white-feathered broilers as at the Latest Practicable Date:

Existing facility	Function and description	Number	Aggregate site area (sq.m.) ( <i>approx.</i> )
Breeder farm.....	Breeding of Parent Stock Day-old Chicks into breeders	21	973,756.7
Hatchery .....	Incubation of broiler eggs laid by breeders	2	45,295.2
Broiler farm .....	Breeding of chicken breeds into white-feathered broilers	45	3,451,903.9
Slaughtering and processing plant .....	Broiler slaughtering and production of our chicken meat products	7	435,711.5
Feedmill .....	Production of animal feeds for our breeders and broilers	2	71,210.0
Organic fertiliser plant .....	Fermentation of chicken manure and production of fertilisers	1	158,000.0

### SALES

We sell our products through B2B and B2C sales models. The following table sets out the breakdown of revenue by our sales models, each expressed as an absolute amount and as a percentage of our total revenue during the Track Record Period:

	Year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
<b>B2B Model</b>								
Direct sales.....	2,262,568	96.1	2,332,044	95.8	3,045,870	95.3	3,631,310	92.5
Domestic market.....	1,712,264	72.7	1,670,705	68.6	2,085,225	65.2	2,664,871	67.9
Overseas market .....	550,304	23.4	661,339	27.2	960,645	30.1	966,439	24.6
Distributors .....	45,027	1.9	53,740	2.2	45,043	1.4	42,401	1.1
<b>Sub-total.....</b>	<b>2,307,595</b>	<b>98.0</b>	<b>2,385,784</b>	<b>98.0</b>	<b>3,090,913</b>	<b>96.7</b>	<b>3,673,711</b>	<b>93.6</b>
<b>B2C Model</b>								
Online sales .....	7,344	0.3	11,597	0.5	72,825	2.3	168,679	4.3
Offline sales.....	39,165	1.7	37,011	1.5	33,361	1.0	83,827	2.1
<b>Sub-total.....</b>	<b>46,509</b>	<b>2.0</b>	<b>48,608</b>	<b>2.0</b>	<b>106,186</b>	<b>3.3</b>	<b>252,506</b>	<b>6.4</b>
<b>TOTAL .....</b>	<b><u>2,354,104</u></b>	<b><u>100.0</u></b>	<b><u>2,434,392</u></b>	<b><u>100.0</u></b>	<b><u>3,197,099</u></b>	<b><u>100.0</u></b>	<b><u>3,926,217</u></b>	<b><u>100.0</u></b>

Our revenue from online sales arrangements under our B2C sales model increased substantially by approximately 527.6% from approximately RMB11.6 million in 2017 to approximately RMB72.8 million in 2018 and by approximately 131.6% to approximately RMB168.7 million in 2019 due to our enhanced advertising and promotional efforts in marketing our chicken meat products under our brands through online sales platforms within the PRC.

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### MAJOR CUSTOMERS AND SUPPLIERS

#### Major customers

During the Track Record Period, we had a diversified customer base of over 3,000 customers globally, including internationally renowned food processors and traders as well as fast food restaurant chains (and their poultry meat suppliers and sourcing agents). We exported to countries including Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. We also sell our products to our distributors whose designated sales regions are all within the PRC. During the Track Record Period, sales to our distributors represented approximately 2.0% of our total revenue. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, our single largest customer accounted for approximately 19.1%, 20.6%, 16.8% and 13.5% of our total revenue, respectively, and our sales to our five largest customers represented approximately 35.8%, 40.0%, 37.7% and 28.9% of our total revenue, respectively. Our top five customers during the Track Record Period were independent third parties.

#### Major suppliers

During the Track Record Period, we procured (i) raw materials for the production of our animal feeds, including corn, soybean meal, soybean oil and wheat, and (ii) Parent Stock Day-old Chicks for the production of our chicken meat products in the PRC. We also procured raw chicken meat products from third party suppliers domestically as well as from overseas (generally from Brazil) for producing our processed chicken meat products in order to meet customers' growing demand. During the Track Record Period, we have entered into hedging activities in relation to the commodity prices of soybean meal, corn and soybean oil. For the four years ended 31 December 2016, 2017, 2018 and 2019, our single largest supplier, who is a fellow subsidiary of the Company, accounted for approximately 17.7%, 15.7%, 16.5% and 6.1% of our total purchases in terms of total purchases, respectively. Our five largest suppliers together accounted for approximately 29.8%, 25.4%, 24.1% and 19.1% of our total purchases, respectively, and all of them (except for our single largest supplier) are independent third parties.

#### Pricing Policy

Our products are generally not subject to any price control or regulations by the PRC governmental authorities. Generally, we adopt a cost-plus model where we determine the price of our products by taking into account various factors such as the cost of raw materials, customer relationships, competitive landscape, the positioning of our brand, market circumstances and our business strategy to be adopted from time to time. We may also make price adjustments depending on different sales channels and target geographical markets.

### RISK FACTORS

Our business and the Global Offering involve certain risks, which are set out in "Risk Factors". You should read that section in its entirety before you decide to invest in the Offer Shares. Some of the major risks we face include:

- Our results of operations are substantially affected by the selling prices of our poultry products, which affect our revenue, and by fluctuations in the purchase prices of raw materials or interruption in the supply of raw materials, which affect our costs;
- Any perceived or actual food safety or health problems related to our raw materials, products, operations, or China's food industry in general or real or perceived quality issues caused by medicines and/or vaccines applied to the broilers could adversely affect our



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reputation, our ability to sell our products and our financial performance, and subject us to liability claims and regulatory actions;

- Any safety problems relating to our chicken meat products procured from third party suppliers could adversely affect our reputation, our ability to sell our products and our financial performance;
- Ongoing epidemic of coronavirus disease (COVID-19) could significantly affect our production, demand for our products and our business;
- Outbreaks of diseases among or attributed to chicken and adverse publicity of these types of diseases can significantly affect our production, supply of Parent Stock Day-old Chicks, demand for our products and our business;
- The fair value of our biological assets may fluctuate significantly from period to period, causing our results of operations to be highly volatile;
- We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all. In addition, our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position;
- We recorded net current liabilities during the Track Record Period;
- We rely on limited suppliers of Parent Stock Day-old Chicks and do not enter into long-term supply contracts with our other suppliers; and
- We are subject to risks associated with managing future growth and expansion.

### OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), Mr. Liu XJ, Ms. Zhang XY, Mr. Liu ZG and Mr. Liu ZM, through GMK Holdings, Fengxiang Group, Fengxiang Investment, Guangdong Hengqin, Xizang Xinfengxiang and Xinfengxiang Guangming, will together control 74.64% of the Company's issued share capital and will be considered as a group of the Controlling Shareholders upon Listing for the purpose of the Listing Rules.

### CONNECTED TRANSACTIONS

The Group has entered into certain transactions with its connected persons which will continue after the Listing, namely (i) receiving financial assistance by guaranteed loans and loan facilities; (ii) sharing of administrative services; (iii) sales of substandard chicken feed and purchase of pork; (iv) procurement of health check services; (v) procurement of raw materials; (vi) purchase of natural gas and electricity; (vii) procurement of merchandise on our online marketplaces; (viii) sales of poultry products and by-products; (ix) procurement of logistic services; (x) deposit of funds; and (xi) receiving financial assistance by the discounting of commercial bills. Such transactions as listed in (i) to (vii) will constitute fully exempt continuing connected transactions and in (viii) to (xi) will constitute non-exempt continuing connected transactions under Chapter 14A of the Listing Rules. See "Connected Transactions" for details.

### SUMMARY HISTORICAL FINANCIAL INFORMATION

The following tables set forth the selected financial and operating data from our consolidated financial information for the years indicated below. For more details on the financial information, see "Financial Information" and the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information was prepared in accordance with the IFRSs.

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### Selected Consolidated Statements of Comprehensive Income

The following table sets forth our selected consolidated statements of comprehensive income for the years indicated:

	Year ended 31 December			
	2016	2017	2018	2019
	Total RMB'000	Total RMB'000	Total RMB'000	Total RMB'000
Revenue .....	2,354,104	2,434,392	3,197,099	3,926,217
Gross profit (before biological assets fair value adjustments) .....	392,127	293,226	461,947	1,221,460
Gross profit (after biological assets fair value adjustments) .....	68,246	37,099	178,004	428,415
Profit before income tax .....	120,790	36,816	137,414	838,719
Profit for the year .....	119,848	37,119	136,611	837,381

Our gross profit represents our revenue less cost of sales. Our cost of sales is adjusted by changes in fair values of our biological assets<sup>1</sup>.

As the Group carries out agricultural activity, the accounting standard IAS 41 is applicable to us. The objective of IAS 41 is to establish standards of accounting for agricultural activity — the management of biological transformation of biological assets (that is, breeders, broilers and broiler eggs for the Group) to agricultural produce (that is, chicken carcass for the Group). IAS 41 requires that the biological assets to be measured at fair value less costs to sell. This method should be used when initially measuring the biological assets and then at every balance sheet dates. Biological assets are measured at fair value in order to allow users to gain more timely information; for example, they are able to assess the value of their investment and efforts of management over the period to accrete value to the biological assets.

Accordingly, as required by IAS 41, we measure our biological assets at their fair values less costs to sell<sup>2</sup>. We also measure our agricultural produces (that is, the chicken carcass) harvested from the biological assets at their fair values less costs to sell at the point of harvest<sup>3</sup>. Such measurement is the cost at that date when applying IAS 2 Inventories. In this connection, when we sell our biological assets and agricultural produces, our cost of sales is adjusted, with fair value gains increasing our cost of sales and fair value losses decreasing our cost of sales. We recognised fair value gains during the Track Record Period. As such, fair value adjustments led to an increase in our cost of sales, which in turn led to a reduction in our gross profit, during the Track Record Period.

Our gross profit (after biological assets fair value adjustments), profit before income tax and net profit decreased from 2016 to 2017, primarily due to (i) the decrease in average selling prices of our main product segments, in particular, chicken breeds, (ii) a decrease in feed costs and direct labour costs, and (iii) an increase in aggregate fair value adjustments increasing our profit as a result of increases in market prices of chicken breeds and live broilers in 2019, as compared to the same period in 2018.

<sup>1</sup> "Biological asset" is defined as a living animal or plant under IAS 41, in our case refers to breeders, broilers and broiler eggs.

<sup>2</sup> "Costs to sell" is defined as incremental costs directly attributable to the disposal of an asset, excluding finance costs and income taxes under IAS 41.

<sup>3</sup> "Harvest" is defined as the detachment of produce from a biological assets or the cessation of a biological asset's life processes under IAS 41. As such, the point of harvest for the Group's biological assets is at the time of slaughtering of live broilers.

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### *Reconciliation of gross profit before and after biological assets fair value adjustments*

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Gross profit (before biological assets fair value adjustments).....	392,127	293,226	461,947	1,221,460
Biological assets fair value adjustments .....	(323,881)	(256,127)	(283,943)	(793,045)
Gross profit (after biological assets fair value adjustments) .....	68,246	37,099	178,004	428,415

Our revenue increased by 31.3% from approximately RMB2,434.4 million in 2017 to approximately RMB3,197.1 million in 2018, primarily as a result of increases in sales of our raw chicken meat products, processed chicken meat products and chicken breeds segments.

Our revenue from chicken breeds segment increased by approximately 147.8% from approximately RMB172.1 million in 2018 to approximately RMB426.4 million in 2019, primarily due to a significant increase of approximately 91.9% in average selling prices in chicken breeds from 2018 to 2019.

Our effective tax rates were 0.8%, (0.8)%, 0.6% and 0.2% for 2016, 2017, 2018 and 2019, respectively. Our effective tax rates during the Track Record Period were lower than the EIT rate of 25% primarily due to the tax exemptions granted to certain of our operations (for example, live chicken production and slaughtering of chicken). We had a negative effective tax rate of 0.8% in 2017, mainly derived from the recognition of deferred tax assets related to government grants received but not yet recognised as income.

### **Selected Consolidated Statements of Financial Position Items**

The following table sets forth a summary of our selected consolidated statements of financial position items as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Total non-current assets .....	2,108,732	2,517,977	2,558,461	2,690,993
Total current assets .....	1,226,631	1,171,201	1,361,037	1,740,055
Total current liabilities .....	1,871,947	2,179,833	2,227,428	1,858,299
Net current liabilities .....	(645,316)	(1,008,632)	(866,391)	(118,244)
Total assets less current liabilities.....	1,463,416	1,509,345	1,692,070	2,572,749
Total non-current liabilities .....	222,429	198,986	265,875	309,109
Net assets .....	1,240,987	1,310,359	1,426,195	2,263,640

Our net current liabilities as at end of the years during the Track Record Period were primarily due to our borrowings, most of which are short-term bank borrowings. The current portion of our borrowings accounted for approximately 71.5%, 76.9%, 63.7% and 68.1% of our total current liabilities as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively. Our borrowings were primarily utilised for construction of our production facility, acquisition of property, plant and equipment and for general working capital purposes.

Our net current liabilities were particularly high as at 31 December 2017 as we incurred additional short-term borrowings for construction of our new processing plant in 2017. Our net current liabilities gradually improved after 2017 as we completed the construction of our new processing plant in the first half of 2018 and our operating cash inflow increased.

With an aim to improve our liquidity position in 2018, we utilised bills payable to settle certain of our amounts due to our major supplier, Yanggu Dafeng, in 2018, resulting in an increase of our bills

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payable as at 31 December 2018. As our liquidity position gradually improved, our bills payable gradually decreased after 2018.

We expect our net current liabilities position will improve in the future after the Listing as (i) we lessen the use of borrowings for our production facility expansion or upgrades, and (ii) our business expands and operating cash inflow increases.

### Selected Consolidated Statements of Cash Flows

The following table sets forth a summary of our selected consolidated statements of cash flows for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Operating cash inflows before movements in working capital .....	308,242	236,898	378,304	1,097,278
<i>Changes in working capital</i> .....	(89,797)	(150,842)	406,471	(371,909)
<i>Income tax paid</i> .....	(1,562)	(1,616)	(1,881)	(1,856)
Net cash flows generated from operating activities .....	216,883	84,440	782,894	723,513
Net cash flows used in investing activities .....	(127,317)	(464,047)	(387,343)	(177,768)
Net cash flows generated/(used in) from financing activities .....	6,487	273,910	(308,141)	(231,104)
Net increase/(decrease) in cash and cash equivalents.....	96,053	(105,697)	87,410	314,641
Cash and cash equivalents at beginning of the year .....	170,958	267,011	161,314	248,724
Cash and cash equivalents at end of the year .....	267,011	161,314	248,724	563,365

Our operating cash inflows before movements in working capital increased by approximately 190.1% from RMB378.3 million for the year ended 31 December 2018 to RMB1,097.3 million for the year ended 31 December 2019, primarily due to an increase in our profit before income tax in 2019.

The Group recorded a net decrease in cash and cash equivalents in 2017, which was mainly due to the cash outflow for the construction and setup of our new processing plant in 2017.

Our net cash flows generated from operating activities increased by approximately 827.6% from RMB84.4 million for the year ended 31 December 2017 to approximately RMB782.9 million for the year ended 31 December 2018. The increase was primarily due to a 59.7% increase in operating cash inflows before movement in working capital, as a result of our increased sales in 2018, and net cash inflows relating to movements in working capital in the amount of approximately RMB406.5 million. Our net cash flows generated from operating activities decreased by approximately 7.6% from RMB782.9 million in 2018 to RMB723.5 million in 2019, primarily due to (i) an increase in inventories as a result of our increased import of raw chicken meat to meet our production volume, and (ii) a decrease in trade and bills payables mainly as a result of a decrease in bills payable as our cash flow position improved. See “Financial Information — Liquidity and Capital Resources — Cash Flow” for details.

### Major Cost Components

During the Track Record Period, direct raw materials and direct labour cost were the major components of our total cost of sales. Our direct raw materials accounted for approximately 57.5%, 58.1%, 59.6% and 52.6% and our direct labour cost accounted for approximately 11.6%, 13.6%, 13.2%, and 9.9% of our total cost of sales for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. For the four years ended 31 December 2016, 2017, 2018 and 2019, the average purchase price of raw chicken meat products procured from independent third party

## SUMMARY

suppliers was approximately RMB12,000, RMB12,000, RMB14,000 and RMB15,000 per tonne and the purchase volume was approximately 14,000 tonnes, 12,000 tonnes, 31,000 tonnes and 45,000 tonnes, respectively. The percentage of cost of raw chicken meat procured to total cost of sales increased from approximately 4.0% for the year ended 31 December 2016 to approximately 15.7% for the year ended 31 December 2019, which was mainly due to an increase in demand of raw chicken meat for the Group's processed chicken meat products and an increase in average procurement cost of such raw chicken meat. Our cost of sales are adjusted for changes in biological assets fair value adjustments, which accounted for approximately 14.2%, 10.7%, 9.4% and 22.7% of our total cost of sales for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. See "Financial Information — Description of Selected Statement of Comprehensive Income Items — Cost of Sales" and "Financial Information — Principal Factors Affecting Our Results of Operations — Biological assets fair value adjustments" for further details on the breakdown of our cost of sales and biological assets fair value adjustments.

### Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales, and our gross profit margin represents gross profit as a percentage of revenue. Our cost of sales is adjusted by changes in fair values of our biological assets.

See "— Summary Historical Financial Information — Selected Consolidated Statements of Comprehensive Income" in this section and "Financial Information — Principal Factors Affecting Our Results of Operations — Biological Assets Fair Value Adjustments" for further details on the biological assets fair value adjustments.

Our gross profit after biological assets fair value adjustments was RMB68.2 million, RMB37.1 million, RMB178.0 million and RMB428.4 million in 2016, 2017, 2018 and 2019, respectively. Our gross profit margin after biological assets fair value adjustments was 2.9%, 1.5%, 5.6% and 10.9% in the corresponding years.

Our gross profit before biological assets fair value adjustments was RMB392.1 million, RMB293.2 million, RMB461.9 million and RMB1,221.5 million in 2016, 2017, 2018 and 2019, respectively. Our gross profit margin before biological assets fair value adjustments was 16.7%, 12.0%, 14.4% and 31.1% in the corresponding years.

The table below sets forth our gross profit and gross profit margin (before biological assets fair value adjustments) by product segments for the years indicated.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	% of total gross profit	RMB'000	% of total gross profit	RMB'000	% of total gross profit	RMB'000	% of total gross profit
Raw chicken meat products .....	195,448	49.8	134,798	46.0	195,370	42.3	557,356	45.6
Processed chicken meat products ....	109,971	28.1	157,194	53.6	163,016	35.2	325,572	26.7
Chicken breeds .....	74,578	19.0	(10,801)	(3.7)	90,780	19.7	314,318	25.7
Others .....	12,130	3.1	12,035	4.1	12,781	2.8	24,214	2.0
<b>Total</b> .....	<u>392,127</u>	<u>100.0</u>	<u>293,226</u>	<u>100.0</u>	<u>461,947</u>	<u>100.0</u>	<u>1,221,460</u>	<u>100.0</u>

## SUMMARY

	For the year ended 31 December			
	2016	2017	2018	2019
	%	%	%	%
<b>Gross profit margin</b>				
Raw chicken meat products .....	13.3	10.1	11.4	29.5
Processed chicken meat products .....	17.5	17.3	13.8	22.7
Chicken breeds.....	49.9	(15.5)	52.7	73.7
Others .....	11.4	9.7	10.5	13.5
Overall.....	16.7	12.0	14.4	31.1

Our gross profit before biological assets fair value adjustments increased by 164.5% from RMB461.9 million for the year ended 31 December 2018 to RMB1,221.5 million for the year ended 31 December 2019, primarily due to (i) an increase in average selling prices across our raw and processed chicken meat products segments, (ii) an increase in average selling prices of chicken breeds of 91.9%, and (iii) a decrease in feed costs across the period. Our gross profit margin before fair value adjustments for biological assets (which are included in our total cost of sales) were 14.4% and 31.1% for the two years ended 31 December 2018 and 2019, respectively.

### Key Financial Data and Ratios

The following table sets forth our key financial data and ratios as at the dates or for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
Gross profit (RMB'000) .....	68,246	37,099	178,004	428,415
Gross profit margin after biological assets fair value adjustments .....	2.9%	1.5%	5.6%	10.9%
Gross profit before biological assets fair value adjustments (RMB'000).....	392,127	293,226	461,947	1,221,460
Gross profit margin before biological assets fair value adjustments .....	16.7%	12.0%	14.4%	31.1%
Net profit (RMB'000).....	119,848	37,119	136,611	837,381
Net profit margin .....	5.1%	1.5%	4.3%	21.3%
Net profit before biological assets fair value adjustments (RMB'000) .....	114,586	28,421	118,469	833,935
Net profit margin before biological assets fair value adjustments .....	4.9%	1.2%	3.7%	21.2%
Return on equity (before biological assets fair value adjustments) .....	9.2%	2.2%	8.3%	36.8%
Return on equity (after biological assets fair value adjustments) .....	9.7%	2.8%	9.6%	37.0%
Return on assets (before biological assets fair value adjustments) .....	3.4%	0.8%	3.0%	18.8%
Return on assets (after biological assets fair value adjustments).....	3.6%	1.0%	3.5%	18.9%
Interest coverage ratio (times) .....	2.7	1.5	2.4	10.4
	As at 31 December			
	2016	2017	2018	2019
Current ratio (times) .....	0.66	0.54	0.61	0.94
Net debt-to-equity ratio.....	89.9%	117.0%	87.0%	35.7%
Gearing ratio .....	111.0%	127.9%	104.2%	60.4%

See “Financial Information — Key Financial Data and Ratios” for a description of the calculations of the ratios above.

### Biological assets

Our biological assets represent breeders, broilers and broiler eggs. We measure biological assets on initial recognition and at the end of each reporting period at their fair value less costs to sell. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss for the period in which it arises.

## SUMMARY

The agricultural produce harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss for the period in which it arises.

The following table sets out the breakdown of our biological assets at the end of each of the years indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Biological assets comprise:				
— Breeders .....	113,187	110,866	126,956	157,877
— Broilers and broiler eggs .....	112,494	120,669	138,422	141,873
	<u>225,681</u>	<u>231,535</u>	<u>265,378</u>	<u>299,750</u>
Non-current portion .....	113,187	110,866	126,956	157,877
Current portion .....	112,494	120,669	138,422	141,873
	<u>225,681</u>	<u>231,535</u>	<u>265,378</u>	<u>299,750</u>

We determine the fair values less costs to sell of biological assets at the end of each reporting period with reference to the market-determined prices, species, growing conditions, costs incurred and professional valuation. The fair value of our biological assets as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019 was RMB225.7 million, RMB231.5 million, RMB265.4 million and RMB299.8 million, respectively.

The fair value of our biological assets increased by approximately 2.6% from RMB225.7 million as at 31 December 2016 to RMB231.5 million as at 31 December 2017, primarily due to an increase in market prices assumptions of our key biological assets valuation input, namely, white-feathered broiler chicken breeds, white-feathered mature broilers, white-feathered breeder chicken breeds, culled white-feathered hens, culled white-feathered cocks and broiler eggs, as at the end of 2017. The fair value of our biological assets further increased by approximately 14.6% from RMB231.5 million as at 31 December 2017 to RMB265.4 million as at 31 December 2018, primarily due to a significant increase in market prices of broiler eggs as at the end of 2018. The fair value of our biological assets increased by approximately 13.0% from RMB265.4 million as at 31 December 2018 to RMB299.8 million as at 31 December 2019, primarily due to an increase in the quantity of our broilers and broiler eggs and an increase in market prices of white-feathered broiler chicken breeds, white-feathered breeder chicken breeds and broiler eggs as at 31 December 2019.

### Reconciliation of the carrying amount of biological assets

	Breeders	Broilers and broiler eggs	Total
	RMB'000	RMB'000	RMB'000
<b>At 1 January 2016</b> .....	85,277	92,057	177,334
Increase due to purchases/raising .....	116,520	1,702,506	1,819,026
Gain arising from changes in fair value less estimated costs to sell .....	2,310	2,952	5,262
Transfer to inventories at the point of harvest .....	—	(1,399,807)	(1,399,807)
Decrease due to culling .....	(83,216)	—	(83,216)
Decrease due to sales .....	(7,704)	(285,214)	(292,918)

## SUMMARY

	Breeder RMB'000	Broilers and broiler eggs RMB'000	Total RMB'000
<b>At 31 December 2016 and 1 January 2017</b> .....	113,187	112,494	225,681
Increase due to purchases/raising .....	101,707	1,693,898	1,795,605
Gain arising from changes in fair value less estimated costs to sell .....	5,364	3,334	8,698
Transfer to inventories at the point of harvest .....	—	(1,411,023)	(1,411,023)
Decrease due to culling .....	(86,570)	—	(86,570)
Decrease due to sales .....	(22,822)	(278,034)	(300,856)
<b>At 31 December 2017 and 1 January 2018</b> .....	110,866	120,669	231,535
Increase due to purchases/raising .....	122,056	1,642,521	1,764,577
(Loss)/gain arising from changes in fair value less estimated costs to sell .....	(10,706)	28,848	18,142
Transfer to inventories at the point of harvest .....	—	(1,377,062)	(1,377,062)
Decrease due to culling .....	(82,342)	—	(82,342)
Decrease due to sales .....	(12,918)	(276,554)	(289,472)
<b>At 31 December 2018 and 1 January 2019</b> .....	126,956	138,422	265,378
Increase due to purchases/raising .....	131,774	3,014,342	3,146,116
Gain/(loss) arising from changes in fair value less estimated costs to sell .....	14,249	(10,803)	3,446
Transfer to inventories at the point of harvest .....	—	(2,696,716)	(2,696,716)
Decrease due to culling .....	(101,275)	—	(101,275)
Decrease due to sales .....	(13,827)	(303,372)	(317,199)
<b>At 31 December 2019</b> .....	<u>157,877</u>	<u>141,873</u>	<u>299,750</u>

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, the fair value of our biological assets represented approximately 18.2%, 17.7%, 18.6% and 13.2% of our net asset value, respectively.

### OFFERING STATISTICS

All statistics in the following table are based on the assumption that the Over-allotment Option is not exercised:

	Based on an Offer Price of HK\$3.33	Based on an Offer Price of HK\$5.10
Market capitalisation of H Shares <sup>(1)</sup> ...	HK\$1,182.2 million	HK\$1,810.5 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <sup>(2)</sup> .....	HK\$2.55	HK\$2.99

*Notes:*

- (1) The calculation of market capitalisation of H Shares is based on 355,000,000 H Shares expected to be in issue immediately upon completion of the Global Offering. For illustrative purpose only, based on 1,400,000,000 Shares in issue immediately upon completion of the Global Offering (including 1,045,000,000 Domestic Shares and 355,000,000 H Shares) and assuming the market value of the Domestic Shares is extrapolated from the Offer Price of H Shares, the market capitalisation of the Shares is HK\$4,662.0 million and HK\$7,140.0 million based on an Offer Price of HK\$3.33 and HK\$5.10, respectively.
- (2) The unaudited pro forma adjusted consolidated net tangible assets per Share is arrived at after adjustments referred to in "Appendix II — Unaudited Pro Forma Financial Information" and on the basis that 1,400,000,000 Shares are in issue assuming that the Global Offering has been completed on 31 December 2019.



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## SUMMARY

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### DIVIDEND POLICY

During the Track Record Period and up to the Latest Practicable Date, we did not declare or distribute any dividend. After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. The Company has implemented a three-year dividend plan, pursuant to which, in the absence of certain special circumstances, if the Company records profit for the year and its accumulated undistributed profit is positive, and is capable of meeting the actual demand for distribution, the Company shall distribute dividends in cash, and the aggregate profits distributed in cash for such three years shall not be less than 30% of the total distributable profits realised for the latest three years as set out in the Company's consolidated financial statements and the dividends to be distributed in each particular year shall be decided by the Board. Any proposed distribution of dividends shall be formulated by the Board and will be subject to approval at the Shareholders' meeting. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that the Board may consider important. The Articles of Association stipulate that the Company may distribute dividends by means of cash, stock or a combination of cash and stock. After completion of the Global Offering, dividends may be paid out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. The major difference between PRC GAAP and IFRS is the biological assets fair value adjustments in determining the amount of the Company's distributable profits under PRC GAAP, which may affect the Group's future decision to declare or pay any dividends. See "Financial Information — Dividend Policy" and "Financial Information — Difference in Biological Assets Fair Value Adjustments under IFRS and PRC GAAP" for details of our dividend policy and the nature of GAAP difference on fair value adjustments on biological assets between IFRS and PRC GAAP, respectively.

### LISTING EXPENSE

Our listing expenses mainly include underwriting commissions and professional fees in relation to the Listing and the Global Offering. The total listing expenses for the Listing of our H Shares (assuming an Offer Price of HK\$4.21 per H Share, being the mid-point of the proposed Offer Price range, and the Over-allotment Option is not exercised) are estimated to be approximately HK\$99.5 million (equivalent to approximately RMB90.7 million), among which approximately HK\$82.7 million (equivalent to approximately RMB75.4 million) is directly attributable to the issuance of H Shares and will be charged to equity upon completion of the Listing, and approximately HK\$14.3 million (equivalent to approximately RMB13.0 million) was/will be charged to our consolidated statement of comprehensive income. During the Track Record Period, we settled listing expenses of approximately HK\$35.9 million (or RMB32.4 million), of which approximately HK\$24.8 million (or RMB22.4 million) was included in prepayments and will be subsequently charged to equity upon completion of the Listing and approximately HK\$11.1 million (or RMB10.0 million) was charged to consolidated statement of comprehensive income.

The listing expenses above are the latest practicable estimates and are provided for reference only, and the actual amounts may differ. The Directors do not expect listing expenses to be incurred after the Track Record Period to have a material and adverse impact on our financial results for the year ending 31 December 2020.

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## SUMMARY

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### FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$1,395.1 million (or RMB1,271.7 million) (after deducting the underwriting fees and commissions and other estimated fees and expenses paid and payable by us in connection with the Global Offering and assuming full payment of the discretionary incentive fee), assuming that the Over-allotment Option is not exercised and an Offer Price of HK\$4.21 per H Share, being the mid-point of the indicative Offer Price range of HK\$3.33 to HK\$5.10 per H Share.

We intend to use the net proceeds we receive from the Global Offering for the following purposes, subject to changes in light of our evolving business needs and changing market conditions:

- approximately 45.0%, or HK\$627.8 million, will be invested in the expansion of our breeding and production capacities of white-feathered broilers through the procurement of facilities necessary for broiler farms with battery cage systems, slaughtering and processing plant, breeder farms, hatchery, feedmill and organic fertiliser plant;
- approximately 42.5%, or HK\$592.9 million, will be used in repaying the existing borrowings to improve our financial position, gearing and liquidity;
- approximately 10.0%, or HK\$139.5 million, will be invested in the brand development and penetration of our existing B2C processed chicken meat products sales channels (both online and offline) through targeted sales and marketing campaigns; and
- approximately 2.5%, or HK\$34.9 million, will be invested in strengthening our research and development capabilities to strengthen our competitiveness in the market.

In the event that the net proceeds we receive from the Global Offering are higher or lower than the estimated amounts stated above, we will increase or decrease the intended allocation of the net proceeds for the above purpose on a pro rata basis. See “Future Plans and Use of Proceeds”.

### LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, there was no litigation or arbitration pending or threatened against the Group or any of the Directors which could have a material adverse effect on the Group’s financial condition or results of operations. We are subject to regulatory inspections conducted by various PRC governmental authorities. We were not aware of any inspections or audits conducted by them that would materially adversely affect our business. During the Track Record Period, we failed to make social insurance fund contributions and housing provident fund contributions in full in the PRC. As at the Latest Practicable Date, we had taken remedial measures to rectify the non-compliance incidents. See “Business — Regulatory Compliance” for details.

### RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

We continued to expand and diversify our product portfolio with a focus on processed chicken meat products and launched 41 new products (including new flavours, new packaging and product upgrades) subsequent to the Track Record Period and up to the Latest Practicable Date.

In April 2020, the Company entered into a cooperation agreement with the People’s Government of Xingwen County (興文縣人民政府), pursuant to which the People’s Government of Xingwen County would, among other things, offer financial assistance up to RMB20 million to Xingwen Tianyang in relation to the breeding of Sichuan Mountain Black Bone Chicken over a term of six years.

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The Company conditionally adopted the Share Award Scheme on 4 June 2020. On 26 June 2020, a total of 2,050,000 Awarded Shares were granted to 18 selected participants under the Share Award Scheme. For details, see “Appendix VII — Statutory and General Information — F. Share Award Scheme — (q) Details of the Awards granted under the Share Award Scheme”.

Based on the unaudited management accounts of the Group for the four months ended 30 April 2020, (i) our revenue increased as compared to the corresponding period in 2019, which was primarily due to an increase in sales volume of our white-feathered chicken products, in particular, the raw and processed chicken meat products by approximately 33.8% and 14.3%, respectively, as compared to the corresponding period in 2019; and (ii) our gross profit margin and net profit margin (both before biological assets fair value adjustments) decreased as compared to the corresponding period in 2019. Such decrease in our gross profit margin was mainly attributable to the decrease in the average selling price of chicken breeds which led to a decrease in its gross profit margin.

The average selling prices of our raw and processed chicken meat products remained relatively stable for the four months ended 30 April 2020, which were approximately RMB11.7 per kg and RMB22.0 per kg, respectively. The average selling prices of our raw and processed chicken meat products were approximately RMB9.8 per kg and RMB21.6 per kg in May 2020, respectively, representing a decrease of approximately 11.7% and 2.3% as compared to April 2020, respectively. The average selling price of chicken breeds was approximately RMB3.6 per bird for the four months ended 30 April 2020, representing a decrease of approximately 51.2% as compared to the corresponding period in 2019. The average selling price of chicken breeds per bird in May 2020 decreased as compared to April 2020. As such, the Company reduced the sales volume of chicken breeds during the period and increased the number of chicken breeds bred due to its lower profitability. The Group recorded a slight decrease in revenue generated from our white-feathered chicken products in May 2020 as compared to April 2020.

Subsequent to the Track Record Period, the average purchase prices of corn and soybean meal, being our major raw materials, were relatively stable, which was RMB2.0 per kg and RMB3.1 per kg, respectively, for the four months ended 30 April 2020. The average purchase price of the Parent Stock Day-old Chicks was approximately RMB54.4 per set for the four months ended 30 April 2020, which remained relatively stable, as compared to the corresponding period in 2019. The average purchase price of chicken meat products was approximately RMB13.8 per kg for the four months ended 30 April 2020, which remained relatively stable, as compared to the corresponding period in 2019.

Due to the uncertainties brought about by the coronavirus disease outbreak as set out below and its potential further impact on the global economy as a whole, we cannot guarantee that our business operations and results of operations including revenue and profitability during the four months ended 30 April 2020 could be maintained throughout the year ending 31 December 2020, and it might turn out to be lower than the Company’s results of operations for the year ended 31 December 2019. Our profitability may also be potentially impacted by, among other things, (i) the lower average selling price of chicken breeds during the year as compared to the year ended 31 December 2019 that may lead to a decrease in gross profit margin; and (ii) the execution of our expansion plan, including allocating more resources to its sales and marketing activities. See also “Our results of operations are substantially affected by the selling prices of our poultry products, which affect our revenue, and by fluctuations in the purchase prices of raw materials or interruption in the supply of raw materials, which affect our cost” and “The implementation of our expansion plan may lead to an increase in operating expenses and higher depreciation expenses, which may adversely affect our profit margin and results of operations” under “Risk Factors — Risks Relating to Our

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## SUMMARY

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Business”. Nevertheless, the Directors are of the view that we will have sufficient working capital for our present requirements covering at least 12 months from the date of this prospectus.

### **Impact of Coronavirus Disease**

The coronavirus disease (COVID-19) was first emerged in late 2019 and has spread within the PRC and globally. Draconian measures including travel restrictions have gradually been imposed on cities in the PRC, as well as other countries and territories, in an effort to contain the coronavirus disease. The World Health Organization is closely monitoring and evaluating the situation. The outbreak was declared a public health emergency of international concern and a global pandemic by the World Health Organisation on 30 January 2020 and on 11 March 2020, respectively.

In view of the ongoing epidemic of the coronavirus disease since January 2020 and the PRC Government’s advice to avoid crowds and gatherings to facilitate better anti-epidemic prevention and control, it is expected that the restaurant and food processing industries in the PRC would be affected by the coronavirus disease in the short-term. The Company also noted that a number of food corporations have temporarily suspended their restaurant operations or production at food processing plants in the PRC as anti-epidemic measures to ensure the health and safety of their employees and customers. The outbreak of coronavirus disease, which is expected to result in a high number of fatalities, is likely to have an adverse impact on the livelihood of the people and the economy in the PRC and globally.

To ensure the breeding, supply and smooth delivery of agricultural products, poultry and animal feeds amid the outbreak of the coronavirus disease, the General Office of the Ministry of Agriculture and Rural Affairs of the PRC, the General Office of the Ministry of Transport of the PRC, the General Office of the Ministry of Public Security of the PRC and the General Office of the National Development and Reform Commission have issued notices on 30 January 2020, 4 February 2020, 15 February 2020 and 18 March 2020, which provide, among other things, that, (i) local authorities shall ensure companies involved in feed production, livestock breeding and poultry slaughtering to resume work as soon as possible and overcome disruptions caused by the coronavirus disease outbreak; (ii) upon implementing necessary anti-epidemic prevention and control measures, animal feeds production and poultry slaughtering corporations shall maintain effective supply of livestock and poultry products to meet the market demand; (iii) the “green channel” policy shall be strictly implemented to ensure smooth and swift delivery of agricultural products, roads leading to key locations including breeder and broiler farms, processing and slaughtering plants and the market should be clear, and unauthorised roadblocks for trucks carrying animal feeds and poultry products are banned; (iv) tax refunds, loans at low interest rates and other financial assistance shall be provided to support the companies engaged in feed production and poultry slaughtering; (v) market information and market demand would be closely monitored to ensure effective supply at stable prices; and (vi) the increase in production and supply of poultry products shall be encouraged to ensure sustainable development of the poultry industry.

### *Impact on our business operations and sales to customers*

The Company expects that it is able to discharge its obligations under all existing contracts as at the Latest Practicable Date, given that (i) the Group had been maintaining sufficient inventory levels of raw materials and chicken meat products; (ii) the production plants of the Group had resumed operations since 27 January 2020 in light of governmental policies to encourage poultry industries to resume work as soon as possible; and (iii) the Group did not experience material disruption to its supply of raw materials, and as such, the Company had not identified circumstances that would affect its ability to discharge its obligations under existing contracts as at the Latest Practicable Date.

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## SUMMARY

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Based on unaudited management accounts of the Company, the revenue generated from its B2B and B2C customers for the four months ended 30 April 2020 decreased by approximately 1.5% and increased by over 500% as compared to the corresponding period in 2019, respectively. The increase in revenue under the B2C sales model was significantly higher for the four months ended 30 April 2020 primarily as a result of certain food corporations temporarily suspending their restaurant operations or production at food processing plants, and more customers resorting to purchase food products through online sales platforms to practise social distancing in order to curb the spread of the coronavirus disease. As such shift in spending pattern may continue under current circumstance, the Group has been adjusting its sales plan to cater the anticipated short-term impact on its domestic customers' demand, which is also in line with one of our business strategies to expand our B2C sales and distribution network. In particular, (i) to meet the sharp increase in demand from B2C customers through third-party online sales platforms as a result of reduced human mobility, the Group sold raw and processed chicken meat products that were intended to be sold to certain B2B customers to such B2C customers through repackaging of products, which accelerates its inventory turnover; (ii) the Group rented temporary freezer storage rooms since February 2020 to store the additional processed chicken meat products inventory and actively monitored the inventory levels and storage utilisation rates; and (iii) the Group has been maintaining its business relationships with its existing customers. The Group entered into short-term leases to rent temporary freezer storage rooms for a term of less than a year in anticipation of the impact of the coronavirus disease on the domestic demand of the Company's chicken meat products. The Group typically stored chicken meat products with a quicker inventory turnover rate that are ready to be sold at such the temporary storage rooms to reduce its rental costs. The storage fees of the products stored were charged by the warehouse operators on a per-tonne basis at RMB2 per tonne per day and RMB15 per tonne as handling fees, and is payable by the Group on a monthly basis. The rental costs incurred were approximately RMB515,000 (including handling fees) between February 2020 and May 2020.

Based on the latest communications with overseas customers and the sales orders placed by them up to the Latest Practicable Date, (i) the Directors have not identified any indications reflecting objectively any material decrease in the orders from overseas customers at this stage for the five months ended 31 May 2020 as compared with the corresponding period in 2019; (ii) no overseas customers had cancelled any existing orders as at the Latest Practicable Date; and (iii) the Group's sales volume to and revenue received from overseas customers for the four months ended 30 April 2020 were higher than as compared to the corresponding period in 2019. The Directors confirmed that since the end of the Track Record Period and up to the Latest Practicable Date, the Company had not experienced any cancellation of orders or loss of overseas customers that would have had a material adverse impact on our business operations and financial condition in general. As such, the Directors believe that the coronavirus disease would not have material adverse impact on the Group's overseas sales.

### *Impact on supply of raw materials*

As at the Latest Practicable Date, the Parent Stock Day-old Chicks suppliers of the Group had been able to supply us with Parent Stock Day-old Chicks based on pre-determined delivery schedules, and had not been materially disrupted by the outbreak of the coronavirus disease. Based on the discussion with its Parent Stock Day-old Chicks suppliers, such suppliers were of the view that there had been minimal impact on the import of Grandparent Stock Chicks, and the possibility of such import being affected is minimal.

As at the Latest Practicable Date, the import of chicken meat products by the Group had not been affected by the outbreak of the coronavirus disease, and no suppliers of chicken meat products

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had failed to supply products to the Group based on pre-determined delivery schedules. In the unlikely event that the import of chicken meat products by the Group is affected which would in turn disrupt the Group's production of chicken meat products, the Company would source chicken meat products from alternate suppliers in the PRC of comparable quality and services in a timely manner. Since we currently rely on the stable and adequate supply of chicken meat products at competitive prices from sizable suppliers overseas, sourcing chicken meat products from PRC suppliers could result in additional costs to us which may lead to a reduction in our gross profit margin to the extent that we are unable to pass on such additional costs to our customers. The Company does not expect material adverse impact on the Group's operations and financial performance if it were to procure all its chicken meat products from PRC suppliers.

The Group has also maintained sufficient inventory levels for its raw materials to sustain its own production process, and has not encountered and does not expect to encounter supply chain disruption or shortage that would materially affect the Group's business operation due to the impact of the coronavirus disease. The Group expects its inventory level for the chicken meat products would increase in the short-term due to (i) the decrease in demand from customers who may be food corporations that have temporarily suspended their restaurant operations or food processing plants in the PRC due to the coronavirus disease; and (ii) the Group's typical measure to accumulate inventories of raw materials and processed chicken meat products before Chinese New Year in preparation for its sales orders immediately after Chinese New Year. Since the frozen and chilled processed chicken meat products generally have a shelf life of 24 months, the Directors believe the temporary increase in inventory level would not affect the quality of the Group's products or have a material adverse impact on the financial performance of the Group as at the Latest Practicable Date.

In light of the "green channel" policy initiated by the PRC Government to ensure steady domestic supply of livestock and the Group's inventory levels maintained for its raw materials, we applied for permits for our trucks such that the delivery of our raw materials would not be delayed at checkpoints and toll booths. As such, the Directors do not expect any material difficulties for the Group to maintain its production level to meet its existing customers' demands. As at the Latest Practicable Date, the Directors had not experienced and did not foresee any material disruption in delivery of the Group's raw materials and chicken meat products.

### *Contingency plan and precautionary measures*

In view of the outbreak of the coronavirus disease, the Company has established an epidemic prevention and containment team led by Mr. Xiao Dongsheng, an executive Director, to organise and manage the adoption of preventive measures in relation to quarantine and treatment, supply sourcing, staff arrangement and education. The Group has adopted additional stringent control standards and procedures in view of the outbreak of the coronavirus disease. The abovementioned measures, control standards and procedures include:

- *Active monitoring and recordkeeping.* To closely track the health status of the Group's employees, a station is set up at the entrances of the Group's production facilities to measure the body temperature of its staff twice daily prior and after their duties. The Group would arrange any staff showing symptoms to seek medical treatment, and any other staff in close contact would be required to be self-quarantined at home for 14 days. Vehicles entering facilities are required to undergo a disinfection process and be logged.
- *Hygiene measures.* All staff are required to put on a mask during their transit to and from work, and are required to change into specialised masks that were used when entering the production facilities. Certain staff are also required to wear goggles.

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- *Sterilisation and disinfection.* The Group ensures uniforms are changed, washed and sterilised on a daily basis, and require its staff to wash their hands and disinfect production equipment every two hours. Production facilities of the Group are thoroughly clean and disinfect twice a day.
- *Sufficient supplies.* The Group conducts physical inventory counts and place orders based on its anticipated needs with suppliers to ensure there is a sufficient supply of epidemic prevention supplies such as masks, alcohol, disinfectants and thermometers to carry out preventive and control measures. As at the Latest Practicable Date, the Directors do not foresee material difficulties in procuring sufficient epidemic prevention supplies for the Group's employees.

There had been no reports on confirmed or suspected cases of coronavirus disease regarding the Group's employees as at the Latest Practicable Date.

### *Our financial performance and viability*

The coronavirus disease outbreak is still ongoing and there is no guarantee that the situation will not deteriorate or the outbreak shall come to an end in the near future. There is no assurance that there will not be any direct or indirect adverse impact on our business operations arising from any effect on the PRC economy or other parts of the world as a result of the continuance of coronavirus disease outbreak. The coronavirus disease outbreak may possibly bring material disruption to our business operations in the future as a result of other measures to control the spread of the coronavirus disease that may be imposed by the governments in different affected countries and regions from time to time. See "Risk Factors — Risks Relating to Our Business — Ongoing epidemic of coronavirus disease (COVID-19) could significantly affect our production, demand for our products and our business".

Considering (i) the Group did not encounter and is not expected to encounter supply chain disruption since the outbreak of coronavirus disease; (ii) none of the Group's customers cancelled any existing orders as at the Latest Practicable Date; (iii) the production plants of the Group have resumed operations since 27 January 2020; (iv) the favourable policies initiated by the PRC Government and how the Group benefited from such policies as set out above; (v) the Group has obtained term loans of RMB200 million from a state-owned commercial bank according to the finance support policies promulgated by the PRC Government for a term of one year at relatively lower interest rates between 3.2% and 3.4% for financing its raw materials procurement for the production of chicken meat products; (vi) contribution of social insurance and housing provident fund contributions have temporarily been reduced between February and June 2020; and (vii) the effectiveness of the Group's enhanced quality control measures to date, whilst the Group's business may be impacted in the short-term due to the possible decrease in domestic demand from certain customers who may be food corporations that have temporarily suspended their restaurant operations or production at food processing plants, the Directors do not expect the coronavirus disease to have a material adverse impact on both the Group's business operation and financial results as a whole in the long term.

The Directors will continue to pay great attention to the status and development of the coronavirus disease, and keep a close communication with local governments, and actively and properly carry out preventive and containment measures to ensure personnel safety. However, given the uncertainties in the development of the coronavirus disease, the Directors cannot assure that the coronavirus disease will not materially and adversely affect the Group's business, financial condition and operations.

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### **Impact of H5N1 and H5N6 Virus**

In February 2020, China reported an outbreak of avian influenza caused by H5N1 virus in Hunan and H5N6 virus in Sichuan, respectively, and around 20,000 poultry in the affected farms in Hunan and Sichuan has been culled at local poultry farms. Being named an “area with broilers lacking highly pathogenic avian influenza” (肉雞無高致病性禽流感小區) by the Ministry of Agriculture and Rural Affairs of the PRC in May 2019, the Directors confirmed that no infected case of the said H5N1 virus in Hunan and H5N6 virus in Sichuan was found in the Group’s breeder and broiler farms and that the recent outbreak of avian influenza caused by H5N1 and H5N6 virus did not have any material adverse impact on the Group’s results of operations and financial condition as at the Latest Practicable Date.

### **No Material Adverse Change**

After due and careful consideration, the Directors confirm that there had not been any material adverse change in our financial, operational or trading position since 31 December 2019 and up to the date of this prospectus, and there is no event since 31 December 2019 that would materially affect the information as set out in the Accountants’ Report.