You should carefully consider all the information in this prospectus, including the risks and uncertainties described below and our financial statements and the related notes, prior to investing in the H Shares. The risk factors relating to our business, industry and the PRC may not typically be associated with investing in equity securities of similar companies from other jurisdictions. Our business, financial condition, results of operations or prospects could be materially and adversely affected by any of these risks. The trading price of the H Shares could decrease due to any of these risks and you may lose all or part of your investment.

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering.

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.

Our results of operations are significantly affected by the selling prices of our poultry products, which affect our revenue, and by the purchase prices of animal feed ingredients, which are our primary raw materials and affect our costs. All of these prices are determined by constantly changing and volatile market forces of supply and demand as well as other factors, over which we have little or no control. These factors include:

- economic conditions;
- government regulations and actions, in particular with regards to government intervention into broiler price and environmental protection;
- competition;
- livestock diseases (such as avian influenza), crop diseases and pests;
- weather conditions, including the impact of weather on water supply, and the availability and pricing of grains;
- import restrictions imposed by PRC Government such as trade barriers resulting from, among other things, food safety concerns and developments in international relations;
- competing demand for corn, for use in the manufacture of ethanol and other alternative fuels; and
- transportation and storage costs.

Poultry product prices typically move cyclically over time, reflecting changes in market demand and supply. These fluctuations can be significant, as shown in recent years, with the average wholesale price of whole chicken dropping to RMB14.0 per kg in 2017 due to the emergence of H7N9 avian influenza. Albeit the market price fluctuations in the past decade, the average wholesale price of whole chicken increased from RMB14.9 per kg in 2015 to RMB16.5 per kg in 2019.

Prices of Parent Stock Day-old Chicks experienced fluctuations over the past years. Since 2015, the importation of Grandparent Stock Chicks was banned from major countries by the PRC Government (such as the United States and France), leading to a reduced supply of broilers. Due to the insufficient introduction of Grandparent Stock Chicks, the price of Parent Stock Day-old Chicks rose in 2016. In 2017, due to the impact of H7N9 avian influenza, the price of chicken breeds declined, thus breeding enterprises reduced the purchase of Parent Stock Day-old Chicks, which led to a decline in the price of Parent Stock Day-old Chicks. In 2018, the price of chicken breeds has been gradually recovered and the market confidence increased. As a result and coupled with the shortage in supply, the price of the Parent Stock Day-old Chicks rose and reached RMB66.2 per set in 2019 and would increase to RMB71.1 per set in 2020 according to the Frost & Sullivan Report. It is expected that in the short-term, with the outbreak of African Swine Fever, the price of Parent Stock Day-old Chicks will remain high and stable. After which, with the emergence of domestic Grandparent Stock Chicks breeders, the price is expected to fall in the future.

Soybean meal and corn, which are the primary raw materials for producing our animal feeds, have experienced volatility due to various factors such as the policies of the PRC Government and changes in consumers demand and supply of such commodities in the global markets. In particular, the prices of soybean meal had increased sharply in the first half of 2016 due to reduction of output in the United States and Brazil, which has in turn increased the cost of production of the Group. Our results of operation are subject to such price volatility of raw materials in the future.

For the four years ended 31 December 2016, 2017, 2018 and 2019, the cost of the aforesaid raw materials were approximately RMB985.4 million, RMB971.8 million, RMB1,037.0 million and RMB926.4 million, respectively, representing approximately 50.2%, 45.4%, 37.9% and 34.3% of our cost of sales (before biological assets fair value adjustments) during the same period, respectively. There is no assurance that our suppliers will not significantly adjust the prices of our raw materials including raw chicken meat procured from other third party suppliers, in particular, when the market prices of or the market demand for such raw materials increase. We will continue to be exposed to price volatility of raw materials in the future, and any significant increase in the prices of the raw materials will increase the operation costs and have an adverse impact on the profitability of our business. We cannot assure you that we will be able to pass on to our customers all or part of any increased costs experienced by us from time to time, in a timely manner or at all. There is also no assurance that our suppliers will continue to supply raw materials for us with desired quality and in required quantities and on terms commercially acceptable to us. If any supplier terminates its business relationship with us or if there were unfavourable changes to the current business arrangements, we may not be able to locate suitable alternative suppliers in a timely manner to supply raw materials with comparable quality and on terms and prices better than or equivalent to the current arrangement. Any of the above may adversely affect our result, business operations and financial performance.

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

We are subject to risks affecting China's food industry generally, including risks posed by the following:

- food spoilage;
- food contamination;
- contamination of raw materials;
- consumer product liability claims;

- product tampering;
- product labelling errors;
- expenses and possible unavailability of product liability insurance; and
- potential costs and disruption of a product recall.

Also, there can be no assurance that contamination of our raw materials or products will not occur during the transportation, production, sales and distribution processes due to reasons unknown to us, out of our control or otherwise. If our raw materials or products are found to be spoiled, contaminated, tampered with, incorrectly labelled or reported to be associated with any such incidents, we may be subject to product liability claims, adverse publicity and government scrutiny or investigations, any of which could result in lower demand and prices for our products, increased costs and interruption of our operations. Any of these events could have a material and adverse impact on our reputation, business, financial condition, results of operations and prospects.

During the course of breeding the breeders and broilers, we (and our Contract Farmers) apply medicines and vaccines to the breeders and broilers. Although we procure those medicines and vaccines from suppliers who possess valid certifications, we cannot guarantee that we will be fully aware of the side effects of such medicines and vaccines on the breeders, broilers and the chicken meat products that we produce. In the event that any of our chicken meat products is affected by such medicines and/or vaccines resulting in any human health, food safety or quality issues, we may face product liability claims from our customers and/or the end consumers of our chicken meat products. Any product liability claim made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and adverse publicity and put strain on our administrative and financial resources. Such incidents will also affect the confidence of the consumers in our chicken meat products, which will in turn adversely affect the sales of our chicken meat products and our business.

In addition to risks related to our processing operations and the subsequent handling of products, we may encounter similar risks if a third party were to tamper with our products. We may be required to recall certain of our products in the event of contamination or adverse test results. Any product contamination could also subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, resulting in increased costs, and any of these events could have a material and adverse impact on our reputation, business, financial condition, results of operations or business prospects.

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.

We have procured and will continue to procure certain chicken meat products from third party suppliers which satisfy our internal control requirements for our further processing. The quality of our products could be adversely affected if those procured chicken meat products are spoiled or contaminated. Contamination of the procured chicken meat products may occur during their production, transportation or distribution due to reasons unknown to us or out of our control. The procured chicken meat products may also contain harmful chemicals or substances of which we are not aware of or cannot detect. Unfit chicken meat products may not be suitable for human consumption and may cause undesirable side effects to our consumers. During the Track Record Period, we have imported certain chicken meat products from overseas and generally from Brazil. In March 2017, China and the European Union curtailed meat imports from Brazil due to the scandal regarding sales of rotten and salmonella-tainted meats, and such temporary import ban on all meat imports was uplifted in China in the same month. According to publicly available information, there were 21 meat processing units in Brazil involved in this incident, and one of which supplied chicken meat products to us in 2017 when the scandal occurred.

We have measures in place to control the quality of the procured chicken meat products, however, we cannot assure you that we will be able to detect defective procured chicken meat products in every circumstance. For further details of our quality control measures on our raw materials, see "Business — Quality Assurance — Quality Control over Raw Materials". Any failure to detect defective procured chicken meat products could adversely affect the quality of our products. We could be required to recall certain of our products and subject to product liability claims, adverse publicity, and investigation and imposition against us of penalties by relevant authorities, resulting in increased costs. Any of these events could have a material and adverse impact on our reputation, brands' image, business, financial condition, results of operations or business prospects.

Ongoing epidemic of coronavirus disease (COVID-19) could significantly affect our production, demand for our products and our business.

The ongoing epidemic of the coronavirus disease (COVID-19) since late 2019 has caused significant disruption to the PRC and world-wide economic activities. The PRC Government has urged the public to avoid crowds and gatherings to facilitate better anti-epidemic prevention and control, which could affect consumer activities in the affected areas. The outbreak was also declared a public health emergency of international concern and a global pandemic by the World Health Organisation, 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 global economy. Meanwhile, the nature and origins of this coronavirus disease, ways of transmission and methods of preventing and controlling the coronavirus disease have not been fully discovered. As at the Latest Practicable Date, there remained substantial uncertainties as to how this epidemic would develop and the Company cannot yet fully ascertain the expected impact.

We are uncertain as to when the outbreak of the coronavirus disease will be constrained. A continuing spread or future recurrence of the coronavirus disease in the PRC or any other parts of the world may cause disruption to regional or national economic activity, including temporary suspension of restaurant operations and production at food processing plants in the PRC as anti-epidemic measures to ensure the health and safety of their employees and customers, which may affect consumer activities in the affected areas and, therefore, reduce demand for our chicken meat products. Given the uncertainties in the development of the coronavirus disease and its effects on the global economy, we cannot assure you that the coronavirus disease will not materially and adversely affect our business, financial condition and operations. The coronavirus disease may also result in limitations on and potential delays in transportation and delivery of our chicken meat products as well as disruption of raw material supplies, affecting the Group's inability to fulfil its customers' orders. Frequent or prolonged occurrences of any of these events could have an adverse effect on our business, financial condition, results of operations and prospects. The time required to rectify such problems may be lengthy, and may result in significant increases in costs or reduction in sales.

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.

We take precautions to ensure that our white-feathered chicken are healthy and that our breeder farms, hatcheries, broiler farms, slaughtering and processing plants and other facilities operate in a sanitary manner. Nevertheless, we are subject to risks relating to our ability to maintain animal health and control diseases.

A lot of countries have encountered animal diseases, including but not limited to, foot-and-mouth disease, avian influenza and other animal diseases. Avian influenza, in particular H5N1 virus, H7N9 virus and H5N6 virus, is a type of disease which spreads through poultry and is capable of killing millions of poultry and may, in some circumstances, be transmitted to humans, causing symptoms such as fever, cough, sore throat, muscle aches and, in severe cases, breathing problems and pneumonia that may be fatal. The outbreak of avian influenza in the past few years, particularly in 2016 and 2017, caused considerable damage to the national and local economies in the PRC and some other Asian countries. During past outbreaks of avian influenza in the PRC during the Track Record Period, a large number of poultry were exterminated, and the sales of chicken meat products in the PRC dropped significantly due to the general fear of H5N1 virus and H7N9 virus in the public. Outbreak of diseases in neighbouring areas of any of our production facilities could raise concerns of the public and our customers on the safety and quality of our products. Furthermore, in order to prevent the spread of certain infectious diseases, the PRC Government may order a mass slaughter of animals in the affected areas, which could result in the loss of healthy breeders and broilers in our breeder and broiler farms located in neighbouring areas.

In February 2020, China reported an outbreak of the avian influenza at two local poultry farms 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 had been culled. 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 the H5N1 and H5N6 virus did not have any material and adverse impact on the Group's results of operations and financial condition as at the Latest Practicable Date.

Further, we procure our Parent Stock Day-old Chicks from a limited number of suppliers domestically. The Grandparent Stock Chicks, which are used by our suppliers to lay eggs for the Parent Stock Day-old Chicks, are imported from overseas. In the event that there is any animal diseases in the source of origin of the Grandparent Stock Chicks, the supply of the Grandparent Stock Chicks may be interrupted, which will in turn adversely affect the supply of Parent Stock Day-old Chicks by our suppliers, which in turn will affect our supply of Parent Stock Day-old Chicks.

We had not experienced any material outbreak of diseases among or attributed to chicken at our production facilities during the Track Record Period and up to the Latest Practicable Date. If there is an outbreak of avian influenza or other animal diseases, particularly in neighbouring areas of the Group's production facilities, we may be required to suspend our business operations temporarily. We or our suppliers may be required to exterminate large quantities or all of the poultry if any of our broilers is suspected to be carrying avian influenza or other animal diseases. Further, since usually over ten thousands of broilers are bred in each broiler shed, cross infection between broilers may easily occur. In the event that any one broiler in a broiler shed is found to be infected, we may have to exterminate all the broilers in the same broiler shed or even the farm, which will in turn cause significant loss to the Group. The countries to we export our chicken meat products may also impose a blanket ban to ban the import of poultry products from China in cases of material outbreak of avian influenza among or attributed to chicken or other animal diseases. Recurrence of an outbreak of avian influenza or any other similar epidemic could also materially affect the confidence and interest of the consumers about our chicken meat products, which will in turn adversely affect the sales of our chicken products and disrupt our production activities. There is no assurance that there will be no recurrence of outbreaks of animal diseases in China or overseas. If we experience any outbreaks of animal diseases, our business, results of operations and financial condition may be adversely and materially affected.

The fair value of our biological assets and agricultural produces may fluctuate significantly from period to period, causing our results of operations to be highly volatile.

We have significant biological assets, primarily consisting of breeders, broilers and broiler eggs, which we record at fair value less costs to sell at each reporting date in accordance with IFRSs. In addition, we recognise gains or losses arising from agricultural produce at fair value less costs to sell at the point of harvest in profit or loss during the operating period. Fair value gains or losses with respect to our biological assets, which are non-cash in nature, are attributable to changes in the physical characteristics of the biological assets (for example, growth from chicken breeds to finishing broilers) or changes in market prices for biological assets.

The fair values of our biological assets at each reporting date during the Track Record Period were determined by an independent professional valuer and we intend to engage an independent professional valuer to determine the fair values of our biological assets going forward. In valuing our biological assets, the independent valuer has relied on a number of major parameters and assumptions which may vary from time to time, such as quantity and body weight of biological assets and market price of biological assets, as well as future trends in political, legal and economic conditions in China. See “Financial Information — Valuation of Biological Assets” for details.

The fair value of our biological assets could be affected by factors including the accuracy of those parameters and assumptions, as well as the quality of our biological assets and changes in the poultry farming industry. Market prices for biological assets are highly volatile and susceptible to significant fluctuations from period to period. As a result of revaluations of our biological assets from period to period, our financial position and results of operations may change significantly from period to period. In addition, an increase or decrease in market prices for biological assets will increase or reduce our revenue, total cost of sales, gains or losses arising from agricultural produce at fair value less costs to sell at the point of harvest and gains or losses arising from changes in fair value less costs to sell of biological assets, which makes our reported profit more volatile. For the four years ended 31 December 2016, 2017, 2018 and 2019, our total cost of sales was increased by biological assets fair value adjustments of approximately RMB323.9 million, RMB256.1 million, RMB283.9 million and RMB793.0 million, respectively. In these respective periods, the net biological assets fair value adjustments that affected our profit or loss were positive of approximately RMB5.3 million, RMB8.7 million, RMB18.1 million and RMB3.4 million.

Although we may recognise fair value gains from increases in the fair value of our biological assets, these changes will not represent changes in our cash position as long as the relevant assets continue to be held by us. See “Financial Information — Principal Factors Affecting Our Results of Operations — Biological assets fair value adjustments” for details.

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 currently fund our operations principally with proceeds from the sale of products and bank and other borrowings. Further, a majority of our bank borrowings consist of short-term bank loans, which puts pressure on our cash flows. As at 30 April 2020, being the most recent practicable date for liquidity disclosure in this prospectus, we had outstanding indebtedness (including bank and other borrowings and loans) of approximately RMB1,849.5 million, which included outstanding borrowings from the Controlling Shareholders' finance arm of approximately RMB150.0 million. See "Financial Information — Liquidity and Capital Resources — Indebtedness" for details regarding our bank borrowings, borrowings from the Controlling Shareholders' finance arm and other indebtedness. To finance our ongoing operations, existing and future capital expenditure requirements, renewal of current bank borrowings, acquisition and investment plans and other funding requirements, we may need to obtain financing from external sources to supplement our internal sources of liquidity. Our ability to obtain external financing is subject to a variety of uncertainties, including, among other things, (i) our future financial condition, results of operations and cash flows; (ii) general market conditions for capital raising and debt financing activities; and (iii) economic, political and other conditions in China and elsewhere.

If we fail to renew our existing bank borrowings or raise additional funding through future debt or equity offerings as needed, our ability to implement our business strategy may be impaired, which could adversely affect our growth, prospects and our results of operations. In addition, our ability to comply with financial covenants and conditions, make scheduled payments of principal and interest or refinance existing borrowings depends on our business performance, which is subject to economic, financial, competitive and other factors, including the other risks described in this prospectus.

Any future bank borrowings or other debt financing that we obtain may contain covenants that may, among other things, restrict our ability to pay dividends, obtain additional financing, create liens and encumbrances, merge, dissolve, liquidate or consolidate, and dispose of or transfer assets and may result in higher leverage and finance costs. Servicing these types of debt obligations and complying with their covenants could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of their covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected.

We recorded net current liabilities during the Track Record Period.

We had net current liabilities of approximately RMB645.3 million, RMB1,008.6 million, RMB866.4 million and RMB118.2 million as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively. Our net current liabilities as at end of the years during the Track Record Period was primarily due to our borrowings, most of which are short-term bank borrowings. Our borrowings were primarily utilised for construction of our production facilities, acquisition of property, plant and equipment and for general working capital purposes. Our net current liabilities was particularly high as at 31 December 2017 as we incurred additional short-term borrowings for construction of our new processing plant in 2017. See "Financial Information — Liquidity and Capital Resources — Net Current Liabilities/Assets" for further information on our net current liabilities position during the Track Record Period.

Going forward, we cannot guarantee that we will not continue to have a net current liabilities position, which would expose us to liquidity risk. Our future liquidity and ability to make additional capital investments necessary for our operations and business expansion will depend primarily on our ability to maintain sufficient cash generated from operating activities and to obtain external financing. There can be no assurance that we will be able to renew existing bank facilities or obtain other sources of financing. In the event that we continue to have net current liabilities, our working capital for business operations may be constrained. If we do not generate sufficient positive operating cash flow, renew existing bank loans or facilities, or obtain additional financing to meet our working capital needs, our business, financial condition and results of operations may be materially and adversely affected.

We rely on limited suppliers of Parent Stock Day-old Chicks and do not enter into long-term supply contracts with our other suppliers.

The Group does not usually enter into long-term supply contracts with our suppliers of raw materials, Parent Stock Day-old Chicks or Sichuan Mountain Black Bone Chicken. We generally engage them on contract-by-contract or purchase order basis except for one of our Parent Stock Day-old Chick suppliers with whom we have entered into a supply framework contract for a term of five years since 2016. During the Track Record Period, we procured Parent Stock Day-old Chicks from five Parent Stock Day-old Chicks suppliers which we had commercial relationships for approximately four to 16 years as at the Latest Practicable Date. See "Business — Production — Procurement of Parent Stock Day-old Chicks and Breeder Farms" and "Business — Top Suppliers — Suppliers of Parent Stock Day-old Chicks". Since the Group is currently specialised in breeding one type of broilers, it is preferable to limit the number of suppliers of Parent Stock Day-Old Chicks in order to achieve better traceability of the broilers and ultimately the chicken meat products that we produce. The Group had never experienced any shortage of supply during the Track Record Period. If any of our key Parent Stock Day-old Chicks suppliers cease to supply or significantly reduce the supply of the Parent Stock Day-Old Chicks to us, we may require additional time to select alternative suppliers with comparable quality and services, and our business and production process may be affected.

Our sales of chicken meat products are subject to change of consumer tastes and preferences.

For the four years ended 31 December 2016, 2017, 2018 and 2019, approximately 89.1%, 92.1%, 90.8% and 84.6% of the Group's total revenue, respectively, were derived from the sales of chicken meat products. The chicken meat products industry in which we operate is susceptible to factors which may affect the level and pattern of consumer spending in China. Such factors include consumer preferences and tastes, consumer confidence, consumer incomes and consumer perceptions of the safety and quality of our products. If the market demand for our chicken meat products decreases, our sales and revenue of the same will also be adversely affected. Accordingly, continued and increasing market acceptance of our chicken meat products is crucial to our results of operations and financial conditions.

However, consumer tastes and preferences as well as dietary habits may change from time to time. As the standard and way of living of the people in the PRC are changing from time to time, demand for different types of food products, such as convenience food products, ready-to-eat food products, fast food products and frozen food products, may also change from time to time. Further, consumers in the PRC have also become increasingly conscious of food safety, food quality and impact on health. Media coverage regarding the safety or quality of, or diet or health issues relating to, poultry products or additives that are used or involved in the manufacturing process thereof may also damage consumer confidence in these products. There can be no assurance that our existing products will continue to be accepted by our customers or we will be able to anticipate and respond to any change in the consumer preferences in a timely manner. Our failure to anticipate, identify or react to these particular tastes or changes, the demand for our products may decrease, which may in turn adversely affect our sales performance, our profitability, as well as our business, results of operations and financial position.

One of our business strategies is to expand and diversify our product portfolio by widening our product range, new product development and product enhancements, which can be expensive. We cannot assure you that our new or improved products will gain market acceptance, meet the particular tastes or preferences of consumers or generate acceptable margins. We may expend substantial resources developing and marketing new and improved products which may not achieve expected sales levels. If we are not able to effectively gauge the direction of our markets and successfully identify and develop new or improved products in these changing markets, our financial results and our competitive position may suffer.

Our business depends on the strength of our reputation and brands. If we fail to maintain and enhance our reputation and brands, consumers' recognition of and trust in us, our brands and products may be materially and adversely affected.

We rely on the strength of our reputation and brands, including "鳳祥食品 (Fovo Foods)" and "優形 (iShape)", in marketing and selling our chicken meat products. Our reputation and brands could be harmed by product defects, ineffective customer service, product liability claims, consumer complaints, or negative publicity or media reports.

Any claim against us, even if meritless or unsuccessful, could divert our management's attention and resources from other business concerns, which may adversely affect our business and results of operations. Negative media coverage regarding the safety, quality or nutritional value of our products and the resulting negative publicity could materially and adversely affect consumers' recognition of and trust in us and our brands and products. In addition, adverse publicity about any regulatory or legal action against us could damage our reputation and brand image, undermine our customers' confidence in us and reduce long-term demand for our products and therefore lead consumers to opt for other meat products that are perceived to be safer, even if the regulatory or legal action is unfounded or immaterial to our operations.

Additionally, China's poultry industry has experienced significant problems relating to food safety, such as the use of meats that are no longer fit for human consumption or the use of food additives, food colouring or dyes (such as Sudan dyes) that are harmful to human health in chicken meat production by certain industry participants. While these events may not have any direct connection to us, these types of problems may cause consumers to lose confidence in the safety and quality of chicken meat products generally and lead them to opt for other meat products that are perceived to be safer. Even if these events do not involve our products or operations, they could adversely affect our results of operations.

We are subject to risks associated with managing future growth and expansion.

Our future growth may depend on establishing new production facilities, expanding our production capacity, increasing our production efficiency, ramping up the production of our existing and new production facilities, introducing new products, expanding our sales and distribution network, and entering new markets or new sales channels. Our business plans set forth in ''Business — Business Strategies'' and ''Future Plans and Use of Proceeds'' are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties. Our ability to achieve growth will be subject to a range of factors, including:

- competing effectively with other companies in the poultry industry;
- exercising effective quality control and maintaining high safety standards;
- expanding our sales network and strengthening our existing relationships with customers;
- enhancing our research and development capabilities;
- hiring and training qualified personnel;
- controlling our costs of operations;
- prioritising our operational, financial and management controls and systems in an efficient and effective manner;

- acquiring land parcels of suitable size and location for our operations, in particular poultry breeding, slaughtering and processing; and
- managing our various suppliers and leveraging our purchasing power.

Expansion into new geographic markets and new sales channels which we have limited operating experience and brand recognition may present operating and marketing challenges that are different from those we currently face in our existing markets and sales channels. New markets and sales channels may have different competitive dynamics, consumer preferences and discretionary spending patterns compared to our existing markets and sales channels. Consumers in new markets and sales channels are likely to be unfamiliar with our brands and products and we may need to build or increase brand awareness in the relevant markets and sales channels by increasing investments in advertising and promotional activities. We may find it more difficult in new markets to hire, train and retain qualified employees. As a result, any products we introduce in new markets may be more expensive to produce and distribute and may take longer to reach expected sales and profit levels than in our existing markets, which in turn could affect the viabilities of these new operations and our overall profitability.

Additionally, our expansion plans and business growth could strain our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects. In addition, as we expand our operations, we may encounter regulatory, cultural and other difficulties that may also increase our cost of operations.

Our efforts to enhance production capabilities are subject to risks and uncertainties.

In order to achieve the economies of scale we desire in our operations to enable us to continue to increase the production of our chicken meat products in response to the needs of our customers, we intend to continue to expand our production capacity and enhance our operational efficiency. See "Business — Business Strategies — Expand our production capacities for white-feathered broilers production to further enhance our vertically integrated business model". Our expansion plans and business growth require significant capital expenditure and dedicated attention of our management. We intend to fund such expansion from part of the net proceeds of the Global Offering. Nevertheless, we may require additional financing to achieve our expansion plans and may have difficulty obtaining such financing. There is no assurance that we will be able to enhance our production capabilities in time or implement our future plan effectively. We may be subject to unexpected delays and cost overruns resulting from a number of factors, many of which may be beyond our control, including increases in the prices and availability of raw materials and production equipment, shortages of skilled employees, disputes with customers or suppliers as well as equipment malfunctions. In addition, our efforts to enhance our production capabilities may not achieve the expected benefits. If the demand for our chicken meat products is weaker than anticipated, we may experience problems associated with overcapacity and under-utilisation of personnel and other resources, which may have an adverse effect on our business, financial condition and results of operations.

We are subject to risks associated with the increasing adoption of broiler farms with battery cage systems.

We are subject to risks associated with the increasing adoption of broiler farms with battery cage systems. As at the Latest Practicable Date, we had 45 broiler farms, of which 11 had been converted into battery cage systems. The European Union prohibits the use of battery cages for breeding hens for welfare reasons. Hence, broilers bred in our broiler farms adopting battery cage systems may not be exported to the European Union. There is no assurance that other countries to which we currently or will export to will never prohibit the use of battery cages for breeding broilers for welfare reasons. There is also no assurance that our existing customers will continue to purchase chicken meat products bred in broiler farms with battery cage systems, and certain of our customers also disallow the supply of chicken meat products that are produced from broilers bred using battery cage systems. If any or all of our exporting countries impose a ban on the import of chicken meat products bred in broilers farms adopting battery cage system or if our major customers have preferences in purchasing broilers bred in broilers farms adopting cage-free method, our business, results of operations and financial condition may be adversely and materially affected.

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.

It is one of our business strategies to expand our production capacities for white-feathered broilers production to further enhance our vertically integrated business model by utilising 45.0% of net proceeds from the Global Offering to procure facilities necessary for broiler farms adopting battery cage systems, slaughtering and processing plant, breeder farms, hatchery, feedmill and organic fertiliser plant. See “Business — Business Strategies — Expand our production capacities for white-feathered broilers production to further enhance our vertically integrated business model” and “Business – Our Expansion Plan” for details.

It is expected that the implementation of our expansion plan and the procurement of facilities in the future may lead to higher operating expenses (including depreciation expenses and labour costs) compared with those during the Track Record Period. If we cannot implement our business strategies effectively and expand our production capacities as planned, we may not be able to enjoy the full economic benefit brought from such expansion plan and offset the higher operating expenses and our financial performance and operating results may be affected as a result.

Our environmental-related costs may increase if PRC environmental protection laws and regulations become more onerous.

Our business is subject to extensive and increasingly stringent PRC environmental protection laws and regulations. These laws and regulations require us to adopt measures to effectively control and properly dispose of dead chicken, manure, waste gases, wastewater, noise and other environmental waste materials. Failure to comply with these laws and regulations may result in significant consequences to us, including administrative, civil and criminal penalties, liability for damages and negative publicity. In case of a serious breach, the PRC Government may suspend or close any operation. See “Business — Environmental Protection” for further discussion of our regulatory compliance as it relates to environmental risk.

We have incurred environmental costs, including wastewater treatment costs and costs relating to greening to comply with environmental protection laws. We incurred total environmental costs for the four years ended 31 December 2016, 2017, 2018 and 2019 of approximately RMB5.2 million, RMB4.4 million, RMB4.9 million and RMB10.3 million, respectively. We will continue to incur costs to comply with environmental protection laws and regulations. In addition, new environmental issues could arise and lead to currently unanticipated investigations, assessments or costs. If we fail to comply, or are alleged to fail to comply, with the relevant PRC laws, regulations or government policies on environmental protection, we may be involved in costly litigation or subject to penalty imposed by the relevant judicial or governmental authorities. There can also be no assurance that the PRC Government will not change existing laws or regulations or impose additional or stricter laws or regulations, compliance with which may require us to incur significant costs and capital expenditures and as a result materially and adversely affect our financial condition and results of operations.

Our historical growth rate, revenue and profit margin may not be indicative of our future growth rate, revenue and profit margin.

For the four years ended 31 December 2016, 2017, 2018 and 2019, our revenue was approximately RMB2,354.1 million, RMB2,434.4 million, RMB3,197.1 million and RMB3,926.2 million, respectively. For the four years ended 31 December 2016, 2017, 2018 and 2019, our gross profit was approximately RMB68.2 million, RMB37.1 million, RMB178.0 million and RMB428.4 million, respectively, whereas our gross profit margin for the same years was approximately 2.9%, 1.5%, 5.6% and 10.9%, respectively. For the same years, our profit for the year was approximately RMB119.8 million, RMB37.1 million, RMB136.6 million and RMB837.4 million, respectively. For discussions on our results of operations, see "Financial Information — Results of Our Operations".

There is inherent risk in using such historical financial information of us to project or estimate our financial performance in the future, as they only reflect our past performance under particular conditions. We may not be able to sustain our historical growth rate, revenue and profit margin for various reasons, including but not limited to, deterioration in the market conditions of the poultry industry in the key markets we operate, intensification of competition among our competitors and other unforeseen factors such as deterioration in general economic conditions, which reduce the sales volume of our products and/or reduce the profit margin of our products. There is no assurance that we will be able to achieve the performance as we did during the Track Record Period. Investors should not solely rely on our historical financial information as an indication of our future financial or operating performance.

We engage third-party distributors to sell our products, and we have limited control over our distributors.

We engage third-party distributors to sell some of our chicken meat products. As at 31 December 2019, we had seven distributors. For the four years ended 31 December 2016, 2017, 2018 and 2019, our revenue from sales of chicken meat products to distributors accounted for approximately 1.9%, 2.2%, 1.4% and 1.1% of our total revenue, respectively. As at the Latest Practicable Date, we co-operated with seven distributors, all of which are independent third parties, and we have not entered into any long-term distributorship agreements with these distributors, details of which are set out in "Business — Sales — B2B Sales Model — Sales to Domestic Customers — Sales to distributors".

Any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancellation of orders from one or more of our large distributors;
- failure to renew distribution agreements and maintain relationships with our existing distributors;
- failure to establish relationships with new distributors on favourable terms;
- inability to timely identify and appoint additional or replacement distributors upon the loss of one or more of our distributors; and

- breach of distribution agreements by our distributors, including prohibitions on sales by our distributors of our competitors' chicken meat products.

We may not be able to compete successfully against larger and better-funded sales and marketing campaigns of our competitors, especially if these competitors provide their distributors with more favourable arrangements. We cannot assure you that we will not lose any of our distributors to our competitors, which could cause us to lose some or all of our favourable arrangements with such distributors and may result in reductions in the coverage of our distribution network or decreases in our sales volume. In addition, we may not be able to successfully manage our distributors and the cost of any expansion of our distribution and sales network may exceed the revenue generated from these efforts. There can be no assurance that we will be successful in detecting any non-compliance by our distributors with the provisions of their distribution agreements. Non-compliance by our distributors could, among other things, negatively affect our brand, demand for our products and our relationships with other distributors. Furthermore, we have limited control over our distributors and may not be able to monitor our distributors' inventory level in the event that our distributors decide to accumulate our chicken meat products as inventory. We cannot assure you that all our chicken meat products sold to distributors are subsequently sold to consumers and the sales of our chicken meat products truly reflect the market demands. In addition, if there is a decline in demand from end consumers, our distributors may not place orders for new products from us or may reduce the quantity of their usual orders. The occurrence of any of these factors could result in a significant decrease in the sales volume of our products and therefore adversely affect our financial condition and results of operations.

We face inherent risks of managing our export business and are subject to economic downturns, political instability, changes in societal opinion or other risks associated with export and import regulations and foreign exchange rates.

During the Track Record Period and as at the Latest Practicable Date, we exported certain of our chicken meat products to overseas customers in Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. For the four years ended 31 December 2016, 2017, 2018 and 2019, our overseas sales accounted for approximately 23.4%, 27.2%, 30.0% and 24.6% of our total revenue, respectively. We face inherent risks in maintaining and expanding our business overseas, including but not limited to, differences in legal and regulatory requirements on technical, hygienic, environmental or other requirements relating to export, distribution and sale of our products, currency exchange rates, economic sanctions and changes in political and economic conditions, all of which could materially and adversely affect our business.

In addition to requirements imposed by the PRC Government, other countries may also require us to export our products to obtain various approvals, certificates, registrations or other documentation to conduct our export sales. Although during the Track Record Period we had, in all material respects, complied with all laws and regulations in the PRC and in export countries applicable to us and relevant to our export sales by completing all necessary procedures to obtain all relevant approvals, certificates, registrations or any other legally required documentation from the relevant PRC Government authorities and in the destination countries with respect to the relevant exported products, we depend on our overseas customers to complete our export sales, and they are responsible for complying with other aspects of the relevant PRC and foreign laws and regulations. As such, we cannot assure you that all our overseas customers or any other entities are in compliance with all other aspects of PRC or foreign laws and regulations relevant to our export sales, or that they can meet the relevant standards or obtain the approvals, certificates, registrations or other documentation necessary to our export sales. If we fail to satisfy the relevant standards adopted by the PRC or the destination countries, or if our overseas customers fail to obtain the requisite approvals, certificates, registrations or other documentation now or in the future for importing our products to destination countries, our ability to export to these markets could be materially and adversely affected. We may also face regulatory actions or claims for significant damages, which may in turn have a material adverse effect on our business, results of operations and financial position.

In addition, our results of operations may be adversely affected by factors in the countries to which we export chicken meat products, including outbreaks of animal diseases, international economic and political conditions, export restrictions, import quotas or trade tariffs imposed by various foreign countries (such as the importation suspension previously imposed by the Malaysian government and Mongolian government in 2016 and early 2020, respectively), different regulatory structures and unexpected changes in regulatory environments, foreign taxation and potentially negative consequences from changes in tax laws, hostilities, acts of terrorism, disruptions in shipping or reduced availability of freight transportation. The PRC Government's and foreign governments' policies, such as tariffs, duties and export restrictions, may also significantly affect our ability to export chicken meat products or adversely affect the supply and demand for, and prices of, our exported chicken meat products. This in turn may have a material adverse impact on our business, financial condition and results of operations.

We intend to continue to develop our overseas customer base. We face risks in expanding and maintaining our business in overseas markets, including, but not limited to:

- the burden of complying with a variety of foreign laws and regulations and with unexpected changes in the legal and regulatory environment, including changes to import and export regulations or any trade restrictions, trade tariffs and economic sanctions;
- reduced protection for intellectual property rights in some jurisdictions;
- difficulties in entering new markets and establishing brand recognition, including reliance on local distributors for our sales and marketing;
- changes in political and economic conditions; and
- fluctuations in currency exchange rates.

Any failure to adequately manage these risks may result in a material adverse impact on our business, financial condition and results of operations.

The preferential tax treatment, government grants and economic incentives that we currently enjoy may be altered or terminated, which could have a material adverse effect on our business, financial position, results of operations and prospects.

We enjoy certain preferential tax treatment in relation to certain portions of our operations. Our subsidiaries that carry out primary processing of agricultural products (for example, slaughtering of chickens) are exempt from EIT on income derived from that business. Our effective tax rates were lower than the EIT rate of 25% at 0.8%, (0.8)%, 0.6% and 0.2% and the effect of tax exemptions granted to certain operations of the Group were approximately RMB56.0 million, RMB38.3 million, RMB38.5 million and RMB209.7 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. For details, see "Financial Information — Principal Factors Affecting Our Results of Operations — Taxation and Government Grants", "Financial Information — Description of Selected Statement of Comprehensive Income Items — Income Tax Expense" and Note 13 to the Accountants' Report in Appendix I. Additionally, we enjoy a number of government grants in China, including financial subsidies we received from local governments in connection with the industry that we operate in and from in support of our industry's development. For the four years ended 31 December

2016, 2017, 2018 and 2019, total government grants we recognised amounted to approximately RMB4.0 million, RMB4.9 million, RMB6.6 million and RMB10.2 million, respectively. There can be no assurance that the preferential tax treatment, government grants and economic incentives that we enjoy will not be altered or terminated. Any alteration or termination of our current preferential tax treatments, government grants or economic incentives could have a material adverse effect on our business, financial condition, results of operations and prospects.

We do not have long-term contracts with our major customers and changes in our relationships with our major customers, or in the trade terms with these customers, may reduce our sales and profits.

Our sales to five largest customers accounted for approximately 35.8%, 40.0%, 37.7% and 28.9% of our total revenue for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We do not have long-term sales agreements or other contractual assurances as to future sales to these major customers.

Our business could suffer significant setbacks in sales and operating income if our customers' business plans or markets change significantly or if we lose one or more of our large customers. Moreover, consolidation in China's retail industry is likely to continue, including among hypermarkets, supermarkets, wet markets, restaurants, canteens, food processors and food distributors, which is likely to result in us having a more concentrated retail base and increased credit exposure to certain customers. Furthermore, as China's retail-branded food and foodservice industries continue to consolidate, our large customers may seek to use their position to improve their profitability through improved inventory efficiency, lower pricing, increased promotional programmes and increased emphasis on private label products. If we are unable to use our competitive strengths, marketing expertise, product innovation capabilities and brand recognition to respond quickly and effectively to these market trends, our profitability and sales volume growth could be negatively affected. To the extent we provide concessions or trade terms that are more favourable to our large customers, our margins may be reduced. The loss of a significant customer or a material reduction in sales to, or adverse change to trade terms with, a significant customer could materially and adversely affect our product sales, financial condition, results of operations and prospects.

Our sales and reputation may be adversely affected by delays in delivery or poor handling by third-party logistics service providers.

We engage logistics service providers to deliver our products to our customers. There are various factors beyond our control that could result in delays in delivery, including natural disasters and extreme weather conditions, labour strikes, traffic accidents and road maintenance constructions. Delays in delivery could reduce the shelf life of our products and in turn adversely affect our results of operations. If our products are not delivered on time, we may breach our sales agreements and have to pay damages to our customers accordingly. More importantly, this may adversely affect our reputation and further cause loss of customers and market share, which could adversely affect our results of operations.

We require our logistics service providers to provide a suitable environment and maintain sanitation standards in the vehicles used to deliver our products. As we do not have direct control over our logistics service providers, we cannot guarantee their quality of services, in particular, the quality of their vehicles or warehouses. If third-party logistics service providers cause any damage to or loss of our products, we may lose customers and experience lower sales and our brand image may be tarnished.

Additionally, disputes with or termination of our contractual relationships with one or more of our logistics service providers could delay deliveries of our products, increase costs, disrupt our supply to customers or cause customer dissatisfaction. There can be no assurance that we can continue or extend relationships with our current logistics service providers on terms acceptable to us, or that we will be able to establish relationships with new logistics service providers to ensure timely and cost-efficient delivery services. If we are unable to maintain or develop good relationships with logistics service providers, our ability to deliver products in sufficient quantities on a timely basis or at acceptable prices may be harmed. We cannot guarantee that no interruptions will occur, which could materially and adversely affect our business, prospects or results of operations.

Our operations may be interrupted by production difficulties due to mechanical failures, utility shortages or explosions, fires, acts of God, occurrence of epidemics or other calamities at or near our facilities.

We rely on machinery and equipment to achieve mass production of our products. Any mechanical failures or breakdowns could materially disrupt our production and cause us to incur additional costs to repair or replace the affected mechanical systems. There can be no assurance that we will not experience problems with our machinery and equipment or that we will be able to address any such problems or obtain replacements in a timely manner. Problems with key machinery and equipment in one or more of our production facilities may affect our ability to produce our products or cause us to incur significant expenses to repair or replace the affected machineries or equipment. Any of these factors could have a material adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, our production and operations depend on a continuous and adequate supply of utilities, such as electricity, water and gas. If there are any shortages of power, water, gas or other utilities in regions where our production facilities are located, the local authorities may require our production facilities to be shut down. Any disruption in the supply of electricity, water or gas at our production facilities would disrupt our production, and could cause deterioration or loss of our products. This could adversely affect our ability to fulfil our sales orders and consequently may have an adverse effect on our business and operations.

In addition, explosions, fires, earthquakes, natural disasters or extreme weather, including droughts, floods, excessive cold or heat, typhoons or other storms could cause power outages, gas or water shortages, damage our production and processing facilities and warehouses or disrupt our transportation channels, any one of which could significantly disrupt our operations. Outbreaks of health epidemics such as coronavirus disease (COVID-19), the severe acute respiratory syndrome ("**SARS**"), Middle East Respiratory Syndrome ("**MERS**") as well as the Ebola virus could also materially and adversely affect our business operations. There can be no assurance that similar or more serious incidents will not occur in the future or that we will be fully insured or otherwise compensated for such incidents. Any failure to take adequate steps to mitigate the potential impact of unforeseeable incidents, or to effectively respond to such incidents if they occur, could adversely affect our business, financial condition and results of operations.

Our non-compliances with social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties.

During the Track Record Period, the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang did not fully make contribution to the social insurance fund for all of their respective employees in compliance with the provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), and did not fully make housing provident fund contributions for all of their respective employees in compliance with the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》). See "Business — Regulatory Compliance" for details of our historical non-compliances.

We cannot assure you that employees of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang, who have consented not to make contribution to the social insurance fund and/or the housing provident fund, may within the statutory limitation period lodge complaints with the relevant authorities against the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang in respect of our failure to make contribution to the social insurance fund and/or the housing provident fund, or initiate a claim against or disputes with the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang.

If the relevant authorities impose any fine and/or penalty on us for any of our non-compliance incidents, or demands us to take any remedial steps which may lead to the incurrence of substantial expenses, our financial condition and results may be materially and adversely affected. In addition, in the event that the relevant authorities later strengthen the enforcement of the relevant laws and regulations on social insurance and housing provident funds in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance and housing provident fund contributions, or if provisions are required to be made, the amount of which may be significant, our business, financial condition and results of operation may be materially and adversely affected.

We are subject to potential adverse consequences due to our lack of building ownership certificates in respect of certain owned properties in the PRC.

As at the Latest Practicable Date, we had not obtained building ownership certificates for four parcels of land in the PRC with a total gross floor area of approximately 1,144.72 sq.m., representing an aggregate of approximately 0.4% of the total gross floor area of our owned properties. These properties are mainly non-production facilities that are temporary in nature. The PRC Legal Advisers advised us that the Group may not legally transfer, mortgage or otherwise dispose of the such properties before we obtain the relevant building ownership certificates, and where such buildings are delivered for use without completing practical completion checks, the Group may be ordered to rectify such non-compliance, and may be imposed a fine of not less than 2% but not exceeding 4% of the total contractual construction cost of the relevant buildings.

We cannot assure you that we will be able to obtain the title certificates for these land or properties. We also cannot assure you that our use and occupation of the relevant land and properties for which we have not obtained title certificates will not be challenged. If our legal right to use or occupy the relevant properties is challenged, we may have to find alternative properties, and there is no assurance that we will be able to secure alternative properties for our business if we are required to relocate. We may also incur additional relocation and other costs, and our business operations may be disrupted. Any of the above factors may have an adverse effect on our business, financial condition, results of operations and prospects.

We may be exposed to risks from our hedging activities in relation to the commodity prices of our raw materials.

The price of soybean meal, being one of the major raw materials for our production, is mainly affected by prices of soybean meal from major producing areas abroad and experienced fluctuations. For instance, in the first half of 2016, domestic prices of soybean meal increased sharply due to reduction of output in the US and Brazil. As such, we use certain hedging instruments to limit exposure to future soybean meal price changes. Our primary hedging method is to purchase soybean meal futures when we believe the prices are favourable to mitigate the impact of rising commodity prices on us. During the Track Record Period, we also conducted hedging activities in relation to the commodity prices of corn and soybean oil.

While these contracts reduce our exposure to changes in prices for commodity products, the use of such instruments may ultimately limit our ability to benefit from favourable trends in commodity prices. The successful use of a hedging device depends on our ability to forecast correctly the direction and extent of market movements within a given time frame. To the extent market prices remain stable or such prices fluctuate in a direction opposite to that anticipated, we may realise a loss on the hedging transaction that is not offset by a decrease in the price of the raw materials. The maximum financial exposure on the outstanding positions of our raw materials futures contracts as at each of the year end date during the Track Record Period would be the deposit amount for raw materials futures contracts we held at the respective date. In addition, if we fail to properly monitor and manage our hedging positions, we may be required to deposit and utilise additional amount that may adversely affect our cash and cash equivalent position. Although we have put in place certain risk control procedures aimed at reducing risks in relation to these hedging transactions, there can be no assurance that these procedures will be effective and adequate. There can be no assurance that we will not experience losses with respect to these hedging transactions in the future or that such losses will not have a material adverse effect on our business, financial conditions, results of operations and prospects.

Our success depends on our ability to retain our key management team.

Our future business performance and prospects depend significantly on our key management team, in particular, the executive Directors namely, Mr. Liu ZG, Mr. Xiao Dongsheng, Mr. Ow Weng Cheong and Mr. Wang Jinsheng, and members of senior management as they are in charge of the overall planning, development and execution of our business and operations. If any of the executive Directors and/or any members of senior management were to terminate their services or employment with us, we may not be able to find suitable replacements in a timely manner, at acceptable cost or at all. In addition, competition for qualified personnel in China is intense and the availability of suitable candidates may be limited. Failure to attract and retain key personnel could materially and adversely affect our results of operations and business prospects.

Our performance depends on favourable labour relations with our employees, and any deterioration in labour relations, shortage of labour or material increase in wages may have an adverse effect on our results of operation.

Our business is labour intensive, and our success depends on our ability to hire, train, retain and motivate our employees. As at the Latest Practicable Date, we had 7,880 employees. We consider favourable labour relations as a significant factor that can affect our performance, and any deterioration of our labour relations could cause labour disputes, which could result in disruptions to production and operations.

Over the last three decades, China has experienced rapid economic growth, and with it significant increases in labour costs. Our employee benefit expenses were approximately RMB474.4 million, RMB553.2 million, RMB634.9 million and RMB605.4 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. Average labour wages in China are expected to continue to increase. In addition, we may need to increase our total compensations to attract and retain experienced personnel required to achieve our business objectives. Any shortages in the availability of labour, any material increases in our staff costs or any deterioration in employee relations may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may not be able to effectively manage increase in inventory while we grow our business.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, the balance of our inventory was approximately RMB497.2 million, RMB508.8 million, RMB347.5 million and RMB485.0 million, respectively. Further information on the components of our inventory is set forth in "Financial Information — Analysis of Selected Statement of Financial Position Items — Inventories". For the four years ended 31 December 2016, 2017, 2018 and 2019, our average inventory turnover days were 73.6 days, 76.6 days, 51.8 days and 43.4 days, respectively. As at 30 April 2020, approximately RMB434.5 million, accounting for approximately 89.6% of our inventories for the year ended 31 December 2019, was consumed or sold. This level of inventory may result in obsolescence if we over-estimate the demand level or if there is a sudden change in customer preference. If we cannot manage increases in our inventory, our business and financial conditions and operating results could be adversely affected.

We may be exposed to credit risks resulting from delays and/or defaults in payments by our customers which would adversely affect our business, financial condition and results of operations.

We typically offer our customers a credit period of 30 to 60 days after the product delivery date to our overseas customers and our major domestic customers and are therefore subject to credit risks of our customers. Our liquidity depends on our customers making prompt payments to us. See "Business — Sales — Credit Policy" for details.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, our trade receivables amounted to approximately RMB80.7 million, RMB106.7 million, RMB188.6 million and RMB206.6 million, respectively, and our trade receivables turnover days were 12.0 days, 14.0 days, 16.9 days and 18.4 days, respectively. See "Financial Information — Analysis of Selected Statement of Financial Position Items — Trade Receivables" for details.

If our customers delay or default in their payments to us, we may have to make impairment provisions and write-off the relevant receivables. This in turn may materially and adversely affect our business, financial condition and results of operation.

We are uncertain about the recoverability of our VAT and other recoverable, which may affect our financial positions in the future.

As at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, our VAT and other recoverable amounted to approximately RMB95.0 million, RMB154.9 million, RMB101.4 million and RMB85.1 million, respectively, which mainly represented VAT recoverable related to our purchases of property, plant and equipment for the construction of our new production facility for processed chicken meat products in accordance with relevant PRC VAT laws and regulations. See "Financial Information — Analysis of Selected Statement of Financial Position

Items — Prepayments, Deposits and Other Receivables" for details. We cannot guarantee the recoverability or predict the movement of our VAT and other recoverable, and to what extent they may affect our financial positions in the future.

We may not be able to adequately protect our intellectual property and knowhow, which could materially and adversely affect our business.

We believe that our current intellectual property rights and those for which we have pending applications provide protection to our business and are necessary for our operations. However, there can be no assurance that our intellectual property applications will be approved, our intellectual property rights will adequately protect our intellectual property, we will be able to detect breaches of our intellectual property rights, our intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable, or our intellectual property rights will be effective in preventing third parties from utilising similar business models, processes or brand names to offer similar products. For example, counterfeit products are potential threats to our "鳳祥食品 (Fovo Foods)", "優形 (iShape)" and "五更爐 (Wu Genglu)" trademarks, which could reduce demand for our products. We may also be subject to disputes, claims or litigation involving our intellectual property rights or third-party intellectual property rights and there may be claims that we infringe third-party intellectual property rights. Any of these could disrupt our business and divert our management's attention from our operations. The costs associated with these types of disputes, claims or litigation may be substantial and could have a material adverse effect on our brand image, business, financial condition, results of operations and prospects.

We may not be able to identify and prevent fraud or other misconduct committed by our employees, customers or other third parties.

We are exposed to fraud or other misconduct committed by our employees, customers or other third parties, which could subject us to financial losses, third party claims, regulatory investigations or reputational damages. Despite our internal control measures in place, we cannot assure you that our internal control policies and procedures are sufficient to prevent, or that we could properly manage the conduct of our employees or customers, or that we can otherwise fully detect or deter, all incidents of fraud, legal, tax or other regulatory non-compliance, violations of relevant laws and regulations and other misconduct. Any such conduct committed by our employees, customers or other third parties could have an adverse effect on our reputation, business, financial condition and results of operations.

Improvements to our risk management and internal control systems may not be adequate or effective.

We have designed and implemented risk management and internal control systems consisting of relevant organisational framework policies and procedures, financial reporting procedures and processes, compliance rules and policies and risk management measures that we believe are appropriate for our business operations. We seek to continue to improve our risk management and internal control systems from time to time. However, we cannot assure you that our risk management and internal control systems will be sufficiently effective in ensuring, among other things, the accurate reporting of financial results and in preventing fraud. Since our risk management and internal control systems depend on implementation by our employees, we cannot assure you that our employees are sufficiently trained to implement the systems or that their implementation will not involve any human error or mistake. If we fail to timely update, implement and modify or fail to deploy sufficient human resources, as applicable, our risk management policies and procedures, our business, financial condition and results could be materially and adversely affected.

Failures or security breaches of our information technology systems could disrupt our operations and negatively impact our business.

We use information technology systems to monitor our production process, increase efficiencies in our facilities and inventory management, and manage and analyse our operations and financial information. We also use information technology to process financial information for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, we rely on information technology for electronic communications with our facilities, personnel, customers and suppliers. Our information technology system may be vulnerable to various threats including unauthorised disclosure of information, intentional alteration of data, cyber-attacks, electrical disruptions, system configuration errors and telecommunication malfunctions. Although we have implemented protection and back-up schemes for our information technology system, these may not be sufficient. Any serious system failure or system malfunction could negatively affect our operations, financial condition and reputation. Any unauthorised disclosure of information could compromise our trade secrets, confidential information and customer information, which could adversely affect our results of operation, financial condition and reputation.

Our results of operations are susceptible to periodic fluctuations due to seasonality.

Our results of operations may experience periodic fluctuations due to seasonality. During the Track Record Period, we generally recorded a relatively higher revenue during the second half of the year due to our domestic customers' consumption patterns during summer and holiday periods or year-end festive seasons in foreign countries. Accordingly, our results of operations may fluctuate significantly from period to period and a comparison of different periods may not be meaningful.

Personal injuries, damage to property or fatal accidents may occur in our production facilities.

We use machineries and equipment in our production processes such as cutting equipment, heating machines and hatching equipment, which are potentially dangerous and may cause industrial accidents and personal injuries to our employees. In addition, our employees may violate safety measures or other related rules and regulations, which may cause industrial accidents.

Any significant accident could interrupt production and result in personal injuries, damages to properties, fatal accidents and legal and regulatory liabilities. In addition, potential industrial accidents leading to significant property loss or personal injury may subject us to claims and legal proceedings, and we may be liable for medical expenses and other payments to employees and their families as well as fines or penalties. As a result, our reputation, brand, business, results of operations and financial condition may be materially and adversely affected.

Our insurance coverage may not be adequate to cover all the risks and we may be subject to product liability.

During the Track Record Period, we maintained integrated insurance coverage on our properties and fixed assets, production facilities and equipment against property damage. See "Business—Insurance" for details. However, we do not maintain insurance policies against interruptions to business operations or maintain third-party liability insurance against claims for environmental liabilities. If there were to be any interruptions to business operations or third-party liability claims with respect to which we are not covered by insurance or our insurance coverage is inadequate, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Being a food producer, product safety is important to our business. Although we have implemented various measures to ensure the safety of our products, including but not limited to implementing strict hygiene measures in the breeding of our breeders and broilers and slaughtering and processing of the broilers, there can be no assurance that our products will not be contaminated and cause harm to end consumers. As at the Latest Practicable Date, we had not maintained any product liability insurance policy in the PRC.

RISKS RELATING TO OUR INDUSTRY

China's poultry industry is affected by fluctuations in the domestic and global economy and financial markets.

Our business operations depend on the condition of and overall activity in China's poultry industry, which may be adversely affected by changes in national or global economic conditions and the local economic conditions of the markets in which we operate. Changes may include changes to GDP growth, inflation, interest rates, availability of and access to capital markets, consumer spending and the effects of governmental initiatives to manage economic conditions. Weak economic conditions could harm our business by contributing to reductions in demand, insolvency of suppliers and customers, and increased challenges in conducting our operations. For example, the global economy and financial markets experienced significant disruptions in 2008 and the United States, Europe and other economies experienced periods of recession. Recovery from the lows of 2008 and 2009 has been uneven and new challenges and issues have arisen, including the escalation of the European sovereign debt crisis since 2011, the slowdown of China's economic growth since 2012, the significant decline and volatility in Chinese stock markets in the second quarter of 2015, the trade dispute between the PRC and the United States in 2019, the global economic downturn resulting from the coronavirus disease (COVID-19) and the economical and political instability in the United Kingdom during the transition period due to Brexit in 2020. For regulations and details in relation to Brexit, see "Regulatory Overview — The United Kingdom". We cannot provide any assurance that these or other events will not continue or arise in the future. Slowdowns in global, national and regional economies could cause declines in consumer confidence and disposable income levels, which may result in lower demand for our products and materially and adversely affect our business, results of operations and financial position.

In addition, the general lack of available credit and confidence in the financial markets associated with any market volatility or downturn could adversely affect our access to capital as well as our suppliers' and customers' access to capital, which in turn could adversely affect our ability to fund our working capital requirements and capital expenditures.

Our operations are extensively regulated by the PRC Government and subject to inspections and examinations by Chinese regulatory authorities and various licence and permit requirements. The costs associated with compliance with such regulations and requirements can be substantial. Our results of operations and future growth prospects may be materially and adversely affected by future changes in government regulations.

Our operations are subject to extensive regulation by PRC governmental authorities, including primarily Ministry of Agriculture and Rural Affairs, Ministry of Natural Resources, MOFCOM, State Administrative of Market Regulation and Ministry of Ecology and Environment as well as their provincial and local counterparts. These regulatory bodies have broad discretion and authority to regulate many aspects of the breeding, farming, slaughtering, processing, processed chicken meat production and distribution, and meat import industries in China, including setting hygiene and safety standards for production, quality standards for meat products and environmental requirements on the treatment of dead chicken, sewage and wastes; and handling filings of facility agricultural-use land. In addition, we are required to obtain and maintain various licences, permits and filings in order to operate our business. These include, among others, Certificate for Production and Operation of Breeding Livestock and Poultry, Certificate for Animal Epidemic Disease Prevention, filing for poultry farms, Certificate for Food Production, Certificate for Food Operation and filing of facility agricultural-use land. We are also required to obtain various government approvals and comply with applicable hygiene and food safety standards in relation to our production processes, premises and products.

Loss of or failure to obtain necessary permits, licences and filings could delay or prevent us from meeting current product demand, introducing new products, building new facilities or acquiring new businesses and could adversely affect our operating results. If we are found not to be in compliance with applicable laws and regulations, particularly if it relates to or compromises food safety, we could be subject to administrative and civil remedies, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, future material changes in regulations over our operations could result in increased operating costs or affect our ordinary operations, which could also have a material adverse effect on our operations and our financial results.

We operate in a highly competitive industry and may face increased competition. New competitors who enter the market could have an adverse impact on our businesses and prospects.

We face intense competition in terms of safety and quality, brand recognition, taste, price and distribution. The poultry industry in China is fragmented. We face increasing competition from local, national and foreign producers. Competitors may develop products of a comparable or superior quality to ours, or adapt more quickly than we do to evolving consumer preferences or market trends. In addition, developments in government regulation have driven consolidation in the Chinese poultry industry, with smaller operators unable to bear the increasing costs of regulatory compliance such as environmental protection regulations. The consolidation among industry participants in China may produce stronger domestic competitors as well as competitors more specialised in particular segments and geographic markets. Furthermore, our competitors may form alliances to achieve scales of operations or sales networks that would make it more difficult for us to compete. Increased competition may also lead to price wars, counterfeit products or negative brand advertising, all of which may adversely affect our market share and profit margin. To expand market share or enter into new markets, some of our competitors may use aggressive pricing strategies, greater incentives and subsidies for distributors, retailers and other customers. We may not be able to compete effectively with our current or potential competitors, and our inability to compete successfully against competitors could result in loss of market share or reduced profit margins, either of which could adversely impact our results of operations.

We face risks relating to fluctuations in the prices of substitute products.

Fluctuations in the market prices of substitutes for our products, especially decreases in the prices of substitute protein products (such as pork, beef, mutton, lamb and seafood) relative to poultry, affect the prices of poultry products. As a result of decreases in the prices of substitute protein products relative to poultry, consumers may purchase less poultry. For example, past outbreaks of avian influenza in various parts of the world reduced global demand for poultry and created temporary surpluses of poultry. The surplus of poultry products placed downward pressure on poultry prices and also negatively affected other meat prices including pork, beef and lamb. Even where we are able to adjust our selling prices in response to decreases in the prices of substitute products, our profit margin may experience contraction, which would in turn have a material adverse impact on our business, financial condition, results of operations and prospects.

RISKS RELATING TO THE PRC

Changes in political, social and economic policies in China may materially and adversely affect our business, financial condition, results of operations and prospects.

A substantial portion of our business and operations are located in China and a substantial part of our revenue is generated from chicken meat products produced and sold in the PRC. Accordingly, changes in political, social and economic policies in China may materially affect our results of operations and business prospects. The Chinese economy differs from the economies of most developed countries in many aspects, including the level of government involvement, degree of development, economic growth rate, control of foreign exchange and allocation of resources. Although the PRC has been one of the world's fastest growing economies in recent years as measured by GDP, such growth may not be sustainable in the future. The PRC Government has implemented various measures to encourage economic growth and guide the allocation of resources, but some of these measures, such as the introduction of measures to control consumer price, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversion and remittances abroad, may lead to changes in market conditions and could materially and adversely affect our business, financial condition and results of operations. If the PRC economy experiences significant adverse changes due to any of the foregoing reasons, demand for our chicken meat products and our ability to maintain our operations may suffer, which will consequently have a material adverse effect on our financial condition, results of operations and our future prospects.

Government control of currency conversion and fluctuations in the exchange rates of the Renminbi may adversely affect our business and results of operations and our ability to remit dividends.

Substantially all of our revenue and expenses are denominated in Renminbi, which is not a freely traded currency. We may need to convert a portion of our revenue to foreign currencies to meet some of our financial obligations (e.g. to pay out declared dividends on H Shares in the Global Offering). We recorded net exchange gain of approximately RMB5.5 million, nil, nil and RMB7.0 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

The PRC Government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under existing Chinese foreign exchange regulations, payments of current account items, including dividend payments, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from SAFE is required for foreign currency conversions for payment under capital account items such as equity investments. The PRC Government may also at its discretion restrict our access in the future to foreign currencies for current account transactions. As a result, we might not be able to pay dividends to the holders of our H Shares in foreign currencies.

Since a significant amount of our future cash flows from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of China or otherwise fund our business activities that are conducted in foreign currencies, in particular our international trading business. This could also affect our ability of to obtain foreign debt or equity financing, including by means of loans or capital contributions from us.

The exchange rates of the Renminbi against foreign currencies, including the Hong Kong dollar, are affected by, among other things, changes in China's political and economic conditions. Any fluctuations in exchange rates of the Renminbi against the US dollar or other foreign currencies may cause our costs for importing raw chicken meat products and equipment to be volatile. Fluctuation of the exchange rate between Renminbi and Hong Kong dollars may also affect the dividends that we pay to our H Share Shareholders. We have entered into foreign exchange forward contracts with banks in the PRC to hedge certain of our currency risk arising from our accounts receivable denominated in US dollars, which related to our export business. We are subject to the risk that the counterparty to one or more of these arrangements will default on its performance of the terms of the arrangement. In addition, the effectiveness of these hedges depends on our ability to accurately forecast future changes in foreign exchange rates and to effectively match the amount and timing of our foreign currency exposure to the hedging arrangements. As a result, we may suffer losses in these hedging activities. In addition, to the extent that we need to convert Hong Kong dollars that we will receive from the Global Offering into Renminbi for our operations, appreciation of Renminbi against the Hong Kong dollar would have an adverse effect on the Renminbi amount that we will receive. Conversely, if we decide to convert our Renminbi into Hong Kong dollars for the purpose of making dividend payments on our H Shares or for other business purposes, appreciation of the Hong Kong dollar against Renminbi would reduce the Hong Kong dollar amount available to us.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

The legal system in China has inherent uncertainties that could limit the legal protections available to the Shareholders. We are incorporated under the laws of the PRC and our business and operations are conducted in China and are governed by PRC law, rules and regulations.

The PRC legal system is a civil law system, which, unlike the common law system, relies largely on the statutes and the Supreme People's Court's interpretation of these statutes. Under such a system, precedent has limited significance for guidance. The PRC Government has been developing a commercial law system, and has made significant progress in promulgating laws and regulations relating to economic affairs. Examples of these economic affairs include corporate organisation and governance, foreign investment, commerce, taxation and trade. But because these laws and regulations are new, only limited number of published decisions are available. As a result, the implementation and interpretation of these laws and regulations lack consistency and predictability.

Additionally, the PRC legal system can be retroactive. Thus, the legal protection available to us under the laws, rules and regulations may be limited. Moreover, the litigation or regulatory enforcement actions in China can be protracted, and may result in substantial costs and the diversion of resources and management attention.

The Articles of Association provide that disputes between holders of H Shares and us, the Directors, Supervisors or senior officers or holders of Domestic Shares arising out of the Articles of Association or any rights or obligations conferred or imposed thereupon by the PRC Company Law and related rules and regulations concerning our affairs are to be resolved through arbitration rather than by a court of law. The Articles of Association further provide that such arbitral award will be final, conclusive and binding on all parties. A claimant may elect to submit a dispute to arbitration organisations in Hong Kong or the PRC. Awards that are made by PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can been enforced in Hong Kong. Hong Kong arbitration awards may be recognised and enforced by PRC courts, subject to the satisfaction of certain PRC legal requirements. We cannot assure you that any action brought in the PRC by any holder of H shares to enforce a Hong Kong arbitral award made in favour of holders of H shares would succeed.

Changes in PRC laws, regulations and policies may materially and adversely affect our business and financial condition.

Our operations are subject to PRC laws and regulations. These regulations affect many aspects of our operations, including product pricing, utility expenses, industry-specific taxes and fees, business qualifications, capital investments, and compliance of environmental protection and safety standards. Thus, we may face significant constraints when implementing our business strategies to expand our operations or to maximise profitability. In addition, our business is not immune from future changes in PRC governmental policies, and may be materially and adversely affected by these changes.

In recent years, the PRC Government has implemented a series of new laws, regulations and policies, which imposed stricter standards on the supervision and inspection of the enterprises engaging in animal husbandry and breeding. It also tightened the quality and safety controls for producing and selling chicken meat products. For instance, the agricultural department of the China Food and Drug Administration implemented stricter supervision on the inspection and quarantine procedures on poultry slaughtering in July 2015. As a result, we may incur additional costs in order to comply with these tighter standards, which in turn may materially and adversely affect our business and financial condition. If the PRC Government continues to impose stricter regulations on the industry in the future, our cost could continue to rise, which could significantly impact our profitability. See “Regulatory Overview” for more information.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares.

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realised upon the sale or other disposition of H Shares.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (Guo Shui Han [2011] No. 348) (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知(國稅函[2011]348號)) issued by the SAT on 28 June 2011, we are required to withhold taxes from dividend payments to non-PRC resident individual holders of H Shares at rates ranging from 5% to 20% (usually 10%), depending on the applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Non-PRC resident individual holders of H Shares who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20% withholding tax on dividends received from us.

Under the EIT Law and its implementation rules, for foreign enterprises that do not have offices or establishments in the PRC, or have offices or establishments in the PRC to which their income is not related, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to EIT at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise’s residence. In accordance with the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Nonresident Enterprises (Guo Shui Han [2008] No. 897) (關於中國居民企業向境外H股非居民企業股東派發股息代扣代繳企業所得稅有關問題的通知(國稅函[2008]897號)), which became effective on 6 November 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to holders of H Shares that are overseas non-resident enterprises. These holders of H Shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the EIT Law and the related implementation rules are amended, the value of your investment in our H Shares could be materially and adversely affected.

In addition, it is also unclear whether and how the IIT and the EIT on gains realised by non-resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practise. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realised through sale or transfers of the H Shares.

It may be difficult to effect service of legal process or enforce judgements obtained from non-PRC courts against us.

The Company is incorporated in the PRC, and substantially all of the Company's and almost all of the Directors' and Supervisors' assets are located in the PRC. You may not be able to bring claims against the Company, the Directors, the Supervisors or executive officers in Hong Kong or elsewhere outside China, even if the legal claims arise out of the law in that country. China has not entered into any treaty for reciprocal recognition and enforcement of court judgements with the United States, the United Kingdom, Japan and many other countries. As a result, court judgements against us obtained in other jurisdictions may be difficult or impossible to enforce in China.

On 14 July 2006, China and Hong Kong signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgements in Civil and Commercial Matter by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned". Under this agreement, a party with a final court judgement in a civil case rendered by a Hong Kong court may seek to enforce it in China, and *vice versa*. For this to work, parties must have entered into a "choice of court agreement" in writing. A choice of court agreement is an agreement in which a Hong Kong court or a PRC court is expressly designated as the sole venue for dispute. As a result, investors should be aware that a foreign judgement rendered against us or the Directors, the Supervisors or executive officers may not receive recognition and enforcement in PRC courts.

RISKS RELATING TO THE GLOBAL OFFERING

Any possible conversion of our Domestic Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares.

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares any requisite internal approval by the Shareholders in a general meeting shall have been duly obtained and the approval from relevant PRC regulatory authorities shall have been obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and negatively impact the market price of our H Shares.

There has been no prior public market for our H Shares; the liquidity and market price of our H Shares may be volatile.

Prior to the Global Offering, there has been no public market for our H Shares. The initial issue price range for our H Shares was the result of negotiations between us and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Stock Exchange. Listing on the Stock Exchange, however, does not guarantee that an active trading market for our H Shares will develop, or if it does develop, will be sustained following the Global Offering. The market price of our H Shares may also decline following the Global Offering. In addition, the Global Offering may not result in the development of an active and liquid public trading market for our H Shares. Furthermore, the price and trading volume of our H Shares may be volatile. Factors such as the following may affect the volume and price at which our H Shares will trade:

- actual or anticipated fluctuations in our revenue and results of operations;
- loss of significant customers or material default by our customers;
- news regarding recruitment or loss of key personnel by us;
- announcements of competitive developments, acquisitions or strategic alliances in our industry;
- changes in earnings estimates or recommendations by financial analysts;
- involvement in potential litigation or regulatory investigations;
- general market conditions or other developments affecting us or our industry;
- the release of lock-up or other transfer restrictions on our outstanding H Shares, or sales or perceived sales of additional H Shares by us or other shareholders;
- our inability to obtain or maintain regulatory approval for our business operations; and
- the operating and stock price performance of other companies, other industries and other events or factors beyond our control.

In addition, H shares of other PRC issuers listed on the Stock Exchange have experienced price volatility in the past, and it is possible that our H Shares may be subject to changes in price not directly related to our performance.

Future sales, or market perception of sales, of substantial amounts of our H Shares in the public market, including any future offerings, could have a material adverse effect on the market price of our H Shares and make it difficult for you to recover the full value of your investment.

The market price of our H Shares could decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, or the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amount of our H Shares could materially and adversely affect the market prices of our H Shares and may also materially and adversely affect our ability to raise capital in the future. In addition, the Shareholders would experience dilution in their holdings upon our issuance or sale of additional securities in future offerings.

There will be a time gap of several business days between pricing and trading of the H Shares offered under the Global Offering. The market price of the H Shares after trading begins could be lower than the Offer Price.

The Offer Price of the H Shares will be determined on the Price Determination Date. However, the H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several Business Days after the Price Determination Date. Investors are not able to sell or otherwise deal in the H Shares before they commence trading. Accordingly, holders of the H Shares are subject to the risk that the price of the H Shares after trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse development that may occur between the Price Determination Date and the time trading begins.

Control by the Controlling Shareholders of a substantial percentage of the Company's share capital after the completion of the Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders and the interests of the Controlling Shareholders may not be aligned with those of our other Shareholders.

Upon the completion of the Global Offering, 100% of our Domestic Shares will be held by the Controlling Shareholders. After the completion of the Global Offering, the Controlling Shareholders will continue to have significant influence on us on various important corporate actions requiring the approval of Shareholders, such as mergers, disposal of assets, election of Directors, and timing and amount of dividends and other distributions. There may be a conflict between the Controlling Shareholders' interests and your interests. Control by the Controlling Shareholders of a substantial percentage of the Shares may have the effect of delaying, discouraging or preventing a change in control of us, which may deprive you of opportunities to receive premiums for your H Shares and may reduce the price of the H Shares. If the Controlling Shareholders cause us to pursue strategic objectives that would conflict with your interests, you may also be left in a disadvantaged position.

Our future financing may cause dilution of your shareholding or place restrictions on our operations.

In order to raise capital and expand our business, we may consider offering and issuing additional H Shares or other securities convertible into or exchangeable for the H Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the shareholdings of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our operations, which may (i) further limit our ability or discretion to pay dividends; (ii) increase our risks in adverse economic conditions; (iii) adversely affect our cash flows; or (iv) limit our flexibility in business development and strategic plans.

You will experience immediate dilution and may experience further dilution if we issue additional H Shares or convert Domestic Shares into H Shares under the H Share full circulation.

Potential investors will pay a price per H Share that substantially exceeds the per H Share value of the Company's tangible assets after subtracting the Company's total liabilities and will therefore experience immediate dilution when purchasing the H Shares offered in the Global Offering. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their H Shares. In addition, if we issue additional H Shares or equity-linked securities at a price lower than the net tangible asset value per H Share at the time of issuance, you and other purchasers of our H Shares may experience further dilution in the net tangible asset value per H Share.

Given the promotion of H Share full circulation by the CSRC in November 2019, we may be allowed to convert certain of our Domestic Shares into H Shares after the Listing if we are qualified pursuant to the relevant CSRC requirements. Such conversion will increase the number of H Shares and your shareholding under the class of holders of our H Shares will be diluted.

There is no assurance of whether or when we will pay dividends.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Distribution of dividends shall be formulated by the Board and will be subject to the Shareholders' approval. A decision to declare or to pay any dividends and the amount of any dividends will depend on various factors, including but not limited to our dividend policy, results of operations, cash flows and financial condition, operating and capital expenditure requirements, the Articles of Association, the PRC Company Law and any other applicable law and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by the Board from time to time to be relevant to the declaration or suspension of dividend payments. We did not declare any dividends during the Track Record Period. We cannot assure you whether, when and in what form we will pay dividends in the future.

Furthermore, under the applicable PRC laws, dividends may be paid only out of profit after taxation after we have made the following allocations: recovery of accumulated losses, if any; allocations to the statutory common reserve fund equivalent to 10% of our profit after taxation; and allocations that are approved by the shareholders in a shareholders' meeting, if any, to any common reserve fund. Our profit distributable for the above-mentioned allocations and our dividend distribution shall be our profit after taxation as determined by PRC GAAP or IFRSs, whichever is lower. As a result, we may not have sufficient profit to enable us to make future dividend distributions to the Shareholders, even if one of our financial statements prepared in accordance with PRC GAAP or IFRS indicates that our operations have been profitable. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy. 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.

We have significant discretion as to how we will use the net proceeds of the Global Offering, and you may not necessarily agree with how we use them.

Our management may spend the net proceeds from the Global Offering in ways you may not agree with or that do not yield a favourable return to the Shareholders. For details of our intended use of proceeds, see "Future Plans and Use of Proceeds". However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, upon whose judgement you must depend, for the specific uses we will make of the net proceeds from the Global Offering.

Certain facts, forecasts and other statistics with respect to China, China's economy and the poultry industry in this prospectus are derived from various government and official resources, government publications and other publications and may not be reliable.

In this prospectus, certain facts, forecasts and other statistics concerning China, its economic conditions and industries are derived from publications by PRC Government agencies, industry associations, or an industry report commissioned by us. Although we have taken reasonable care in extracting those facts, forecasts and statistics, they have not been independently verified by us and any of the Relevant Persons. We cannot assure you that those facts, forecasts and statistics are accurate and reliable. We cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy in other jurisdictions. You should consider carefully how much weight you place on those facts, forecasts and statistics.

This prospectus contains certain hypothetical information based on changes relative to historical events and analysis based on it, and you should not place undue reliance on this information or analysis.

This prospectus contains certain hypothetical information and analysis based on it, which includes the use of certain accompanying assumptions, in particular in respect of historical prices of broilers and animal feed. The Company cannot offer assurances that the assumptions would have been true under the hypotheses presented or that the results of these hypothetical changes would have matched the results presented. See "Financial Information — Principal Factors Affecting Our Results of Operation — Fluctuations in Commodity Prices", "Financial Information — Description of Selected Statement of Comprehensive Income Items — Revenue" and "Financial Information — Description of Selected Statement of Comprehensive Income Items — Cost of Sales". Given the hypothetical nature of this information and the uncertainty of the assumptions made, the results that would have resulted under these hypotheses might not have occurred in the way we had expected. Accordingly, you should not place undue reliance on the hypothetical information and related analysis included in this prospectus.

Investors should read the entire prospectus carefully and should not place any reliance on any information contained in press articles or other media in making your investment decision.

Prior or subsequent to the publication of this prospectus, there may have been or be press and media coverage regarding us and the Global Offering, which includes certain information about us that does not appear in, or is different to what is contained in, this prospectus. We have not authorised the disclosure of any such information in the press or media. Financial information, financial projections, valuation and other information about us contained in such unauthorised press or media coverage may not truly reflect what is disclosed in the prospectus or the actual circumstances. We do not accept any responsibility for such unauthorised press and media coverage or for the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information. To the extent that any information appearing in the press and media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Investors should rely only on the information contained in this prospectus in making an investment decision.