

OVERVIEW

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

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

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

One of our key competitive advantages is our vertically integrated business model for our chicken meat products, from chicken breeding, slaughtering and processing to sales of raw and processed chicken meat products. We also produce animal feeds used by our breeder farms and broiler farms for our chicken breeding. We have adopted an integrated “*poultry to plate*” model which enables us to control every stage of the poultry lifecycle, allowing us to effectively manage quality and cost throughout the process starting from the breeding of broilers to the distribution and sale of chicken meat products. As at the Latest Practicable Date, we had 22 breeder farms, three hatcheries, 45 broiler farms (11 of which have been modified from cage-free systems into battery cage systems), eight slaughtering and processing plants, two feedmills and one organic fertiliser plant. As at the Latest Practicable Date, our production facilities located in Shandong covered a total gross floor area of approximately 5.1 million sq.m.

We are dedicated to ensuring a high standard of safety and quality of chicken meat products manufactured by us and the raw materials for our production of animal feeds, Parent Stock Day-old Chicks, chicken breeds and chicken meat products we procure. We have obtained, among other things, ISO22000 (Food Safety) Certificate and ISO9001 (Quality) Certificate. Further, we have been

BUSINESS

accredited with HACCP (Hazard Analysis and Critical Control Points) for our food processing plant of chilled and frozen chicken meat products. As at the Latest Practicable Date, the Group had 20 veterinarians who have passed the National Veterinarian Qualification Examination of the PRC.

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

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

We believe that continuously delivering high-quality and diversified products to our customers is one of the key factors to maintaining our competitive position and ensure our future growth and success. We selectively develop new products to cater to our customers' needs. We launch new products, introduce additional flavours to our existing products, introduce different packaging and launch upgraded products on a continuous basis to better cater to consumer preferences and improve our product quality. Leveraging on our expertise in new product development, we have significantly expanded the range of poultry products available to our customers and enhanced our product portfolio during the Track Record Period. We have launched 47, 48, 104 and 64 new products for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

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

COMPETITIVE STRENGTHS

We believe the following competitive strengths of the Group enable us to continue to be one of the leading fully integrated white-feathered broiler producers and exporters in the PRC. Leveraging our strong market positioning with a deep knowledge of the white-feathered broiler industry,

significant scale, stringent production requirements, strict food safety management, strong management expertise and financial strengths, we believe that we are well positioned to compete in the industry and markets where we operate our business. Our competitive strengths include:

Our vertically integrated business model allows us to (1) enhance our production efficiency and (2) possess a strong capability and flexibility in adapting to and capturing different customers' demands

(1) Enhance production efficiency

We are one of the pioneers in China's large-scale integrated white-feathered broiler production. Our vertically integrated business model covers the entire white-feathered broiler industry value chain, including feed production, chicken breeding, slaughtering and processing, distribution and sale of poultry products which mainly include raw and processed chicken meat products. We are able to produce processed chicken meat products according to customers' orders, including the type and volume of products and delivery schedules. Compared to some of our competitors that focus on either chicken farming (upstream) or slaughtering and processing (downstream), we can better control our overall production process and reduce our production costs, allowing us to continuously enhance our production efficiency and have a high degree of reliability that can help expand our business operations.

We have devoted significant efforts to apply industry best-practices in the design and operation of our entire production process. Through years of accumulated experience, we have developed expertise in site selection and breeding farm design, operation and management, which allow us to continuously enhance our production efficiency and expand our business.

Leveraging our experience and expertise, we have enhanced our labour productivity and our disease prevention and control capabilities, primarily through standardisation and refinement of our production processes. It also allows us to achieve traceability for our products to better ensure safety and quality. We possess advanced breeding techniques with the absence of major avian diseases since our establishment, flexible animal feed production capabilities and tailored dietary management expertise which, the Directors believe, resulted in satisfactory production outcome of our broilers with a stable survival rate of our chicken. Our average finishing weight per broiler increased from 2.04kg in 2016 to 2.08kg in 2019, which reduced our average slaughtering and processing costs per kilogramme of chicken and as a result increased our profit per bird. The average survival rate of our broilers remained stable at 92.9% in 2016, 92.4% in 2017, 91.2% in 2018 and 90.5% in 2019, which demonstrates our ability in maintaining broiler reproductive performance. Our proven ability to expand production capacity and improve operational efficiency has helped us to increase our market share and reduce our production costs and accordingly, benefit from economies of scale.

(2) Strong capability and flexibility in adapting to and capturing different customers' demands

The vertically integrated business model has further enhanced our ability to adapt to changing industry trends and customers' preferences whilst maintaining balanced and stable production output. We control every stage of the poultry lifecycle, allowing us to effectively manage the quality and cost from the breeding of broilers to the sale of poultry products and to keep benign growth during market downturn, thereby ensuring stable profit margin and production output.

We are able to (a) manage and plan in advance every procedure within our production stages, such that market fluctuation adjustment can be made immediately according to a preset plan;

BUSINESS

(b) effectively control the costs of each production stage and accessory processes, thus effectively control the overall production costs and as such, we have comprehensive capability to withstand market or production risks and pressures; and (c) we are able to produce processed chicken meat products according to customers' orders, including the type and volume of certain products and delivery schedules.

We offer our diversified products to various types of customers in different regions. Leveraging the experiences accumulated from breeding and production of white-feathered broilers as well as the established industry position, we have been further expanding our product portfolio by our strong ability to develop new chicken meat products to provide more diversified selection of products to our existing customers as well as to attract new customers. We believe that our fully integrated model has provided us with strong capability and flexibility in our production and sales of chicken meat products which has enabled us to successfully capture the increasing market demand for chicken meat products, achieve ongoing product improvement, continuously expand our product offerings as well as maintain our competitiveness in the chicken meat products industry.

We have established a stable and diversified customer base with major renowned customers in local and overseas markets

We have established a stable and diversified customer base over the years. We have operated our business primarily through a B2B model, which accounted for 98.0%, 98.0%, 96.7% and 93.6% of our total revenue for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We provide our local and overseas customers with a large diversified selection of chicken meat products. We have built a strong market reputation of distinct advantages in product quality, large scale production and stable supply benefiting from our vertically integrated business model. The Directors believe that through the Group's proven track record, the recognition we enjoy can be demonstrated by our stable and long-term relationships with our major customers. Our top five customers during the Track Record Period have been our customers mostly for over 20 years and contributed to 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.

Due to the large demand of chicken meat products from our major customers and their specific requirements of such products, the Directors believe it is difficult for chicken meat producers with smaller production capacities to compete with us in attracting the orders from these customers.

Our chicken meat products are able to meet the stringent quality control standards set by the importing countries. We are the largest white-feathered broiler meat exporter with full product line in the PRC in terms of export revenue and export volume in 2018 with a market share of 8.6% and 10.4%, respectively, according to the Frost & Sullivan Report with track record of exporting both raw and processed white-feathered broilers products overseas. According to the Frost & Sullivan Report, we are the largest Chinese exporter of raw and processed chicken meat products among our top five competitors in terms of export revenue in 2018. We export our chicken meat products to Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. Our white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals. Revenue generated from our overseas sales was approximately RMB550.3 million, RMB661.3 million, RMB960.6 million and RMB966.4 million, representing approximately 23.4%, 27.2%, 30.1% and 24.6% of our total revenue for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Because of the sizable differences in chicken meat prices in different regions of the world, we closely follow global market developments to provide cost-competitive products and value-added

services for our major customers, supported by the bargaining power we enjoy given our leading market positioning. Our strong customer relationships bring stable sources of orders and provide us with opportunities to openly interact and discuss with our local and overseas customers with a view to better understand their needs and requirements, which we believe increases our appeal to existing and new customers.

We have established a strict and comprehensive food safety and hygiene system and quality control system to effectively ensure high standards of product quality and safety

The safety and hygiene of our chicken meat products are crucial to the success of the Group. If we sell contaminated products to the public, the confidence of the consumers in our products will be seriously affected, which will in turn adversely affect our business. We have established a strict and comprehensive food safety and hygiene system and quality control system in order to guarantee the quality of our chicken meat products. We are dedicated to ensuring a high standard of safety and quality of (i) the chicken meat products manufactured by us, and (ii) the raw materials for our production of animal feeds, the Parent Stock Day-old Chicks, the broiler eggs and the chicken meat products we procured. We have obtained, among other things, (i) ISO22000 (Food Safety) Certificate, and (ii) ISO9001 (Quality) Certificate. For further details about our food safety and hygiene system and quality control system, see “— Quality Assurance” below and “— Food Safety Management System of the Group” below.

In recent years, food safety incidents in China have underscored the difficulties and challenges that food enterprises face in controlling the sources of their raw materials. These incidents have significantly increased Chinese consumers’ sensitivity to and awareness of food safety. To ensure the safety and quality of our products, we have developed and maintained strict technical specifications and procedures for each step of our production processes. We have established a sound and comprehensive product traceability system, and have obtained and maintain quality and safety management system certifications. Our products meet the required standards of the Ministry of Agriculture (“**MOA**”) and the China Food and Drug Administration (“**CFDA**”) and complied with the relevant tests in relation to the presence of veterinary drugs or prohibited chemicals.

We have developed and maintained supplier management and control measures across our operations and established a supplier-admission system that includes hierarchical management of our suppliers based on their performance. We have also put in place a raw material inspection system to ensure the quality of our raw materials. We have our own production facilities for our animal feeds, which we use for the breeding of our broilers. For example, each batch of animal feeds supplied by us is inspected before entering our chicken farms. We conduct sampling tests on each type of feed for important hygiene indicators such as mycotoxins. We also conduct annual performance evaluations of our raw material suppliers and Parent Stock Day-old Chicks suppliers based on factors, among other things, product quality and service standards.

We have implemented strict hygiene measures on our breeder farms, broiler farms and slaughtering and processing facilities. All our broilers are grown in sheds which only specific staff are allowed to have access to, and all staff who enter such site are required to undergo comprehensive hygiene procedures before entering such site. Such hygiene measures require significant costs and may not be implemented by small-size producers selling similar products. By implementing comprehensive hygiene procedures, the safety and hygiene of our chicken meat products can be guaranteed and the consumers will be confident with our products.

We export our chicken meat products to Japan, Malaysia, the European Union, Korea, Mongolia and Singapore which impose stringent requirements on food quality and safety. We have been

maintaining steady supply to these countries, which further proves the safety and quality of our chicken meat products.

The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we were not subject to any material fines or other penalties from relevant government authorities regarding our product quality or safety, and we were not required to undertake any mandatory product recalls.

We have mature and advanced production technology and market-oriented research and development capabilities, which allow us to meet increasing market demand for safe and high-quality chicken meat products

To enlarge the benefit of our fully integrated operations and to further control the costs at each production stage, we leveraged on the experience from our business operations to create and develop new technologies which allow us to meet increasing market demand for safe and high-quality chicken meat products. The Group's research and development capabilities are reflected in our (a) production equipment and breeding technology; and (b) market-oriented product development which meet the market demand.

(1) Advanced production equipment and mature breeding technology

We are committed to maintaining a competitive research and development team comprising 45 members and have invested substantially in research and development. For the four years ended 31 December 2016, 2017, 2018 and 2019, our research and development expenses incurred were approximately RMB6.2 million, RMB8.3 million, RMB13.5 million and RMB16.3 million, respectively. In contrast with smaller producers, we have devoted significant resources to research and development in environmental protection and the development of sustainable chicken breeding techniques and facilities. We have three research institutions in Shandong, Shanghai and Tokyo. Our technology research and development team is centrally managed by our research institution in Shandong, which is responsible for implementing overall planning and co-ordination of research and development projects. Our dedicated research and development team gradually explored a set of production technology process to facilitate our vertically-integrated business model, and we have developed (a) breeding equipment and technology (such as aerial fog shed cleansing equipment and box-shaped breeding equipment); (b) slaughtering and cutting technology (such as nine-piece chicken cutting technology, automatic selecting and cutting lines); and (c) processed food production technology (such as boiling line, frying line and fire-curing line) to enhance our production efficiency and ensure environmental protection by minimising pollutant discharge.

Our stringent quality control system together with our research and development effort devoted to each stage of our production process has allowed the Group to better prevent disease prevention and control and enhance food safety. As at the Latest Practicable Date, the Company had never experienced any large-scale disease epidemics in breeding.

(2) Market-oriented product research and development capabilities

High quality chicken meat products forms our core competitive advantage. We emphasise catering to our customers' preference on healthy food supply. Hence we spent research and development efforts into the following aspects: (a) raw materials for our animal feeds are strictly selected (for instance, no mildew in corn); (b) the raw chicken meat products we produce contain high protein and nutrition and low amount of medicine residue; (c) our cooked food products contain no additives. Apart from ensuring product quality and food safety, in response to ever changing

BUSINESS

consumption patterns, we devote resources to research, development and upgrading products as well as processing technologies to enhance our business growth and competitiveness. Our dedicated product development centres continuously develops new processed chicken meat products, especially ready-to-cook chicken meat products. For the four years ended 31 December 2016, 2017, 2018 and 2019, we launched 47, 48, 104 and 64 new processed chicken meat products, respectively.

We have an experienced management team and professional working team

Members of our senior management team have an average of over approximately 20 years of industry experience in various aspects of our business, including livestock farming, meat processing and sales of poultry products. Many of our senior management members gained management expertise while serving in positions within the Group, and they have achieved outstanding results in corporate management and project execution. In addition, some of our senior management members previously worked in multinational livestock farming enterprises (especially poultry related enterprises), and the experience they brought to us has helped us develop into an industry leader in chicken breeding.

Mr. Liu XJ, the founder and a non-executive Director, has extensive experience in the poultry industry and has served as the leading figure of the Group for many years. He led the Group in its growth from a local meat processor in China into one of the leading chicken meat producers in the PRC. Mr. Liu ZG, the chairman of the Board and an executive Director, has approximately nine years of experience in the poultry industry since he joined the Company. He brings to the Group his extensive corporate and business management experience and insight. Mr. Xiao Dongsheng, Mr. Ow Weng Cheong and Mr. Wang Jinsheng, the executive Directors, each provide great contributions to the Group with their outstanding leadership and experience in business operations, significantly contributing to the fast growth and international expansion of the Group. These industry experts have assisted us in optimising our chicken breeding techniques, improving our animal quarantine systems, enhancing automation, researching and developing high-quality processed chicken meat products and improving our quality control system. We have made continuous improvement in our management systems, including strategy development, staff training and performance-based incentive systems establishment.

BUSINESS STRATEGIES

We intend to fund our business strategies by utilising net proceeds from the Listing with details set out below. Any shortfall in relation to our expansion of production capacities for white-feathered broilers production is intended to be financed by internal resources and/or external borrowings of the Group.

Expand our production capacities for white-feathered broilers production to further enhance our vertically integrated business model

We will continue to expand our operations across the entire broiler industry value chain to enhance the vertical integration of our business. We intend to enhance the production capacities of our breeder farms, hatcheries and broiler farms through the implementation of battery cage systems. As at the Latest Practicable Date, we had modified 11 of our broiler farms from cage-free system to caged systems, respectively, with a view to expand our efficiency and production capacity in our existing production base. According to the Frost & Sullivan Report, the cage breeding method is widely adopted by leading players and increasingly utilised by industrial broiler producers and it enables more organised, efficient and intensive production. The average feed conversion ratio is also generally higher compared to other breeding methods.

BUSINESS

PricewaterhouseCoopers (“**PwC**”) has been engaged by the Company to perform a limited assurance engagement on the calculation of the unit cost of production per kilogramme and European Production Index (“**Calculation of Unit Cost and EPI**”) of six chicken farms (“**Certain Chicken Farms**”) of the Group for the period from 1 September 2018 to 31 May 2019 prepared by the Company (the “**Schedule**”) in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” issued by the HKICPA (the “**PwC Report**”). For details of PwC’s responsibilities, see “— Our Expansion Plan — Reasons for Establishing Battery Cage Systems” below. According to the Schedule reported on by PwC, the adoption of the three battery cage broiler farms, which had been converted into battery cage systems by the Group as at the time of preparation of the Schedule, had a lower weighted average unit cost of production of RMB7.10 per kg as compared with the three comparable cage-free broiler farms of RMB7.55 per kg for the period from 1 September 2018 to 31 May 2019, the difference represented a 5.96% increase in cost efficiency. In addition, the Schedule showed that three of our comparable cage-free broiler farms had an European Production Index ranging from 241.52 to 254.71 while the three battery cage broiler farms, which had been converted into battery cage systems by the Group as at the time of preparation of the Schedule, had an European Production Index ranging from 292.83 to 353.66 for the period from 1 September 2018 to 31 May 2019. The Directors believe that a higher European Production Index generally represents a higher broiler production management level, higher breeding efficiency and an enhanced profitability of the broilers. To further expand our production capacities for white-feathered broilers and enhance our market share, we intend to procure the facilities necessary for 25 broiler farms with battery cage systems, one slaughtering and processing plant, ten breeder farms, one hatchery, one feedmill and one organic fertiliser plant in Shandong. For further details of our expansion plan, see “— Our Expansion Plan — Battery Cage Systems” below.

Our goal is to establish the most complete and competitive chicken meat supply chain with a dominant position in the PRC. With the increase in our production capacity through adopting battery caged systems for 11 of our broiler farms, together with modern equipment and facilities, high quality products, brand name recognition as well as rising market demand, we will be able to increase our sales and expand our domestic and export businesses.

We intend to utilise up to an aggregate of approximately RMB1,458.3 million to fund our production capacity expansion plan, and we expect to utilise approximately 45.0% of the net proceeds, or HK\$627.8 million (equivalent to RMB572.3 million), to procure facilities necessary for broiler farms with battery cage systems, slaughtering and processing plant, breeder farms, hatchery, feedmill and organic fertiliser plant. Any shortfall is intended to be financed by internal resources and/or external borrowings of the Group. See “Future Plans and Use of Proceeds” for further information on our implementation plan of this business strategy.

Continue to expand our sales and distribution network and tap into new markets

We believe maintaining an effective and extensive sales and distribution network is crucial to our business success and future growth. According to the Frost & Sullivan Report, the market size of processed meat and seafood by retail value generated by e-commerce in China witnessed a rapid growth in the past few years, increasing from approximately RMB1,354.4 million in 2015 to approximately RMB5,507.8 million in 2019, representing a CAGR of 42.0%. It is expected that there will be an increasing demand from modern retail outlets and fresh food e-commerce platforms for raw and processed chicken meat products in light of the modernisation of distribution chain. As we see significant growth potential in such channels for our processed chicken meat products in the PRC, we intend to actively expand our current e-commerce network, such as through JD.com (京東),

Suning (蘇寧易購), Fresh Hema (盒馬鮮生) and Tmall.com, to deepen our market penetration and cater the purchasing patterns of our consumers. We will continue to sell our ready-to-eat chicken products under our “優形 (iShape)” brand to cater for health-conscious and younger consumers through online sales platform and convenience stores and we will offer wider variety of products to cater for our B2C business model.

We plan to further our cooperation with other well-recognised e-commerce operators through measures such as showcasing our products on B2C platforms and participating in online marketing campaigns to enhance our brand and product awareness. We will continue to explore more effective marketing strategies related to data analysis of different target groups of customers and research different digital marketing trends that enable us to reach out to potential customers in cost-effective ways in order to acquire a better understanding of our potential customers’ preferences, build trust and confidence with our existing customers, promote our chicken meat products and enhance our corporate brand image.

Further, we export our chicken meat products to Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. During the Track Record Period, our revenue generated from our overseas sales was approximately RMB550.3 million, RMB661.3 million, RMB960.6 million and RMB966.4 million, representing approximately 23.4%, 27.2%, 30.1% and 24.6% of our total revenue for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We intend to further expand our overseas export sales and distribution network globally to penetrate into new geographic markets for a broader range of customers. Before entering into new markets, we will conduct research to understand, among others, the market demand and the applicable laws and regulations in order to mitigate potential business risks.

Continue to expand and diversify our product portfolio with a focus on processed chicken meat products

According to the Frost & Sullivan Report, processed chicken meat products have a higher profit margin compared to raw chicken meat products. For the four years ended 31 December 2016, 2017, 2018 and 2019, our processed chicken meat products accounted for approximately 26.7%, 37.4%, 37.0% and 36.5% of our total revenue, respectively, which is consistent with our general strategy of shifting from raw chicken meat products to processed meat products. We believe that continuous product innovation and differentiation is an important factor for us to further increase the market share of our chicken meat products. We plan to invest in and strengthen our market-oriented product development activities to continuously provide new and innovative products to differentiate ourselves from other competitors in terms of quality, appearance, taste and range of our chicken meat products and accommodate the changing preferences of our consumers. For example, with growing health awareness among consumers in general, we intend to focus our product development efforts on producing ready-to-eat and protein-rich processed chicken meat products. We believe it is important to expand our product offerings and diversify our product portfolio in response to changing consumer tastes and preferences in order to stay competitive in the processed chicken meat industry in the PRC.

To deepen our market penetration, we intend to continue to develop our processed chicken meat products by (i) expanding our range of cooked chicken meat products to meet everchanging consumer demands; (ii) widening our product offering in cooked, semi-cooked and seasoned chicken meat products; (iii) accelerating the expansion of sales channels and platforms, in particular, e-commerce channels for our processed chicken meat products to attract new customers; and (iv) expanding our marketing efforts across a variety of media channels with a focus on further

developing our brands, such as placing advertisements on social media, providing sponsorships to athletes in the PRC and engaging KOLs to promote our brand and products. We primarily target athletes and KOLs based on a selection criteria. We plan to select well-known top-class athletes who excel in their individual fields on a national level, and select KOLs based on their influence on social media (including the number of online followers) and the target customers of our relevant products or brands. We plan to enter into agreements with athletes and KOLs for a term of one year and pay them annual fees based on various factors including their experience, credentials and popularity. We believe that our strong product development capabilities coupled with our established brand names and sales and distribution network provide a solid foundation for us to develop and introduce new ready-to-eat chicken meat products to the market. We believe we can solidify our market position and expand our market share in the industry, especially in the B2C sector and achieve synergies in our product development activities, branding and sales and marketing of such new and improved products, leveraging our existing experience and strengths in these areas.

Strengthen our research and development capabilities to diversify our product portfolio and to improve our expertise and technical knowhow

It is our intention to invest additional resources to further strengthen our research and development capabilities to diversify our product portfolio of our processed chicken meat products to capture more business opportunities both domestically and overseas to improve our expertise and technical knowhow in relation to our product quality, production techniques and efficiency. We aim at satisfying different needs and ever-changing preferences of our customers. We will lay emphasis on diversifying our product offerings, including extensive research and development for new products and market research on consumer trends. We believe that our ability to adopt product diversification alongside our vertically integrated business model will enable us to respond quickly and efficiently to market demands and optimise our product portfolio to enhance profitability. Other than enhancing the quality of our products on which we have always placed primary emphasis, we will also aim at improving production technology and reducing production costs. We have established three research institutions in Shandong, Shanghai and Tokyo for our products to collect feedback from consumers and develop more formulas, flavours and packaging options for our products according to the changing consumption patterns and consumer demands as well as to improve our technical knowhow, including breeding efficiency, disease control and the production process of our chicken meat products. For the four years ended 31 December 2016, 2017, 2018 and 2019, we launched 47, 48, 104 and 64 new products (including new flavours, new packaging and product upgrades), respectively. We will continue to strengthen our strong domestic market position and our growing export business by (i) recruiting and training our research and development personnel to ensure a strong talent pool and market competitiveness; (ii) purchasing research and development machineries to facilitate our growing need of research and development capabilities; (iii) expanding the scale our Tokyo research institution to further gain leading food processing technologies and food design concepts; and (iv) strengthening our breeding research and development capabilities in relation to intelligent and efficient farming technologies, in particular, by investing in environmental control technologies and feed formulation fine-tuning technologies, which we believe will increase our breeding efficiency. It is our present intention to increase our total headcount of research and development personnel by around 52 over the next three years. We plan to hire (i) engineers (with at least one year of requisite experience in environmental control, engineering or research and development, and having received tertiary education related to mechanical engineering, animal husbandry, heating, ventilation and air conditioning (HVAC) and/or food science); (ii) research and development managers to oversee and manage our overall breeding and product development process (with at least five years of related experience and having received tertiary education related to food science and engineering); (iii) feed formulation specialists to fine-tune and enhance our

BUSINESS

animal feed formulae (with at least five years of related experience, and having received tertiary education in animal nutrition); (iv) chefs to develop innovative food concepts (with at least three years of related experience and senior chef qualification); and (v) breeding and veterinary technicians to strengthen our breeding and environmental control technology capabilities (who have received tertiary education related to animal husbandry, heating, ventilation and air conditioning (HVAC) and/or mechanical engineering for breeding technicians and at least five years of experience and having received tertiary education in veterinary medicine for veterinary technicians). Subject to market condition and talents available in the market, we intend to hire five engineers, one research and development manager, one feed formulation specialist, one chef and three breeding and veterinary technicians in 2020, hire seven engineers, two chefs and 18 breeding and veterinary technicians in 2021, and hire eight engineers, one research and development manager, one feed formulation specialist, one chef and three breeding and veterinary technicians in 2022. We offer attractive compensation to attract and retain talented employees and further align our interests and those of our employees in our common goals by offering junior and senior research and development personnel with an expected average annual remuneration of approximately RMB100,000 and RMB280,000, respectively.

It is currently intended that the above enhancements will be carried out in a time horizon of three years and by stages commencing after Listing, and we have allocated approximately HK\$34.9 million out of the net proceeds from the Global Offering for this pursuit.

Pursue appropriate strategic alliance, joint ventures or other acquisition opportunities

We have developed our business primarily through organic growth. Going forward, we may also pursue strategic alliance, joint ventures or other acquisition opportunities. We will identify suitable acquisitions and business opportunities in the poultry industry based on factors such as brand recognition, development potential, complementary effect to our existing chicken meat products, distribution coverage, management and price. We primarily target Parent Stock Day-Old Chick suppliers that possess mature breeding technologies and capabilities with (i) reputable and experienced management; (ii) a solid track record of at least five years; (iii) a good operating platform to enhance our vertically integrated business model with a designed annual production capacity of at least 100,000 sets of Grandparent Stock Chicks; and (iv) a registered capital of at least RMB100 million. We will also consider opportunities to acquire domestically and/or internationally renowned chicken meat product brands to complement our existing business, enhance our competitiveness and further solidify our leading market position. We seek to balance a variety of considerations in selecting our strategic investment or acquisition targets. We believe suitable acquisitions will allow us to gain experience and expertise in developing new products and will provide us with the appropriate platform to expand our types of product offerings in the future. We believe that we can continue to grow our business through acquisitions and other collaboration opportunities.

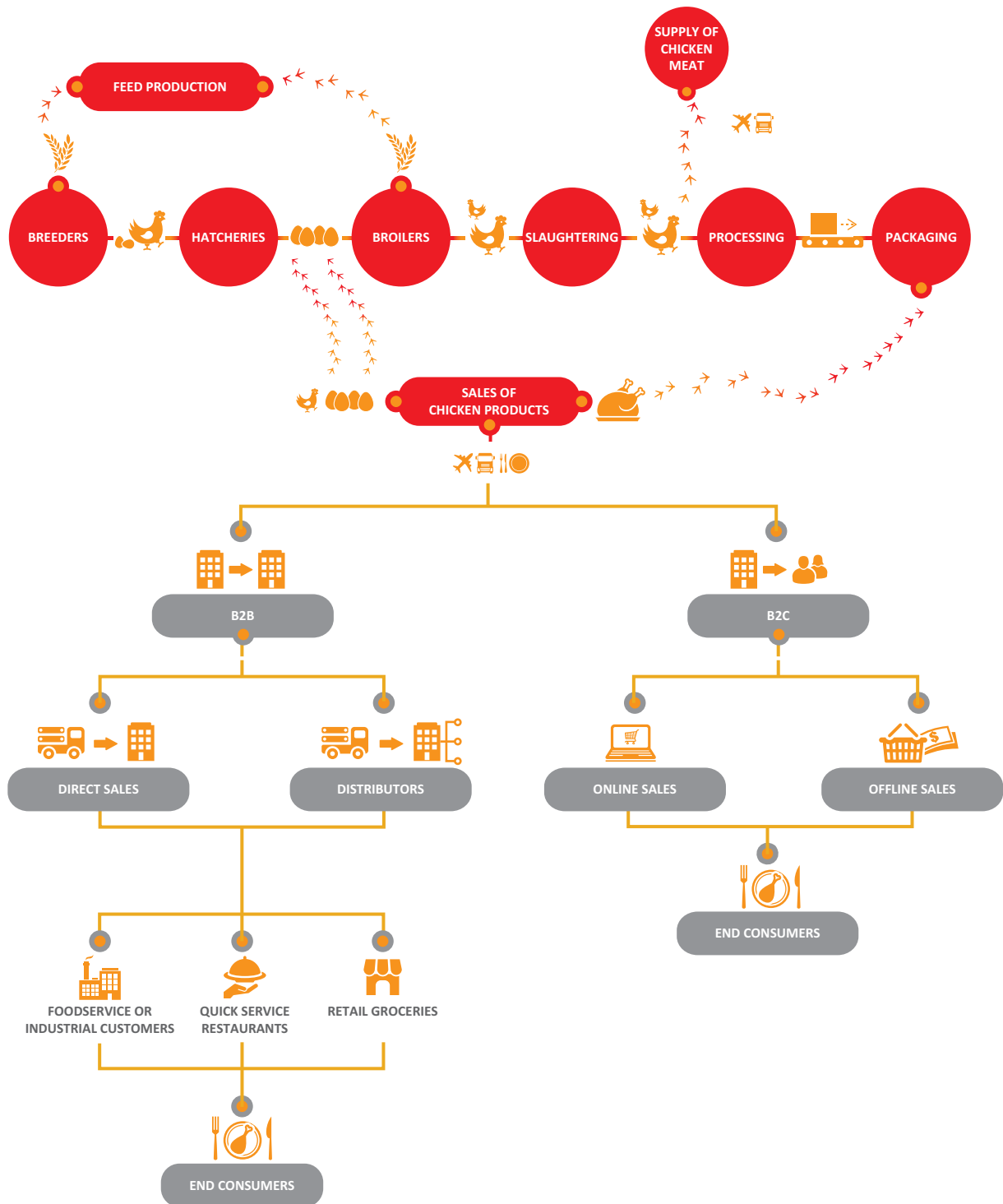
We believe our successful track record will help us identify alliance and acquisition candidates and execute transactions. Our management plans to carefully evaluate every proposed acquisition, investment or strategic cooperation opportunity that may arise from time to time that can add long-term value to the Shareholders. As at the Latest Practicable Date, we had not identified any target nor entered into any binding commitment for any strategic alliance or acquisitions.

BUSINESS MODEL

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

BUSINESS

safety and the quality of our products and allows us to capture value across the entire poultry industry value chain. Our business model is summarised below.



Note: We also sell chicken breeds to local chicken farmers and other poultry business operators.

BUSINESS

PRODUCTS

We offer raw and processed chicken meat products to our customers. Most of our raw chicken meat products are sourced from our white-feathered broilers and a small portion is sourced from our Sichuan Mountain Black Bone Chicken. Our processed chicken meat products are sourced from white-feathered broilers. We manufacture and market a range of poultry products which mainly include:

- (1) chicken meat products (mainly consist of raw chicken meat products and processed chicken meat products); and
- (2) chicken breeds.

The following table sets out a breakdown of our revenue by product segments (after elimination of inter-segment transactions) during the Track Record Period:

	Year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue	RMB'000	% of total revenue
Revenue								
White-Feathered								
Chicken								
Products								
Chicken meat								
products	2,097,888	89.1	2,240,995	92.1	2,902,846	90.8	3,320,625	84.6
<i>Raw chicken meat</i>								
<i>products</i>	1,469,917	62.4	1,330,977	54.7	1,719,278	53.8	1,887,398	48.1
<i>Processed chicken</i>								
<i>meat</i>								
<i>products</i>	627,971	26.7	910,018	37.4	1,183,568	37.0	1,433,227	36.5
Chicken breeds	149,367	6.3	69,875	2.9	172,110	5.4	426,448	10.9
Sub-total	2,247,255	95.4	2,310,870	95.0	3,074,956	96.2	3,747,073	95.5
Others ^(Note)	106,849	4.6	123,522	5.0	122,143	3.8	179,144	4.5
Total	<u>2,354,104</u>	<u>100.0</u>	<u>2,434,392</u>	<u>100.0</u>	<u>3,197,099</u>	<u>100.0</u>	<u>3,926,217</u>	<u>100.0</u>

Note: Other products comprise sale of Sichuan Mountain Black Bone Chicken, animal feeds, chicken by-products (including chicken feather, chicken blood and unused chicken organs), mature breeders, broiler eggs that do not satisfy our production requirements, packing materials and miscellaneous products.

The Company adjusts its product segment mix pursuant to market conditions and trends after assessing its profitability of the product segments as a whole. The Directors confirm that there had not been any changes in our business focus during the Track Record Period and up to the Latest Practicable Date.

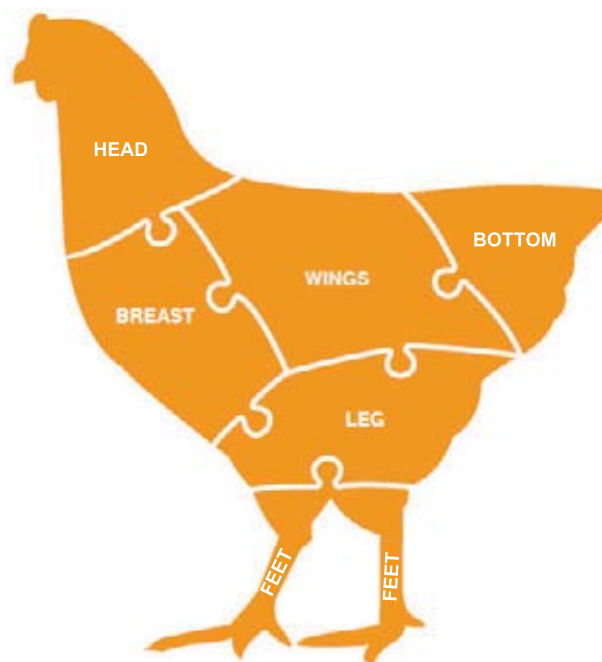
WHITE-FEATHERED CHICKEN MEAT PRODUCTS

We process most parts of the broilers into different types of white-feathered chicken meat products. Our white-feathered chicken meat products are divided into two main categories: (1) raw chicken meat products; and (2) processed chicken meat products which include (a) cooked; (b) semi-cooked; and (c) seasoned chicken meat products. Our cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products. We also process other parts of the broilers as by-products which do not form part of our chicken meat products.

Chicken meat products are primarily sourced from different parts of broilers, which include:

Raw chicken meat products:

- whole chicken
- breast
- wings
- legs
- head
- feet
- bottom



Processed chicken meat products:

- whole chicken
- breast
- wings
- legs

Other chicken by-products:

- feather
- blood
- organs

Raw Chicken Meat Products

We offer raw white-feathered chicken meat products, which include whole frozen chickens and chicken portions, such as chicken wings, chicken breast, chicken drumsticks, chicken drumettes, bone-in chicken thighs, boneless chicken fillets, chicken head, chicken feet and chicken legs. Our broilers are then cut into portions according to our internal or customers' requirements, which will be chilled or frozen depending on the product nature. The following are sample pictures of our raw chicken meat products:



Chicken breast



Chicken drumsticks



Chicken drumettes



Chicken wings

Processed Chicken Meat Products

We market our processed chicken meat products under our own brand names of “鳳祥食品 (Fovo Foods)”, “優形 (iShape)” and “五更爐 (Wu Genglu)”. We believe that our processed chicken meat products are well positioned in the market and are expected to have substantial growth potential within this growing market.

We intend to continue to penetrate the processed chicken meat product market through expanding our geographic coverage and developing and launching new processed chicken meat products to meet consumer demand. Our processed chicken meat products comprise cooked, semi-cooked and seasoned chicken meat products. Depending on the processing methods, these processed products are required to be chilled or frozen.

As at the Latest Practicable Date, we had seven slaughtering and processing plants for the production of our raw and processed white-feathered chicken meat products, all of which were located in Shandong, with an aggregate production capacity of approximately 120 million birds and 230,000 tonnes per annum, respectively. The raw chicken meat we use in our processed chicken meat production is either supplied by ourselves, or procured from independent third party suppliers in the PRC and overseas. For the four years ended 31 December 2016, 2017, 2018 and 2019, we processed approximately 193,000 tonnes, 210,000 tonnes, 220,000 tonnes and 229,000 tonnes of chicken meat products, respectively.

Cooked chicken meat products

Our cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products. Our cooked chicken meat products are fully cooked and sterilised. After high temperature processing, our cooked chicken meat products are chilled or frozen and boxed. End consumers will need to reheat our frozen cooked chicken meat products before consumption according to the instructions provided on the packaging. Our end consumers may readily consume the ready-to-eat chicken meat products and no further processing is required. The followings are sample pictures of our cooked chicken meat products:



Homemade Valencia flavoured chicken legs
(瓦倫西亞秘製飄香風味即食雞腿)



Thailand chinsin lemon flavoured chicken legs
(泰國沁心檸檬風味即食雞腿)



iShape steamed chicken breast slices
(優形蒸雞胸肉切片)



iShape MINI salad chicken breast
(black pepper flavour)
(優形沙拉雞胸肉MINI (黑胡椒味))

Semi-cooked chicken meat products

Our semi-cooked chicken meat products are processed. After thermal processing, our semi-cooked chicken meat products are chilled or frozen and boxed. End consumers will need to further process (including steaming, grilling, roasting or frying) our semi-cooked chicken meat products before consumption according to the instructions provided on the packaging. The followings are sample pictures of our semi-cooked chicken meat products:



Lexiang chicken nuggets
(樂享雞塊)



Spicy chicken wings
(香辣翅中)



Taiwanese fried chicken
(鹽酥雞)



Water chesnut chicken meatballs
(馬蹄雞肉獅子頭)

Seasoned chicken meat products

Our seasoned chicken meat products include raw chicken meat flavoured with certain ingredients or spices. The followings are sample pictures of our seasoned chicken meat products:



Sichuan chicken fillet
(川香雞柳)



Microwave chicken wings
(微波雞翅)



Grilled chicken drumsticks
(炙烤雞腿肉)



Deep fried chicken steak
(黃金戰甲大雞排)

We also offer ready-to-cook pre-prepared meal solutions, including Chinese cuisine. The followings are sample pictures of our ready-to-cook pre-prepared meal solutions:



Chicken with mushroom
(香菇滑雞) *Ingredients: chicken, diced mushroom, chili pepper*



Curry chicken (咖喱雞塊)
Ingredients: chicken, potato and onion



Fish flavoured shredded chicken
(魚香肉絲) *Ingredients: shredded chicken, carrot, chili, black fungus*

Chicken Breeds

We sell some of our chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of our chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. We sold approximately 30.0%, 29.9%, 31.0%, 37.3% and 27.7% of our chicken breeds to other third parties in terms of the number of chicken breeds sold as a percentage of the number of chicken breeds hatched based on the production volume of our hatcheries for the four years ended 31 December 2016, 2017, 2018, 2019 and after the Track Record Period and up to the Latest Practicable Date.

For the four years ended 31 December 2016, 2017, 2018 and 2019, our revenue from chicken breeds was approximately RMB149.4 million, RMB69.9 million, RMB172.1 million and RMB426.4 million, representing approximately 6.3%, 2.9%, 5.4% and 10.9% of our total revenue, respectively. Our revenue from chicken breeds segment increased by approximately 147.8% from approximately RMB172.1 million in 2018 to approximately RMB426.4 million in 2019, primarily due to a significant increase of approximately 91.9% in average selling price in chicken breeds from 2018 to 2019.

BUSINESS

Other Products

We sell other products, including sale of animal feeds, chicken by-products (such as chicken feather, chicken blood and unused chicken organs), mature breeders, broiler eggs which do not satisfy our production requirements, packing materials and miscellaneous products.

Price Range and Average Selling Prices

The following table illustrates the price range and average selling prices of our major white-feathered chicken meat products and chicken breeds during the Track Record Period:

		Year ended 31 December			
		2016 (RMB)	2017 (RMB)	2018 (RMB)	2019 (RMB)
Product segment					
White-Feathered Chicken Products					
Raw chicken meat products	Price range	7.98 to 9.30	7.21 to 9.62	8.56 to 11.52	10.77 to 12.69
	<i>(per kg)</i>				
	Average selling price	8.7	8.4	9.9	11.8
	<i>(per kg)</i>				
Processed chicken meat products	Price range	17.86 to 20.95	17.81 to 20.11	17.58 to 19.87	19.56 to 21.58
	<i>(per kg)</i>				
	Average selling price	19.7	19.1	19.3	20.6
	<i>(per kg)</i>				
Chicken breeds	Price range	1.72 to 4.21	0.55 to 3.02	2.00 to 6.79	2.31 to 10.44
	<i>(per bird)</i>				
	Average selling price	3.1	1.5	3.7	7.1
	<i>(per bird)</i>				

There is no material difference in the selling price of chicken meat products from broilers raised under battery cage systems compared with those raised in a cage-free environment.

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

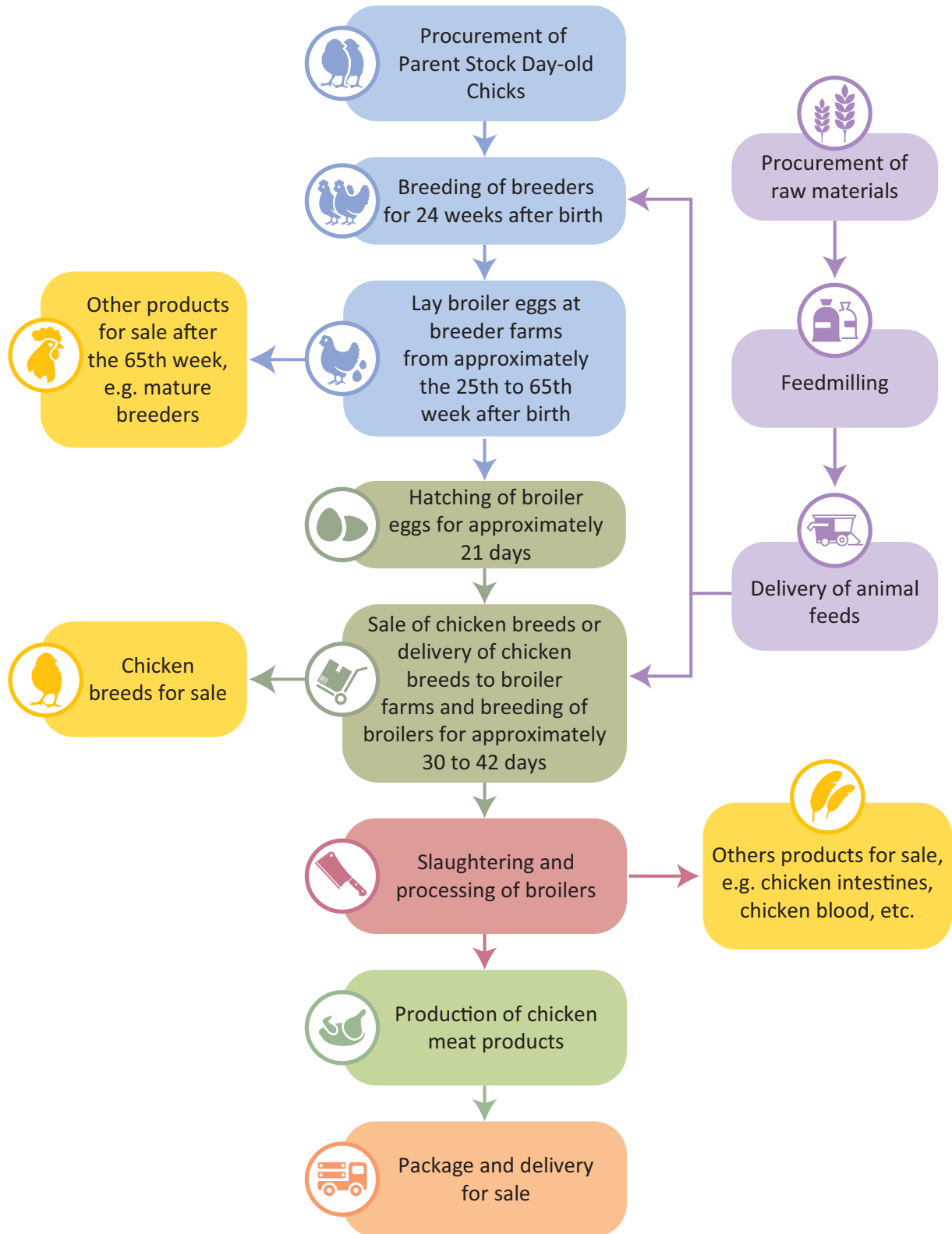
The average selling price of our processed chicken meat products remained relatively stable during the Track Record Period.

The average selling price of our chicken breeds increased by approximately 91.9% from the year ended 31 December 2018 to the year ended 31 December 2019 similarly due to growing demand for chicken meat products in light of the outbreak of African Swine Fever as well as the expected short supply of Grandparent Stock Chicks from overseas. During the Track Record Period, the gross profit margin of our sale of chicken breeds experienced significant volatility due to price fluctuations. For details, see “Financial Information — Gross Profit and Gross Profit Margin”.

BUSINESS

PRODUCTION

Production process for our white-feathered broilers is set out as follows:



BUSINESS

Procurement of Parent Stock Day-old Chicks and Breeder Farms

Our production process starts with our purchase of Parent Stock Day-old Chicks. During the Track Record Period, we mainly purchased our Parent Stock Day-old Chicks from breeding companies producing Parent Stock broiler breeders. As at the Latest Practicable Date, these suppliers imported Grandparent Stock Chicks from overseas, such as New Zealand, and are independent third parties. We procured our Parent Stock Day-old Chicks from five Parent Stock Day-old Chicks suppliers which we had relationships for approximately four to 16 years as at the Latest Practicable Date. The costs for procuring the Parent Stock Day-old Chicks from our Parent Stock Day-old Chicks suppliers for the four years ended 31 December 2016, 2017, 2018 and 2019 were approximately RMB32.0 million, RMB21.4 million, RMB32.8 million and RMB46.3 million, respectively. During the Track Record Period, the Group's procurement costs for Parent Stock Day-old Chicks were generally evenly spread across our four major Parent Stock Day-old Chick's suppliers as detailed below.

The following table sets forth the details of and number of sets of Parent Stock Day-old Chicks supplied from our Parent Stock Day-old Chicks suppliers in the four years ended 31 December 2016, 2017, 2018 and 2019:

	Year ended 31 December			
	2016 (approx.)	2017 (approx.)	2018 (approx.)	2019 (approx.)
Parent Stock Day-old Chicks Supplier A ⁽¹⁾	314,000	533,000	713,000	527,000
Parent Stock Day-old Chicks Supplier B ⁽²⁾	131,000	255,000	87,000	237,000
Parent Stock Day-old Chicks Supplier C ⁽³⁾	174,000	—	84,000	86,000
Parent Stock Day-old Chicks Supplier D ⁽⁴⁾	325,000	333,000	182,000	115,000
Parent Stock Day-old Chicks Supplier E ⁽⁵⁾	75,000	—	—	—
Total	1,019,000	1,121,000	1,066,000	965,000

Notes:

- (1) Parent Stock Day-old Chicks Supplier A is a wholly-foreign owned limited liability company established in September 2013 with a registered capital of USD15.0 million. Parent Stock Day-old Chicks Supplier A is specialised in the breeding of Grandparent Stock Chicks and the sale of Parent Stock Day-old Chicks.
- (2) Parent Stock Day-old Chicks Supplier B is a limited liability company established in the PRC in November 2002 with a registered capital of RMB5.0 million. Parent Stock Day-old Chicks Supplier B is specialised in the breeding and sale of Grandparent Stock Chicks and the sales of Parent Stock Day-old Chicks.
- (3) Parent Stock Day-old Chicks Supplier C is a sino-foreign joint venture established in October 1986 with a registered capital of approximately USD15.4 million. Parent Stock Day-old Chicks Supplier C is set up by a state-controlled agricultural enterprise focused on animal feed and a member of an agri-food conglomerate in China and Vietnam. Parent Stock Day-old Chicks Supplier C is one of the first Grandparent Stock Chicks breeding companies established in the PRC and is specialised in the breeding and sale of Parent Stock Day-old Chicks.
- (4) Parent Stock Day-old Chicks Supplier D is a sino-foreign joint venture established in November 1988 with a registered capital of approximately RMB61.6 million. Parent Stock Day-old Chicks Supplier D is set up by a state-controlled agricultural enterprise and a poultry company incorporated in the US focused on Grandparent Stock Chicks and Parent Stock Day-old Chicks.
- (5) Parent Stock Day-old Chicks Supplier E is a joint-stock limited liability company with a registered capital of approximately RMB576 million, whose shares are listed on the Shenzhen Stock Exchange. Parent Stock Day-old Chicks Supplier E is specialised in the breeding of Grandparent Stock Chicks as well as the breeding and sale of Parent Stock Day-old Chicks and broilers.

The Group chooses to procure the Parent Stock Day-old Chicks mainly from these suppliers because of the vaccinations received by the Parent Stock Day-old Chicks, the relevant suppliers' business relationship with the Group, and the quality and pricing of Parent Stock Day-old Chicks per batch supplied by them satisfy the requirements of the Group.

Since it is an industry norm for PRC's white-feathered broiler breeding companies not to import Grandparent Stock Chicks directly from overseas and in light of our established and stable business relationship with our Parent Stock Day-old Chicks suppliers over years, the Group does not currently have any plan to import Grandparent Stock Chicks from overseas directly.

BUSINESS

For each of the four years ended 31 December 2016, 2017, 2018 and 2019, the Group purchased approximately 1.1 million, 1.1 million, 1.1 million and 1.0 million sets of Parent Stock Day-old Chicks and the average purchase price per set of Parent Stock Day-old Chicks was approximately RMB31.4, RMB19.0, RMB30.8 and RMB47.9, respectively. The purchase price of Parent Stock Day-old Chicks may be affected by various factors, including governmental policies on importation of Grandparent Stock Chicks, the breeding timetable and survival rate of such Grandparent Stock Chicks, the timing of supply of Parent Stock Day-old Chicks by our Parent Stock Day-old Chick suppliers and the market demand of chicken meats products at the relevant time. As at the Latest Practicable Date, our Parent Stock Day-old Chick suppliers imported Grandparent Stock Chicks from overseas. The purchase price of Parent Stock Day-old Chicks rose in 2015 as a result of the importation bans of Grandparent Stock Chicks from France and the United States since 2015, which led to the reduced supply of Grandparent Stock Chicks. The importation bans have been uplifted in March and November 2019, respectively. We entered into a strategic cooperation agreement with one of our Parent Stock Day-old Chick suppliers in May 2016 to procure Parent Stock Day-old Chicks at an agreed price for a term of five years. The Directors believe that this enables us to have a more stable supply and better cost control to mitigate the impact of purchase price fluctuations of Parent Stock Day-old Chicks on our operation.

Each female breeder that has been matched with a male breeder for fertilisation constitutes one set of breeders. The mating ratio of female breeders to male breeders is approximately 8.5:1. The Parent Stock Day-Old Chicks will be delivered to our breeder farms in Shandong according to our timetable. The Parent Stock Day-old Chicks will then be grown in our breeder farms for the purpose of laying broiler eggs. As at the Latest Practicable Date, we had 21 breeder farms for our white-feathered broilers.

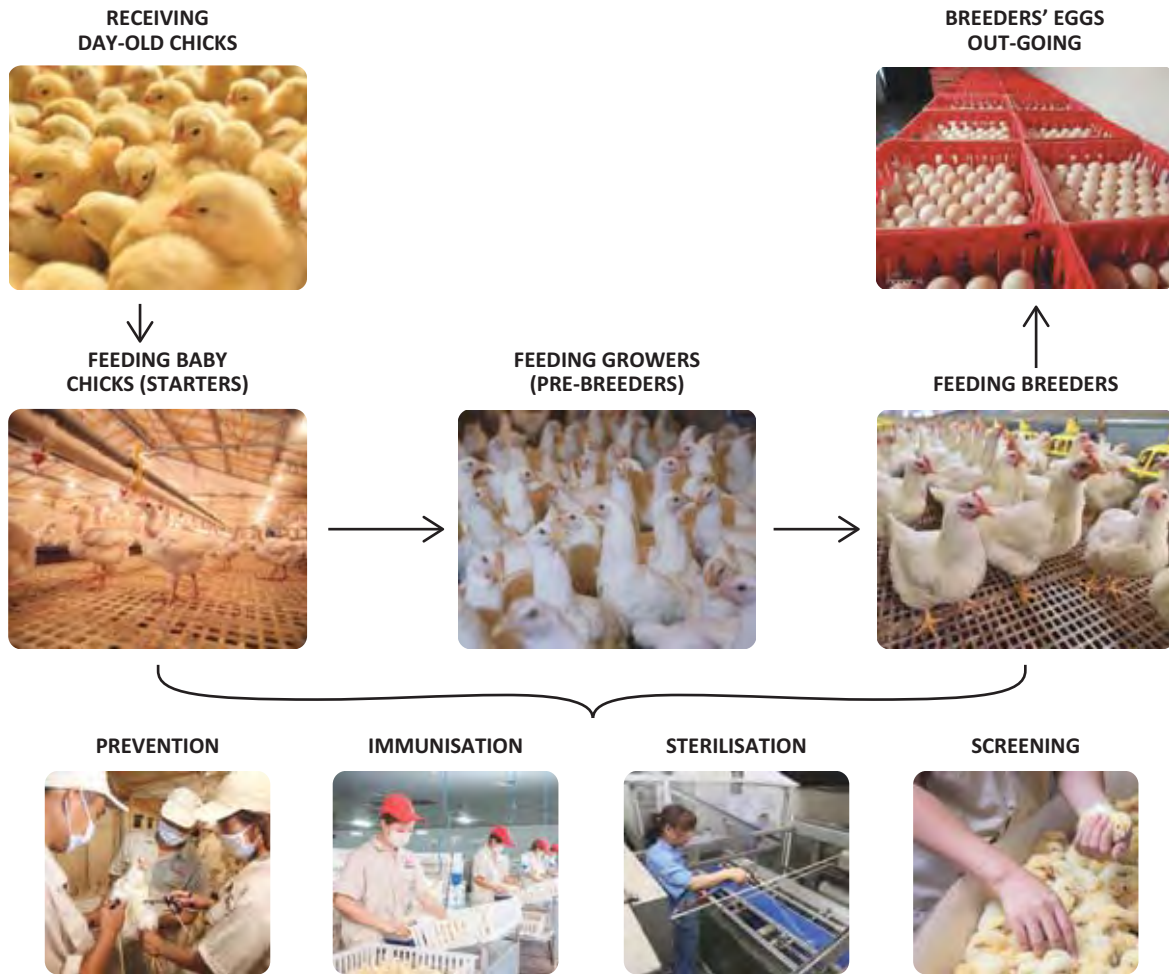
We have installed automated feeding facilities in each of the breeder farms. The Parent Stock Day-old Chicks will be grown into breeders in our breeder farms and start to lay broiler eggs from approximately the 25th week to the 65th week from birth. For each 65-week cycle, each set of our Parent Stock Day-old Chicks can, on average, lay approximately 160 broiler eggs, which satisfies the quality requirements of the Group. After the 65th week, those mature breeders will be sold and will not be used for the production of our chicken meat products.

In order to ensure that our Parent Stock Day-old Chicks are not infected by disease epidemics, strict biological safety measures are implemented in our breeder farms. Only specific staff are allowed to enter into the breeder farms. Any other people who want to enter into the breeder farms are required to undergo comprehensive quarantine procedures, including staying in the premises specified by the Group for at least 72 hours after such person or staff had entered a breeder farm before entering into another breeder farm. All the transportation vehicles entering and exiting the breeder farms are also required to undergo specific sterilisation procedures.

The survival rate of our breeders was approximately 95.6%, 95.6%, 94.6% and 94.8% for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively, which is calculated by dividing the number of breeders in the breeder farms at the 25th week after birth by the number of Day-old Chicks received by the relevant breeder farms.

BUSINESS

The breeding process of our Parent Stock Day-old Chicks at our breeder farms is set out below:



Hatching

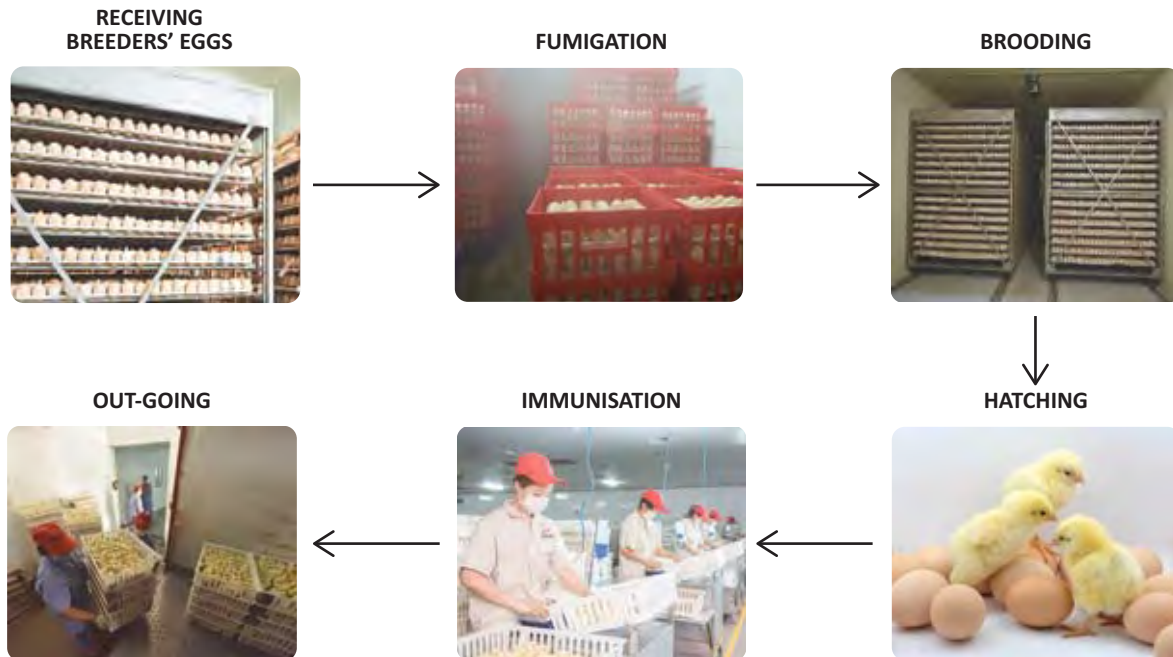
After the mature breeders grown in our breeder farms lay the broiler eggs, we collect and deliver the broiler eggs to our hatcheries. We then select those broiler eggs that satisfy our quality requirements.

We have our own hatcheries which are capable of hatching approximately 180 million chicken breeds each year as at 31 December 2019. Broiler eggs are first disinfected by fumigation and then incubated in machines, during which we carefully monitor and maintain the optimum temperature and humidity throughout the entire hatching process. It generally takes approximately 21 days for the broiler eggs to be hatched. Hatched chicken breeds are inspected, selected, vaccinated and then delivered to our broiler farms. The broiler eggs are inspected and graded by an automated computerised system equipped with various detection technologies to detect and remove non-fertile eggs, dead embryos and rotten eggs. As at Latest Practicable Date, we had two hatcheries for hatching our broiler eggs of white-feathered chicken breeds.

The hatching rate of our chicken breeds was approximately 85.2%, 85.0%, 84.3% and 82.8% for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively, which is calculated by the number of out-going chicken breeds divided by the number of broiler eggs received for hatching.

BUSINESS

The hatching process of our broiler eggs at our hatcheries is set out below:



Delivery to Broiler Farms and Breeding of Broilers

The hatched chicken breeds will then be delivered to our broiler farms. As at the Latest Practicable Date, we had 45 broiler farms for our white-feathered broilers, which can grow an aggregate of approximately 113 million broilers per year.

After such chicken breeds mature into white-feathered broilers, they will be processed into chicken meat products. It normally takes approximately 30 to 42 days to raise a chicken breed into a broiler ready for slaughter.

Broiler farms

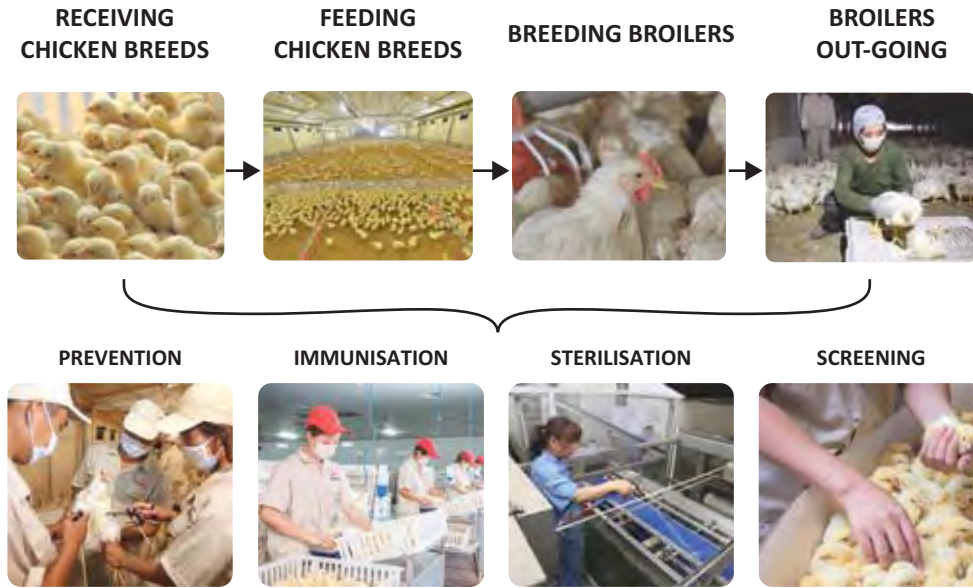
We have 45 broiler farms for our white-feathered broilers, of which 11 had been modified from cage-free systems into battery cage systems as at the Latest Practicable Date. We erected a number of broiler sheds on both our cage free and battery cage broiler farms, which can accommodate an aggregate of not less than approximately 17 million broilers each cycle on average. Each broiler farm can undergo approximately 6.5 to 7.2 cycles each year, and accordingly the broiler farms can raise an aggregate of not less than 113 million broilers per year based on our designed annual production capacity as at 31 December 2019. We have a specific requirement on the population density of broilers in each broiler shed in order to ensure the even distribution of broilers in the broiler sheds. The average stocking density of broiler in each broiler shed ranges from 12.5 to 20.0 heads per sq.m.

We have installed automated feeding facilities in the broiler sheds of the broiler farms. We carefully monitor and maintain the optimum temperature and humidity throughout the breeding process. In order to ensure that our broilers are not infected by disease or other diseases or viruses, strict hygiene measures are implemented in our broiler farms, including sterilising and disinfecting our broiler farms, ensuring a minimum vacancy period of broiler farms and adopting a set of comprehensive disease prevention and vaccination measures. See “— Quality Assurance — Quality

BUSINESS

Control over Breeders and Broilers” below for details of the preventive and management measures adopted by us.

After a shed in the broiler farms is vacated, it will be cleaned and sterilised before another batch of chicken breeds are moved in for breeding. The breeding process of our broilers at our broiler farms is set out below:



Slaughtering and processing

After the chicken breeds in our broiler farms mature into white-feathered broilers, we collect the broilers and deliver them to our slaughtering and processing facilities. We have our own slaughtering and processing facilities which can slaughter and process up to approximately 120 million broilers per year. As at the Latest Practicable Date, we had seven slaughtering and processing plants for our white-feathered broilers.

The key equipment in our slaughtering and processing operations includes automatic slaughtering and portioning machines and food processors such as freezers and choppers. Most of our key slaughtering and processing equipment are imported from manufacturers mainly in the Netherlands and Germany as well as from the PRC. Our white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals.

After the broilers are offloaded to our slaughtering and processing plants, the broilers will first be hung on a moving line. They are then stunned with an electric current and bled-out. Following bleeding, they are then scalded using hot water and de-feathered. After completely removing the feathers, evisceration follows, where we remove their internal organs and the broilers are thoroughly washed and inspected. Broilers are then pre-cooled to reduce any possible food borne pathogens before they are processed and/or packaged as chicken meat products, including but not limited to chicken wings, chicken breast and chicken legs. See “— Products” above for further details.

Islamic methods of slaughtering

We slaughter broilers adopting Islamic methods in compliance with the Islamic Law, especially in relation to sanitation, food safety, finished product standards and humane handling, in order to ensure that our white-feathered chicken meat products are halal certified.

The halal slaughtering requires that, animals shall be alive or deemed to be alive and healthy to be ritually slaughtered by a Muslim slaughterman with a sharp and clean slaughtering knife. Prior to being slaughtered, stunning is used as a process of rendering animals immobile or unconscious. Animals that are dead before they have bled out will be unsuitable for halal consumption. Animals that are dead due to stunning procedure shall be identified as non-halal conformance, segregated and recorded and be removed from the halal system by the Slaughterman. “Bismillah” must be recited as a blessing by a Muslim slaughterman immediately before slaughtering. The number of slaughtermen shall be adequate to ensure that the act of halal slaughter is conducted properly on each animal.

The slaughtering act shall begin with an incision on the neck and shall hasten the bleeding and death of the animal. The bleeding shall be spontaneous and complete. Slaughtering shall be done only once and without intervention to hasten the death of the animal. The number of animals slaughtered daily and the non-halal conformance carcasses shall be identified and recorded and be available for audit by the supervising body.

During the Track Record Period, we also procured certain chicken meat products from independent third party suppliers both domestically and overseas (generally from Brazil) which satisfy our internal control requirements to meet customers’ demand of our processed chicken meat products. For the four years ended 31 December 2016, 2017, 2018 and 2019, the average purchase price of raw chicken meat products procured from independent third party suppliers was approximately RMB12,000, RMB12,000, RMB14,000 and RMB15,000 per tonne and the purchase volume was approximately 14,000 tonnes, 12,000 tonnes, 31,000 tonnes and 45,000 tonnes, respectively. The percentage of cost of raw chicken meat procured to total cost of sales increased from approximately 4.0% for the year ended 31 December 2016 to approximately 15.7% for the year ended 31 December 2019, which was mainly due to an increase in demand of raw chicken meat for the Group’s processed chicken meat products and an increase in average procurement cost of such raw chicken meat. For details of our internal control requirements on third party suppliers of chicken meat products, see “Business — Quality Assurance”. For the four years ended 31 December 2016, 2017, 2018 and 2019, the cost of raw chicken meat procured by the Group was approximately RMB90.5 million, RMB132.5 million, RMB394.5 million and RMB549.3 million, respectively, representing approximately 4.6%, 6.2%, 14.4% and 20.3% of our cost of sales (before biological assets fair value adjustments) during the same period.

The Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we did not experience any significant problems with the quality of the chicken meat products procured from our suppliers.

Production Process of Chicken Meat Products

We process most parts of the broilers into different types of chicken meat products. The production processes of the two main categories of our products are as follows:

Raw chicken meat products

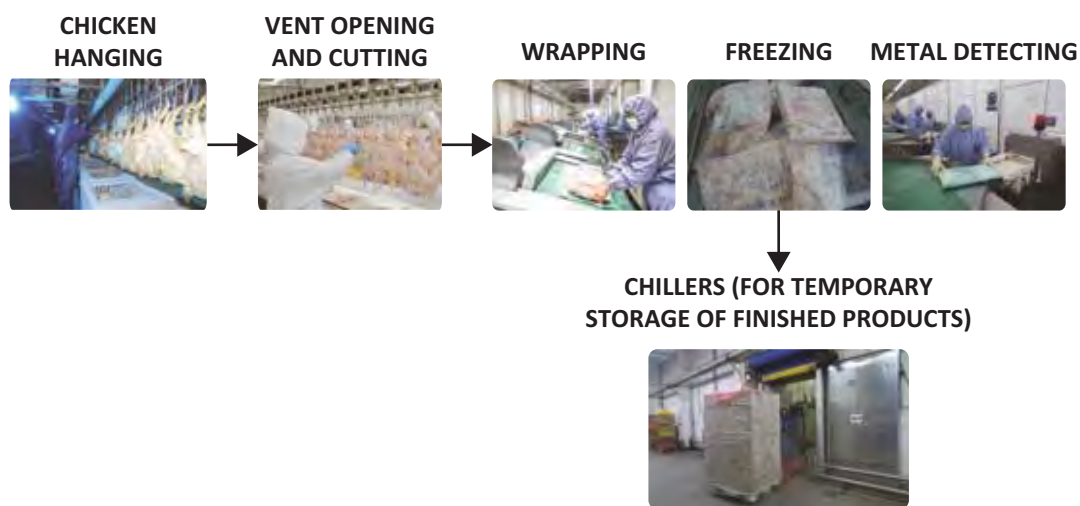
The production process for our raw chicken meat products begins with hanging the broilers on a moving line and followed by vent opening and cutting of the raw chicken meat. After the chickens are

BUSINESS

cut into different parts, they will be weighted, frozen and packaged. We have our own refrigeration facilities to store our chicken meat products. Our raw chicken meat products will generally be stored in our refrigeration facilities for approximately ten to 20 days. Our products will then be delivered to our customers by cold storage trucks. For details of our hygiene and quarantine procedures implemented at our slaughtering and processing plants, see “— Quality Assurance — Quality Control over Chicken Meat Products” below.

Our raw chicken meat products mainly consist of chicken wings, chicken legs and chicken breasts. For the four years ended 31 December 2016, 2017, 2018 and 2019, our raw chicken meat products accounted for approximately 62.4%, 54.7%, 53.8% and 48.1% of our total revenue, respectively.

Our production process of raw chicken meat products is set out as follows:



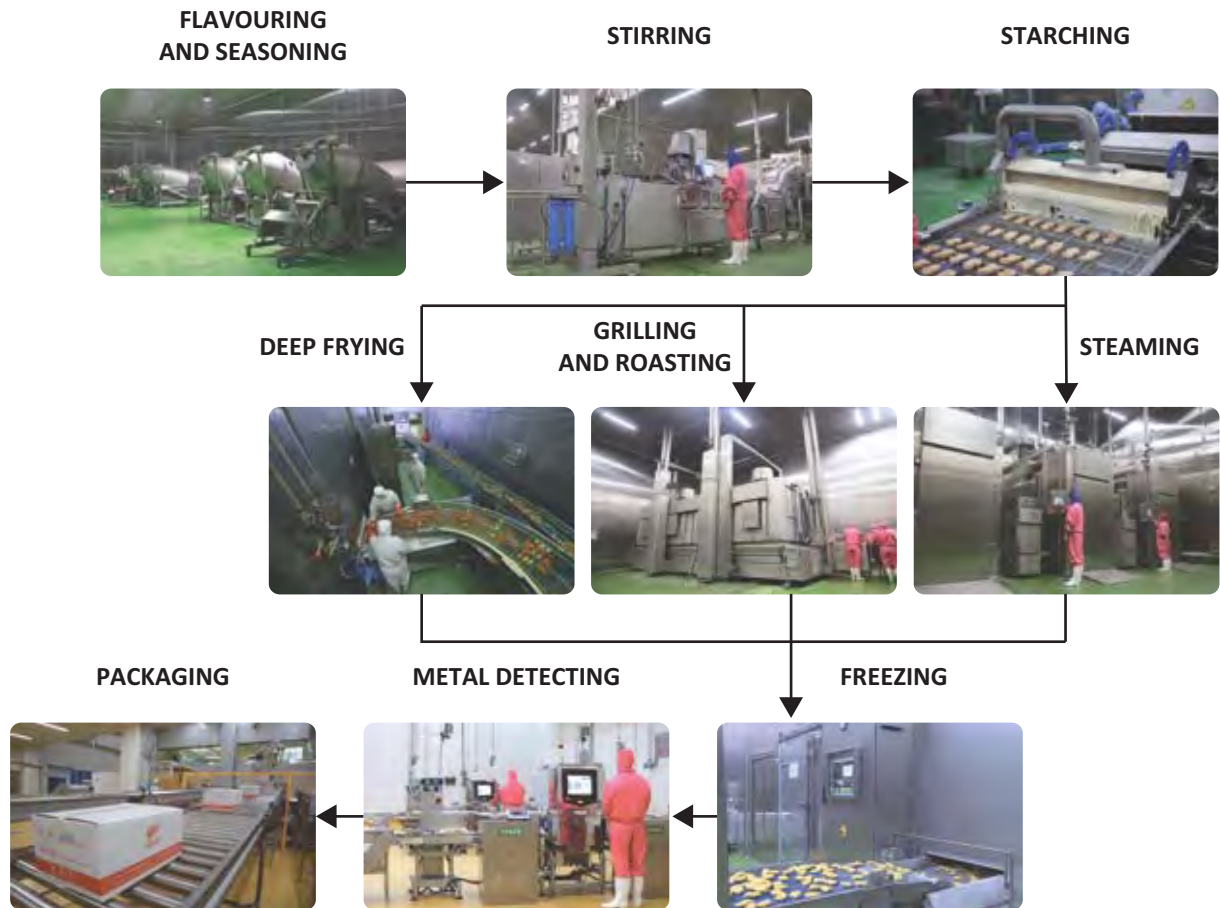
Processed chicken meat products

We generally use frozen or chilled raw chicken meat to produce our processed chicken meat products, which is trimmed, minced and mixed with spices and other ancillary ingredients. Depending on the different processing procedures involved for a specific product, the mixture of raw chicken meat and other ingredients is chopped, kneaded or cured. Depending on the type of processed chicken meat product, we then fill the mixed chicken meat paste into moulds to mould the paste into the proper finishing shape. Cooked or semi-cooked chicken meat products are processed at different temperatures. After processing, the cooked or semi-cooked chicken meat products are cooled or frozen and then packaged.

The key equipment in our processed chicken meat product processing operations includes fryers, steam ovens, cutting machines, mincers, choppers, injection moulding machines, smoking machines, automatic packaging machines and coolers. Most of our key processed chicken meat production equipment was imported from manufacturers in Germany, the United States and Japan.

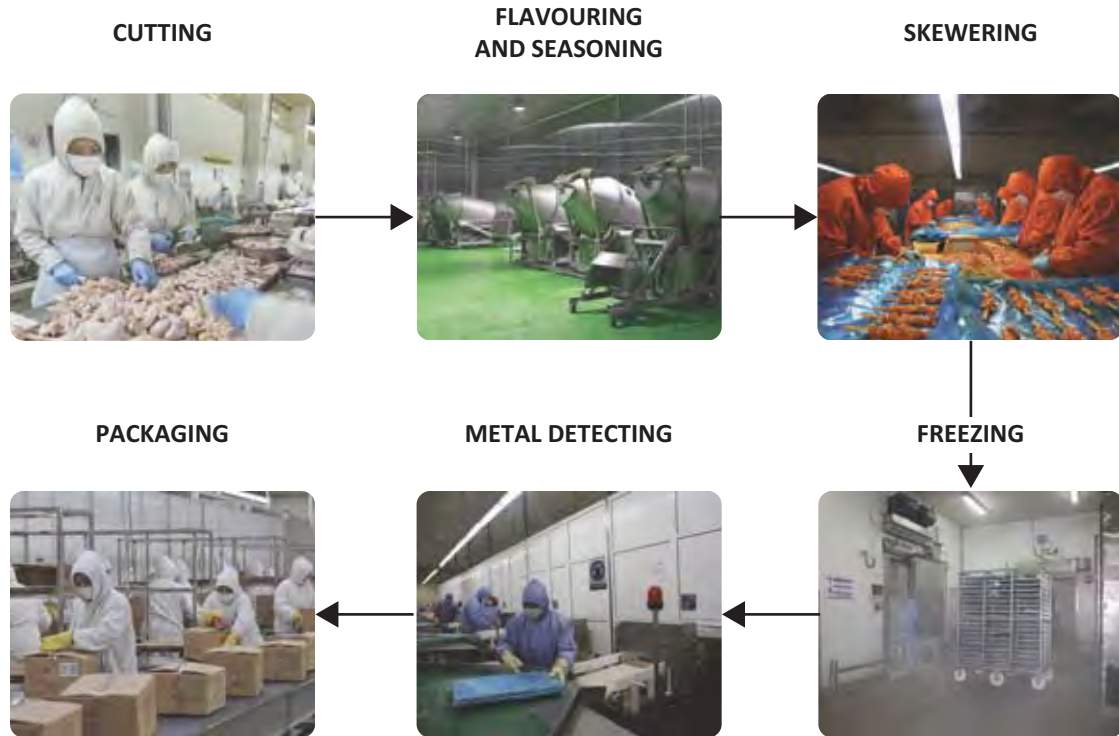
BUSINESS

Our production process of cooked chicken meat products and semi-cooked chicken meat products is set out as follows:



BUSINESS

Our production process of seasoned chicken meat products is set out as follows:



Animal Feeds Production

Our breeder farms and broiler farms are required to use the animal feeds manufactured by our own animal feeds production facilities. Our animal feeds production facilities occupy a site area of approximately 23,814.05 sq.m. with a gross floor area of approximately 71,210 sq.m. As at 31 December 2019, we had an aggregate annual animal feeds production capacity of 430,000 tonnes. We produced animal feeds of approximately 391,000 tonnes, 418,000 tonnes, 394,000 tonnes and 398,000 tonnes for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

We procure the raw materials of our animal feeds, including corn and soybean meal from third parties. After processing, all animal feeds and other necessary ingredients are then mixed in the required ratio. Lastly, our animal feeds will be delivered directly to our breeder farms and broiler farms by lorries specialised in the delivery of animal feeds.

BUSINESS

PRODUCTION FACILITIES

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

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

Production Capacity and Utilisation Rate

The following table sets forth the production capacity and utilisation rate of our breeder farms, hatcheries and broiler farms during the Track Record Period:

Existing facility	Year ended 31 December			
	2016 '000 (<i>approx.</i>)	2017 '000 (<i>approx.</i>)	2018 '000 (<i>approx.</i>)	2019 '000 (<i>approx.</i>)
Breeder farm ⁽¹⁾				
Designed production capacity ⁽²⁾ (<i>sets</i>)	1,600	1,600	1,600	1,720 ⁽⁴⁾
Actual capacity (<i>sets</i>)	1,373	1,387	1,353	1,516
Utilisation rate ⁽³⁾ (%)	85.8	86.7	84.6	88.1
Hatchery				
Designed production capacity ⁽²⁾ (<i>birds</i>)	180,000	180,000	180,000	180,000
Production volume (<i>birds</i>)	159,614	158,829	150,659	162,280
Utilisation rate ⁽³⁾ (%)	88.7	88.2	83.7	90.2
Broiler farm				
Designed production capacity ⁽²⁾ (<i>birds</i>)	113,000	113,000	114,000	113,000 ⁽⁵⁾
Production volume (<i>birds</i>)	111,620	111,380	103,760	101,742
Utilisation rate ⁽³⁾ (%)	98.8	98.6	91.0	90.0

Notes:

- (1) Each female breeder that has been matched with a male breeder for fertilisation constitutes one set of breeders. The mating ratio of female breeders to male breeders is approximately 8.5:1. Hence, the number of female breeders is equal to the number of the sets of breeders.
- (2) The designed production capacity for breeder farms, hatcheries or broiler farms has been calculated as the total designed production capacity of the given breeder farms, hatcheries or broiler farms (as the case may be) in operation at the end of the year.

BUSINESS

- (3) Utilisation rate is calculated as the actual capacity or production volume (as the case may be) as a percentage of the designed production capacity for the relevant year.
- (4) The designed production capacity for our breeder farms for the year ended 31 December 2019 increased to 1,720,000 sets as two of the Group's broiler farms were transformed into breeder farms in late 2018, and were only put into effective operation in early 2019.
- (5) The reduction of our designed annual production capacity for broiler farms for the year ended 31 December 2019 to approximately 113,000 birds primarily resulted from the vacancy period of the relevant broiler farms, as a result of the conversion of eight of our broiler farms from cage-free to battery cage systems.

The following table sets forth the production capacity and utilisation rate of our feedmills during the Track Record Period:

Existing facility	Year ended 31 December			
	2016	2017	2018	2019
Feedmill				
Designed production capacity ⁽¹⁾ (tonnes)	404,976	430,000 ⁽²⁾	430,000	430,000
Production volume (tonnes)	390,664	417,676	393,607	394,700
Utilisation rate ⁽³⁾ (%)	96.5	97.1	91.5	91.8

Notes:

- (1) The designed production capacity for our feedmills is calculated on a basis of 26-day basis per month and the given feedmills operating 22 hours per day and calculated as the total designed production capacity of the feedmills in operation at the end of the period.
- (2) The designed production capacity for our feedmills increased since 2017 due to certain mechanical upgrades, which increased our animal feeds production efficiency.
- (3) Utilisation rate is calculated as the production volume as a percentage of the designed production capacity for the relevant year.

The following table sets forth the production capacity and utilisation rate of our slaughtering and processing facilities during the Track Record Period:

Existing facility	Year ended 31 December			
	2016	2017	2018	2019
	'000	'000	'000	'000
	(approx.)	(approx.)	(approx.)	(approx.)
Slaughtering operations				
Designed production capacity ⁽¹⁾ (birds)	120,000	120,000	120,000	120,000
Production volume (birds)	102,500	103,800	96,100	90,700
Utilisation rate ⁽²⁾ (%)	85.4	86.5	80.1	75.6
Processing operations				
Designed production capacity ⁽³⁾ (tonnes)	230	230	230	230
Production volume (tonnes)	177	184	174	174
Utilisation rate ⁽⁴⁾ (%)	77.0	80.0	75.7	75.7

Notes:

- (1) Annual production capacity for our slaughtering operations is calculated on a 300-day basis per year on the assumption that 400,000 birds may be slaughtered per day, and taking into consideration the time required for machinery maintenance, repair and staff breaks.
- (2) Utilisation rate is calculated as the production volume as a percentage of the designed production capacity for the relevant year.
- (3) Annual production capacity for our processing operations is calculated on a 300-day basis per year, and taking into consideration the time required for machinery maintenance, repair and staff breaks.
- (4) Utilisation rate is calculated as the production volume as a percentage of the designed production capacity for the relevant year.

As disclosed in “— Our Expansion Plan” below and “Future Plans and Use of Proceeds”, the Group intends to procure facilities necessary for the broiler farms with battery cage systems, new slaughtering and processing plant, breeder farms, hatchery, feedmill and organic fertiliser plant. For details of our production facilities for our Sichuan Mountain Black Bone Chicken which are located in Sichuan, see “— Sichuan Mountain Black Bone Chicken — Our Products and Production Facilities” below.

Remote Control Real-Time Data Information System

We have designed and developed a remote control real-time data information system to carefully monitor and maintain optimum temperature and humidity throughout the breeding process at each of our breeder farms and broiler farms on a 24-hour basis.

The information system monitors and displays the key operation indicators in the broiler farms and breeder farms, including real-time temperature, humidity, animal feed intake, water intake and ventilation. Abnormalities may be detected and resolved in a timely manner through the built-in alarm systems at breeder farms, broiler farms and the data information system.

Further, the Group analyses the breeding data saved in the database of the data information system, allowing the Group to constantly improve its breeding environment and breeding performance based on the analysis results. For details of our information technology system, see “— Information Technology” below.



SICHUAN MOUNTAIN BLACK BONE CHICKEN

Breeding Process

Leveraging our extensive experience in white-feathered broiler production, the Group has been seizing opportunities to explore, invest and develop other high-end chicken meat products to diversify and optimise our product mix. In May 2016, we established a joint venture, namely Xingwen Tianyang, with the Sichuan Xingwen County Finance Bureau (四川省興文縣財政局) to commence breeding and production business of Sichuan Mountain Black Bone Chicken. Sichuan Mountain Black Bone Chicken is a type of high protein chicken meat product with its meat, bones and organs all being black in colour and is originated from Sichuan.

Unlike the breeding method of white-feathered broilers, Sichuan Mountain Black Bone Chicken is raised by a “free range” method and rarely ever caged before transport to slaughter. In addition to animal feed, Sichuan Mountain Black Bone Chicken eats insects and various greens to maintain a natural and high-protein diet. Breeding of Sichuan Mountain Black Bone Chicken requires suitable areas with local natural environment to allow the Sichuan Mountain Black Bone Chicken to have access to outdoor space. As such, we have established separate production facilities in Sichuan, which include breeder farm, hatchery and slaughtering plant and engaged the Contract Farmers to breed our Sichuan Mountain Black Bone Chicken for our chicken meat products. The “free range” breeding method requires certain specific standard of environment and safety requirements, including feeding environment, epidemic disease prevention and control which must be implemented in accordance with the relevant standards and requirements as promulgated by the local government. We and the Contract Farmers are required to follow the abovementioned requirements when breeding the Sichuan Mountain Black Bone Chicken.



Our breeding and production process of Sichuan Mountain Black Bone Chicken starts with the breeding of origin stock day-old black bone chicks (原種代) into Parent Stock Chicks in our Sichuan breeder farm. The broiler eggs laid by the Parent Stock Chicks are then hatched into black bone chicken breeds in our hatchery for approximately three weeks. The black bone chicken breeds are then bred in our breeder farm for approximately 30 to 35 days before they are delivered to our Contract Farmers. The chicken breeds grow into broilers in approximately 140 to 150 days. We collect the broilers from our Contract Farmers and deliver them to our local slaughtering plant to produce black bone chicken meat products or alternatively sold as live broilers in the market. During the Track Record Period, we had 53 Contract Farmers for our Sichuan Mountain Black Bone Chicken. For the four years ended 31 December 2016, 2017, 2018 and 2019, revenue from sale of Sichuan Mountain Black Bone Chicken amounted to approximately nil, RMB0.7 million, RMB3.9 million and RMB8.8 million, respectively, representing approximately nil, 0.03%, 0.12% and 0.22% of our total revenue in these respective periods.

Contract Farming and Controls on Contract Farmers

Under the Contract Farming arrangement, the Contract Farmers purchase Sichuan Mountain Black Bone Chicken breeds, animal feeds, medicine and vaccines from us at agreed prices specified in the contracts and subject to adjustments determined by us or from pharmacies specified by us, and are prohibited from purchasing any animal feeds, Sichuan Mountain Black Bone Chicken breeds, other ingredients, medicine or vaccines from other third parties. In the event that the Contract Farmers are found to be in violation of this requirement, we may refuse to repurchase the broilers from them. We will normally repurchase from the Contract Farmers, and the Contract Farmers are obliged to sell to us all Sichuan Mountain Black Bone Chicken satisfying our requirements at the agreed prices, subject to adjustments. The repurchase price will be calculated with reference to the number of Sichuan Mountain Black Bone Chicken delivered to the Group by the Contract Farmers.

BUSINESS

To ensure that the operations of the Contract Farmers meet our quality and hygiene requirements, we have adopted a strict and comprehensive supervision regime on the performance of the Contract Farmers and relevant facilities. We also require the Contract Farmers to strictly follow our instructions regarding the Contract Farming, such as farm sterilisation, disposal of dead broilers and waste materials, health record reporting, prevention on animal diseases, and emergency procedures to deal with the outbreak of animal diseases. We require, among other things, that (1) the Contract Farmers shall not breed and mix Sichuan Mountain Black Bone Chicken breeders that were procured from suppliers other than us; (2) if the Contract Farmers identify any defects in the quality of the Sichuan Mountain Black Bone Chicken breeds during the course of breeding, they must report such defects to us; and (3) the Contract Farmers record the daily number of dead and injured Sichuan Mountain Black Bone Chicken, the amount of daily feed intake and the medicines used on a daily basis. We provide technical consultancy services to the Contract Farmers free of charge and provide breeding epidemic prevention procedures for the Contract Farmers' reference from time to time.

Before the Group collects the Sichuan Mountain Black Bone Chicken from a Contract Farmer, the relevant Contract Farmer is required to provide the certificate issued by the relevant PRC governmental authority responsible for quarantine, certifying that the relevant batch of growers pass the quarantine requirements. We also conducted sample test (including medicine test) on the Sichuan Mountain Black Bone Chicken supplied by the Contract Farmers before slaughtering.

The Directors confirmed that, (a) save for the Contract Farming arrangements as disclosed in this prospectus, the Contract Farmers do not have any relationship or dealing with the Group, the substantial Shareholders, Directors, Supervisors, senior management or any of their respective associates and are independent third parties; and (b) there has been no infection case of avian influenza found in the Sichuan Mountain Black Bone Chicken bred by the Contract Farmers during the Track Record Period and up to the Latest Practicable Date.

For the four years ended 31 December 2016, 2017, 2018 and 2019, we had Contract Farming arrangements with approximately nil, 20, 16 and 53 Contract Farmers in relation to our Sichuan Mountain Black Bone Chicken, all of whom being independent third parties. For the four years ended 31 December 2016, 2017, 2018 and 2019, the Group repurchased approximately nil, 10,000, 43,000 and 139,000 Sichuan Mountain Black Bone Chicken from Contract Farmers and the average repurchase price per Sichuan Mountain Black Bone Chicken was approximately nil, RMB64.7, RMB58.4 and RMB52.2, respectively. The increase in our repurchase volume of Sichuan Mountain Black Bone Chicken from the Contract Farmers in 2019 was mainly due to an increase in market demand for black bone broiler meat, and as a result, we increased the hatching volume of our Sichuan Mountain Black Bone Chicken breeds for the Contract Farming arrangement and engaged more Contract Farmers during the period.

Selection of Contract Farmers

The Group evaluates the suitability of potential Contract Farmers for breeding Sichuan Mountain Black Bone Chicken broilers by assessing the location and area of their farmlands, the proposed number of Sichuan Mountain Black Bone Chicken for breeding and the distance between their farmlands and our production facilities. Our technical staff also assesses factors such as water supply, electricity facilities and accessibility of the farmland as further described below.

BUSINESS

In order to ensure that the Contract Farmers will be able to satisfy the requirements of the Group, we have adopted the following selection criteria to select our Contract Farmers:

- (i) the farmland has to be situated at an easily accessible location to allow access of breeding equipment and animal feeds;
- (ii) the landscape is required to be dry with adequate ventilation;
- (iii) there should be sufficient clean water supply to the farmland;
- (iv) the soil on which the Sichuan Mountain Black Bone Chicken broiler sheds are erected must be of suitable quality;
- (v) the Sichuan Mountain Black Bone Chicken broiler sheds should be equipped with proper feeding system, drainage system, lighting facility, heating devices and ventilation; and
- (vi) we have specific requirements on (a) the dimension and the direction of the broilers sheds; and (b) the distances between each of the broiler sheds.

Our Products and Production Facilities

During the Track Record Period, we only sold live and whole Sichuan Mountain Black Bone Chicken to our customers domestically. We commenced sale of Sichuan Mountain Black Bone Chicken in 2017. The price range of our raw Sichuan Mountain Black Bone Chicken meat products per kg for the four years ended 31 December 2016, 2017, 2018 and 2019 was approximately nil, RMB27.0 to RMB34.0, RMB18.0 to RMB32.1 and RMB18.0 to RMB34.0, respectively, and the average selling price per kg was approximately nil, RMB30.3, RMB27.2 and RMB23.9, respectively.

The slaughtering procedures of our Sichuan Mountain Black Bone Chicken are largely similar to that of our white-feathered raw chicken meat products.

Our production facilities for our Sichuan Mountain Black Bone Chicken are located in Sichuan. As at the Latest Practicable Date, we had one breeder farm, one hatchery, one broiler demonstration farm and one slaughtering facility, which are all leased by us. During the Track Record Period, the Contract Farmers delivered to us an aggregate of approximately 190,000 Sichuan Mountain Black Bone Chicken, representing a rate of return of approximately 84.3%, being the number of Sichuan Mountain Black Bone Chicken that has met our requisite breeding requirements divided by the number of Sichuan Mountain Black Bone Chicken breeds reared by the Contract Farmers.

OUR EXPANSION PLAN

Battery Cage Systems

As at the Latest Practicable Date, 11 of our broiler farms adopted battery cage systems. Such broiler farms have three tiers to maximise utilisation of available floor space and optimise stocking density. The battery cages are made of solid iron wires with the cages arranged in long rows with one above another. The bottom of our battery cages is made of iron wire mesh, which allows manure to drop down, together with a conveyer belt between each level to remove manure on a daily basis and prevent it from falling on the broilers below. The conveyer belt will then transport the manure out of the broiler sheds to our organic fertiliser plant.

We have specific requirements on the general stocking capacity of broilers in our battery cages to ensure an even distribution in the battery cages. The average stocking capacity of broilers in our battery cages is 20.0 heads per sq.m.. Similar to cage free systems, our battery cage systems include

BUSINESS

automated climate control, feeding, water, ventilation, lighting and manure collection functionalities. Animal feeds are provided to our broilers through a customised feed trough made of iron sheets and water is served to them through overhead nipple systems. The environment for breeding broilers in battery cage farms is identical to our cage-free broiler farms. For details of the optimum environment for breeding, see “ — Quality Assurance — Quality Control over Breeders and Broilers” below. Below are photos of our broilers farms that have already adopted battery cage systems:



Reasons for Establishing Battery Cage Systems

As part of our strategy, we intend to expand our breeding and production capacities of white-feathered broilers through the procurement of facilities necessary for additional broiler farms adopting battery cage systems. As at the Latest Practicable Date, we modified 11 of our broiler farms from cage-free system to battery cage systems.

The utilisation rate of our broiler farms have on average reached approximately 98.8%, 98.6%, 91.0% and 90.0% for the four years ended 31 December 2016, 2017, 2018 and 2019. Further, according to the Frost & Sullivan Report, the market size of processed white-feathered chicken meat products increased from RMB14.3 billion in 2015 to RMB24.2 billion in 2019, at a CAGR of 14.1% and it is projected that the total market size will continue to grow steadily at a CAGR of 20.1% from 2019 to 2024 along with a more diverse products portfolio, boosted by the growing population of the younger generation seeking convenience and diversity. As such, the Group’s current designed production capacity of breeding approximately 113 million broilers per annum is insufficient to capture the future market growth. Moreover, the procurement cost of raw chicken meat from third party suppliers have been continually increasing. Accordingly, we increased our production capacity to meet our customers’ demand by modifying 11 of our own broiler farms into battery cage systems. The Directors are of the view that such trend will continue, which makes increasing our production capacity more urgent and will be in the interest of the Group to mitigate its procurement cost effect.

To fulfil the demand of our customers, the Directors believe that it is of strategic importance that the Group is able to secure and enhance control over the timeliness, quality and predictability of our broiler supplies. Having broiler farms with battery cage systems would therefore be critical to the Group to achieve these business objectives.

The Group’s plan to adopt battery cage systems is not solely dependent on the projected increase in the consumption of broilers in the PRC but also worldwide. Currently, our existing designed broiler stocking capacity per broiler farm adopting the cage-free method is approximately 13.5 broilers per sq.m.. With the planned modification into and adoption of battery cage systems, the designed broiler stocking capacity is projected to increase to approximately 20.0 broilers per sq.m., representing a 48.1% increase as a greater number of broilers may be bred per unit of area. Based on our past experience in the conversion of broiler farms, it generally takes three to four months to convert a farm adopting cage-free method into battery cage system. Since the conversion of broiler

BUSINESS

farms will be conducted in stages and a larger number of broilers could be bred per unit of area upon conversion, the total designed production capacity of our broiler farms would be increased in stages. Accordingly, the Directors consider that the increase in total designed production capacity and cost efficiency with a lower weighted average unit cost of production and a higher European Production Index based on the Schedule reported on by PwC after such conversion will be able to make up for the temporary suspension of operations during the conversion. As such, the potential impact on the Group's business and financial position from the temporary suspension of operations as a result of the conversion of broiler farms adopting cage-free method into battery cage systems is expected to be minimal. See below for further details on the Schedule reported on by PwC.

As at the Latest Practicable Date, we modified 11 of our 45 broiler farms into battery cage systems, intended to convert six of our existing white-feathered broiler farms adopting cage-free method into battery cage systems and intended to retain 28 of our existing white-feathered broiler farms with cage-free systems to satisfy certain of our customers' internal requirements. We expect that the total costs for converting six of our existing white-feathered broiler farms adopting cage-free method into battery cage systems to be approximately RMB75.0 million.

We have prepared an expansion plan to enhance our production capacity, which includes the procurement of facilities for the construction of broiler farms with battery cage systems as well as other production facilities at the total expected investment cost of approximately RMB1,458.3 million (approximately RMB572.3 million of which will be fully funded by net proceeds from the Global Offering as indicated below), so as to enhance the designed annual production capacity of our production facilities to the extent that it reaches the relevant benchmarks set out below:

Production facilities	Number of production facilities involved	Designed annual production capacity	Total expected investment cost ⁽¹⁾ (RMB'million)	Utilisation of net proceeds ⁽²⁾ (RMB'million)
Breeder farm	10	2.6 million sets	228.8	100.4
Hatchery	1	230 million birds	40.7	26.0
Broiler farm	25	194 million birds	743.0	314.6
Slaughtering and processing facility	1	200 million birds	246.9	27.8
Feedmill	1	830,000 tonnes	94.8	56.4
Organic fertiliser plant	1	140,000 tonnes	104.1	47.1
Total			<u>1,458.3</u>	<u>572.3</u>

Notes:

- (1) The total expected investment cost includes construction costs (including foundational construction, installation of electricity, water treatment, water supply, ventilation, heating and other environmental control systems) and the procurement of facilities.
- (2) The net proceeds in the amount of approximately RMB572.3 million is intended to be used solely for the procurement of facilities for our expansion plan.

We expect the expansion plan to be completed within the course of approximately 26 months after Listing. The estimated investment costs for the procurement of facilities are expected to be approximately HK\$627.8 million (equivalent to approximately RMB572.3 million). The Group intends to carry out the procurement of facilities over a 24-month period (subject to the purchase price at that time), which will be funded by 45.0% of the net proceeds of the Global Offering. The Directors believe that our production capacity may realise a year-on-year increase of approximately 63.6%, which is calculated based on the difference between the designed annualised production capacity of the Group's facilities as at 31 December 2019 and the relevant benchmarks set out above.

BUSINESS

We estimate that the investment payback period for our expansion plan will be approximately seven years after taking into account, among other things, the expected production capacities, expected timing for installation and the construction of relevant facilities, assuming that there would be no material change in market demand.

We also expect that our labour costs would be reduced from approximately RMB364 per tonne to RMB270 per tonne, representing a cost reduction of approximately 25.8%.

Based on the foregoing, the Directors believe that the Group's broiler production can generally benefit from adopting battery cage systems in the following aspects:

- *Expanding production capacity in a reduced area.* Through the adoption of battery cage systems, our production capacity may be increased per unit area as it is estimated that our designed broiler stocking capacity would increase by approximately 48.1% from approximately 13.5 broilers to 20.0 broilers per sq.m., allowing for a greater number of broilers to be bred per unit of area. Our overhead costs would also be shared between more broilers. Maximising our space would allow for higher production capacity to meet our customers' demands.
- *Increased cost efficiency.* PwC has been engaged by the Company to perform a limited assurance engagement on the Calculation of Unit Cost and EPI of Certain Chicken Farms of the Group for the period from 1 September 2018 to 31 May 2019 prepared by the Company (the "**Schedule**") in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA.

It is PwC's responsibility to express a conclusion on the Schedule based on the work performed and to report their conclusion solely to the Company, as a body, in accordance with the agreed terms of engagement and for no other purpose. PwC does not assume responsibility towards or accept liability to any other person for the contents of the PwC report. Within the scope of the engagement, PwC was not required and did not observe the counting of the number of chickens or the weighing of the chickens, as used in the Schedule. PwC performed amongst others the following procedures:

- making inquiries of the Company's management including those responsible for the preparation of the Calculation of Unit Cost and EPI of Certain Chicken Farms;
- obtaining an understanding of the design of the key systems, processes and controls for preparation and recording of Calculation of Unit Cost and EPI of Certain Chicken Farms;
- checking the calculations of Calculation of Unit Cost and EPI of Certain Chicken Farms in accordance with the Company's basis of preparation; and
- applying analytical review procedures and examining, on a sample basis, documentary evidence including but not limited to invoices, receipts, number count sheets and weight sheets of chickens.

According to the Schedule reported on by PwC, the adoption of the three broiler farms, which had been converted into battery cage systems by the Group as at the time of preparation of the Schedule, had a lower weighted average unit cost of production of RMB7.10 per kg as compared with the three comparable cage-free broiler farms of RMB7.55 per kg for the period from 1 September 2018 to 31 May 2019, the difference

BUSINESS

represented a 5.96% increase in cost efficiency. In addition, the Schedule showed that three of our comparable cage-free broiler farms had an European Production Index ranging from 241.52 to 254.71 while the three broiler farms, which had been converted into battery cage systems by the Group as at the time of preparation of the Schedule, had an European Production Index ranging from 292.83 to 353.66 for the period from 1 September 2018 to 31 May 2019.

The Directors believe that a higher European Production Index generally represents a higher broiler production management level, higher breeding efficiency and an enhanced profitability of the broilers.

In light of the higher density of broilers in the broiler farms, it is easier to maintain a stable warm temperature, which can reduce our fuel costs and heating costs per broiler.

- *Improved hygiene.* The open-bottomed design of battery cages allows for manure to fall straight through and remove litter problems, thus improving hygiene. Further, chicken manure is transported out of the broiler farms daily and is used as organic fertilisers. This method increases hygiene could as no harmful gas will be accumulated in the broiler farms, and is conducive to environmental control of the broiler farms, which could result in a lower incidence of diseases spread through droppings. By distributing broilers in cages, the broiler will only be in contact with broilers in the same cage, which prevents the spread of disease between broilers.
- *Qualitative feeding of broilers.* Battery cage systems make feeding for broilers a habitual process that connotes more care for the chickens. This is because the chickens are fed through a customised feed trough made of iron sheets and water is fed to them with overhead nipple systems which are positioned in front of the broilers. This allows us to ensure that the broilers are provided with adequate feeds and fresh water, which in turn makes the broilers healthier and more productive.
- *Ease of access to broilers for record-keeping and veterinary care.* As the broilers are organised in cages, it facilitates our recordkeeping of broilers and we can provide veterinary care once we detect any illness from our broilers. It will also facilitate the cleaning and disinfection of broiler farms, which effectively reduces the likelihood of pathogenic microorganisms.

Apart from the key benefits stated above, the Directors have also considered the following drawbacks when deciding the adoption of battery cages:

- *Additional costs and expenses.* Additional costs are inevitable from the modification and the procurement of equipment for battery cage systems. In particular, our capital expenditures are expected to increase, and such expenditures may result in increase in depreciation charges. Even so, such costs could be offset by the above-mentioned benefits as the adoption of battery cage systems maximises utilisation and reduces costs per bird to meet our customers' demand.
- *Increased likelihood of diseases.* Given the restricted physical and psychological space for broilers, there is a higher incidence of diseases, such as leg weaknesses, cage layer fatigue and fatty liver syndrome. Although restricted movement is also a drawback, being kept stationary reduces the risk of keel bone deformation or fractures that can occur while on the loose or during natural perching habits.
- *Increased likelihood of abrasion caused to broilers.* As opposed to cage free methods, broilers are kept in cages. In cases where the broilers are removed from cages, it is more

BUSINESS

likely for the broilers' bodies to be rubbed against the iron wires of the battery cages, which might contribute to the occurrence of feather damage, bruises and abrasions.

- *Animal welfare concern in the European Union and certain of our customers.* The European Union and certain of our customers 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 and sold to those customers. As such, we retain some of our cage free broiler farms for breeding broilers for exportation to the European Union and for satisfying certain of our customers' preferences to purchase broilers that are bred in cage-free systems. To the best knowledge of the Directors, there are no similar animal welfare concerns in the countries we are exporting to (except European Union) and countries that we intend to sell to.

See "Risk Factors — We are subject to risks associated with the increasing adoption of broiler farms with battery cage systems" for risks relating to the adoption of battery cage systems and "— Food Safety Management System of the Group" below for details of our food safety management.

The Directors believe that the advantages of adopting battery cage systems will facilitate a sustainable development of the Group's business, and its disadvantages are resolvable. It is expected that approximately HK\$627.8 million of the net proceeds from the Global Offering (representing approximately 45.0% of the net proceeds from the Global Offering) will be used to expand our breeding and production capacities of white-feathered broilers through procuring facilities for our production facilities, including broiler farms with battery cage systems. If there is a shortfall in funding, such expenditure would be financed by our bank borrowings/internal resources.

As at the Latest Practicable Date, no suitable premises had been identified for our broiler farms adopting battery cage systems that are to be constructed, and no provisional or formal sales and purchase agreement in relation to such premises had been entered into.

See "— Business Strategies" above, "Financial Information — Capital Expenditures" and "Future Plans and Use of Proceeds" for further details on the Group's strategies, the expected capital expenditures and the proportion of use of proceeds to be spent on implementing such strategies.

BUSINESS

SALES

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

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

B2B Sales Model

We sell our products to our B2B customers through direct sales or distributors to our domestic and international customers. Our B2B customers include (i) foodservice or industrial customers; (ii) quick service restaurants; and (iii) retail groceries.

Sales to Domestic Customers

Direct sales

As at the Latest Practicable Date, we had over 1,500 domestic customers of chicken meat products. We sell most of our chicken meat products directly to our customers, including but not limited to fast food chain restaurants and food processors etc. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, approximately 97.4%, 96.9%, 97.9% and 98.4% of our total revenue were derived from our sales of chicken meat products by way of direct sales to our customers, respectively.

We usually enter into supply contracts with our domestic customers, the major terms of which are as follows:-

- the term of the supply contracts is typically up to one year;
- the price and quantity of products to be supplied by the Group shall be negotiated between the relevant parties to the supply contract from time to time and there is no minimum purchase quantities;
- the products to be supplied by the Group must comply with the relevant PRC laws and standards regarding the quality, health and safety of food products, and we are required to provide the relevant permits and certificates as specified in the supply contract;
- the packaging of our products must include certain information, including but not limited to the name of the product, production date and expiry date of the product, storage methods;

BUSINESS

- the customer has the right to reject our products or is entitled to a refund of the selling price in the event that our products do not meet their requirements;
- in the event that the Group is in breach of any terms of the supply contract:
 - (a) we shall be required to pay damages to the customer, the amount of which is equivalent to a certain percentage of the selling price of the products as stipulated in the supply contract to the customer, or compensate the customer for all loss suffered as a result of such breach;
 - (b) the relevant customer may unilaterally terminate the contract if our products continuously fail to meet the requirements of the customer or if our products lead to quality issues and the customer is claimed by a third party; and
- either party may terminate the same by giving prior written notice of a specified period to the other party.

We have a specialised team responsible for keeping frequent contact with our key clients with a view to providing them with more personalised services. The team focuses on understanding the special needs of each of the key clients, and then coordinates with our research and development team to develop custom-made chicken meat products for them, taking into account the feature, specification and costs of the products. We also keep regular communication with our key clients to obtain their feedback, improve our service standards and ensure the successful launch of our products. We believe this arrangement effectively builds and enhances key clients' satisfaction which would further increase our sales.

Sales to distributors

Another sales channel of our chicken meat products is domestic sales to distributors whose designated sales regions are all within the PRC. Our relationships with all distributors are seller/buyer relationship. We retain no ownership control over the products sold to our distributors. Our distributors place orders with us on a transaction basis and the revenue from the sales of our goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to our distributors. We believe that using distributors for sale of chicken meat products would leverage the distributors' local market knowledge and resources to further promote our sales of chicken meat products, deepen our market penetration and expand our geographic coverage. To the best knowledge of the Directors, these distributors typically resell our products to wholesale markets, supermarkets, wet markets, restaurants or canteens. According to the Frost & Sullivan Report and based on our industry knowledge, we believe that our use of distributors for our chicken meat products is generally in line with the industry practice. Such distributors operate independently from the Group. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, approximately 1.9%, 2.2%, 1.4% and 1.1% of our total revenue were by way of sales to distributors, respectively. As at the Latest Practicable Date, we co-operated with seven distributors, all of which are independent third parties located in the PRC. None of our distributors are our top five customers during the Track Record Period.

BUSINESS

The table below sets forth the number of distributors engaged by us as at 1 January 2016, 1 January 2017, 1 January 2018, 1 January 2019 and 31 December 2019 respectively and the change in the number of our distributors during these periods:

	<u>Year ended 31 December</u>			
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
At beginning of the period	6	6	6	6
Newly appointed	—	—	—	2
Terminated	—	—	—	(1)
At the end of the period	6	6	6	7

The increase of two distributors during the year ended 31 December 2019 was primarily attributable to the expansion of the Group's sales network. To the Directors' best knowledge and belief, the termination of one distributor during the year ended 31 December 2019 was due to the expiry of the term of the relevant distributorship agreement. During the period between 1 January 2016 and 31 December 2019, the Group had not unilaterally terminated any of our contracts with our distributors before their expiry dates and there had been no material disputes between the Group and our distributors.

As at the Latest Practicable Date, we had approximately one to nine years of relationship with our distributors. Our distributors are principally engaged in the sale of raw and/or processed chicken meat products, with designated sales regions within the PRC. The minimum monthly sales required by our distributors in 2019 ranges from nil to approximately RMB13.0 million per month.

Our distributors are only allowed to sell our products through specific sales channels in areas specified in the distributorship agreements. According to the terms of the distributorship agreements, we may also sell our chicken meat products by way of direct sales in the regions covered by the distributors. To minimise the risk of cannibalisation, we generally take the following measures in relation to our distributors: (i) when selecting our distributors, we take into consideration their respective geographic coverage to avoid potential competition among the distributors within a region; (ii) our distribution agreements specify the designated distribution regions; and (iii) we communicate with our distributors and conduct on-site inspections at points of sale to monitor various aspects of their sales activities and keep track of any potential cannibalisation or competition among our distributors. To the Directors' best knowledge and belief, after our reasonable enquiries, we were not aware of any material cannibalisation or competition among our distributors within the same sales region during the Track Record Period. We engage distributors to sell our products because they are able to expand our geographical coverage by reaching those end consumers within their respective designated sales regions. Our staff are required to conduct regular visits or interviews with the distributors to obtain their overall customer profiles. Under normal circumstances, the distributors will have to sell our chicken meat products at higher prices than the prices at which we sell our chicken meat products to the distributors in order to gain profits from their trading activities. In light of the aforesaid, the Directors believe that it is unlikely that there is any overlap of customers between the Group and the distributors.

We conduct review on the experiences, credit, business and investment capability of the potential distributors. If such potential distributor meets our internal standards and passes our assessment, the Group will proceed to enter into distributorship agreement with the potential distributors and the potential distributors will then become one of our distributors.

BUSINESS

Terms of distributorship agreement

We enter into non-exclusive distributorship agreements with our distributors, and the main terms are generally as follows:

Duration	:	Typically one year.
Geographic or other exclusivity	:	The distributors are typically prohibited from reselling our products outside its designated distribution area set out in the distribution agreements. The distributors typically may not engage in cooperation with or become the Group's competitors.
Sales targets and incentive scheme	:	The distributors are incentivised to achieve progressive sales targets. The incentive scheme is typically in the form of discounts for our processed chicken meat products.
Sales and pricing policies	:	We do not set prices for our distributors.
Obsolete stock arrangements	:	Not specifically stated in the distributors agreements.
Goods return arrangements	:	The distributors are not allowed to return our products unless defective or upon termination of distributorship agreements.
Sales and expansion targets	:	Yes.
Sales and inventory reports and estimates	:	Yes.
Minimum purchase amounts	:	Yes. The monthly minimum purchase amount is set out in the respective distribution agreements.
Payment and credit terms	:	The Group typically delivers our products on a cost and freight (CFR) basis where we do not have to procure marine insurance against the risk of loss or damage to the goods. Payment shall be made prior to delivery to the products.
Intellectual property rights	:	No assignment of our intellectual property rights.
Conditions for terminating and renewing the distributor agreements	:	The Group may terminate the distribution agreement if the distributor breaches certain material provisions such as on the designated distribution area.

There is no restriction under the distributorship agreements prohibiting the distributors to sell the products of other suppliers. There is no provision regarding product liabilities in the distributorship agreements.

To the best knowledge of the Directors, the distributors typically resell our products to wholesale markets, supermarkets, wet markets, restaurants or canteens, etc. We recognise our sales once our products have been sold to the distributors and all titles and risks in connection with such products are passed to the distributors. After the distributors have acknowledged receipt of those products, they will not be entitled to any recourse from the Group if they fail to sell our products thereafter.

Management of distributors

In order to promote our products, to ensure compliance with the terms of the distributorship agreements and to manage the operation of our distributors, our sales staff (i) conduct interviews from time to time with the distributors to collect their feedback; (ii) observe the sales performance of our products so as to understand the market situations; and (iii) conduct on-site checking on the respective selling prices of our products at randomly selected outlets of their customers, including retail shops, to ensure compliance with our pricing policy.

Given that (i) our chicken meat products are perishable in nature; (ii) the distributors bear all the risks in connection with such chicken meat products after our delivery of the same to them; and (iii) our requirement for distributors to pay us on a payment-before-delivery basis and our “no return or exchange unless defective” policies for our distributors, the Directors are of the view that our sales reflect market demand of our chicken meat products and avoid the risk of inventory accumulation by our distributors. During the Track Record Period, we were not aware of any material accumulation of our products by our distributors.

Sales to our largest distributor represented approximately 0.5%, 0.5%, 0.4% and 0.3% of our total revenue and sales to all our distributors represented approximately 1.9%, 2.2%, 1.4% and 1.1% of our total revenue during each of the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

The Directors have confirmed that all the distributors engaged by the Group during the Track Record Period are independent third parties.

BUSINESS

Sales to Overseas Customers

Apart from our leading domestic market position in the PRC, we have established a growing export business, mainly supplying a range of premium quality chicken meat products to customers in Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. Our success in maintaining our strong domestic market position and establishing a growing export business is highlighted by our historical poultry sales volume and revenue growth during the Track Record Period. We sell our chicken meat products directly to our overseas customers.



The following table sets forth our revenue from sales of chicken meat products to overseas customers by geographic area, as well as their respective contributions to our revenue generated from overseas sales for the years indicated.

	Year ended 31 December							
	2016		2017		2018		2019	
	RMB'000 sales revenue ⁽¹⁾	% of overseas	RMB'000 sales revenue ⁽¹⁾	% of overseas	RMB'000 sales revenue ⁽¹⁾	% of overseas	RMB'000 sales revenue ⁽¹⁾	% of overseas
Overseas Sales Revenue								
Japan	338,928	61.6	420,203	63.6	491,071	51.1	461,599	47.8
Malaysia	160,553	29.1	151,028	22.8	302,284	31.5	220,715	22.8
European Union ⁽²⁾	17,964	3.3	30,440	4.6	66,645	6.9	186,602	19.3
Other foreign countries ⁽³⁾	32,859	6.0	59,668	9.0	100,645	10.5	97,523	10.1
Total	<u>550,304</u>	<u>100.0</u>	<u>661,339</u>	<u>100.0</u>	<u>960,645</u>	<u>100.0</u>	<u>966,439</u>	<u>100.0</u>

Notes:

- (1) Approximate % of our total revenue generated from overseas sales.
- (2) Our chicken meat products are mainly delivered to the Netherlands and the United Kingdom.
- (3) Other foreign countries and regions mainly include Korea, Mongolia and Singapore.

For further details of our revenue by geographic areas and product segments to overseas customers, see “Financial Information — Description of Selected Statement of Comprehensive Income Items — Revenue”.

Overseas expansion

Our revenue from sales of chicken meat products to overseas customers in Malaysia has increased notably in 2018 by 100.2% as compared to 2017 and to overseas customers in the European Union has increased significantly in 2019 by 180.0% as compared to 2018. We intend to further expand our global market reach, deepen our market penetration and enlarge our geographic coverage, by engaging new distributors and/or other categories of overseas customers. We plan to explore opportunities in new markets. For more information on our overseas expansion strategy, see “— Business Strategies — Continue to expand our sales and distribution network and tap into new markets” above.

B2C Sales Model

We sell our products through online and offline platforms within the PRC to end consumers under our B2C sales model. We sell and market our products under our “鳳祥食品 (Fovo Foods)”, “優形 (iShape)” and “五更爐 (Wu Genglu)” brands. The Directors believe that our integrated online and offline B2C sales structure allows us to reach end consumers of our chicken meat products and enhance customer loyalty. We communicate with third-party online sales platform operators and intermediaries of convenience stores and boutique supermarkets from time to time to keep pace with industry trends and to offer products that better address our end consumers’ evolving needs and preferences.

Online sales arrangements

To enhance our brand exposure and to sell our chicken meat products to end consumers, we maintain our online presence on third-party online marketplaces including JD.com (京東), Suning (蘇寧易購), Fresh Hema (盒馬鮮生) and Tmall.com through our flagship stores operated and ran by us and through other third-party online sales platform operators.

During the Track Record Period, we entered into framework service agreements with third-party online sales platform operators, generally with a one-year term and renewable upon mutual agreement of all parties to the agreement. The major contract terms of the framework service agreements are generally similar to the contracts entered into between the Group and our B2B customers.

During the Track Record Period, we have also operated flagship stores or storefronts on third-party online sales platform and have dedicated employees to operate them. We generally arrange direct delivery to our end consumers through third-party logistics providers. We are able to track product sales through the relevant third-party online operators’ back-end system.

Our revenue from online sales arrangements under our B2C sales model was approximately RMB7.3 million, RMB11.6 million, RMB72.8 million and RMB168.7 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively, accounting for approximately 0.3%, 0.5%, 2.3% and 4.3% of our total revenue during the same periods.

Offline sales arrangements

As at the Latest Practicable Date, our offline sales arrangements comprised (i) direct sales to certain supermarkets and convenience stores principally within Yanggu, Shandong; and (ii) collaboration with intermediaries who generally are integrated foodservice providers and traders who on-sell our products to convenience stores and boutique supermarkets with presence across the PRC. We sell products under our brands under our B2C sales model. We commenced collaboration with intermediaries since 2018 to broaden our consumer reach across the PRC.

BUSINESS

We sell our products directly to certain supermarkets and convenience stores principally within Yanggu, Shandong to penetrate our brands within Shandong where our warehouses are located. The supermarkets and convenience stores generally arrange pick up of our chicken meat products directly from our warehouses.

It is our B2C sales strategy to sell our chicken meat products to end consumers through cooperation with intermediaries which is in line with industry practice. Under the above arrangements, we generally collaborate with these intermediaries through our supply of chicken meat products to them, enabling them to on-sell our products to convenience stores and boutique supermarkets. We do not have contractual obligations to provide any chicken meat products directly to the convenience stores and boutique supermarkets. Leveraging the strong coverage of convenience stores and boutique supermarkets of our intermediaries spanning over different regions in the PRC, we collaborate with our intermediaries to broaden our end consumer reach across the PRC, including Beijing, Guangzhou, Shanghai, Hangzhou and Wuhan, and enhance our brand awareness in a time-effective and cost-effective way. We provide supermarkets, convenience stores and intermediaries with a suggested retail price of our chicken meat products. We adopt a no recourse sales policy and our customers are not entitled to any recourse from the Group unless there are quality issues of our chicken meat products.

Our revenue from offline sales arrangements under our B2C sales model was approximately RMB39.2 million, RMB37.0 million, RMB33.4 million and RMB83.8 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively, accounting for approximately 1.7%, 1.5%, 1.0% and 2.1% of our total revenue during the same periods.

Our Customers

During the Track Record Period, we had a diversified customer base of over 3,000 customers globally, including internationally renowned food processors and traders as well as fast food restaurants chains (and their poultry meat suppliers and sourcing agents). We exported to countries including Japan, Malaysia, the European Union, Korea, Mongolia and Singapore. The proportion of revenue generated from domestic sales was approximately 70% and overseas sales was approximately 30% throughout the Track Record Period. We also sell our products to our distributors. We generally do not enter into long-term sale and purchase agreements with our customers. The major contract terms with our customers are set out in sales contracts and purchase orders. Certain customers indicate their demands to purchase broilers that are self-bred by the Group or cut under specific standards for chicken meat products.

During the Track Record Period, our revenue was derived from sales of chicken meat products, chicken breeds and other products. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, our single largest customer accounted for approximately 19.1%, 20.6%, 16.8% and 13.5%, respectively and our sales to our five largest customers represented approximately 35.8%, 40.0%, 37.7% and 28.9% of our total revenue, respectively. Our top five customers during the Track Record Period were independent third parties. As at the Latest Practicable Date, our five largest customers mostly had over 20 years of business relationship with the Group.

BUSINESS

Top Customers

The following table sets forth the details of our top five customers in each of the four years ended 31 December 2016, 2017, 2018 and 2019:

For the year ended 31 December 2016:

Customer	Major products sold	Location	Total amount of sales (RMB'000)	Approximate % of our revenue	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Customer A ⁽¹⁾	Raw and processed chicken meat products	China	448,509.7	19.1%	1	20 years
Foodlink Corporation ⁽²⁾	Processed chicken meat products	Japan	211,671.3	9.0%	2	22 years
Japan Food Corporation ⁽³⁾	Processed chicken meat products	Japan	72,064.5	3.1%	3	22 years
Customer B ⁽⁴⁾	Raw chicken meat products	Malaysia	65,859.7	2.8%	4	22 years
Customer C ⁽⁵⁾	Raw chicken meat products	China	42,543.2	1.8%	5	7 years
Total:			<u>840,648.4</u>	<u>35.8%</u>		

Notes:

- (1) Customer A is a wholly-owned subsidiary of a company listed on the New York Stock Exchange having a market capitalisation of approximately USD16.0 billion, with its mother company also listed on the New York Stock Exchange. Customer A's group operates, among others, a leading American style fast food restaurant chain that specialises in the sale of fried chicken in the PRC.
- (2) Foodlink Corporation is a subsidiary under the food industry group of MITSUBISHI Corporation in Japan, with MITSUBISHI Corporation holding 99.4% of its shareholding. Mitsubishi Corporation is listed on the Tokyo Stock Exchange (stock code: 8058.T). Foodlink Corporation principally engages in sales business of poultry products and is a specialised company that processes meat products (including chicken meat and pork meat).
- (3) Japan Food Corporation is a subsidiary of NH Foods Ltd. whose shares are listed on the Tokyo Stock Exchange (stock code: 2282.T), and principally engages in meat manufacturing and meat sales.
- (4) Customer B is a subsidiary of a company listed on the New York Stock Exchange and is principally engaged in the manufacturing and trading of processed meat, fish, frozen food and other food products.
- (5) Customer C is a company principally engaged in the sale and purchase of frozen food products in the PRC.

BUSINESS

For the year ended 31 December 2017:

Customer	Major products sold	Location	Total amount of sales (RMB'000)	Approximate % of our revenue	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Customer A	Processed chicken meat products	China	502,125.1	20.6%	1	20 years
Foodlink Corporation	Processed chicken meat products	Japan	211,138.1	8.7%	2	22 years
Japan Food Corporation	Processed chicken meat products	Japan	141,144.8	5.8%	3	22 years
Customer B	Raw chicken meat products	Malaysia	83,766.8	3.4%	4	22 years
Customer D ⁽⁶⁾	Processed chicken meat products	Korea	36,840.2	1.5%	5	5 years
Total:			<u>975,015.0</u>	<u>40.0%</u>		

Note:

- (6) Customer D is a private company established in Korea and principally engaged in food products business including fast food, such as lunch boxes, rice rolls, hamburgers and sandwiches.

For the year ended 31 December 2018:

Customer	Major products sold	Location	Total amount of sales (RMB'000)	Approximate % of our revenue	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Customer A	Raw and processed chicken meat products	China	537,002.2	16.8%	1	20 years
Foodlink Corporation	Processed chicken meat products	Japan	297,684.3	9.3%	2	22 years
Customer B	Raw chicken meat products	Malaysia	183,432.9	5.7%	3	22 years
Japan Food Corporation	Processed chicken meat products	Japan	112,974.2	3.5%	4	22 years
Ayamas Food Corporation Sdn Bhd ⁽⁷⁾	Raw chicken meat products	Malaysia	78,197.2	2.4%	5	20 years
Total:			<u>1,209,290.8</u>	<u>37.7%</u>		

Note:

- (7) Ayamas Food Corporation Sdn Bhd is a sizable poultry processing plant in Malaysia, specialising in processing and retailing chicken meat (including high quality halal products) in local and export markets. Ayamas Food Corporation Sdn Bhd was founded in 1989 and is an entity under the Integrated Poultry operating segment (comprising of poultry production and processing) of QSR Brands (M) Holdings Bhd, primarily to support its restaurant business and distribute externally to the domestic and international markets under the Ayamas brand name.

BUSINESS

For the year ended 31 December 2019:

Customer	Major products sold	Location	Total amount of sales (RMB'000)	Approximate % of our revenue	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Customer A	Raw and processed chicken meat products	China	530,233.9	13.5%	1	20 years
Foodlink Corporation	Processed chicken meat products	Japan	326,714.2	8.3%	2	22 years
Customer B	Raw chicken meat products	Malaysia	110,446.2	2.8%	3	22 years
Beijing Missfresh Ecommerce Co., Ltd. (北京每日優鮮電 子商務有限公司) (“Beijing Missfresh”) ⁽⁸⁾	Raw and processed chicken meat products	China	86,753.5	2.2%	4	3 years
Ayamas Food Corporation Sdn Bhd	Raw chicken meat products	Malaysia	82,569.8	2.1%	5	20 years
Total:			<u>1,136,717.6</u>	<u>28.9%</u>		

Note:

(8) Beijing Missfresh is a company principally engaged in wholesale and retail of groceries, including fresh vegetables and fruits in the PRC.

None of the Directors, Supervisors or their associates, or any Shareholders, who, (to the knowledge of the Directors) are beneficially interested in 5% or more of the Company, have had any interest in any of our five largest customers for the four years ended 31 December 2016, 2017, 2018 and 2019.

Pricing Policy

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

The prices of our raw chicken meat products in direct sales to our customers are determined with reference to market circumstances, logistics fees and storage fees. For certain of our customers, prices will also be determined through negotiations in cases where they have additional requirements in relation to our raw chicken meat products' traceability and safety.

The prices of our processed chicken meat products in direct sales to our customers are determined through negotiations with our customers adopting a cost-plus approach, with reference to the amount of purchases, the cost of production (including research and development costs and processing costs) and market circumstances.

The prices of our chicken breeds are determined with reference to their grades and market circumstances. The grades of the chicken breeds are categorised in accordance to the respective time of hatching of the chicken breeds.

BUSINESS

The prices of our chicken by-products are determined with reference to the cost of breeding, processing costs, packaging costs, prevailing market price as well as the final tender price determined during the tender processes.

During the Track Record Period, the prices of the Group's chicken meat products were not universally the same among our customers.

Payment Method

During the Track Record Period, the Group's sales, substantially all of which were denominated in RMB and/or USD, to (i) our customers were primarily settled by bank transfer and online payment; and (ii) our distributors were primarily settled by bank transfer.

The Group has adopted a hedging policy to minimise foreign currency risk exposure. In particular, we have entered into foreign exchange forward contracts with certain banks in the PRC to hedge against the aforesaid risk exposure arising from our customers' payment settlement in USD. Going forward, the management will constantly monitor the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future. We recognise sales of our products upon deliveries to our customers.

Credit Policy

For some of our customers, we deliver our products upon receipt of the relevant purchase price. We also offer a credit period between 30 to 60 days to certain customers (including our key customers and overseas customers) with reference to their business reputation, financial capability, capital sufficiency, etc.

We proceed to demand our debtors with balances that are overdue to settle their outstanding invoices. When the Group considers that recovery is remote, the amount considered irrecoverable will be written off.

For each of the four years ended 31 December 2016, 2017, 2018 and 2019, the trade receivables turnover days of the Group were approximately 12.0 days, 14.0 days, 16.9 days and 18.4 days, respectively. The Group adopted a policy to make provision for impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, provisions for impairment of trade receivables of approximately RMB1.6 million, nil, RMB1.8 million and RMB0.5 million were charged to the Group's combined statements of comprehensive income, respectively, representing approximately 0.07%, nil, 0.06% and 0.01% of the Group's respective total revenue.

Sales Returns

We conduct checks and supervision on each stage of our production lines to ensure that the quality and safety of our products comply with our internal requirements and the requirements under the relevant PRC laws, rules and regulations. Our customers are not allowed to return our products unless defective or upon termination of agreements.

If we receive any complaint from any of our customers regarding any defects in the products, we will assess the complaint on a case-by-case basis and formulate the appropriate solution to each complaint. If we are responsible for the defects in the products and consider that repurchase of the

BUSINESS

products from the customer is the appropriate way to address the complaint of the customer, we will proceed to do so and refund the relevant purchase price to the customer. The Directors confirmed that we have not encountered any material sales returns that materially affect our operation during the Track Record Period and up to the Latest Practicable Date.

LOGISTICS AND TRANSPORTATION

For delivery to our domestic customers, we engage third-party logistics service providers to collect our products from our production facilities and deliver them to our warehouses or destinations specified by customers. Our transportation arrangements with third-party logistics service providers allow us to devote less capital investment than we would have to devote to developing and maintaining our own large-scale logistics system. Outsourcing these services also allows us to transfer most of the risks relating to transportation and delivery of our products. During the Track Record Period and as at the Latest Practicable Date, we had not experienced any significant delay in delivery that would materially and adversely affect our business operations and we did not encounter any shortage of supply of logistics services. Furthermore, the current logistics services market provides us with sufficient alternative options of logistics service providers who could offer similar terms as our existing logistics service providers. For details regarding quality control over logistics, see “— Quality Assurance” below.

To monitor the transportation process to ensure compliance with our internal quality control procedures, we have established a logistics department comprising over 200 members to optimise logistics management within the PRC as at the Latest Practicable Date. In particular, we typically inspect our cold storage trucks before they leave our cold storage warehouse facilities and we follow our internal storage and transportation procedures to ensure that our products are transported under proper conditions. We also inspect the products to confirm the quantity of products to be delivered and the destination for delivery.

For delivery to our overseas customers, we generally engage third-party logistics service providers and Xiangguang Logistics to provide logistics related services to the Group, including storage, logistics, transportation, customs clearance services, primarily in relation to the export of the Group’s products out of the PRC by delivering the products to the specified ports in the PRC. For details, see “Connected Transactions — Non-exempt Continuing Connected Transactions — 2. Procurement of logistics services”. For each of the four years ended 31 December 2016, 2017, 2018 and 2019, the logistics fees we paid to Xiangguang Logistics were approximately RMB9.2 million, RMB14.9 million, RMB12.8 million and RMB14.8 million, representing approximately 27.1%, 45.2%, 27.2% and 27.1% of the total logistics fees incurred by us during the same periods. We believe that even if we switch to independent third party service providers, we would be able to secure similar services at comparable rates.

SEASONALITY

Based on our past experience, sales of our chicken meat products and our business operations experienced seasonal fluctuations during the Track Record Period. We generally recorded higher revenue during the second half of the year due to domestic consumers’ consumption patterns during summer, and holiday periods or year-end festive seasons in foreign countries.

SUPPLIERS

During the Track Record Period, we procured (i) raw materials for the production of our animal feeds, including corn, soybean meal, soybean oil and flour, and (ii) Parent Stock Day-old Chicks for the

production of our chicken meat products. We also procured raw chicken meat products from third party suppliers in the PRC as well as from overseas (generally from Brazil) for producing our processed chicken meat products in order to meet customers' growing demand. 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 importation ban on all meat imports was uplifted in China in the same month. According to publicly available information, 21 meat processing units in Brazil were involved in this incident, and one of which supplied chicken meat products to us in 2017 when the scandal occurred. Since the occurrence of the scandal, the Group ceased to import from the factories involved in such scandal. As China's importation ban only lasted for six days between 20 March 2017 and 25 March 2017, and as we did not encounter any complaints from our customers or the public in respect of the sale of chicken meat products produced from suppliers from Brazil as at the Latest Practicable Date, the Directors confirmed that the importation ban in March 2017 did not have any material and adverse impact on the Group's results of operations and financial condition.

Historically, we have been procuring raw materials from a fellow subsidiary of the Company and such purchase has been ceased before the Latest Practicable Date. The Directors confirmed that such purchase would not materially distort the results of the Group during the Track Record Period. During the Track Record Period, we did not encounter any quality issues on supplies or any shortages in the supply of our raw materials that will materially affect our business operation.

During the Track Record Period, we entered into hedging activities in relation to the commodity prices of soybean meal, corn and soybean oil. For details, see "— Raw Material Prices — Hedging" below.

Basis and Criteria for Selection of Suppliers

Suppliers of the Group including, inter alia, suppliers of raw materials for our production of animal feeds, Parent Stock Day-old Chicks and chicken meat products (collectively, the "**Procurement Materials**") are chosen based on their ability to achieve timely and quality supplies to the Group.

Upon receipt of the notice from our purchase department, our quality control team will proceed to examine the Procurement Materials and provide their results of examination in respect of the same. All substandard Procurement Materials which do not satisfy with our production requirements will be returned to the suppliers.

To ensure that our staff comply with our internal requirements on the procurement of Procurement Materials from third party suppliers, we have implemented the following major internal control measures:

- our staff responsible for procurement will assess and choose the appropriate suppliers. Under normal circumstances, they should approach at least two or more potential suppliers before making a selection. The suppliers must possess the relevant certificates issued by the PRC governmental authority;
- our staff responsible for quality control will check the materials procured by our purchase department in order to ensure that such materials comply with the relevant quality requirements of the Group;
- the Group requires potential suppliers of raw materials for our production of animal feeds to provide relevant quality certificates and samples of such raw materials to be supplied to ensure that the materials satisfy with our requirements;

BUSINESS

- our sales department will record the complaints made by our customers. Such complaints shall then be forwarded to our purchase department for investigation and our purchase department is required to report the result of investigation to our sales department;
- the staff in our purchase department will communicate with the suppliers from time to time on the quality and punctuality of the supplies. If any problem arises with the suppliers, record shall be made for the purpose of annual assessment;
- our purchase department will conduct annual assessment on the suppliers, and members of the assessment committee shall comprise representatives from the technical control department, the quality control department, the purchase department and the financial department; and
- specific staff will be assigned to compile and maintain the records of the suppliers. No other staff shall be allowed to amend the records without the permission of the head of our purchase department.

Top Suppliers

For the four years ended 31 December 2016, 2017, 2018 and 2019, our single largest supplier, who is a fellow subsidiary of the Company, accounted for approximately 17.7%, 15.7%, 16.5% and 6.1% of our total purchases. Our five largest suppliers together accounted for approximately 29.8%, 25.4%, 24.1% and 19.1% of our total purchases, respectively, and all of them (except for our single largest supplier) are independent third parties.

BUSINESS

The following table set forth the details of our top five suppliers in each of the four years ended 31 December 2016, 2017, 2018 and 2019:

For the year ended 31 December 2016:

Supplier	Major products procured	Place of incorporation	Total amount of purchase (RMB'000)	Approximate % of total purchases	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Shandong Yanggu Dafeng Food Co., Ltd. (山東陽穀大豐食品有限公司) (“ Yanggu Dafeng ”) ⁽¹⁾	Soybean meal, soybean oil, protein powder and other additives	China	319,925.3	17.7%	1	6 years
Seara Alimentos LTDA and Seara Meats B.V. ⁽²⁾	Chicken meat products	Brazil and the Netherlands	72,636.6	4.0%	2	4 years
Shandong Xiangchi Food Oil Co., Ltd. (山東香馳糧油有限公司) (“ Shandong Xiangchi ”) and Longkou Xiangchi Food Oil Co., Ltd. (龍口香馳糧油有限公司) (“ Longkou Xiangchi ”) ⁽³⁾	Soybean meal and soybean oil	China	64,592.1	3.6%	3	6 years
Supplier A ⁽⁴⁾	Corn	China	46,644.6	2.6%	4	less than 1 year
Supplier B ⁽⁴⁾	Corn	China	34,702.4	1.9%	5	less than 1 year
Total:			538,501.0	29.8%		

Notes:

- (1) Yanggu Dafeng is a private company established in the PRC and is a fellow subsidiary of the Company. The Group has ceased all purchases from Yanggu Dafeng since 31 August 2019. For details, see “— Relationship with Yanggu Dafeng” below. The Directors confirmed that our purchase of soybean meal, soybean oil and additives from Yanggu Dafeng during the Track Record Period was on normal commercial terms.
- (2) Seara Alimentos LTDA and Seara Meats B.V. are both subsidiaries of JBS S.A., a company whose Shares are listed on the Brazil Stock Exchange (stock code: JBSS3), and are food processing companies specialised in the distribution of meat products. During the Track Record Period, Seara Alimentos LTDA and Seara Meats B.V. supplied chicken meat products from Brazil to us.
- (3) Shandong Xiangchi and Longkou Xiangchi are private companies established in the PRC and are direct and indirect subsidiaries of Xiangchi Holding Co., Ltd. (香馳控股有限公司). Shandong Xiangchi and Longkou Xiangchi are principally engaged in the manufacturing of soybean meal and soybean oil.
- (4) Supplier A and Supplier B are private companies established in the PRC principally engaged in the sale and purchase of grains with a registered capital of RMB2.8 million and RMB2.0 million, respectively. Supplier A and Supplier B had been dissolved by way of shareholders’ resolution and the dissolutions were completed in January 2019 and June 2018, respectively, based on publicly available information.

BUSINESS

For the year ended 31 December 2017:

Supplier	Major products procured	Place of incorporation	Total amount of purchase (RMB'000)	Approximate % of total purchases	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Yanggu Dafeng	Soybean meal, soybean oil, protein powder and other additives	China	335,921.7	15.7%	1	6 years
Seara Alimentos LTDA and Seara Meats B.V.	Chicken meat products	Brazil and the Netherlands	61,407.1	2.9%	2	4 years
Supplier C ⁽⁵⁾	Corn	China	53,474.2	2.5%	3	2 years
Supplier D ⁽⁶⁾	Corn	China	52,392.8	2.4%	4	less than 1 year
Yanggu Haosheng Food Operation Co., Ltd. (陽穀縣昊盛糧食經營有限公司) (“Yanggu Haosheng”) ⁽⁷⁾	Corn	China	41,020.3	1.9%	5	6 years
Total:			<u>544,216.1</u>	<u>25.4%</u>		

Notes:

- (5) Supplier C is a private company established in the PRC principally engaged in the sale and purchase of grains with a registered capital of RMB3.0 million. Supplier C had been dissolved by way of shareholders’ resolution and the dissolution was completed in March 2019 based on publicly available information.
- (6) Supplier D is a private company established in the PRC principally engaged in the sale and purchase of grains with a registered capital of RMB2.0 million and is principally engaged in the purchase, wholesale and retail of grain. Supplier D had been dissolved by way of shareholders’ resolution and the dissolution was completed in March 2019 based on publicly available information.
- (7) Yanggu Haosheng is a private company established in the PRC and is principally engaged in the purchase, storage and sale of food.

BUSINESS

For the year ended 31 December 2018:

Supplier	Major products procured	Place of incorporation	Total amount of purchase (RMB'000)	Approximate % of total purchases	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Yanggu Dafeng	Soybean meal, soybean oil, protein powder and other additives	China	360,418.8	16.5%	1	6 years
Changchun Heyuan Food sale Co., Ltd. (長春市和源糧食經銷有限公司) (“Changchun Heyuan”) ⁽⁸⁾	Corn	China	51,146.1	2.3%	2	4 years
Changchun Mingwu Food Co., Ltd. (長春市明武糧食有限公司) (“Changchun Mingwu”) ⁽⁹⁾	Corn	China	45,171.7	2.1%	3	2 years
Hubei CP Co., Ltd. (湖北正大有限公司) (“Hubei CP”) ⁽¹⁰⁾	Chicken meat products	China	36,825.0	1.7%	4	4 years
Seara Alimentos LTDA and Seara Meats B.V.	Chicken meat products	Brazil and the Netherlands	32,252.2	1.5%	5	4 years
Total:			<u>525,813.8</u>	<u>24.1%</u>		

Notes:

- (8) Changchun Heyuan is a private company established in the PRC and is principally engaged in the purchase, wholesale and retail of food.
- (9) Changchun Mingwu is a private company established in the PRC and is principally engaged in food distribution.
- (10) Hubei CP is a chicken meat products production enterprise in the PRC and is an indirectly wholly-owned subsidiary of CP Pokphand Co. Ltd., a company whose shares are listed on the Stock Exchange (stock code: 0043).

BUSINESS

For the year ended 31 December 2019:

Supplier	Major products procured	Place of incorporation	Total amount of purchase (RMB'000)	Approximate % of total purchases	Rank	Length of business relationship with the Group as at the Latest Practicable Date
Yanggu Dafeng	Soybean meal, soybean oil, protein powder and other additives	China	149,728.9	6.1%	1	6 years
Supplier E ⁽¹²⁾	Chicken meat products	China	101,856.4	4.1%	3	9 years
Shandong Jiaying Food Co., Ltd. (山東佳盈食品有限公司) (“Shandong Jiaying”) ⁽¹³⁾	Chicken meat products	China	84,415.7	3.4%	3	2 years
Shandong Jiaguan Grain and Oil Industrial Group Co., Ltd. (山東嘉冠糧油工業集團有限公司) (“Shandong Jiaguan”) ⁽¹⁴⁾	Soybean meal and soybean oil	China	80,056.5	3.2%	4	8 years
WT Foods Beverages Uruguay S.A. ⁽¹⁵⁾	Chicken meat products	Uruguay	56,044.8	2.3%	5	1 year
Total:			<u>472,102.3</u>	<u>19.1%</u>		

Notes:

- (12) Supplier E is a private company established in the PRC and is principally engaged in the breeding and processing of broilers and the manufacturing chicken meat products.
- (13) Shandong Jiaying is a private company established in the PRC and is principally engaged in the processing and sale of chicken meat products and quick-frozen food.
- (14) Shandong Jiaguan is a private company established in the PRC and is principally engaged in the processing and sale of edible vegetable oil, soybean meal and soybean oil.
- (15) WT Foods Beverages Uruguay S.A. is engaged in sourcing meat products. During the Track Record Period, WT Foods Beverages Uruguay S.A. supplied chicken meat products from Brazil to us.

To the best knowledge of the Directors, Supplier A, Supplier B, Supplier C and Supplier D (collectively, the “Dissolved Suppliers”) and their respective beneficial owner(s), being PRC nationals, are independent third parties and are not related to each other. The terms of the Group’s purchases from each of the Dissolved Suppliers were comparable to those of the Group’s other corn suppliers.

During the Track Record Period, all of the Group’s purchases were settled in RMB or USD. Some suppliers required us to pay the full amount or a certain amount of deposit and they will deliver the raw materials upon payment of the remaining balance. Some suppliers offered the Group credit terms of around 15 days.

Save as disclosed in this section, none of the Directors, Supervisors or their associates, or any Shareholders, who, (to the knowledge of the Directors) are beneficially interested in 5% or more of the Company, have had any interest in any of our five largest suppliers for the four years ended 31 December 2016, 2017, 2018 and 2019.

Relationship with Yanggu Dafeng

Yanggu Dafeng is an associate of GMK Holdings and is the largest supplier of the Company during the Track Record Period. During the Track Record Period, GMK Holdings group is a

BUSINESS

conglomerate involving in a variety of business activities. Yanggu Dafeng and the Company are members of GMK Holdings group. See “Relationship with Controlling Shareholders — Background of the Controlling Shareholders” for details.

Yanggu Dafeng was established by the Controlling Shareholders on 8 April 2000 and dissolved by shareholder’s resolution on 7 September 2019, which was completed on 31 December 2019 (the “**Dissolution**”). Yanggu Dafeng had a registered capital of RMB30 million prior to the Dissolution. Yanggu Dafeng performed different functions assigned by GMK Holdings group from time to time pursuant to its management strategies. Since its establishment, it was engaged in the production and processing of feeds for poultry, livestock and fish, and sales of veterinary medicine. During the Track Record Period, Yanggu Dafeng served the functions of raw materials procurement, production and installation of magnesite boards, and investment holding for Fengxiang Group and its subsidiaries (including the Group). Yanggu Dafeng held directly or indirectly less than 10% interest in two financial institutions licensed by the CBIRC and such interests were transferred to Fengxiang Group on 25 December 2019.

At the time of the Company’s establishment in 2010, the Group had its procurement functions to purchase from various third party suppliers soybean meal, soybean oil, protein powder and other additives for the production of the Group’s animal feeds. In 2014, due to business expansion and increase in chicken breeding capacity, the Group’s procurement amount of such raw materials increased. Hence, to streamline purchasing processes and operations such as interactions with suppliers, which in turn reduces administrative expenses, saves time and improves efficiency for business operation within GMK Holdings group, Yanggu Dafeng was assigned to undertake part of the procurement function of the Group since August 2014 to mainly purchase soybean meal, soybean oil, protein powder and other additives for the production of the Group’s animal feeds.

Based on the local accounts for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019 of Yanggu Dafeng (which were the latest accounts of Yanggu Dafeng prior to the Dissolution), the book value of its total assets was approximately RMB95.6 million, RMB192.6 million, RMB107.6 million and RMB128.4 million, respectively, and its revenue was approximately RMB296.8 million, RMB302.8 million, RMB319.0 million and RMB140.2 million, respectively. Approximately RMB296.8 million, RMB296.0 million, RMB318.9 million and RMB140.2 million, respectively, which accounted for approximately 99.99%, 97.75%, 100.00% and 100.00% of the total revenue of Yanggu Dafeng, respectively was revenue contributed by the Group to Yanggu Dafeng during the corresponding periods. The other sources of Yanggu Dafeng’s revenue generated during the Track Record Period were derived from Yanggu Dafeng’s sales of waste materials and interest from an one-off intercompany loan arrangement. The gross profit margin recorded by Yanggu Dafeng for its sales of raw materials to the Group was approximately 0.1%, 0.2%, 0.2% and 0.2% for the three years ended 31 December 2016, 2017 and 2018 and the nine months ended 30 September 2019, respectively.

Taking into consideration that Yanggu Dafeng only served the function of holding the interests in the two financial institutions disclosed above subsequent to the cessation of the sale of raw materials to the Group since 31 August 2019, the Controlling Shareholders made a commercial decision to dissolve Yanggu Dafeng in September 2019.

Transactions with Yanggu Dafeng

During the Track Record Period, the majority of the raw materials the Group purchased from Yanggu Dafeng include soybean meal, soybean oil and protein powder. The difference between the

BUSINESS

average purchase cost for such major raw materials purchased from Yanggu Dafeng and other third party suppliers was not more than $\pm 6\%$ for each of the years during the Track Record Period.

Yanggu Dafeng, which had undertaken part of the procurement function of the Group, regularly supplied such major raw materials to us and usually in larger quantities. Such arrangement had streamlined purchasing processes and operations, including interactions with suppliers, which in turn reduced administrative expenses, saved time and improved efficiency for business operation within GMK Holdings group. On some occasions, we procured such major raw materials from other third party suppliers in relatively smaller quantities.

The following sets forth a comparison of the key terms for our purchases for such major raw materials from Yanggu Dafeng and other third party suppliers, before and after our cessation of purchases from Yanggu Dafeng since 31 August 2019 in general:

- *Major products procured.* The major products we procured from both Yanggu Dafeng and other third party suppliers are soybean meal, soybean oil, protein powder and other additives.
- *Sales and pricing policies.* Total prices of the goods procured from both Yanggu Dafeng and other third party suppliers are set out in each sales order based on the weight, quantity and the per unit price which is determined with reference to the then market price at the time of purchase.
- *Goods return arrangement.* For both Yanggu Dafeng and other third party suppliers, goods can be returned due to either quality issues or if its quality fails to meet relevant industry and national standards as stipulated in the sales order and as agreed by both parties.
- *Payment and credit terms.* For Yanggu Dafeng, invoice shall be promptly issued upon delivery of goods sold and payment shall generally be made by electronic transfer immediately after placement of the sales order or within 15 days upon delivery of goods sold (prepayment may be required on a case-by-case basis). For other third party suppliers, invoice shall be promptly issued upon delivery of goods sold and payment shall be generally made by electronic transfer within five to 30 days upon receipt of invoice.

Based on the foregoing, the key terms for our purchases of such major raw materials from Yanggu Dafeng and other third party suppliers are generally similar and there was no material difference in the average purchase cost of such major raw materials from Yanggu Dafeng and other third party suppliers according to the relevant sales orders during the Track Record Period. As such, the Directors confirmed that our purchases from Yanggu Dafeng during the Track Record Period were negotiated on an arm's length basis and under normal commercial terms.

During the Track Record Period, Yanggu Dafeng has allowed the Group to settle the payables to Yanggu Dafeng under the procurement arrangement by using bills as one of the payment methods, and Yanggu Dafeng had in turn obtained financing for procuring raw materials to be sold to the Group by discounting such bills. Since the finance costs incurred by Yanggu Dafeng from the aforesaid bill discounting arrangement were directly associated with the purpose of purchasing raw materials being sold to the Group, the Company has agreed to bear such finance costs, which have been reflected in Note 9 to the Accountants' Report in Appendix I.

In light of the Group's consideration to conduct its business independently and delineate its business operations from the Controlling Shareholders, the Group has ceased to purchase raw materials through Yanggu Dafeng since 31 August 2019 and purchased directly from other third party suppliers. Most of such third party suppliers were also suppliers of Yanggu Dafeng during the Track

BUSINESS

Record Period. The Directors confirm that such cessation has no material impact on the Group's operation and financial performance.

Suppliers of Parent Stock Day-old Chicks

We purchased Parent Stock Day-old Chicks from five, three, four and four suppliers for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We have entered into a legally binding strategic cooperation agreement with one of our Parent Stock Day-old Chicks suppliers and generally entered into supply framework agreements with the other Parent Stock Day-old Chicks suppliers. The main terms of such agreements are set out below:

Strategic cooperation agreement

- the term of the contract is five years commencing from May 2016;
- the Parent Stock Day-old Chick supplier shall supply such number of quality Parent Stock Day-old Chicks during such period as specified in the sales order placed by the Group at a fixed price as agreed between the parties, with no minimum purchasing commitment imposed on us;
- the Parent Stock Day-old Chicks shall be vaccinated as per the Group's request;
- the Group shall pay the purchase price 28 days prior to the delivery of the Parent Stock Day-old Chicks and no cancellation of the sales order is permitted once the payment is made;
- the Group shall inspect and accept the delivery of the Parent Stock Day-old Chicks and notify the chick supplier within seven days after the delivery date if the Parent Stock Day-old Chicks do not satisfy the requirement as specified in the contract; and
- either party may terminate the agreement by written notice if a force majeure event continues over a certain period of time.

We entered into such long-term contract with the Parent Stock Day-old Chick supplier taking into account their stability of supply, pricing and quality of the Parent Stock Day-old Chicks supplied. The agreement does not impose any minimum purchase commitment.

Supply framework agreements

- the term of the agreements is for a term less than one year;
- the Parent Stock Day-old Chick suppliers shall supply such number of Parent Stock Day-old Chicks during such period as specified in the sales contract placed by the Group at a price determined with reference to the latest average price published on the China Poultry Association;
- the Parent Stock Day-old Chicks shall be vaccinated as per the Group's request;
- the Parent Stock Day-old Chicks suppliers shall deliver quarantine reports;
- the Parent Stock Day-old Chicks suppliers shall assign a technical staff to provide guidance on the rearing of the Parent Stock Day-old Chicks at our designated breeder farms;
- the Group shall pay the purchase price seven days prior to the delivery of the Parent Stock Day-old Chicks; and
- the agreement can be renewed by both parties.

Suppliers of Chicken Breeds

We did not procure chicken breeds from any suppliers during the Track Record Period and up to the Latest Practicable Date, but we have entered into a procurement contract with a chicken breed supplier for contingency purpose. Base on the procurement contract we shall purchase chicken breeds on an order-by-order basis and the chicken breeds supplier shall supply such number of chicken breeds during the period set out in the sales order placed by the Group at a price determined based on the market price. The supplier shall also deliver relevant certificates to the Group, including quarantine certificate. The Group shall inspect and accept the delivery of the chicken breeds and notify the supplier within four days after the chicken breed delivery inspection report has been issued if the chicken breeds do not satisfy the requirement as specified in the agreements. The Group shall pay the purchase price in the beginning of the week prior to the delivery of the chicken breeds for such week.

Suppliers of Animal Feeds

We purchased animal feeds from 108, 146, 151 and 152 suppliers for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We generally enter into agreements for a term of less than one year with our animal feed suppliers whereby the suppliers shall supply such type and amount of animal feeds specified in the agreement in accordance to the requirements specified.

Suppliers of Chicken Meat Products

We purchased chicken meat products from 25, 25, 53 and 46 suppliers for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We have entered into purchase agreements with chicken meat product suppliers on an order-by-order basis. The chicken meat product suppliers shall supply such amount and type of chicken meat product before the period set out in the contract at the contracted price.

The chicken meat product suppliers shall ensure that the chicken meat products comply with the food safety standards as set out in the relevant laws and regulations, and shall satisfy with the Company's internal processing requirements and acceptance criteria. The Group shall inspect and accept delivery of the chicken meat products. In cases where the chicken meat products do not meet the Group's requirements, the Group has the right to reject the whole lot.

Raw Material Prices

The purchase price of our raw materials is generally determined with reference to the prevailing market conditions. While our inventory management objective is to secure a stable supply of quality raw materials to serve our productions schedule, and we also source our major raw materials from multiple suppliers, since we usually make procurement arrangements with suppliers prior to entering into sales contracts with our customers, we may not be able to effectively pass on the effects of fluctuations in such costs to our customers. However, the Directors are of the view that alternate raw material suppliers can be identified as there is a large pool of raw material suppliers of comparable quality available in the PRC.

Hedging

Prices of soybean meal and corn, which are the primary raw materials used in our animal feeds production, experienced fluctuations over the past 10 years. During the Track Record Period, we conducted hedging activities in relation to commodity prices of soybean meal, corn and soybean oil

BUSINESS

when we determine conditions are appropriate to mitigate the inherent price risk. We do not use derivatives for speculation. The main objectives for conducting such hedging measures are to reduce production margin volatility and mitigate commodity price risk. While this hedging activity may limit our ability to participate in gains from favourable commodity fluctuations, it also has the potential to reduce the risk of loss from adverse changes in raw material prices.

We have promulgated internal guidance on hedging activities, under which the Board is the highest authority to supervise the operation involving our hedging activities. The Board is primarily responsible for formulating and monitoring our hedging risk management procedures. We have designated staff to formulate strategies and to oversee our hedging activities and set the procurement volume and price limit for soybean meal, corn and soybean oil based on our production plan, historical prices and relevant market conditions and will then purchase soybean meal, corn and soybean oil futures contracts to achieve a net soybean meal, corn and soybean oil position correlated with our actual procurement plan within the price limit as established and as they deem prudent.

We typically purchase the most actively traded soybean meal, corn and soybean oil futures contracts on the Dalian Commodity Exchange to ensure the liquidity of our hedging positions. The maximum volume of soybean meal, corn and soybean oil we may hedge each year would not exceed our annual procurement volume. The Group did not have any material unsettled soybean meal, corn and soybean oil futures contracts as at each of the ending date during the Track Record Period.

We believe that, during the Track Record Period, the intended purpose of our hedging activities was generally achieved and our hedging activities were overall effective.

During the Track Record Period, the Directors confirmed that we had not experienced any material adverse effects to our business or financial performance as a result of price fluctuations of raw materials. For details, see “Risk Factors — Risks Relating to Our Business — Our results of operations are substantially affected by the selling prices of our poultry products, which affect our revenue, and by fluctuations in the purchase prices of raw materials or interruption in the supply of raw materials, which affect our costs” and “Industry Overview — Price and Raw Material of Broiler Market”.

SALES AND MARKETING

We sell our products through B2B and B2C sales models. For further details of our sales models, see “— Sales” above.

Our sales and marketing department is responsible for overseeing and supervising the Group’s local and international sales and marketing activities, and devising marketing strategies to enhance the visibility and marketability of our products and promote brand recognition.

During the Track Record Period, our sales and marketing efforts in respect of our B2B customers focused on establishing strategic partnerships by developing long term and close relationships with them, and delivering safe and high-quality chicken meat products developed through our research and development efforts.

During the Track Record Period, our sales and marketing efforts in respect of our B2C customers primarily consist of sales and promotional campaigns at individual points-of-sale such as sample-tasting, sponsorship activities (including with the National Athletes of the Sports and Training Council of the PRC), advertising campaigns on social media and third party online shopping platforms. We also collaborate with our intermediaries to carry out promotional campaigns at convenience

stores and boutique supermarkets. We typically launch advertising campaigns to complement with new product launches. From time to time, we may engage athletes as our product spokespersons to market our brands. Going forward, we intend to participate in more online marketing campaigns to enhance our brand and product awareness, which we believe will help us to gain access to younger consumers.

Our promotion and advertising expenses for the four years ended 31 December 2016, 2017, 2018 and 2019 were approximately RMB24.8 million, RMB8.4 million, RMB21.0 million and RMB43.4 million, respectively, representing approximately 1.1%, 0.4%, 0.7% and 1.2% of our total cost of sales, respectively.

Branding

Our chicken products are sold under our overall core brand “鳳祥食品 (Fovo Foods)”. We believe that our strong brand recognition and reputation have been instrumental to the success of our business. Our “鳳祥 (Fovo)” and “五更爐 (Wu Genglu)” brands were recognised as a “China Well-Known Trademark” and a “Shandong well-known Trademark” by the trademark office of the SAIC and the Shandong Industry and Commerce in 2007 and 2012, respectively.

Our “優形 (iShape)” brand is strategically designed to target health-conscious and younger consumers seeking to pursue a healthy lifestyle whereas our “五更爐 (Wu Genglu)” brand is designed to target all domestic consumers. We have been promoting recognition of our “優形 (iShape)” brand through a variety of marketing and promotional activities since its introduction in 2016 as set out above. As a result of our marketing and promotional strategies, we believe that our “優形 (iShape)” brand has been gaining wider recognition and popularity in China’s processed chicken meat product industry.

INVENTORY MANAGEMENT

The inventories of the Group principally comprise (i) animal feeds and their raw materials, which mainly include soybean meal and corn; (ii) work-in-progress of our chicken meat products; (iii) finished products, being chicken meat products ready to be sold; and (iv) packaging materials. We seek to maintain our inventory at appropriate levels based on our expected demand patterns, volume of sales orders from our customers and shelf life of our products. For the four years ended 31 December 2016, 2017, 2018 and 2019, our inventory turnover days were approximately 73.6 days, 76.6 days, 51.8 days and 43.4 days, respectively, while the balance of our inventories amounted to approximately RMB497.1 million, RMB508.8 million, RMB347.5 million and RMB485.0 million, respectively. Parent Stock Day-old Chicks, breeders and broilers are not included as our inventories as they are treated as biological assets in our financial statements. See “Financial Information — Analysis of Selected Statement of Financial Position Items — Inventories” and “Financial Information — Analysis of Selected Statement of Financial Position Items — Biological assets” for further details on our inventories and biological assets. We have in place an inventory control policy for our inventories:

Raw materials for animal feeds

We procure raw materials, plan our production and manage our inventory levels based on historical sales and our management’s assessment of annual sales for a particular year in order to minimise storage space and carrying costs. We store the raw materials for animal feeds at the warehouse located in each of our feedmills. We generally maintain up to 45 days of inventory level for our raw materials for feeds. To manage the fluctuation of raw materials prices due to the change

in the future purchase price of certain raw materials and the possible shortage due to delay or shortage in the supply of such raw materials, we enter into hedging arrangements as we deem appropriate. For details, see “— Raw material prices — Hedging” above. Our storage management staff will conduct monthly physical inventory counts to ensure the adequacy of the feeds stock.

Work-in-progress and finished products (Chicken meat products)

Our inventory levels for our work-in-progress chicken meat products are largely determined by projected sales level in the forthcoming year, which we usually plan a year ahead in accordance with prevailing market trends and customer preferences. As chicken meat products are perishable goods, the Group adopts a physical “first-in-first-out” policy to ensure the freshness of our chicken meat products. We store our raw and processed chicken meat products in our owned and rented refrigeration facilities to preserve their quality and extend their shelf life and sell them within approximately ten days to 20 days after their entry into our facilities. Staff from our production team will also conduct physical inventory counts and inspections on a monthly basis to monitor the inventory status of our raw and processed chicken meat products. We will make provision for impairment against our inventories on an annual basis if the costs of our chicken meat products as inventories are greater than the recoverable amount of the same.

Packaging materials

Our packaging materials purchases include inner packaging bags and outer packaging boxes. Our storage management staff conduct physical counts on a monthly basis for the purpose of record keeping and control. The frequency of our purchases is largely driven by our previous sales performance.

QUALITY ASSURANCE

The Directors believe that high quality and standards are crucial to the Group’s success. We have a quality control team consisting of 380 members as at the Latest Practicable Date and some of them have received tertiary education in biology, food science and veterinary science focusing in livestock, and have had experiences in food examination and research. They are responsible for the quality assurance of our products, including the formulation of quality standards and control. The Group’s products have undergone internal production control and quality assurance control and rigorous testing. We are dedicated to ensuring the high standard of safety and quality of (i) the chicken meat products manufactured by us, and (ii) the raw materials for our production of animal feeds, the Parent Stock Day-Old Chicks, the broiler eggs and the chicken meat products procured from our suppliers who are independent third parties. We have obtained ISO22000 (Food Safety) Certificate and ISO9001 (Quality) Certificate.

We have adopted a stringent quality and management control system which oversees the entire production process in order to ensure the quality of our products is up to standard. Our quality control procedures are performed at various stages of our operation process to ensure the quality of our products.

Biosecurity Measures

In order to minimise the risks of our breeders and broilers from being infected by disease, we established the following biosecurity measures:

- *Isolation of breeder and broiler farms.* Our breeder and broiler farms are located in areas which are far away from human activities and establishments, and sited in a demarcated

fenced area to provide an optimum environment for the breeding of our breeders and broilers. Further, the distance between our breeder and broiler farms shall be no less than 500 metres in accordance with relevant PRC laws and regulations.

- *Controlled access.* The access into and out of our production facilities is controlled. Only specific staff are allowed to enter into the enclosed site. We delegate specific staff with tasks to manage their specific sheds in the breeder and broiler farms and requiring them to live in their responsible sheds. All entrants who wish to enter the sheds are required to undergo certain hygiene procedures.
- *Sterilisation and recordkeeping.* Vehicles, staff, visitors and relevant equipment entering and exiting the breeder and broiler farms are required to undergo a disinfection process and be logged.
- *Hygiene measures.* All entrants are required to put on uniforms and shoes provided by the Group before entering the enclosed area where our breeder and broiler farms are located. Our staff are prohibited from bringing their uniforms out of the enclosed farm area to minimise the chance of introducing bacteria from the external environment.
- *Proper medicinal procedures.* Immunisation and medicinal procedures must be carried out as required by the relevant laws and regulations of the PRC and export countries, and be in strict compliance with the prescription from our veterinarians throughout the breeding process.

Quality Control over Breeders and Broilers

In order to ensure that the operations of our production facilities meet the Group's quality requirements, we have adopted the following preventive and management measures:

- *Vacancy period.* We require that every shed of our broiler farms to be vacated for approximately 14 days to 18 days after the broilers have been collected, respectively. During the vacancy period, we require that the farms be thoroughly washed and sterilised before arrival of the next batch of broilers. We then conduct disinfection sampling and testing to prevent cross contamination with pathogenic microorganisms from the previous batch.
- *Sterilisation and disinfection.* We thoroughly clean the breeder and broiler farms on a daily basis and disinfect broiler farms using aerial fog shed cleansing equipment three times a week. The use of specialised aerial fog shed cleansing equipment increases the number of cycles undergone by each broiler farm per year and ensures that no wastewater is discharged in violation of the applicable PRC laws and regulations. We subsequently inspect and monitor the disinfection results.
- *All-in-all-out policy.* We adopt an "all-in-all-out" policy, which means that each breeder farm and broiler farm is fully vacated, cleansed and fumigated before the next batch of livestock is transferred to the vacated farms to ensure they are cleared of any residual waste and bacteria from previous batches. Prior to the entering of the next batch, we perform comprehensive inspection on our farms, which includes inspecting sanitation status, disinfection record and equipment maintenance. If the inspection results are unsatisfactory, rectification measures will have to be carried out prior to a new batch of livestock entering the farm. This is to prevent the possible transmission of diseases between different batches of breeders and broilers.
- *Disease prevention and vaccination.* We have adopted a comprehensive set of disease prevention measures, reinforcing any particular prevention measures against a specific

BUSINESS

disease. Vaccines and veterinary drugs for treatment must be inspected and may only be accepted upon satisfactory inspection. For details, see “— Quality Assurance — Biosecurity Measures” above.

- *Disposal of dead carcasses.* Our staff checks and removes dead breeders and broilers on a daily basis and we monitor the mortality rate. We decompose dead breeders and broilers on a timely basis by transporting them in a disinfected container to high temperature poultry carcass decomposition treatment plants for decomposition in accordance with all applicable laws and regulations in the PRC to prevent the spread of disease or environment contamination.
- *Chicken manure fermentation.* We ferment chicken manure for five days under temperatures reaching over 70°C after the broilers have left the broiler farms to effectively reduce the concentration of pathogens and microbes contained in chicken manure.
- *Optimum environment for breeding.* We raise our breeders and broilers in breeder and broiler farms that have been designed and constructed according to prescribed standards on temperature, humidity and ventilation, with details as described below:

No	Item monitored	Points to note
1.	Temperature	<ul style="list-style-type: none"> • To check whether the temperature is ranged between our prescribed standards
2.	Humidity	<ul style="list-style-type: none"> • To check whether the humidity is in line with our prescribed standards
3.	Ventilation level	<ul style="list-style-type: none"> • To observe whether there exists difference in the ventilation of breeder and broiler farms • To measure wind velocity, carbon dioxide density (in winter) and ammonia density, etc.
4.	Heating time	<ul style="list-style-type: none"> • To analyse the differences in heating time of each farm based on the records put on file by the head or deputy head of the farm before 20:00 every day
5.	Animal feeds and water supply system	<ul style="list-style-type: none"> • To check whether the automated feeding system is functional • To record the type and quantity of animal feeds and the volume of water consumed per breeder and broiler per day, and compare such information against our prescribed standards
6.	State of breeders and broilers	<ul style="list-style-type: none"> • To observe the distribution and comfort of breeders and broilers • To actively monitor the health of the breeders and broilers, for instance, by listening to the broilers’ breathing and check whether they are panting, bawling or coughing

Quality Control over Raw Materials

Animal Feeds

- *Inspection of animal feeds.* We inspect animal feeds supplied to broilers with respect to appearance (including colour, humidity and chalking rate) in accordance with our internal

BUSINESS

animal feed quality control procedures . Any unsatisfactory animal feeds supplied must be rejected and reported to the manager in charge and the responsible feedmill.

- *Nutrition animal feed formula.* We formulate animal feed formula based on the nutrition levels essential for broilers and produce animal feed through high-temperature processing.
- *No growth promoters.* We do not add antibiotic growth promoters to animal feeds and refrain from using animal-based raw materials for our animal feeds.

Parent Stock Day-old Chicks

- *Selective procurement.* We procure Parent Stock Day-old Chicks from suppliers that satisfy our internal requirements. For our selection criteria of Parent Stock Day-old Chicks suppliers, see “— Production — Procurement of Parent Stock Day-old Chicks and Breeder Farms” above. To ensure the health condition of our Parent Stock Day-old Chicks, we conduct tests on samples of Parent Stock Day-old Chicks to ensure they are not diagnosed to be affected with diseases such as salmonella or avian flu. If the Parent Stock Day-old Chicks samples collected are diagnosed to be affected with disease, the whole batch shall be destroyed.

Chicken breeds

- *First-in-first-out policy.* We adopt a “first-in-first-out” policy, which means that we will hatch breeder eggs in separate batches to trace the source of chicken breeds in the event that any disease epidemics or other diseases break out among the chicken breeds.
- *Disinfection and sterilisation.* We collect broiler eggs according to relevant regulations and disinfect the qualified broiler eggs in time. Non-fertile eggs, dead embryos and rotten eggs will be eliminated.
- *Standardised operating procedures.* Our staff are required to follow standardised hatching procedures to control the temperature, humidity and hygiene of our hatcheries. Sample disinfection testing would be conducted from time to time.
- *Mortality rate.* We check and remove dead chicken breeds, monitor the mortality rate, analyse the cause(s) of death and adopt adequate control measures accordingly.

Quality Control over Chicken Meat Products

In order to ensure that our chicken meat products are not contaminated, strict hygiene measures are implemented in our slaughtering and processing facilities, including:

- *Restrictive staff movement.* Movement of our staff inside our slaughtering and processing facilities is restricted. In particular, our staff in the slaughtering section are not allowed to enter into our processing section.
- *Daily sterilisation.* Facilities, equipment, tools and food contact surfaces in slaughtering and processing facilities are required to be cleaned and sterilised on a daily basis.
- *Hygiene procedures.* Staff and other entrants entering our slaughtering and processing sections are required to undergo comprehensive hygiene procedures, including cleansing of hands and wearing of sterilised uniforms provided by the Group.

We have also adopted the following control standards and procedures for the production of chicken meat products:

- *Centralised management.* Our food safety control team oversees the Group's implementation of food quality control to ensure the quality and safety of our chicken meat products.
- *Tracing and record keeping.* We record and trace each batch of our chicken meat products despatched to our customers, and each batch of raw materials, ingredients and packaging materials used to produce our chicken meat products. Through our vertically integrated business model covering the entire white-feathered broiler industry value chain, we are able to control the source of our chicken meat products and effectively monitor and control all aspects of the breeding process, which effectively guarantees the safety and hygiene of our chicken meat products. We also have in place a product recall procedure. We conduct regular product recall testing from time to time to ensure our chicken meat products may be effectively recalled as and when necessary.
- *Testing centre.* We have an independent testing centre with an established laboratory quality management system, which has been accredited by the China National Accreditation Service for Conformity Assessment to be of ISO/IEC 17025 standard. The testing centre batch-tests all outgoing chicken meat products that are to be sold domestically or abroad to ensure our products can fully meet the requirements of our customers' and our exporting countries' requirements.
- *Standardised operating procedures.* Our staff are required to follow standardised production and operating procedures which are in strict accordance with requirements under HACCP and GMP (Good Manufacturing Practice), which effectively monitor and manage all aspects of food safety ranging from raw materials, equipment to personal hygiene. These procedures help us ensure consistent quality of our chicken meat products.
- *Key quality points.* We select and closely monitor key points in the production process, such as heating and ingredient mixing, which have the potential to materially impact the quality of our final products. This facilitates our timely identification of and prompt response to any quality problems.
- *Workplace management.* We have implemented a systematic workplace management system based on a comprehensive set of principles emphasising tidiness, hygiene and safety. A clean and organised workplace is essential to the effective implementation of our quality control system.
- *Pre-sale inspection.* Before our chicken meat products can be sold to our customers, we conduct sample inspections and testing to ensure the quality of the products that will be delivered to the customers.

Emergency Epidemic Control System

The Group has implemented comprehensive procedures to prevent diseases among our breeders and broilers and focuses on reaction measures in response to any potential risk of disease outbreak. The Group has a technical specialist responsible for collecting information relating to livestock disease and providing early warning.

In particular, we implemented a disease and mortality rate monitoring programme whereby our staff will check and remove dead breeders and broilers and will inform our veterinarians accordingly. Our veterinarians monitor the mortality rate of breeders and broilers on a daily basis and we

maintain records of their health conditions throughout their lifespan. Such records include feed consumption, mortality, daily egg production, average egg weight, medication, vaccinations and disinfection records.

When the daily mortality rate of our breeders or broilers exceeds 3.0%, and where the daily mortality rate exceeds 0.5% for two consecutive days, our staff will enhance their disinfection intervals in our breeder and broiler farms, isolate the relevant breeder or broiler sheds and restrict farm access. If our staff finds out that there may be a possible incidence or outbreak of poultry-related diseases such as avian influenza or a new plague, the situation will be reported to our veterinarians or technical specialist on a timely basis, who shall assess the situation and formulate appropriate measures.

As at the Latest Practicable Date, the Group had 20 veterinarians who had passed the National Veterinary Qualification Examination of the PRC. Our veterinarians and technical staff are required to conduct site inspections twice in every cycle undergone by the broiler farms.

As confirmed by the Directors, during the outbreak of avian flu in the PRC in 2016 and 2017, as well as during the Track Record Period and up to the Latest Practicable Date, no infected case was found in the Group's broiler farms.

Traceability System

In order to better comply with the Group's internal control system and food safety requirements, we have developed a traceability system which enables us to maintain traceability during the slaughtering and processing process, as further described below:

- *Receiving of broilers:* When broilers are received by our slaughtering and processing facilities, we require that our staff issue a Pre-slaughter Notice (《准予屠宰通知單》).
- *Chicken hanging:* Our staff responsible for chicken hanging shall, according to the Pre-slaughter Notice, issue a Chicken Source Transmission Sheet (《雞源信息傳遞單》), which includes the name of the broiler farm, breeding number, time of hanging, and the beginning and end time of pre-cooling, and pass on the relevant information.
- *Slaughtering:* Our staff responsible for slaughtering are required to transmit information according to the Chicken Source Transmission Sheet.
- *Packaging:* All our chicken meat products are required to be labelled with a product name, specification and production date in accordance with the information transmitted. The carton containing the relevant chicken meat products shall be labelled with information such as production date, expiry date and the relevant broiler farm identification number in accordance with our customer's requirements.
- *Freezing:* We require product tracing identification cards to be hung on refrigerated trucks, stating batch numbers at one-hour intervals. The time shall be recorded on the last truck during of each one-hour period. Our chicken meat products should also enter our freezer warehouses by fixed routes.
- *Storage:* We have implemented detailed warehousing operating procedures, such as timely record keeping, appropriate labelling and periodic stock taking. Our finished products are stored separately by categories, production dates and batches. Based on timely records of inventory intake and despatch, we can closely monitor and maintain traceability of products purchased by our customers to the relevant production facility.

FOOD SAFETY MANAGEMENT SYSTEM OF THE GROUP

We have established and maintain a quality control system covering each stage of our operations. In addition to our quality control system covering each stage of our operations, we have established a food safety control system covering issues related to our research and development, supplier certification and management, procurement, production, storage, transportation and sales and distribution activities, which primarily includes the following measures:

- *Food labelling and packaging.* Our packaging must bear specific labelling and other information as may be required by law and by our customers. In addition, all our chicken meat products require careful protection against physical and biological irritants that may damage our products during storage, transportation and delivery to our customers. As such, we endeavour to carefully and thoroughly pack our products to ensure maximum freshness and quality, and to display the correct information for food safety reasons.
- *Targeted disease prevention and vaccination.* We have adopted a comprehensive set of disease prevention and vaccination measures, reinforcing any particular prevention measures against a specific disease. We conduct sample tests on our broilers, and provide our chicken breeds and broilers with appropriate vaccination based on their age and health condition in accordance with our internal guidelines. We disinfect all items, vehicles and personnel before they are allowed entry to our premises. Our preventing system continuously monitors and reports outbreaks (if any) or epidemics as well as insect discovery and management. Our disease epidemic prevention system is reviewed and audited annually by a professional independent third party.
- *Bacteria.* In order to ensure the bacteria levels do not exceed the permitted standards under the relevant applicable laws, we have developed an internal control plan with corresponding control measures from raw materials, through processing and finished products. There is also strict temperature and time control at our processing facilities to maintain freshness of the chicken meat. Parameters measured throughout our premises include temperature, humidity and wind flow to ensure bacteria is discouraged from flourishing. We have an in-house laboratory for the detection of bacteria, and its equipment is regularly inspected and calibrated by external qualified personnel.

Assessment of Food Safety Management System

The below sets out an extract from the Food Safety Management Insight Report, which should not be unduly relied upon in making, or refraining from making, any investment decision. It should be noted that the Food Safety Management Insight Report or the findings thereunder do not constitute an assurance engagement performed in accordance with standards issued by the Hong Kong Institute of Certified Public Accountants or any standards of any other professional body in any other jurisdiction. The PwC Food Safety Consultant and/or other members of the PricewaterhouseCoopers network of firms assumes no liability (including liability for negligence) or responsibility to any party to which the Food Safety Management Insight Report or the findings thereunder as disclosed in this prospectus or otherwise made available.

The Company places emphasis on its food safety management system and reviews its effectiveness from time to time. In January 2019, the Company commissioned PricewaterhouseCoopers Business Consulting (Shanghai) Co., Ltd. Beijing Branch (the “**PwC Food Safety Consultant**”), an independent food safety consultant, to conduct assessment on the Group’s food safety management system and issued a Food Safety Management Insight Report dated 30 June 2020 (the “**Food Safety Management Insight Report**”). The PwC Food Safety Consultant, as part of the PwC global network in

BUSINESS

157 territories with more than 276,000 people, is committed to delivering quality in assurance, advisory and tax services. The PwC Food Safety Consultant provides services combining food industry expertise with the capabilities in risk management, internal controls, supply chain, strategy, compliance, capital markets, and merger and acquisitions.

The PwC Food Safety Consultant performed evaluation work in January 2019, to review the Group's food safety management system for the period from 1 January 2018 to 31 December 2018 by conducting site visits and staff interviews at locations selected through sampling methodology and analysis of information obtained from the materials provided to them by the Company. The assessment is based on a risk management framework established by the PwC Food Safety Consultant, namely the PwC Risk Management Framework, with reference to the advanced international food safety standards recognised by the Global Food Safety Initiative (GFSI), a non-profit making foundation established and managed by the Consumer Goods Forum (which is an international trade association) under Belgian Law in May 2000 and it benchmarks existing food safety standards against food safety criteria for retailers, manufacturers and foodservice operators globally to provide a common foundation of food safety requirements.

The PwC Food Safety Consultant evaluated the maturity of our food safety management system under the PwC Risk Management Framework along eight modules: (1) regulations and policies, (2) personnel and corporate culture, (3) supplier management, (4) production management, (5) testing management, (6) storage and logistics management, (7) food quality and safety management system, and (8) crisis management. For each module, the maturity was assessed in three levels, namely embryonic, maturing and mature, across the following six dimensions: (a) measurement certainty, (b) reporting framework, (c) information integrity, (d) consistency, (e) transparency in performance indicators, and (f) external validation. Based on the foregoing, the evaluation work carried out by the PwC Food Safety Consultant covered 48 assessment areas of our food safety management system.

According to the Food Safety Management Insight Report, the PwC Food Safety Consultant is of the view that the overall assessment of the Group's food safety management system is mature, with five assessment areas are identified as maturing which recommendations have been proposed to the Group for further enhancement. The Group has adopted the recommendations for those assessment areas as at the Latest Practicable Date. The PwC Food Safety Consultant considers that such recommendations do not have any material impact on the operations of the Group's food safety management system.

Track Record of Quality Control

We have obtained ISO 9001 quality management system certification, ISO 22000 food safety management system certification and ISO 14001 environmental management system certification for our production facilities in Shandong. We have also obtained British Retail Consortium (BRC) Global Standard for Food Safety (Grade A) certification. The table below sets forth the material certifications or licences we have obtained for our products or processing facilities and the relevant information as indicated.

<u>Certificate</u>	<u>Date of Latest Issue</u>	<u>Expiry Date</u>	<u>Main Content</u>
ISO 9001:2015 Quality Management System Certification	14 August 2018	13 August 2021	Quality management system for the design, production, sales and services of processed poultry meat products

BUSINESS

Certificate	Date of Latest Issue	Expiry Date	Main Content
ISO 9001:2015 Quality Management System Certification	14 February 2019	12 January 2021	Quality management system for the processing of chilled, frozen and refrigerated pre-made chicken meat products
ISO 14001:2015 Environmental Management System Certificate	4 December 2019	11 December 2022	Environmental management system for processing of chicken compound feed, poultry breeding, processing or poultry products and chilled and frozen chicken and other related management activities
ISO 14001:2015 Environmental Management System Certificate	4 December 2019	11 December 2022	Environmental management system for production of poultry products and related management activities
ISO 14001:2015 Environmental Management System Certificate	4 December 2019	11 December 2022	Environmental management system for the processing of frozen chicken and frozen chicken parts and related management activities
HACCP Certification	4 December 2018	4 December 2020	Processing of frozen, fried and steamed chicken meat products
HACCP Certification	14 February 2019	12 January 2021	Processing of chilled, frozen and refrigerated pre-made chicken products
ISO 22000:2005 Food Safety Management System Certificate	15 November 2019	14 November 2022	Food safety management system for production of chicken compound feed
ISO/IEC 17025:2005 Testing and Calibration Laboratories Certificate	22 August 2016	21 August 2022	Testing centre accredited ISO/IEC 17025 standards
China National Accreditation Service for Conformity Assessment (CNAS) Laboratory Accreditation Certificate	22 August 2016	21 August 2022	Testing centre Accreditation
British Retail Consortium (BRC) Global Standard for Food Safety Issue 8: August 2018, Grade A	31 October 2019	9 October 2020	Category 2: Raw poultry

BUSINESS

Certificate	Date of Latest Issue	Expiry Date	Main Content
British Retail Consortium (BRC) Global Standard for Food Safety Issue 8: August 2018, Grade A	4 February 2020	7 February 2021	Category 8: Cooked meat and fish products
International Food Standard (IFS) Version 6.1, November 2017 at Higher Level	4 February 2020	19 February 2021	Red and white meat, poultry and other meat products
British Retail Consortium (BRC) Global Standard for Food Safety Issue 8: August 2018, Grade A	31 March 2020	26 April 2021	Production of frozen steamed and fried chicken meat products in plastic bags
International Food Standard (IFS) Version 6.1, November 2017 at Higher Level	1 April 2020	11 June 2021	Red and white meat, poultry and other meat products

PRODUCT LIABILITY

The Group adopts a no recourse sales policy. Once our products have been sold and delivered to our customers (including both direct customers and distributors), all risks and liabilities in connection with such chicken meat products are transferred to our customers, who/which shall not be entitled to any recourse from the Group. Upon claims from our customers, the Group will consider recalling our products if the same are found to have excessive remains of medicine, microorganisms or are otherwise unsatisfactory.

According to the Food Safety Management Insight Report, we have established a food safety management system that runs through the upstream and downstream stages of the industry chain. We follow relevant international food safety management systems, such as BRC, FSSC22000, etc., which have been approved by the GFSI and relevant domestic organisations. Our food safety and management system manuals and procedure documents have also been formulated in accordance with the requirements of Food Safety Law of the PRC, GB/T 27341-2009 Hazard Analysis and Critical Control Point (HACCP) System - General Requirements for Food Production Enterprises and other laws and regulations and relevant industry standards. Further, the results of our bacteria tests on our chicken meat products have complied with the Fresh and Frozen Poultry Product National Standards of the PRC and we procure our raw materials, Parent Stock Day-old Chicks and frozen chicken meat products from third party suppliers that have obtained the necessary licences and permits. Furthermore, we have not received any product liability claims from our customers or the consumers during the Track Record Period.

In order to minimise the possibility of any product liability claims from any of our customers and distributors, we have implemented quality assurance and internal control measures, including, inter alia, hygiene requirements on our broiler farms, requirements on our third party suppliers to obtain and produce to us the relevant licences and permits, details of which are set out in “— Production” and “— Quality Assurance” above, respectively.

MARKET AND COMPETITION

The chicken meat production industry has a high entry barrier for potential market players. First, the chicken meat production industry is capital-intensive in nature, which requires vast areas of land for breeding chicken breeds, breeders and broilers, and advanced equipment and

BUSINESS

comprehensive production facilities for slaughtering and processing of chicken meat products so as to improve the product quality and productivity. The chicken meat producers have to place significant amount of resources on food safety and hygiene. These require massive amount of capital investment and will bring heavy financial burden to start-ups, especially to small and medium-sized companies. Moreover, the chicken meat production industry requires crucial human capital. Professional and skilled personnel are paramount to ensuring the quality of chicken meat products meets the requirements of customers and relevant authority where the business is operated in and products are exported to. For example, during the broiler rearing process, they need to ensure optimal rearing environment, including temperature and ventilation for the growth of broilers. In addition, the efficient production of meat products requires the support of experienced labour for slaughtering and preservation.

According to the Frost & Sullivan Report, the total production quantity of white-feather broiler meat in the PRC for the year ended 31 December 2019 was approximately 7.6 million tonnes. White-feathered broiler production industry in China was relatively scattered with top five producers taking a market share of 19.9% in terms of production volume in 2019, where the leading fully integrated white-feathered broiler producer had an annual production of roughly 505.2 million birds, representing a market share of 9.5%, followed by the Group who had an annual production of 162.3 million birds, representing a market share of 3.1%. In China, there are only a small number of large-size chicken meat producers. Our ability to compete against our competitors depends on, to a significant extent, our capability to build up and maintain the confidence of our customers to our products and expand our markets to other areas in the PRC and overseas markets. The product segment of exported broiler meat products comprises raw broiler meat and processed broiler meat. Many broiler meat exporters in China focus on either raw broiler meat or processed broiler meat. Their focuses on only one type of product pose risk to their future operations. Among the fully integrated broiler meat exporters, the Group ranked the first among its competitors in terms of export revenue and export volume in 2018, with a market share of 8.6% and 10.4%, respectively. The top five players accounted for an aggregate market share of 29.9% and 28.7% in terms of export revenue and export volume, respectively.

The market size of white-feathered broiler meat by sales revenue increased from RMB69.2 billion in 2015 to RMB83.1 billion in 2019, realised an CAGR of 4.7% over the past five years. In the long term, the market is projected to increase with a CAGR of 10.1% from 2019 to 2024 with the increased demand and recovery of domestic productions. Due to the decreased domestic production volume in recent years, China's export value of broiler meat decreased from USD1,610.3 million in 2014 to USD1,574.8 million in 2018, representing a CAGR of -0.6% from 2014 to 2018. With the recovery of domestic production, the total export value of broiler meat from China has been growing rapidly driven by the increase in unit price of the broiler meat and is expected to reach to USD2,164.7 million in 2023, at a CAGR of 6.6%.

For details of our competitive strengths, see “— Competitive Strengths” above.

For the challenges and threats we encountered in operating our business, see “Industry Overview”. Nevertheless, we believe that the Listing would enhance our financial resources and strengthen our market position and allow us to compete with local and foreign competitors.

RESEARCH AND DEVELOPMENT

We conduct research and development activities across the poultry industry value chain, including new technologies and machines for breeding broilers, new products, in particular, our

ready-to-eat food products, and packaging. We operate three research institutions in Shandong, Shanghai and Tokyo. Our research and development efforts primarily focus on expanding our product offerings, upgrading our quality control technologies and developing new production methods and techniques both in China and overseas.

Our research and development team comprises 45 members and most of them received tertiary education or above. The team conducts research on the composition and ingredients of our feeds, the efficiency in the breeding of our broilers, the control of disease epidemics, the production process of our chicken meat products and product development. Our research and development expenses incurred during each of the four years ended 31 December 2016, 2017, 2018 and 2019 were approximately RMB6.2 million, RMB8.3 million, RMB13.5 million and RMB16.3 million, respectively.

New Technologies and Machines

We are committed to providing high-quality products and are dedicated to research and development. We set out below the research and development projects completed by the Group or our employees:

- *Chicken manure fermentation.* After the broilers have grown into white-feathered broilers and have left the broiler farms, we ferment chicken manure for five days under temperatures reaching over 70°C to effectively reduce the concentration of pathogens and microbes contained in chicken manure;
- *Aerial fog shed cleansing equipment.* We cleanse our breeder farms and broiler farms with specialised aerial fog shed cleansing equipment, which increases the number of cycles undergone by each broiler farm per year and ensures that no wastewater is discharged in violation of the applicable PRC laws and regulations. The use of such cleansing equipment allows for the reduction in water usage by approximately 80%; and
- *Poultry carcasses decomposition.* We installed advanced underground decomposition facilities to decompose poultry carcasses through high pressure steaming which effectively reduces air pollution.

We also had cooperation arrangements with other institutions, such as universities, government institutions and commercial institutions, on various research and development projects including (i) cooperation with the local government to jointly conduct research on feed composition and efficiency, processing of ancillary products of broilers, determination of gender of the chicken breeds, disease epidemic prevention and control, design of broilers sheds and design of biological sewage filtering system; and (ii) cooperation with commercial institutions in the improvement of our information management system.

New Products

The Group believes that it is important to develop new product categories to cater for ever changing consumption patterns, enhance our business growth and improve our innovation capabilities and competitiveness. We devote resources to research and development, upgrading products and processing technologies. Our dedicated product development centre was initially established in Shandong.

For the four years ended 31 December 2016, 2017, 2018 and 2019, we launched 47, 48, 104 and 64 new products (including new flavours) which are all processed chicken meat products,

respectively. The following are sample pictures of some of our new processed chicken meat products launched in 2018 and 2019:



iShape protein bar
(優形蛋白棒)



Wu Genglu salt baked chicken
(五更爐鹽焗雞)



Slow cooked ready-to-eat chicken legs
(低溫即食雞腿)



Chicken patties with mushrooms
(香菇肉餅)

As part of the Group's research and development policy, the Group focuses on developing nutritious and healthy food products as well as product categories. Each of our product development projects primarily consists of the following key steps:

- *Gathering external information on the market development.* Our research and development of new products is market-oriented. The Group keeps track of domestic and international market developments, technological updates and actively participates in domestic and international food fairs and exhibitions.
- *Creating prototype of new food products and tasting.* Once a potential new food product has been finalised, a prototype is produced and fine-tuned by continually improving the taste, product mix and preparation method of a potential new food product.
- *Obtaining customers' feedback from sales team.* Our product development team works closely with our sales team in order to evaluate market trends and consumer preferences, which is essential for us to identify and formulate new products. The Group's sales team will obtain feedback from the Group's customers and conveys the information to the product development team for the purposes of improving production methods, production efficiency, product quality and control production costs. The Directors believe that continuous update of customers' preferences and tastes will maintain the Group's relationship with customers and contribute to the Group's future growth.

Our research and development efforts as stated above enable us to study and keep track of changing customer preferences in order to improve our products' flavour. We have been continuously improving the taste of our products, such as moderating the seasoning sauces and product mix based on feedback collected through our customer surveys. Such feedback provides us with first-hand information with respect to the satisfaction level and expectations the customers may have for our products. We also test and adjust the time required for processing, such as braising and high temperature steaming on a product-by-product basis, in order to optimise the taste of each product.

BUSINESS

LICENCES AND PERMITS

The Group is required to obtain the following key licences and permits to carry out our business and operation:

Licence/permit	Licence/permit holder	Issuing Authority	Date of grant/filing	Expiry date
Livestock and Poultry Breeders Production Operation Permit (種畜禽生產經營許可證) ⁽¹⁾	The Company	Liaocheng Administrative Examination and Approval Service Bureau	Between 26 October 2017 and 5 March 2020	Between 25 October 2020 and 4 March 2023
Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) ⁽²⁾	The Company	Yanggu Country or Dong'e County Administrative Examination and Approval Service Bureau	Between 11 April 2019 and 25 April 2019	Not applicable
Grain Purchase Permit (糧食收購許可證)	The Company	Yanggu County Administrative Examination and Approval Authority	13 March 2019	12 March 2022
Feed Production Permit (飼料生產許可證) ⁽³⁾	The Company	Shandong Animal Husbandry and Veterinarian Bureau	Between 24 April 2018 and 5 September 2018	Between 23 April 2023 and 4 September 2023
Water Drawing Permit (取水許可證) ⁽⁴⁾	The Company	Dong'e County Water Authority, Yanggu County Water Authority or Yanggu County Administrative Examination and Approval Authority	Between 8 January 2018 and 1 September 2019	Between 27 April 2022 and 31 August 2024
Foreign Trade Operator Registration Form (對外貿易經營者備案登記表)	The Company	Yanggu Business and Investment Promotion Bureau	30 November 2018	Not applicable

BUSINESS

Licence/permit	Licence/permit holder	Issuing Authority	Date of grant/filing	Expiry date
Registration Certificate of Customs Declaration Entity (海關報關單位註冊登記證書)	The Company	Jinan Customs District Office in Liaocheng	11 December 2018	Not applicable
Work Safety Standardisation Certificate (安全生產標準化證書)	The Company	Shandong Province Administration of Work Safety	19 June 2018	June 2021
Pollutant Discharge Permit (排污許可證) ⁽⁵⁾	Fengxiang Food Development	Liaocheng Environmental Protection Bureau	14 December 2018	13 December 2021
Food Production Permit (食品生產許可證)	Fengxiang Food Development	Liaocheng Food and Drug Administration	8 June 2016	30 December 2020
Food Operation Permit (食品經營許可證)	Fengxiang Food Development	Liaocheng Food and Drug Administration	9 March 2017	8 March 2022
Halal Certificate (清真證書)	Fengxiang Food Development	China Shandong Islamic Association	26 July 2019	25 July 2022
Export Food Manufacturer Filing Certificate (出口食品生產企業備案證明) ⁽⁶⁾	Fengxiang Food Development	Shandong Entry-Exit Inspection and Quarantine Bureau	Between 21 March 2016 and 16 January 2020	Between 7 April 2024 and 31 December 2070
Registration Certificate of Customs Declaration Entity (海關報關單位註冊登記證書)	Fengxiang Food Development	Jinan Customs District Office in Liaocheng	19 July 2016	Not applicable
Work Safety Standardisation Certificate (安全生產標準化證書)	Fengxiang Food Development	Shandong Province Administration of Work Safety	19 June 2018	June 2021
Heat Processing Facility Designation	Fengxiang Food Development	The Minister of Agriculture, Forestry and Fisheries of Japan	Not applicable	Not applicable
Export Food Manufacturer Filing Certificate (出口食品生產企業備案證明) ⁽⁶⁾	Fengxiang Industrial	Shandong Entry-Exit Inspection and Quarantine Bureau	Between 11 September 2017 and 16 January 2020	Between 10 September 2021 and 31 December 2070

BUSINESS

Licence/permit	Licence/permit holder	Issuing Authority	Date of grant/filing	Expiry date
Food Production Permit (食品生產許可證)	Fengxiang Industrial	Liaocheng Food and Drug Administration	13 February 2018	12 February 2023
Food Operation Permit (食品經營許可證)	Fengxiang Industrial	Yanggu Administration for Industry & Commerce	9 March 2017	8 March 2022
Halal Certificate (清真證書)	Fengxiang Industrial	China Shandong Islamic Association	11 December 2018	10 December 2021
Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證)	Fengxiang Industrial	Yanggu County Administrative Examination and Approval Service Bureau	8 August 2019	Not applicable
Feed Production Permit (飼料生產許可證)	Fengxiang Industrial	Shandong Province Animal Husbandry and Veterinary Medicine Bureau	14 February 2019	13 February 2024
Foreign Trade Operator Registration Form (對外貿易經營者備案登記表)	Fengxiang Industrial	Yanggu Business and Investment Promotion Bureau	18 January 2017	Not applicable
Registration Certificate of Customs Declaration Entity (海關報關單位註冊登記證書)	Fengxiang Industrial	Jinan Customs District Office in Liaocheng	17 May 2016	Not applicable
Work Safety Standardisation Certificate (安全生產標準化證書)	Fengxiang Industrial	Shandong Province Administration of Work Safety	19 June 2018	June 2021
Pollutant Discharge Permit (排污許可證) ⁽⁵⁾	Fengxiang Industrial	Liaocheng Environmental Protection Bureau	14 December 2018	13 December 2021

BUSINESS

Licence/permit	Licence/permit holder	Issuing Authority	Date of grant/filing	Expiry date
Printing Operation Permit (印刷經營許可證)	Fengxiang Industrial	Liaocheng of Culture, Broadcasting, Television, Press and Publication Bureau	16 August 2019	31 March 2021
National Permit for Production of Industrial Products (全國工業產品生產許可證)	Fengxiang Industrial	Shandong Bureau of Quality and Technology Supervision	27 August 2019	26 August 2024
Approved Foreign Abattoir	Fengxiang Industrial	Department of Veterinary Services Malaysia	Not applicable	Not applicable
Pollutant Discharge Permit (排污許可證)	Xingwen Tianyang	Yibin Environmental Protection Bureau	9 November 2018	8 November 2021
Food Operation Permit (食品經營許可證)	Xingwen Tianyang	Xingwen County Food and Drug Administration	8 November 2017	7 November 2022
Livestock and Poultry Breeders Production Operation Permit (種畜禽生產經營許可證)	Xingwen Tianyang	Agricultural Department of Sichuan Province	6 August 2018	5 August 2021
Animal Epidemic Prevention Qualification Certificate (動物防疫條件合格證) ⁽²⁾	Xingwen Tianyang	Xingwen County Animal Husbandry and Fisheries Bureau	Between 5 December 2017 and 21 June 2018	Not applicable
Food Production Permit (食品生產許可證)	Yucheng Fengming	Dezhou Food and Drug Administration	28 May 2018	27 May 2023
Food Operation Permit (食品經營許可證)	Fengxiang Food	Yanggu Food and Drug Administration	4 July 2019	5 April 2021
Official Fertiliser Registration Certificate in Shandong (山東省肥料正式登記證) ⁽⁷⁾	Yanggu Xiangyu Organic Fertiliser	Ministry of Agriculture	Between 31 August 2017 and 12 February 2018	Between August 2022 and February 2023

BUSINESS

Licence/permit	Licence/permit holder	Issuing Authority	Date of grant/filing	Expiry date
Fertiliser Registration Certificate (肥料登記證) ⁽⁸⁾	Yanggu Xiangyu Organic Fertiliser	Ministry of Agriculture	8 July 2019	July 2024
Work Safety Standardisation Certificate (安全生產標準化證書) ⁽⁹⁾	Yanggu Golden Phoenix Colour Printing & Packing Co., Ltd. (陽穀金鳳彩印包裝有限公司)	Shandong Province Administration of Work Safety	19 June 2018	June 2021

Notes:

- (1) As at the Latest Practicable Date, the Company obtained 21 Livestock and Poultry Breeders Production Operation Permits.
- (2) As at the Latest Practicable Date, the Company and Xingwen Tianyang obtained 70 and three Animal Epidemic Prevention Qualification Certificates, respectively.
- (3) As at the Latest Practicable Date, the Company obtained two Feed Production Permits.
- (4) As at the Latest Practicable Date, the Company obtained three Water Drawing Permits.
- (5) As at the Latest Practicable Date, Fengxiang Food Development and Fengxiang Industrial obtained four and two Pollutant Discharge Permits, respectively.
- (6) As at the Latest Practicable Date, Fengxiang Food Development and Fengxiang Industrial both obtained two Export Food Manufacturing Filing Certificates.
- (7) As at the Latest Practicable Date, Yanggu Xiangyu Organic Fertiliser obtained three Official Fertiliser Registration Certificates in Shandong.
- (8) As at the Latest Practicable Date, Yanggu Xiangyu Organic Fertiliser obtained two Fertiliser Registration Certificates.
- (9) Yanggu Golden Phoenix Colour & Printing & Packing Co., Ltd. (陽穀金鳳彩印包裝有限公司) was merged into Fengxiang Industrial in June 2019. Pursuant to a certification issued by the Yanggu County Emergency Management Bureau dated 26 July 2019, the Work Safety Standardisation Certificate can continue to be used within its validity period in light of the said merger.

As advised by the PRC Legal Advisers, the Group obtained all the material approvals, permits, consents, licences and registrations required for our business and operations in the PRC during the Track Record Period and up to the Latest Practicable Date and all of them are in force as at the Latest Practicable Date. As advised by the Japanese Legal Advisers, the Group obtained all the approvals, permits, consents, licences and registrations required for the export of the Group's chicken meat products from PRC to Japan during the Track Record Period and up to the Latest Practicable Date as well as the business operation of Japan Fengxiang since its incorporation on 28 December 2017 up to the Latest Practicable Date, which primarily involves food research and development, and all of them are in force as at the Latest Practicable Date. Save as disclosed above, as advised by the PRC Legal Advisers, the Group can submit the relevant renewal applications of its licences and permits upon their expiry in accordance with applicable procedures, and the Directors confirm that there is no material legal impediment for the Group to apply for renewal of the approvals, permits, consents, licences and registrations set out above as at the Latest Practicable Date. We will apply for renewal of our licences and permits before their respective expiry dates. Save as disclosed in this prospectus, the Group has not experienced any refusal of application for renewal of the licences necessary for our operations during the Track Record Period.

As advised by the PRC Legal Advisers, during the Track Record Period, the Group had complied with the Food Safety Law of the PRC which is applicable to our chicken meat products in all material respects.

BUSINESS

AWARDS AND CERTIFICATES

After years of development, our products and operations have accomplished a number of milestones and we have obtained a number of awards and certificates, a summary of which is set out below:

Awards/Certificates	Award/Issuing Organisation	Date of Issue	Expiry Date
Most Valuable Brand in the China Meat Industry (中國肉類產業最具價值品牌)	China Meat Association (中國肉類協會)	October 2012	Not applicable
Shandong Time-Honoured Brand (Wu Genglu) (山東老字號(五更爐))	Department of Commerce of Shandong Province (山東省商務廳)	March 2014	Not applicable
National Key Leading Enterprise for Agricultural Industrialisation (農業產業化國家重點龍頭企業)	Ministry of Agriculture of the PRC (中華人民共和國農業部)	September 2014	December 2020
Export Food “Three-in-One” Model Enterprise (出口食品“三同”示範企業)	General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家品質監督檢驗檢疫總局進出口食品安全局)	November 2016	Not applicable
2016 Outstanding Breeder Performance Award (2016 年度最佳養殖表現獎)	Cobb-Vantress, Inc.	January 2017	Not applicable
Mighty Enterprise of the China Meat Products Industry (中國肉類食品行業強勢企業)	China Meat Association (中國肉類協會)	October 2017	September 2020
2017 China Food Seven Star Innovation Award (2017 中國食品七星創新獎)	Xinhua News Agency (新華網)	November 2017	Not applicable
National Intellectual Property Advantageous Enterprise (國家知識產權優勢企業)	National Intellectual Property Administration (國家知識產權局)	December 2017	November 2020
2017 Best Factory Quality Overall Performance Award (2017 年度最佳工廠質量綜合績效獎)	Yum! China Holding Inc. (百勝中國控股有限公司)	December 2017	Not applicable
Cobb Champion – Exceptional Performance in the Category of Company Average Number of Chicks Produced in 2017 (科寶冠軍 – 2017 年公司雞雛平均生產數量卓越表現)	Cobb – Vantress, Inc.	July 2018	Not applicable
Preparation and Protection Products for National Athletes of the Sports and Training Council (體育 – 訓練局國家隊運動員備戰保障產品)	State General Administration of Sports – Training Council (國家體育總局訓練局)	May 2020	May 2021
2018 Quality Management Outstanding Award (2018年度品質管制卓越獎)	Yum! China Holding Inc. (百勝控股有限公司)	June 2018	Not applicable
JD Raw and Fresh Farm (Designated White Feathered Broilers Breeding Base) (京東生鮮農場(白羽雞指定養殖基地))	Beijing Jingdong Century Information Technology Co., Ltd. (北京京東世紀信息技術有限公司)	August 2018	Not applicable
2018 Advanced Enterprise of the China Meat Product Industry – Influential Brand (2018中國肉類食品行業先進企業 – 影響力品牌)	China Meat Association (中國肉類協會)	September 2018	Not applicable

BUSINESS

Awards/Certificates	Award/Issuing Organisation	Date of Issue	Expiry Date
Food Safety Meat Products Brand (食安肉類品牌產品)	Shandong Province Meat Association (山東省肉類協會)	November 2018	November 2021
Cobb Champion (Exceptional Performance in PS Slow Feathering) (科寶冠軍 — PS晚羽性卓越表現)	Cobb – Vantress, Inc.	March 2019	Not applicable
Area with broilers lacking highly pathogenic avian influenza (肉雞無高致病性禽流感小區)	Ministry of Agriculture and Rural Affairs of the PRC (中華人民共和國農業農村部)	8 May 2019	Not applicable

EMPLOYEES

As at the Latest Practicable Date, we had 7,880 employees who were directly employed by us, of which 7,878 employees were employed in the PRC and two employees were located in Japan. The table below sets out a breakdown of our employees by function as at the Latest Practicable Date:

Function	Total number of employees
Production	6,923
Quality control, research and development and engineering	380
Sales and marketing	244
Finance, human resources and administration	333
Total	<u>7,880</u>

The remuneration packages for our employees include salary, bonuses and allowances. As required by the PRC regulations, we participate in social insurance schemes operated by the relevant local government authorities and maintain mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for some of our employees. We also contribute to housing accumulation funds for some of our employees.

When we make hiring decisions, we take into account factors such as our business strategies, our development plans, industry trends and the competitive environment. We recruit our employees based on a number of factors such as their work experience, educational background and vacancy needs. We endeavour to attract and retain appropriate and suitable personnel to serve the Group.

We provide continuing education and training programmes to our employees to improve their skills and develop their potential. We also adopt evaluation programmes through which our employees can receive feedback. We foster strong employee relations by offering various staff benefits and personal development support. Our subsidiaries in China have established labour unions in accordance with the applicable PRC law. We are not subject to any collective bargaining agreements. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material labour disputes or claims.

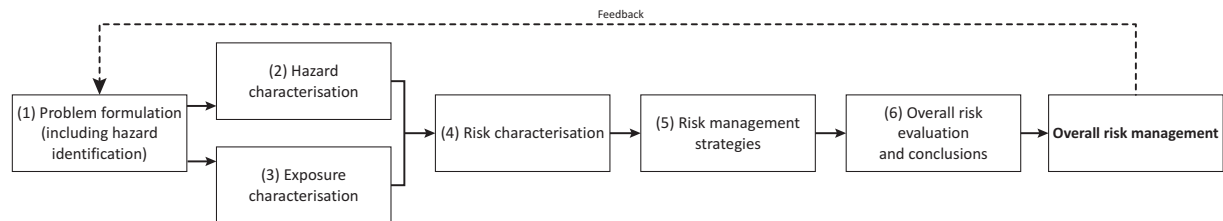
ENVIRONMENTAL PROTECTION

We are subject to the PRC national and local environmental laws and regulations, including but not limited to “Environmental Protection Law of the PRC”, “The Law on the Prevention and Treatment of Water Pollution of the PRC” and “The Law for the Prevention and Treatment of Air

Pollution of the PRC". In particular, there are environmental regulations concerning the treatment of wastewater produced by our slaughtering and processing facilities and we are subject to annual inspection by the regulatory authorities for compliance with these laws and regulations. Failure to comply with applicable PRC environmental protection laws and regulations may result in significant consequences, including administrative, civil and criminal penalties, liability for damages and negative publicity. Further, such failure to comply, or allege on failure to comply, with the relevant PRC laws, regulations or government policies on environmental protection, may lead to costly litigation or penalty imposed by the relevant judicial or governmental authorities. We emphasise on environmental protection and strive to minimise the environmental impact brought by our business operations. There had been no material administrative penalties imposed on us as a result of non-compliance with any PRC laws or regulations in relation to environmental protection during the Track Record Period.

Environmental Risk Assessment

We have an environment risk assessment system which allows us to assess the likelihood of our business causing harm to the environment and will adopt a system on disclosure of environmental-related information upon Listing. This includes describing potential hazards and impacts before taking precautions to reduce the risks. We carry out an environmental risk assessment based on six steps:



To satisfy the environmental protection requirements for different pollutants, we have adopted the following environmental protection measures:

- **Wastewater.** Our operations produce wastewater, and emits ashes, sulphur dioxide and other waste materials including used packing materials and chicken parts. We have installed wastewater disposal system in our slaughtering and processing facilities in compliance with the relevant laws and regulations in the PRC. The wastewater system can filter our wastewater before disposal. It is also linked to the designated water disposal network of the local government. Our turbines are also installed with filtering equipment to reduce the ashes to be emitted to the atmosphere. Other waste materials are collected by the Group and transported by the environmental authority of the local government to the landfill.
- **Poultry carcasses.** We have installed advanced underground decomposition facilities to decompose poultry carcasses in an environmentally friendly manner. Poultry carcasses are collected and delivered to designated decomposition facilities where they undergo high pressure steaming. This harmless decomposition method effectively reduces air pollution.
- **Manure.** For our broilers bred in cage free broiler sheds, we ferment their chicken manure anaerobically for five days under temperature reaching over 70°C after the broilers have left the broiler farms to effectively reduce the concentration of pathogens and microbes contained in chicken manure. For manure produced in broiler farms adopting battery cage systems, manure are transported to our organic fertiliser plant for fermentation. Our animal waste management also helps reduce air pollution emissions.

BUSINESS

The expenses relating to the environmental matters incurred by the Group (including the costs of compliance with applicable rules and regulations) for each of the four years ended 31 December 2016, 2017, 2018 and 2019 amounted to approximately RMB5.2 million, RMB4.4 million, RMB4.9 million and RMB10.3 million, respectively. The Directors expect that the cost of compliance with applicable rules and regulations for the year ending 31 December 2020 will be approximately RMB8.5 million.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material non-compliance issues in respect of any applicable laws and regulations on environmental protection or any complaints from our customers or the public in respect of environmental protection issues. The Directors are of the view that there are no environmental protection laws and regulations which may affect our production in any material respects. The PRC Legal Advisers confirmed that we were in compliance with the applicable environmental protection laws and regulations in the PRC during the Track Record Period in all material respects.

ANIMAL WELFARE

We seek to protect the physical and psychological well-being of our breeders and broilers by adopting internal control procedures during the breeding and slaughtering processes. In particular, we ensure the well-being of our breeders and broilers in the following aspects:

- *Animal feeds.* To provide our breeders and broilers with safe and high-quality animal feeds:
 - We do not add antibiotics to animal feeds, which are banned in many countries.
 - Appropriate types and amount of animal feed are selected and fed to the breeders and broilers in accordance with their nutritional requirements in different development stages. To ensure that the breeders and broilers consume adequate nourishment and to enhance their health conditions, animal feed formula is specifically customised according to their growth phase.
 - We have installed automated feeding facilities in each of our breeder and broiler farms that deliver feed mechanically at prescribed times to satisfy the feeding needs of the breeders and broilers and to guarantee the freshness of the feed. Feed is transported in closed compartments of specialised trucks and the transportation of feed is covered to reduce the risk of contamination in transit.
- *Living Conditions.* We provide a fully-automated living environment that is clean and comfortable for our breeders and broilers, in particular:
 - We raise breeders and broilers in farms that have been designed and constructed according to prescribed standards on temperature, humidity and ventilation and we monitor the environment through our remote control real-time data information system, to ensure the living environment is suitable for the needs of the breeders or broilers in different development stages. We have a built-in ventilation system to ensure the air is kept fresh and the wind velocity is kept relatively uniform to suit the living needs of the breeders and broilers. For details of the optimum environment for breeding, see “— Quality Assurance — Quality Control over Breeders and Broilers” in this section.
 - We ensure that our broilers are housed in conditions enabling natural instincts and behaviours, including sufficient space to move and adequate space to perch, with an average stocking capacity ranging from 12.5 to 20.0 heads per sq.m. and sufficient access to animal feed and water.

BUSINESS

- We ensure that the iron wire mesh bottom of our battery cages would not harm the broilers' feet, and that our battery cages and relevant tools do not contain sharp parts that would potentially hurt the broilers to produce a safe living environment.
- We provide appropriate heating equipment for ventilation purposes and to keep the breeders and broilers warm in winter, so that they enjoy a comfortable living environment.

We provide a hygienic living environment for our broilers. We ferment chicken manure anaerobically after broilers have left the cage-free broiler farms for five days to reduce the concentration of pathogens and microbes in chicken manure. For our broiler farms adopting battery cage systems, the cages' open-bottomed design allows manure to fall straight through the cage and remove litter problems. We transport manure from our battery cage systems to our organic fertiliser plant for fermentation on a daily basis.

- *Water.* To provide our breeders and broilers with sufficient and clean water:
 - We provide a sufficient number of drinkers for breeders and broilers and record the volume of water consumed per breeder and broiler per day.
 - We monitor the quality of the water regularly to ensure the safety of the water and compliance with national standards for drinking water for livestock in the PRC.
- *General Health.* To manage general health of our breeders and broilers:
 - We actively monitor health of the breeders and broilers both through the remote control real-time data information system on a 24-hour basis and by on-site inspection from time to time, and in particular, the broilers in the top and bottom cages.
 - Our purchase, storage and use of veterinary drugs for treatment of breeders and broilers is in strict compliance with the Regulations on Administration of Veterinary Drugs (《獸藥管理條例》), the List of Drugs Forbidden to be Used in Feeds or Drinking Water of Animals (《關於禁止在飼料和動物飲用水中使用的藥物品種目錄》) and other relevant laws and regulations as well as our internal policies and procedures. We carefully control our use of veterinary drugs in our breeding process. In order to prevent the use of prohibited drugs and the occurrence of drug residues in our chicken meat products, we developed and continuously update a list of permissible veterinary drugs in the breeding process and their respective withdrawal periods (the period after administration of a drug necessary to assure that drug residues in the chicken meat products produced from a broiler are below maximum residue limits), taking into account relevant laws and regulations and industry best practices. Our production personnel strictly implement the rules on drug withdrawal periods, record the use of veterinary drugs in our breeding process and discontinue their use according to the relevant drug's withdrawal period.
 - We have installed advanced underground decomposition facilities to decompose poultry carcasses and use advanced equipment to ferment manure in an environmentally friendly manner to avoid the spread of stench. See “— Environmental Protection” in this section for details.
- *Slaughtering.* To avoid unnecessary pain and suffering:
 - We strictly follow Islamic slaughter rituals to ensure that broilers are handled in a humane manner in compliance with the Islamic Law.

BUSINESS

- We cover our slaughtering platforms with black cloths to minimise external illumination and reduce excessive noise, in order to calm the broilers prior to slaughtering.
- We hang the broilers for a sufficient period of time before stunning them to allow them to calm down and loosen up. This optimises the effect of the stun, such that the broilers remain unconscious throughout the slaughtering and bleed-out process, minimising pain. For details of our slaughtering process, see “— Production — Slaughtering and processing” above.

OCCUPATIONAL HEALTH AND SAFETY MATTERS

We are subject to the relevant PRC laws and regulations regarding labour, safety and work-related incidents. Under these laws and regulations, we are required to maintain safe production conditions and to protect the occupational health of our employees. We have implemented production safety management policies and safety measures based on the relevant laws and regulations in the PRC, including procedures on investigation, reporting to management and corrective activities in the event of an occurrence of an accident. Our employees are required to follow the relevant procedures.

In October 2018, we obtained the Occupational Health and Safety Management Certificate. During the Track Record Period and up to the Latest Practicable Date, there were no material accidents involving any serious personal injury or significant property damage. As advised by the PRC Legal Advisers, during the Track Record Period, we were in compliance with all applicable PRC laws and regulations in relation to PRC production safety regulatory requirements in all material respects and were not subject to any penalties or disputes relating to any production safety matters that have a material adverse effect on our financial conditions or business operations.

The Directors are also of the view that the production safety measures currently adopted are in line with the market practice of the industries in which the Group is engaged.

INSURANCE

We maintain integrated insurance coverage on our properties and fixed assets, production facilities and equipment against property damage. We also make contributions to social security insurance for some of our employees in accordance with the relevant laws and regulations of the PRC. We do not maintain product liability insurance coverage with respect to our domestic and export sales, which is not compulsory in the PRC. We rely on our stringent quality control to limit our product liability risks. Having taken into account (i) our stringent quality control procedures; (ii) our compliance in all material respects with the relevant laws and regulations applicable to us in the PRC and in destination countries to which we export our products through obtaining the relevant health and food safety approvals, certificates, registrations or any other legally required documentation; and (iii) the limited types of insurance coverage that are currently available in the PRC, the Directors concluded that the cost of purchasing product liability insurance coverage outweighs the benefits that we would derive from such insurance coverage. The Directors believe that this is in line with the general practice in the PRC of the industry in which the Group is engaged.

The Directors are of the view that we have maintained sufficient insurance coverage for our business and operations.

BUSINESS

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there was no litigation or arbitration pending or threatened against the Group or any of the Directors which could have a material adverse effect on the Group's financial condition or results of operations.

PROPERTIES

Our head office and production facilities including our breeder farms, hatcheries, broiler farms, feedmills and slaughtering and processing plants for our white-feathered broilers are located in various locations in Shandong. Our production facilities for our Sichuan Mountain Black Bone Chicken are situated in Sichuan. We also have three research institutions located at Shandong, Shanghai and Tokyo.

Owned Properties

As at the Latest Practicable Date, we owned 38 parcels of land, with an aggregate area of approximately 889,781.9 sq.m., and 31 buildings or units, with an aggregate gross floor area of approximately 316,076.48 sq.m. in the PRC. All of the above properties are used for non-property activities as defined under Rule 5.01(2) of the Listing Rules. The total market value of our property interests as at 31 March 2020 was approximately RMB776.2 million, according to the property valuation report prepared by Jones Lang LaSalle Corporate Appraisal and Advisory Limited. Jones Lang LaSalle Corporate Appraisal and Advisory Limited had valued the properties owned by us as at 31 March 2020. The text of the letter and the valuation report issued by the Jones Lang LaSalle Corporate Appraisal and Advisory Limited are set out in "Appendix III — Property Valuation".

BUSINESS

Land use right

As at the Latest Practicable Date, we have obtained the appropriate land use right certificates for 38 parcels of land that we own, with an aggregate gross site area of approximately 889,781.9 sq.m., of which 12 parcels of land have been pledged. The following table sets forth a summary of our land use rights:

No.	Land use right owner	Number of parcels of land	Location	Gross site area (sq.m.)	Existing use	Expiry date
1	The Company	12	Shouguo Road West and Anle Town, Yanggu County, Shandong Province	204,337.81 (of which 40,053 is shared)	Industrial and office	26 December 2045 to 18 February 2070
2	Fengxiang Food Development	8	Anle Town, Yanggu County, Shandong Province	282,042.09 (of which 134,380 is shared)	Industrial	28 May 2046 to 30 March 2070
3	Fengxiang Industrial	5	Anle Town, Yanggu County, Shandong Province	375,598 (of which 263,998 is shared)	Industrial	26 December 2045 to 30 December 2059
4	Yanggu Xiangyu Organic Fertiliser	2	Yanlou Town, Yanggu County, Shandong Province	316,000 (shared)	Industrial	26 December 2056
5	Yucheng Fengming	9	Yucheng City, Shandong Province	28,939 (of which 25,757 is shared)	Industrial	6 June 2050 to 24 September 2062
6	Fengxiang Food	2	Anle Town, Yanggu County, Shandong Province	80,107	Industrial	22 September 2066 to 16 July 2067

BUSINESS

Buildings

As at the Latest Practicable Date, we occupied 31 buildings in the PRC with an aggregate gross floor area of approximately 316,076.48 sq.m, of which ten buildings have been pledged. The following table sets forth a summary of the buildings we occupied:

No.	Building used by	Number of buildings	Location	Gross floor area (sq.m.)	Existing use
1	The Company	10	Anle Town, Yanggu County, Shandong Province	54,763.95	Industrial and office
2	Fengxiang Food Development	6	Shouguo Road West and Anle Town, Yanggu County, Shandong Province	115,267.19	Industrial, factory and workshop
3	Fengxiang Industrial	5	Anle Town, Yanggu County, Shandong Province	108,088.25	Industrial
4	Yanggu Xiangyu Organic Fertiliser	2	West 101, Provincial Highway	29,843.58	Industrial
5	Yucheng Fengming	8	Yanlou Town, Yanggu County, Shandong Province	8,113.51	Industrial

We have not obtained the building ownership certificates for four buildings with a gross floor area of approximately 1,144.72 sq.m. These buildings house non-production facilities that are temporary in nature such as a restaurant and a dormitory for our employees. The Directors are of the view that the lack of building ownership certificates do not affect the safety conditions of these buildings or the Group's activities therein, and that the lack of such building ownership certificates would not have any material impact on the Group's acquisition cost of these buildings. Pursuant to the applicable PRC laws and regulations, the Group may not legally transfer, mortgage or otherwise dispose of such properties before we obtain the relevant building ownership certificates. Pursuant to the applicable PRC laws and regulations, the Group may be required to dismantle such facilities that are temporary in nature. We have applied to the relevant government authority for the building ownership certificates of such remaining buildings, which we expect to obtain by the end of July 2020. As at the Latest Practicable Date, the Group had not received any notice from relevant government authorities to dismantle such facilities. The Directors believe such temporary facilities are of limited value to the Group and do not have any material impact on our operations.

The Controlling Shareholders have undertaken to indemnify the Group against all fines and penalties incurred by the Group as a result of or in connection with the non-compliances regarding our properties. See "Appendix VII — Statutory and General Information — G. Other Information — 7. Tax and other Indemnities" for the indemnity undertakings given by the Controlling Shareholders.

BUSINESS

Leased Land

As at the Latest Practicable Date, we leased 134 parcels of land with an aggregate area of approximately 8,481.94 mu in the PRC. The following table sets forth a summary of the lease arrangements under which we leased pieces of land:

No.	Lessee	Number of parcels of land	Location	Leased area (mu)	Term of lease	Lease expiry date
1	The Company	123	Yanggu County, Shandong Province	8,249.4	20 to 50 years	14 November 2033 to 19 January 2070
2	Xingwen Tianyang	11	Xingwen County, Sichuan Province	232.54	12 to 50 years	13 July 2029 to 30 August 2066

Leased Properties

As at the Latest Practicable Date, we leased certain properties with an aggregate gross floor area of approximately 4,920.23 sq.m. in the PRC and Japan. The following table sets forth the properties leased by the Group in the PRC and Japan:

No.	Lessee	Location	Leased area (sq.m.)	Existing use	Term of lease	Lease expiry date
1	Xingwen Tianyang	Jiutian Logistics Park, Taiping Miaozi Industrial Park, Xingwen County	370.0	Factory	Six months	31 December 2020
2	Fengxiang Food	Flat 45-58, 12/F, Beijing International Hotel Main Building, No.9 Jianguomennei Avenue, Dongcheng District	770.0	Office	Eight years	7 January 2027
3	The Company	8/F, GMK Building, Eastern District of Xiangguang National Ecological Industry Demonstration Park	1,409.2	Office	One year	31 December 2020
4	Xingwen Tianyang	Xingwen Feilong Food Co., Ltd. Office Building (West Side), Taiping Miaozi Industrial Park, Xingwen County	1,600.0	Processing and slaughtering plant	One year	30 December 2020
5	Fengxiang Food Development	Block A, Building No. 5, No.255 Yangzhai Road, Changning District, Shanghai	614.0	Office	Four years	27 June 2022
6	Japan Fengxiang	The first basement floor of Gotanda-Brick Building, 2-11-20, Nishi-gotanda, Shinagawa-ku, Tokyo, Japan	157.03	Office	Two years	31 March 2022

Pursuant to the applicable PRC laws and regulations, property lease contracts are required to be registered with the local branch of the competent construction (real estate) authority of the PRC. As at the Latest Practicable Date, we had not registered all five of our lease agreements in the PRC. The PRC Legal Advisers have advised us that, non-registration of these leases will not affect the validity or enforceability of such leases under the PRC laws, and has also advised us that a maximum penalty of RMB10,000 may be imposed for non-registration for each lease agreement. The estimated total maximum penalty with respect to our leases is RMB50,000. As at the Latest Practicable Date, we were in the process of rectifying the above non-registration and we had not been fined by any regulatory authorities for non-registration of any our lease agreements, nor were we subject to any material claims in connection with such non-registration.

BUSINESS

Save as disclosed above, the Group did not have any other property interests as at the Latest Practicable Date. The Directors confirm that no single property interest that formed part of the Group's non-property activities had a carrying amount of 15% or more of our consolidated total assets as at 31 December 2019. The Directors are of the view that the buildings and right-of-use assets mainly represent the land and buildings of the Group's production facilities (including breeder and broiler farms) and offices, which are material to the business of the Group as a whole. In considering the materiality of the Group's property interests, the Company and the Sole Sponsor took into account factors set out in FAQ Series 15, FAQ No. 10 released by the Stock Exchange, that the property interests (in aggregate) are used for the principal operations of the Company, which in turn contributes a significant portion of revenue to it. For further details on the valuation of the Group's properties, see "Property Valuation" in Appendix III to this prospectus, which provides further information on the activities, assets and liabilities, financial position, management and prospects of the Group and of its profits and losses.

INTELLECTUAL PROPERTY RIGHTS

During the Track Record Period, our chicken meat products were sold under the trademarks of "鳳祥食品 (Fovo Foods)", "優形 (iShape)" and "五更爐 (Wu Genglu)". As at the Latest Practicable Date, we (i) registered 13 and three material trademarks in the PRC and in Hong Kong, respectively; (ii) were granted 61 material patents in the PRC; (iii) had one trademark application pending in Hong Kong; and (iv) had 16 patent applications pending in the PRC. These trademarks have a validity period of ten years and our granted invention patents and granted utility model patents have a validity period of 20 years and ten years from the date of their respective application, respectively. The trademarks and patents are important to the Group and therefore applications have been and will be made to the relevant authority for the renewal of the trademarks and patents in the PRC.

The Directors are of the view that there is no legal impediment for the renewal of the aforesaid trademarks and patents in the PRC upon their relevant dates of expiry. For details, see "Appendix VII — Statutory and General Information — C. Further Information about the Business — 2. The Intellectual Property Rights".

As at the Latest Practicable Date, we were not aware of any material infringement or any pending or threatened claims in relation to any of our intellectual property rights, or of any pending or threatened claims against us for material infringement of intellectual property rights. The Directors believe that we have taken reasonable measures to prevent any infringement of our intellectual property rights.

REGULATORY COMPLIANCE

During the Track Record Period, save as disclosed in "— Licences and Permits" above, the Directors confirm that the Group had obtained all the material approvals, permits, consents, licences and registrations required for our business and operations in the PRC and all of them are in force. During the Track Record Period and up to the Latest Practicable Date, we had never failed in the regular inspections of the PRC regulatory authorities nor experienced any refusal of the renewal application of our licences necessary for our operations. As advised by the PRC Legal Advisers, and save as disclosed in this prospectus, during the Track Record Period and up to the Latest Practicable Date there has been no material violation of our operations in the PRC with the applicable laws and regulations. As advised by the Japanese Legal Advisers, since the incorporation of Japan Fengxiang and up to the Latest Practicable Date, the business operation of Japan Fengxiang, which primarily involves food research and development, had not contravened any applicable Japanese laws and regulations.

Failure to fully make social insurance fund contributions and housing provident fund contributions in the PRC

During the Track Record Period, the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang failed to make social insurance fund and housing provident fund contributions for certain employees in full, which did not fully comply with provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the “**Social Insurance Law**”) and the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》) (the “**Housing Provident Fund Regulations**”).

We estimate that the shortfall in social insurance fund and housing provident fund contributions amounted to approximately RMB28.9 million, RMB26.7 million, RMB29.6 million and RMB9.7 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Our non-compliance was primarily because certain employees are migrant workers and/or who come from rural areas, and such migrant/rural workers have their residence registered at their places of origin. The Directors believe that these migrant workers have high mobility and claimed that they paid their social insurance fund contributions at their places of origin. The relevant local government authorities have different practices in respect of social insurance and housing provident fund contribution schemes for rural workers. Further, some employees refused to make the employee-contributed portions of social insurance and housing provident fund contributions, and without their contributions the Group was not able to make its contributions in full.

Legal Consequences

According to the Social Insurance Law and as advised by the PRC Legal Advisers, enterprises are obliged to apply for social insurance registration with local social insurance agencies and pay premiums on behalf of their employees by reference to their actual income. If an enterprise fails to pay social insurance premiums on time or in full, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine per day from the date on which the payment is overdue. If the overdue amount is still not settled within the stipulated time period, an additional fine in an amount of one to three times of the overdue amount will be imposed.

According to the Housing Provident Fund Regulations and as advised by the PRC Legal Advisers, enterprises must register with the competent managing centre for housing funds and open an account in a bank for the deposit of employees’ housing provident funds. Employers are required to contribute, on behalf of their employees, to housing provident funds on time and in full. Any employer who fails to fully contribute may be fined and ordered to make up the difference within a stipulated time limit, and the provident fund administration centre may apply to the People’s Court for mandatory enforcement against those who still fail to comply after the expiry of such period.

As at the Latest Practicable Date, we had not received any notice or demand from the abovementioned PRC regulatory authorities or other competent authorities ordering us to make retrospective payments or any differences of the payments for the social insurance fund and housing provident fund contributions. We were also not aware of any employee’s complaints or demands for payment of social insurance or housing provident fund contributions.

In relation to the failure to fully make social insurance fund contributions and housing provident fund contributions in the PRC by certain members of the Group, the following rectification actions have been taken:

Social Insurance Fund Contributions

On 3 March 2020, each of the Yanggu County Human Resources and Social Insurance Bureau (陽穀縣人力資源和社會保障局) (“**Yanggu Social Insurance Bureau**”) and the Yanggu County Healthcare Security Bureau (陽穀縣醫療保障局) (“**Yanggu Healthcare Bureau**”), being the competent authorities as confirmed by the PRC Legal Advisers, has issued a confirmation confirming that during the Track Record Period and up to the date of such confirmation, each of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food did not violate any laws, measures and regulations relating to labour protection, and there had been no administrative penalties levied on each of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food as a result of non-compliance. Each of Yanggu Social Insurance Bureau and Yanggu Healthcare Bureau also confirmed that (i) it would not impose fines or require the payment of unpaid contributions, (ii) it did not receive any requests from the employees of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food to make up such shortfall; and (iii) in the case where there are any employees’ requests for the payment of social insurance fund contributions, it will require such employee to provide the relevant judgement, and as such, the likelihood of the authorities requiring the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food to pay the shortfall in social insurance fund contribution is relatively low.

On 4 March 2020, each of Yucheng City Human Resources and Social Insurance Bureau (禹城市人力資源和社會保障局) and Yucheng Healthcare Security Bureau (禹城市醫療保障局), being the competent authorities as confirmed by the PRC Legal Advisers, has issued a confirmation confirming that during the Track Record Period and up to the date of such confirmations, Yucheng Fengming did not violate any laws, measures and regulations relating to labour, social insurance, healthcare insurance, maternity insurance, and there had been no administrative penalties levied on Yucheng Fengming as a result of non-compliance.

On 4 March 2020, Xingwen County Social Insurance Bureau (興文縣社會保險局) and Xingwen County Healthcare Security Administration (興文縣醫療保障局), being the competent authorities as confirmed by the PRC Legal Advisers, have each issued a confirmation confirming that since the date of establishment of Xingwen Tianyang up to the date of the relevant confirmations, Xingwen Tianyang did not violate any laws, measures and regulations relating to labour and social protection and healthcare insurance and there had been no administrative penalties levied on Xingwen Tianyang as a result of non-compliance.

Housing Provident Fund Contributions

On 4 March 2020, Liaocheng City Housing Provident Fund Management Centre, Yanggu Management Department (聊城市住房公積金管理中心陽穀縣管理部) (the “**Liaocheng Housing Provident Fund Authority**”), being the competent authority as confirmed by the PRC Legal Advisers, has issued a confirmation confirming that during the Track Record Period and up to the date of such confirmations, each of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food did not violate any laws, measures and regulations relating to housing provident fund contributions, and there had been no administrative penalties levied on each of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu

Organic Fertiliser and Fengxiang Food as a result of non-compliance. The Liaocheng Housing Provident Fund Authority also confirmed that (i) it would not impose fines or require the payment of unpaid contributions, (ii) it did not receive any requests from the employees of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food to make up such shortfall; and (iii) in the case where there are any employees' requests for the payment of housing provident fund contributions, it will require such employee to provide the relevant judgement, and as such, the likelihood of the authorities requiring the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser and Fengxiang Food to pay the shortfall in social insurance fund contribution is relatively low.

On 4 March 2020, the Dezhou City Housing Provident Fund Management Centre, Yucheng City Management Department (德州市住房公積金管理中心禹城市管理部) (the "**Dezhou Housing Provident Fund Authority**"), being the competent authority as confirmed by the PRC Legal Advisers, has issued a confirmation confirming that during the Track Record Period and up to the date of such confirmation, Yucheng Fengming did not violate any laws, measures and regulations relating to housing provident fund contributions, and there had been no administrative penalties levied on Yucheng Fengming as a result of non-compliance. The Dezhou City Housing Provident Fund Authority also confirmed that (i) it would not impose fines or require the payment of unpaid contributions, (ii) it did not receive any requests from the employees of Yucheng Fengming to make up such shortfall; and (iii) in the case where there are any employees' requests for the payment of housing provident fund contributions, it will require such employee to provide the relevant judgement, and as such, the likelihood of the authorities requiring Yucheng Fengming to pay the shortfall in housing provident fund is relatively low.

On 4 March 2020, Yibin City Housing Provident Fund Management Centre, Xingwen County Management Department (宜賓市住房公積金管理中心興文縣管理部), being the competent authority as confirmed by the PRC Legal Advisers, have confirmed that since the establishment of Xingwen Tianyang and up to the date of such confirmation, Xingwen Tianyang did not violate any laws, measures and regulations relating to housing provident fund contributions and there had been no administrative penalties levied on Xingwen Tianyang as a result of non-compliance.

Based on the above, as advised by the PRC Legal Advisers, the Directors are of the view that the non-compliance incidents of each of the Company, Fengxiang Food Development, Fengxiang Industrial, Yanggu Xiangyu Organic Fertiliser, Fengxiang Food, Yucheng Fengming and Xingwen Tianyang in relation to social insurance and housing provident funds contributions will not have a material adverse impact on the Group's operations and financial conditions.

Internal control and remedial measures

We have adopted the following on-going measures:

- we engaged an internal control consultant to perform an assessment on our internal control measures in relation to the abovementioned non-compliance and adopted recommendations proposed by such internal control consultant;
- the Company will continue to regularly communicate with the relevant local government authorities and, where necessary, consult the PRC Legal Advisers, as to the applicable bases for calculation of the social insurance and housing provident fund contributions at the rate as approved by the relevant government authorities and the relevant contribution policies shall be updated in accordance with the outcome of such consultations;

BUSINESS

- we have provided and will continue to provide regular trainings to our employees in respect of social insurance and housing provident fund contributions compliance requirements and the relevant laws and regulations;
- we have formulated and distributed to our employees an internal control policy with respect to social insurance and housing provident fund contributions in compliance with relevant PRC laws and regulations, which we have started to implement. We have also designated our human resources staff to regularly keep abreast of latest developments in PRC laws and regulations in relation to social insurance and housing provident fund contributions and update our relevant internal control policy; and
- we have designated our human resources staff to monitor the payment status and prepare monthly reports of salary and contribution amounts, which shall be reviewed by independent personnel to contributions to social insurance and housing provident fund contributions are made at the rate as approved by the relevant government authorities.

The Group has also been nurturing and educating its migrant/ rural employees on the necessity and importance of ensuring their social security rights, and has been encouraging them to contribute to social insurance and housing provident funds so as to improve the Group's social insurance and housing provident fund contribution status in the PRC.

To protect the social security rights of the migrant/ rural employees who declined to make social insurance and housing provident fund contributions, the Group has been reimbursing the employees who have selected to participate in basic medical insurance for urban and rural residents (城鄉居民基本醫療保險) and basic endowment insurance for urban and rural residents (城鄉居民基本養老保險) schemes (collectively, "**Urban and Rural Medical and Endowment Insurance**"), which are insurance schemes established in Shandong under the guidance opinions published by the State Council in 2016 and 2014, respectively, which include coverage for medical and pension insurance, for those employees who voluntarily give up or decline making social insurance and housing provident fund contributions.

The employer fully bears the relevant fees after receiving the invoices for reimbursement provided by its migrant/ rural employees without requiring the employees to bear the fees. The Directors are of the view that participation in Urban and Rural Medical and Endowment Insurance schemes by the Group's migrant/ rural employees is more aligned to the employees' actual needs. Although existing PRC laws and regulations have no provisions stipulating that participation in Urban and Rural Medical and Endowment Insurance may replace social insurance and housing provident fund contributions, the Group has been using its best endeavours to make up for the shortfall in social security contributions by arranging the payment of Urban and Rural Medical and Endowment Insurance for its migrant/ rural employees. The Company expects to comply with the applicable PRC laws and regulations by making social insurance and housing provident fund contributions for all employees of the Group on or before 31 December 2020, on the assumption that all of the Group's employees would be willing to contribute to such social insurance and housing provident funds after nurturing and encouraging by the Company. Should the Group's employees insist and refuse to contribute to social insurance and housing provident funds, the Group plans to replace such employees in stages over a period of two to three financial years after Listing to minimise disruption to the Group's business operations.

Further, the Controlling Shareholders have undertaken to indemnify the Group against all fines and penalties (including any shortfall in social insurance fund and housing provident fund contributions up to the Listing Date) incurred by the Group as a result of or in connection with the

abovementioned non-compliance. See “Appendix VII — Statutory and General Information — G. Other Information — 7. Tax and other Indemnities” for the indemnity undertakings given by the Controlling Shareholders.

Based on the abovementioned confirmations and undertaking by the Controlling Shareholders to indemnify the Group, no provision has been made to cover the shortfall in social insurance and housing provident fund contributions during the Track Record Period as at 31 December 2019.

See “Regulatory Overview” for the relevant laws and regulations applicable to the Group’s business and operations in the PRC and Japan.

RISK MANAGEMENT AND INTERNAL CONTROL

Risk Management

With the growth and expansion of our operations, potential risks to our business increase as well. In order to identify, assess and control the risks that may create impediments to the growth of our business, we have designed and implemented risk management policies to address various potential risks identified in relation to our operations, including operational risks, credit risks, market risks, financial risks and legal risks. Our risk management policies set forth procedures to identify, analyse, categorise, mitigate and monitor various risks as well as the reporting hierarchy of risks identified in our operations. Each of our business departments and functions is responsible for identifying and evaluating the risks relating to its area of operations and implementing our risk management and internal control systems.

Our audit committee is responsible for overseeing our management in the implementation of our overall risk management and internal control systems and assessing our risk management and internal control systems. For details about the qualifications and experiences of the members of our audit committee, see “Directors, Supervisors and Senior Management”.

We have adopted a risk management system, which includes four steps:

- *Identification.* We identify existing and emerging risks and categorise them according to the nature of the risks.
- *Assessment.* Based on the identification and categorisation of our risks, we make reference to previous experience to analyse and assess the likelihood and loss degree of the potential risks.
- *Mitigation.* We mitigate the potential impact of risks primarily through two methods: (i) we make efforts to change the conditions of the risks to reduce frequency of loss and loss magnitude of the risks themselves, such as setting higher safety standards; and (ii) we make financial arrangements to neutralise the effect and damage of the risks, such as purchasing insurance policies.
- *Evaluation.* We evaluate the costs and effect of our mitigation measures to assess the effectiveness and efficiency of our risk management system. The result of the evaluation is then reported to our management and the Board as a reference point to further refine our risk management system.

For measures over quality control and other risks, see “— Quality Assurance” above, “— Food Safety Management System of The Group” above and “Financial Information — Market and Other Financial Risks”.

Internal Control

It is responsibility of the Board to ensure that the Company maintains sound and effective internal controls to safeguard the Shareholders' investment and the Group's assets at all times. We have adopted or expect to adopt immediately after Listing a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations. Highlights of our internal control system include the following:

- *Code of conduct.* Our code of conduct explicitly communicates to each employee our values, acceptable criteria for decision-making and our ground rules for behaviour.
- *Internal audit.* Our internal audit team regularly monitors key controls and procedures in order to assure our management and the Board that the internal control system is functioning as intended. The audit committee is responsible for supervising our internal audit function.
- *Appropriate training.* We regularly provide training to the Directors, senior management and employees with respect to our internal control policies and the duties and responsibilities of directors and management of listed companies under the Listing Rules and other applicable laws and regulations.
- *Compliance with Listing Rules.* Our various policies aim to ensure compliance with the Listing Rules, including but not limited to aspects related to corporate governance, connected transactions and securities transactions by the Directors and the Supervisors.
- *Compliance adviser.* The Company has appointed Southwest Securities (HK) Capital Limited as our compliance adviser to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

The Directors are of the view that our current internal control measures are adequate and effective.

INFORMATION TECHNOLOGY

We currently have an information technology policy in place, which contains various information technology safety measures. For information security risk management, we have adopted various safety measures, including firewalls and data encryption, to enhance our information safety prevention and management and ensure the maintenance of continuously safe information systems. In order to reduce risk arising from potential system, software or hardware failures, there are also contingency plans in place to back up data for our operating systems and relevant procedures for hard disc data recovery in case of failure or loss of the backed-up data. There are also contingency plans in place to prevent the intrusion of our information systems and networks by network viruses. We believe information technology infrastructure and information systems are essential for the effective management and successful development of our business. In order to adapt to changing requirements of corporate governance, we will continue to optimise and upgrade our information technology infrastructure and the functionality of our current systems.