

## CONNECTED TRANSACTIONS

### OVERVIEW

We have entered into certain agreements with parties that will become our connected persons (as defined under Chapter 14A of the Listing Rules) upon Listing, and the transactions under such agreements will constitute continuing connected transactions under Rule 14A.31 of the Listing Rules upon Listing.

### OUR CONNECTED PERSONS

The table below sets out certain details about our connected persons who will have transactions with the Group upon Listing and the nature of their relationship with the Group.

Name of our connected person	Nature of the connected person's relationship with the Group and details of our connected person
Mr. Liu XJ, Ms. Zhang XY, Mr. Liu ZG and Mr. Liu ZM	the Liu family, being the Controlling Shareholders, of which Mr. Liu XJ and Mr. Liu ZG are the Directors
GMK Holdings	one of the Controlling Shareholders, together with its subsidiaries and associates (excluding the Group) (" <b>GMK Group</b> ")
GMK Finance	a non-wholly owned subsidiary of GMK Holdings
Liaocheng Aode Energy Co., Ltd. (聊城奧德能源有限公司) (" <b>Aode Energy</b> ")	a company in which GMK Holdings holds more than 30% of the equity interest
Qingdao Xiangguang Logistics Co., Ltd. (青島祥光物流有限公司) (" <b>Xiangguang Logistics</b> ")	a company that is ultimately wholly-owned by Mr. Liu ZG and Mr. Liu ZM
Shandong Fengxiang Supermarket Co., Ltd. (山東鳳祥超市有限公司) (" <b>Fengxiang Supermarket</b> ")	a company that is indirectly wholly-owned by GMK Holdings
Shandong Xiangguang Group Co., Ltd. (山東祥光集團有限公司) (" <b>Shandong Xiangguang Group</b> ")	a company that is wholly-owned by GMK Holdings
Shandong Xiangyu Information & Technology Co., Ltd. (山東祥宇信息技術有限責任公司) (" <b>Shandong Xiangyu</b> ")	a wholly-owned subsidiary of GMK Holdings
Luxinan Hospital Co., Ltd. (魯西南醫院有限公司) (" <b>Luxinan Hospital</b> ")	a company that is ultimately wholly-owned by Mr. Liu XJ, Mr. Liu ZG and Mr. Liu ZM and a wholly-owned subsidiary of Xiangrui International
Xiangrui International Stock Holding Group Company Ltd. (祥瑞國際控股集團股份有限公司) (" <b>Xiangrui International</b> ")	a company that is indirectly wholly-owned by Mr. Liu XJ, Mr. Liu ZG and Mr. Liu ZM, together with its subsidiaries (including Luxinan Hospital and Yanggu Lanhai) and associates (" <b>Xiangrui Group</b> ")
Yanggu Agriculture Development Co., Ltd. (陽穀縣農業開發有限公司) (" <b>Yanggu Agriculture</b> ")	a company that is wholly-owned by Mr. Liu Xueqiang (劉學強), brother of Mr. Liu XJ
Yanggu Lanhai Real Estate Co., Ltd. (陽穀縣藍海置業有限公司) (" <b>Yanggu Lanhai</b> ")	a company that is ultimately wholly-owned by Mr. Liu XJ, Mr. Liu ZG and Mr. Liu ZM, and a wholly-owned subsidiary of Xiangrui International
Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司) (" <b>Xiangguang Copper</b> ")	a company in which GMK Holdings ultimately holds more than 30%
Zhongke Fengxiang Biotechnology Co., Ltd. (中科鳳祥生物工程股份有限公司) (" <b>Zhongke Biotechnology</b> ")	a company in which GMK Holdings ultimately holds more than 30%, the shares of which are quoted on the National Equities Exchange and Quotations (stock code: 837465)

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### SUMMARY OF OUR CONTINUING CONNECTED TRANSACTIONS

#### Fully-exempt continuing connected transactions

No.	Nature of Transactions	Relevant Listing Rules	Applicable exemptions
1.	Receiving financial assistance by guaranteed loans and loan facilities	14A.24(4)	14A.90
2.	Sharing of administrative services	14A.24(7)	14A.98
3.	Sales of substandard chicken feed and purchase of pork	14A.24(8)	14A.76(1)
4.	Procurement of health check services	14A.24(7)	14A.76(1)
5.	Procurement of raw materials	14A.24(8)	14A.76(1)
6.	Procurement of merchandise on our online marketplaces	14A.24(8)	14A.76(1)
7.	Purchase of natural gas and electricity	14A.24(7)	14A.97

#### Non-exempt continuing connected transactions

No.	Nature of Transactions	Relevant Listing Rules	Applicable exemptions
1.	Sales of poultry products and by-products	14A.24(8)	14A.76(2)
2.	Procurement of logistics services	14A.24(7)	14A.76(2)
3.	Deposit of funds	14A.24(4)	N/A
4.	Receiving financial assistance by the discounting of commercial bills	14A.24(4)	N/A

### FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

#### 1. Receiving financial assistance

During the Track Record Period and up to the Latest Practicable Date, the Group has been receiving financial assistance from our connected persons, some of which are expected to continue after Listing.

#### *Loans guaranteed by our connected persons*

Certain Controlling Shareholders and their associates (the “CP Guarantors”) had provided personal and/or corporate guarantees, or had pledged their assets (the “CP Guarantees”) as security for certain bank loans, finance leases and commercial bills (together, the “Guaranteed Loans”) taken out by the Group, and these CP Guarantees are expected to continue after Listing. As at 30 April 2020, the aggregate principal amounts due to independent third party lenders under the Guaranteed Loans amounted to approximately RMB1,345.5 million.

The Directors confirm that the CP Guarantors have not received and will not receive any form of consideration from the Group for the provision of the CP Guarantees.

#### *Loan facilities provided by GMK Finance*

The Group had obtained financial assistance from GMK Finance, including (a) the provision of term loans by GMK Finance, and (b) the provision of entrusted loans by GMK Finance (the “GMK Loan

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**Facilities**”). In order to maintain a maximum financial flexibility for the Group, the Company intends to maintain the GMK Loan Facilities after Listing.

No assets of the Group was pledged or will be pledged to secure the GMK Loan Facilities, and no guarantees will be provided by any third party in connection with the GMK Loan Facilities. Interest rates of the GMK Loan Facilities will (i) not be higher than the interest rates to be charged by other independent third parties under similar terms and conditions; and (ii) be in compliance with the rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within the PRC. The Company is not obliged to draw down any part of the GMK Loan Facilities, and no commitment fee is paid or payable by the Group in respect of the GMK Loan Facilities.

### ***Listing Rules implications***

Upon Listing, the CP Guarantors and GMK Finance will become our connected persons, and the provision of the CP Guarantees by the CP Guarantors and the provision of GMK Loan Facilities will constitute financial assistance by our connected persons to the Group pursuant to Rule 14A.24(4) of the Listing Rules.

The Directors are of the view that the GMK Loan Facilities are conducted on normal commercial terms or better, given that (i) GMK Finance is an institution licensed by the Shandong Office of CBIRC (中國銀保監會山東監管局), which shall abide by all applicable regulatory requirements and provisions of the CBIRC and the benchmark rates promulgated by the PBOC from time to time when conducting its operation and business; and (ii) unlike certain independent third party banks which may require pledge or charge of the Group’s assets or individual or corporate guarantee, no such requirements were involved in obtaining financing from GMK Finance.

Since the financial assistances provided by the CP Guarantors and GMK Finance are (i) conducted on normal commercial terms or better; and (ii) not secured by the assets of the Group, the CP Guarantees and the GMK Loan Facilities constitute continuing connected transactions under Rule 14A.90 of the Listing Rules that are fully exempted from independent shareholders’ approval, annual review and all disclosure requirements under Chapter 14A of the Listing Rules.

## **2. Sharing of administrative services**

During the Track Record Period and up to the Latest Practicable Date, the Group has been sharing (on a cost basis) certain administrative support services with GMK Holdings and its associates, including information system support services and passenger car transportation services (the “**Administrative Services**”). The Administrative Services are expected to continue after Listing.

The costs of information system support services are and will be allocated according to technician fees as well as repair and maintenance fee for each computer/facility/data storage/email account occupied by the Group (as the case may be).

The costs of passenger car transportation services are and will be allocated based on a unit distance in terms of kilometres, taking into consideration the car model, the drivers’ remuneration, petroleum charges, repair charges, car insurance, etc. used for each unit distance.

The Directors believe that sharing of the Administrative Services with our connected persons, the Group would be able to save the costs of maintaining its own staff and assets in providing such services and reduce the Group’s needs to make capital investment on such assets and having to hire our own employees to perform such Administrative Services, thus allowing the Group to reduce our administrative overhead and capital investments.

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Since the Administrative Services received by the Group from our connected persons are (a) conducted on normal commercial terms or better; and (b) identifiable on a cost basis and the costs of which are allocated to the parties on a fair and equitable basis, the Administration Services are exempt from independent Shareholders' approval, annual review and all disclosure requirements applicable under Rule 14A.98 of the Listing Rules.

### 3. Sales of substandard chicken feed and purchase of pork

During the Track Record Period and up to the Latest Practicable Date, the Group has been selling substandard chicken feed to, and purchasing pork from, Yanggu Agriculture in our ordinary and usual course of business, and these transactions are expected to continue after Listing.

Yanggu Agriculture is located in Shandong, which is also where our production base is located. Yanggu Agriculture's businesses are agricultural planting and pig rearing. The Directors believe that, (a) by purchasing pork from Yanggu Agriculture, the Group would be able to procure pork at market price or better to supply to the Group for our staff's internal consumption, and (b) by selling substandard chicken feed to Yanggu Agriculture for their pigs' feed.

The purchase of pork from, and the sale of substandard chicken feed to Yanggu Agriculture have been aggregated on the basis that these transactions are transacted with the same party. Since the above transactions will be conducted on normal commercial terms or better, and all the applicable percentage ratios are less than 0.1%, the transactions are fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.76(1) of the Listing Rules.

### 4. Procurement of health check services

Since 2018, we have been procuring health check services for our employees that are delivered by Luxinan Hospital, which the Group's employees may, at the Group's cost, perform annual health checks at the hospital. The provision of medical services to the Group was conducted in the ordinary and usual course of business of the Group. The Group intends to continue to acquire health check services from Luxinan Hospital based on its published rates.

Luxinan Hospital is located near to our production base in Shandong, where a large number of our employees are based. Luxinan Hospital was recently commissioned, and is a third-grade general hospital that offers a range of medical services. The Directors believe that the Group's employees may be benefited from obtaining health check services at a hospital that is nearby to our production facilities.

Since the above transactions will be conducted on normal commercial terms or better, and all applicable percentage ratios are less than 0.1%, the above transactions are fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.76(1) of the Listing Rules.

### 5. Procurement of raw materials

During the Track Record Period, the Group has been purchasing raw materials such as condiments and flavouring ingredients that are used in the preparation of the Group's processed chicken meat products from Zhongke Biotechnology, and we have also been procuring office supplies and vegetables from Fengxiang Supermarket for consumption by the Group and its employees in our offices and canteens. We make these purchases in the ordinary course of business and these purchases are expected to continue after Listing.

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The procurement of raw materials have been aggregated on the basis that these transactions are of a similar nature and entered into by the Company and parties who are under control of the Liu Family. Since the above transactions will be conducted on normal commercial terms or better, and all the applicable percentage ratios are less than 0.1%, the transactions are fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.76(1) of the Listing Rules.

### 6. Procurement of merchandise on our online marketplaces

The Group procures condiments and flavouring ingredients from Zhongke Biotechnology as ancillary products to our main chicken meat products sold through our online marketplaces.

The Directors believe that the above transaction aligns with, and will be able to facilitate our marketing plans.

Since the above transaction will be conducted on normal commercial terms or better, and all applicable percentage ratios are less than 0.1%, the above transaction is fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.76(1) of the Listing Rules.

### 7. Purchase of natural gas and electricity

During the Track Record Period, we have been purchasing natural gas that are used in the production of the Group from Aode Energy. Aode Energy is one of the natural gas suppliers located near our production base in Shandong. The purchases of natural gas by the Group from Aode Energy is expected to continue after Listing.

Since the natural gas is for the Group's own consumption and use, and not processed into our products or resale, and that there is an open market and transparency in the pricing of the natural gas is procured by the Group, the transactions are fully exempt from the independent shareholders' approval, annual review and all disclosure requirements under Rule 14A.97 of the Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

### 1. Sales of poultry products and by-products

During the Track Record Period and up to the Latest Practicable Date, we have been selling (a) our poultry products (including raw chicken meats and processed chicken meats) and by-products to GMK Group for: (i) retail sales in Fengxiang Supermarket; (ii) consumption by the members of GMK Group including but not limited to consumption in canteens; and (iii) preparing chicken-based seasonings and condiments by Zhongke Biotechnology; and (b) poultry products (including raw chicken meats and processed chicken meats) to Xiangrui Group for their internal consumption.

The sales of poultry products and by-products have been and will be conducted by the Group in our ordinary and usual course of business and are expected to continue after Listing.

In anticipation of Listing, the Company has entered into the product sales framework agreement (the "**Product Sales Framework Agreement**") with GMK Holdings (for itself and on behalf of GMK Group), Xiangrui International (for itself and on behalf of Xiangrui Group), on 25 June 2020, pursuant to which the Group will sell poultry products and by-products to the members of GMK

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Group and Xiangrui Group. The Product Sales Framework Agreement will be for a term commencing on the Listing Date and ending on 31 December 2022, which will be renewable for a term of three years upon mutual consent of all parties to the agreement and subject to compliance by the Company with the requirements under the Listing Rules and other applicable laws and regulations.

### ***Pricing***

Pursuant to the Product Sales Framework Agreement, the supply prices of poultry products and by-products that are to be sold under the Product Sales Framework Agreement are determined with reference to the market price for the same products that the Group sells to independent third parties in similar quantities in the open market.

### ***Historical transaction amounts***

For the four years ended 31 December 2016, 2017, 2018 and 2019, the sales of poultry products and by-products to GMK Group and Xiangrui Group amounted to approximately RMB7.6 million, RMB7.8 million, RMB7.8 million and RMB7.1 million, respectively.

### ***Annual caps***

The annual caps for sales by the Group under the Product Sales Framework Agreement for the periods set out below are as follows:

For the year ending 31 December 2020: .....	RMB 10.3 million
For the year ending 31 December 2021: .....	RMB 10.7 million
For the year ending 31 December 2022: .....	RMB 10.7 million

In considering the annual caps for the Product Sales Framework Agreement, the Directors have considered a number of factors including: (1) the historical transaction amounts in the sale of the poultry products and by-products to GMK Group and Xiangrui Group; (2) the expected growth in demand of poultry products and by-products by GMK Group and Xiangrui Group (as the case may be) and the increase in sale prices of poultry products and by-products by the Group going forward; and (3) new processed chicken meat products that are expected to be introduced by the Group, some of which may be purchased by Fengxiang Supermarket, which is a member of GMK Group.

### ***Listing Rules implications***

The transactions under the Product Sales Framework Agreement have been aggregated on the basis that these are agreements that are of a similar nature or otherwise transacted with parties who are connected with one another. As all of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the highest annual cap of transactions under the sales of poultry products and by-products are more than 0.1% but less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **2. Procurement of logistics services**

We have been engaging Xiangguang Logistics to provide logistics related services to the Group, including storage, logistics, transportation, customs clearance services, primarily in relation to the

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export of the Group's products out of the PRC (the "Logistics Services"). The Logistics Services have been provided to the Group in our ordinary and usual course of business and are expected to continue after Listing.

In anticipation of Listing, the Company has entered into the logistics services framework agreement with Xiangguang Logistics (the "Logistics Services Framework Agreement") on 25 June 2020, pursuant to which the Group may procure Logistics Services from Xiangguang Logistics if the Logistics Services quoted by it are at least as favourable as those quoted by independent third party providers of Logistics Services. The Logistics Services Framework Agreement will be for a term commencing on the Listing Date and ending on 31 December 2022, and which will be renewable for a term of three years upon mutual consent of all parties to the agreement and subject to compliance by the Company with the requirements under the Listing Rules and other applicable laws and regulations.

In considering whether to engage Xiangguang Logistics to provide the Logistics Services, the Company will regularly compare the prevailing market price of similar logistics services in the market which is ascertained by, among other methods, obtaining quotations from independent third party logistics service providers.

### ***Historical transaction amounts***

For the four years ended 31 December 2016, 2017, 2018 and 2019, the amounts that were paid to Xiangguang Logistics in connection with the provision of Logistics Services to the Group amounted to approximately RMB9.2 million, RMB14.9 million, RMB12.8 million and RMB14.8 million, respectively.

### ***Annual caps***

The annual caps for the transactions contemplated under the Logistics Services Framework Agreement for the periods set out below are as follows:

For the year ending 31 December 2020: .....	RMB 16.6 million
For the year ending 31 December 2021: .....	RMB 18.2 million
For the year ending 31 December 2022: .....	RMB 20.0 million

In considering the annual caps for the Logistics Services Framework Agreement, the Directors have considered: (1) the historical fees paid by the Group for the delivery of poultry products and by-products and other related products for export overseas and (2) the overall business environment, including the estimated increase in operational needs in the future due to the expected increase in volume of sales to overseas customers as part of the Group's strategy to increase its export overseas.

### ***Listing Rules implications***

As all of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the highest annual cap of transactions under procurement of Logistics Services are more than 0.1% but less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **3. Deposit of funds**

During the Track Record Period and up to the Latest Practicable Date, the Group has been depositing some of our funds with GMK Finance. In particular, we deposit cash balances into our

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accounts at GMK Finance's branches, including: (a) cash generated from our daily business operations, including income received from our chicken production business; and (b) cash from financing facilities provided by GMK Finance to the Group. In turn, GMK Finance pays interests to the Group for such deposits.

In anticipation of Listing, the Company has entered into a deposit services framework agreement (the "**Deposit Services Framework Agreement**") with GMK Finance on 25 June 2020, pursuant to which GMK Finance will provide deposit services to the Group. The Deposit Services Framework Agreement will be for a term commencing on the Listing Date and ending on 31 December 2020, and which will be renewable upon mutual consent of all parties to the agreement and subject to compliance by the Company with the requirements under the Listing Rules and other applicable laws and regulations.

GMK Finance has been providing deposit services to the Group historically, thus it has developed a deep understanding of our capital needs and our business operations. Under the Deposit Services Framework Agreement, the monies that the Group deposits with GMK Finance can be withdrawn on demand and do not have a minimum deposit period, and the Group would earn the same rate of interest as offered by other financial institutions that also offer deposit services. GMK Finance is an institution that is licensed by the Shandong Office of CBIRC (中國銀保監會山東監管局), and as at the Latest Practicable Date, GMK Finance had a registered capital of RMB3,000 million, and the Directors believe that given the licensed status and the registered capital of GMK Finance, and its better understanding of the operations of the Group, GMK Finance would be able to provide the Group with expedient and efficient delivery of services. The Group also expects that as an intra-group service provider, GMK Finance will generally have more efficient communication channels with the Group as compared with other domestic commercial banks or financial institutions. The Deposit Services will also facilitate internal settlement and shorten the time required for fund transfer and turnover.

Under the Deposit Services Framework Agreement, the deposit interest rates offered by GMK Finance to the Group shall comply with the benchmark deposit interest rates promulgated by the PBOC from time to time (if any) for financial institutions such as GMK Finance, and the Group's deposit interest rates shall be the same as those offered by GMK Finance to independent third parties (or better), and the Group will only deposit its funds with GMK Finance if the rates quoted by GMK Finance are no less favourable than the quotes of deposit rates offered by two other banks offering deposit services obtained by the Group.

### ***Historical deposited amounts and interests received***

For the four years ended 31 December 2016, 2017, 2018 and 2019, the interests that were received from GMK Finance as a result of the deposits with GMK Finance amounted to approximately RMB1.5 million, RMB1.3 million, RMB1.3 million and RMB2.5 million, respectively. For the four years ended 31 December 2016, 2017, 2018 and 2019, the highest daily closing balances of deposits (including interests accrued on such balances) of the Group with GMK Finance were approximately RMB274.1 million, RMB295.2 million, RMB458.4 million and RMB479.5 million, respectively.

### ***Annual Cap***

The annual cap for the Deposit Services Framework Agreement based on the maximum daily closing balance of deposits (including interests accrued on such balances) of the Group with GMK Finance for the period set out below is as follows:

For the year ending 31 December 2020: ..... RMB600 million



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The above maximum balance has been determined by reference to (a) the historical deposits that were maintained by the Group with GMK Finance during the Track Record Period and the three months ended 31 December 2019, (b) the Group's business development plans, in particular, the increased working capital needs and hence deposit services required from GMK Finance, until 31 December 2020, (c) the expected continued growth in assets and amounts of deposits as well as cash management needs of the Group as the expansion of our business and operation (resulting in the increase of our deposits and interests derived from such deposits), and (d) the net proceeds from the Global Offering for our working capital and other general corporate purposes.

### ***Listing Rules implications***

As all of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the annual cap of transactions under the deposit of funds are more than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **4. Receiving financial assistance by the discounting of commercial bills**

During the Track Record Period and up to the Latest Practicable Date, we had received financial assistance from GMK Finance, whereby the Group pledges commercial bills received by the Group in the ordinary course of business to GMK Finance for discounting in return for cash loans extended to the Group. As at 30 April 2020, being the latest practicable date for liquidity disclosure in this prospectus, the interest rate payable for the discounting of commercial bills pledged with GMK Finance was 2.70% to 3.045% per annum, and the aggregate principal amount due to GMK Finance under the arrangement was approximately RMB150.0 million.

The discounting of the commercial bills provides the Group a way to factor and to obtain cash from the commercial bills that it receives in its ordinary course of trading, which in turn allows the Group to increase its cash flows in advance. The Group intends to continue this arrangement after Listing. See "Relationship with Controlling Shareholders — Independence from the Controlling Shareholders — Financial independence" for the reasons for such transactions. In anticipation of Listing, on 25 June 2020, the Company and GMK Finance have entered into a framework agreement for the provision of financial assistance by GMK Finance to the Group through the discounting of commercial bills (the "**Bill Financing Framework Agreement**") based on the prevailing market rates for such financing. The Bill Financing Framework Agreement will be for a term commencing from the Listing Date and ending on 31 December 2022, which will be renewable for a term of three years upon mutual consent of all parties to the agreement and subject to compliance with the Company with the requirements under the Listing Rules and other applicable laws and regulations.

The finance department of the Company will regularly (in any event, no less frequently than twice every calendar year) review the interest rates that are charged by two other independent third party banks or financial institutions for the rates offered for the discounting of commercial bills quoted by GMK Finance, and will only discount commercial bills with GMK Finance if the rates offered by it are at least as favourable as those offered by independent third party banks or financial institutions.

### ***Historical amounts and interests paid***

For the four years ended 31 December 2016, 2017, 2018 and 2019, the interests paid to GMK Finance as a result of the discounting of commercial bills by the Group amounted to approximately

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RMB11.0 million, RMB8.7 million, RMB9.7 million and RMB12.9 million, respectively. For the four years ended 31 December 2016, 2017, 2018 and 2019, the highest daily closing balances of the amounts loaned (including interests accrued on such balances) to the Group by GMK Finance were approximately RMB410.0 million, RMB600.0 million, RMB670.0 million and RMB484.0 million, respectively.

### **Annual Caps**

The table below sets out the maximum daily closing balances of loans obtained through the discounting of commercial bills of the Group with GMK Finance for the periods indicated below:

For the year ending 31 December 2020.....	RMB700 million
For the year ending 31 December 2021.....	RMB600 million
For the year ending 31 December 2022.....	RMB500 million

The above maximum balances have been determined by reference to (a) the historical levels of discounting of commercial bills by the Group during the Track Record Period and the three months ended 31 December 2019, and (b) the ongoing funding needs of the Group as its operations expand, which the Group expects will continue to be partially funded by the discounting of commercial bills.

### **Listing Rules implications**

As all of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the highest annual cap of transactions under receiving of financial assistance by the discounting of commercial bills are more than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

## **PROPOSED ARRANGEMENTS TO MONITOR THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The Company has adopted the connected transactions management rules to govern the Group's connected transactions after Listing. The following arrangements are proposed to monitor the Non-exempt Continuing Connected Transactions after Listing:

- (1) the finance department of the Company will review the transaction amounts of the relevant continuing connected transactions and conduct analysis of the data at least half-yearly to manage the continuing connected transactions;
- (2) the independent non-executive Directors will consider the continuing connected transactions requiring approval from the Board and/or Shareholders' general meeting, and provide their opinion to the Board;
- (3) the independent non-executive Directors and the Company's auditors will conduct annual review of the non-exempt continuing connected transactions and confirmations (as required under the Listing Rules) that the non-exempt continuing connected transactions are conducted in accordance with the terms and the pricing policies of their respective agreements, are on normal commercial terms and in accordance with and do not exceed the proposed applicable annual caps;
- (4) the Company will follow the approval procedures for connected transactions including:
  - (a) in respect of connected transactions not governed by the existing framework agreements, the Company will communicate with the independent non-executive

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Directors in advance and provide the necessary documents to facilitate decision-making and disclosure process;

- (b) the Company will seek the necessary approvals in advance for continuing connected transactions exceeding the proposed annual caps; and
- (5) in respect of acquisition of products and services from our connected persons, the Company will periodically (and in any event not less frequent than twice every year) survey the applicable market rates in respect of such products and services procured under the relevant framework agreement (where applicable).

### WAIVERS

As the transactions under (1) the Product Sales Framework Agreement, (2) the Logistics Services Framework Agreement, (3) the Deposit Services Framework Agreement, and (4) the Bill Financing Framework Agreement are expected to continue on a recurring and continuing basis and have been fully disclosed in the prospectus and will be disclosed in the annual reports of the Company on an on-going basis, the Company considers that strict compliance with the announcement, circular and independent shareholders' approval requirement (as the case may be) for the above transactions would be impractical, unduly burdensome and would impose unnecessary administrative costs upon the Company.

Accordingly, we have applied for, and the Stock Exchange has granted, a waiver pursuant to Rule 14A.105 of the Listing Rules to exempt the transactions under (1) the Product Sales Framework Agreement, and (2) the Logistics Services Framework Agreement from strict compliance with the announcement requirement under Rule 14A.35 of the Listing Rules for the period commencing from the Listing Date up to 31 December 2022, subject to the condition that the relevant annual transaction values shall not exceed the applicable annual caps as set out above.

In relation to the Deposit Services Framework Agreement and the Bill Financing Framework Agreement, the Directors are of the view that the annual caps that are set pursuant to Rule 14A.53 would be more appropriately expressed in terms of a maximum daily closing balance of deposits or discounted bills (as the case may be) rather than on an annual basis. We have applied for, and the Stock Exchange has granted, waivers pursuant to Rule 14A.105 of the Listing Rules to exempt (1) the placing of deposits with GMK Finance under the Deposit Services Framework Agreement from strict compliance with the announcement, circular and independent shareholders' approval requirements under Rules 14A.35 to 14A.46 of the Listing Rules for the period commencing from the Listing Date up to 31 December 2020; and (2) the receiving of financial assistance by the discounting of commercial bills under the Bill Financing Framework Agreement from strict compliance with the announcement, circular and independent shareholders' approval requirements under Rules 14A.35 to 14A.46 of the Listing Rules for the period commencing from the Listing Date up to 31 December 2022, both subject to the conditions that the maximum daily closing balances of deposits placed, and loans obtained through the discounting of commercial bills (including interests accrued on such balances) of the Group with GMK Finance do not exceed the applicable maximum balances as set out above.

In addition, we will comply with the applicable provisions under Chapter 14A of the Listing Rules after Listing. We will also comply with the applicable requirements under the Listing Rules if any of the applicable proposed annual caps set out above are exceeded, or if any of the framework agreements in relation to the non-exempt continuing connected transactions are renewed or where there is a material change under the terms of such agreements. After expiry of the waivers granted, we will comply with the applicable provisions of Chapter 14A of the Listing Rules as amended from time to time and/or apply for the relevant waivers (where required).

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## CONNECTED TRANSACTIONS

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In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable under Chapter 14A of the Listing Rules as at the Latest Practicable Date on the continuing connected transactions, the Company will take immediate steps to ensure compliance with such requirements within a reasonable time.

### **VIEWS OF THE DIRECTORS AND THE SOLE SPONSOR IN RESPECT OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

The Directors (including the independent non-executive Directors) consider, and the Sole Sponsor concurs, that the continuing connected transactions under the (1) the Product Sales Framework Agreement, (2) the Logistics Services Framework Agreement, (3) the Deposit Services Framework Agreement, and (4) the Bill Financing Framework Agreement (i) have been and will be entered into in the ordinary and usual course of the Company's business, (ii) are on normal commercial terms which are fair and reasonable and in the interests of the Company and its Shareholders as a whole, and (iii) the proposed annual caps for the continuing connected transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Apart from the announcement and/or independent shareholders' approval requirements of which waiver has been sought, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.