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The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and the accompanying notes of the Group as at and for the four years ended 31 December 2016, 2017, 2018 and 2019 included as Appendix I to this prospectus. The consolidated financial statements included as Appendix I has been prepared in accordance with IFRS.

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See “Risk Factors” and “Forward-looking Statements”.

The following discussion and analysis also contains certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all momentary amounts shown are approximate amounts only.

OVERVIEW

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

We are principally based in Shandong in the PRC. 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 62.4%, 54.7%, 53.8% and 48.1% of our total revenue, respectively, and our processed chicken meat products contributed to 26.7%, 37.4%, 37.0% and 36.5% of our total revenue, respectively.

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, enabling us to control every stage of the poultry lifecycle and effectively manage quality and costs throughout the production process. 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.

We adopt both a B2B sales model and a B2C sales model. We sell our products to our B2B domestic customers either directly or through distributors, and to our B2B overseas customers directly. Our B2B customers include (i) foodservice or industrial customers; (ii) quick service restaurants; and (iii) retail groceries. In respect of our processed chicken meat products, we also adopt a B2C sales model where we sell our processed chicken meat products through third-party

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online and offline sales platforms to end-users in the PRC. Our chicken products are sold and marketed mainly under our brands “鳳祥食品 (Fovo Foods)” and “優形 (iShape)”.

Our revenue has an increasing growth trend at a CAGR of 18.6% from RMB2,354.1 million in 2016 to RMB3,926.2 million in 2019. Our profit decreased from RMB119.8 million in 2016 to RMB37.1 million in 2017, but edged up to RMB136.6 million in 2018. Our profit significantly increased to 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 costs of the raw materials, such as, soybean meal, in 2019.

BASIS OF PRESENTATION

The following discussion and analysis of the Group’s financial condition and results of operations are based on the selected financial information as at and for the years ended 31 December 2016, 2017, 2018 and 2019, and are qualified entirely by reference to the historical financial information in the Accountants’ Report set out in Appendix I to this prospectus and have been prepared based on the audited consolidated financial statements of the Group, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and International Accounting Standards (“IAS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by IFRS Interpretations Committee. The historical financial information has been prepared under the historical cost convention, as modified by the revaluation of biological assets and agricultural produce.

Historically, the Group has relied principally on both operational sources of cash and non-operational sources of financing from banks and other financial institutions to fund its operations and business development. In light of the financial resources of the Group, including the anticipated operating cash inflows of the Group and financing from banks and other financial institutions, the Directors are of the opinion that the Group will have sufficient cash flows in the foreseeable future to enable it to continue its operations and meet its liabilities as and when they fall due during next 12 months. Therefore, the Historical Financial Information has been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of RMB118.2 million as at 31 December 2019.

For the purposes of the Accountants’ Report, the related financial information of Shandong Fengxiang Supermarket Co., Ltd. (山東鳳祥超市有限公司), a former subsidiary of the Group, which was principally engaged in the operation of supermarket in China and was disposed of by the Group on 29 December 2016, has been excluded from the financial statements throughout the Track Record Period, as its business was considered by the Directors to be separately managed and dissimilar in the nature of business conducted by the Group during the Track Record Period, and its related financial information was identifiable.

During the Track Record Period, the Company has completed an acquisition of Fengxiang Food which was under common control of the controlling shareholders of the Company. This acquisition are regarded as “business combination under common control”. Accordingly, these financial statements have been prepared using the principles of merger accounting as if the current structure had been in existence throughout the Track Record Period.

The Group has adopted (i) IFRS 9, “Financial Instruments”, effective for the period beginning on or after 1 January 2018, (ii) IFRS 15, “Revenue from contracts with customers”; and (iii) IFRS 16, “Leases”, throughout the Track Record Period. The Directors confirm that the adoption of the IFRS 9, IFRS 15 and IFRS 16 had no significant impact on the Group’s financial position and performance during the Track Record Period, when compared to that of IAS 39, IAS 18 and IAS 17, respectively.

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The following discussion and analysis should be read together with the financial information and the notes thereto included in the Accountants' Report set out in Appendix I to this prospectus.

PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Fluctuations in Commodity Prices

Feed costs

Our results of operations are affected by feed costs, which comprises mainly costs of corn and soybean meal. These raw materials are commodities and thus are subject to significant price fluctuations. The price and supply of such raw materials may fluctuate significantly and are affected by various factors, including but not limited to the weather conditions, harvest conditions in major farming regions, government policies and initiatives and market competition. Our feed costs represented 50.2%, 45.4%, 37.9% and 34.3% of our cost of sales (before biological assets fair value adjustments) for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. We expect that feed costs will continue to be important to our results of operations.

The fluctuation in average prices of corn and soybean meal is primarily attributable to the policies of the PRC Government and the changes in consumers' demand and supply of such commodity in the global markets. The average prices for procuring the following raw materials per kg for the Track Record Period are set out below:

	Year ended 31 December						
	2016	2017	2018	2019	2016 vs 2017	2017 vs 2018	2018 vs 2019
					% Change	% Change	% Change
Average purchase price for corn (RMB/kg)	1.8	1.8	2.0	2.0	—	11.1	—
Average purchase price of soybean meal (RMB/kg)	3.0	3.0	3.2	3.0	—	6.7	(6.3)

Fluctuations in our feed costs and our ability to pass on any increase in raw material costs to our customers will affect our total cost of sales and our gross margins (before biological assets fair value adjustments). Based on the table above, the average absolute percentage changes per year in the average purchase prices of corn and soybean meal were from 0% to 11.1% during the Track Record Period. For illustrative purposes only, the following table illustrates the sensitivity of the changes in our gross profit margin (before biological assets fair value adjustments) in the event that there is a 5.0% or 10.0% increase or decrease in the prices of each of corn and soybean meal (while keeping the prices of the other cost of sales constant) during the Track Record Period:

	Corn prices					Soymeal prices				
	(10%)	(5%)	Base Case	5%	10%	(10%)	(5%)	Base Case	5%	10%
Gross profit margin of the Group for the year ended 31 December 2016	18.6%	17.6%	16.7%	15.7%	14.8%	17.7%	17.2%	16.7%	16.2%	15.6%
Gross profit margin of the Group for the year ended 31 December 2017	13.9%	13.0%	12.1%	11.1%	10.2%	13.0%	12.5%	12.1%	11.6%	11.1%
Gross profit margin of the Group for the year ended 31 December 2018	15.9%	15.2%	14.5%	13.7%	13.0%	15.2%	14.9%	14.5%	14.1%	13.7%
Gross profit margin of the Group for the year ended 31 December 2019	32.2%	31.7%	31.1%	30.6%	30.0%	31.7%	31.4%	31.1%	30.8%	30.5%

We entered into future contracts as hedging instruments in order to manage our exposure to the variability in the expected future cash flows attributable to commodity price risk associated with

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the forecasted purchase of soybean meal, corn and soybean oil. For further details on this hedging arrangement, see “— Market and Other Financial Risks — Price Risk” for more information. For risk relating to fluctuation of our feed costs, 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”.

Consumer Demand and Consumption Patterns for Our Products

Our results of operations are strongly affected by consumer demand and consumption patterns for chicken meat products. Consumer demand and consumption patterns for our products are affected by a large number of factors, few of which are within our control. These factors include consumer preferences, tastes and spending habits, consumer perception of safety and quality of meat products generally and our products, outbreak of livestock diseases (such as avian influenza), shifts in discretionary spending toward other goods, consumer purchasing power, prices of our products and competing or substitute products, general and local economic conditions, and uncertainties about future economic prospects. Raw chicken meat product prices typically move cyclically over time, reflecting changes in market demand and supply, and such fluctuation can be significant.

China’s nominal GDP grew at a CAGR of 10.0% from 2015 to 2019. The per capita disposable income of Chinese urban households grew at CAGR of 8.0% from 2015 to 2019. These economic developments, coupled with enhanced awareness of food safety and quality issues, have resulted in Chinese consumers’ increased preference for safe, high-quality branded meat products. In addition, we believe that there is significant growth potential in China for protein products. As the second largest animal protein in China, broiler meat plays an important role in China’s protein products market. In 2019, according to Frost & Sullivan, China’s total broiler meat consumption was 13.9 million tonnes, accounting for 12.9% of the total global consumption. According to Frost & Sullivan, China’s white-feathered broiler meat consumption is expected to grow at a CAGR of 7.0% from 2019 to 2024. We believe that the continued development of China’s economy and living standards will benefit the consumption of our broiler meat products.

Product Portfolio and Segment Mix

Our overall profitability is significantly affected by our business segments’ revenue mix. Raw chicken meat products and processed chicken meat products are our main products among our four product segments. Our raw chicken meat products accounted for 62.4%, 54.7%, 53.8% and 48.1% of our total revenue in 2016, 2017, 2018 and 2019, respectively. Our processed chicken meat products accounted for 26.7%, 37.4%, 37.0% and 36.5% of our total revenue in 2016, 2017, 2018 and 2019, respectively. The price fluctuation of our raw chicken meat products is generally higher than processed chicken meat products and is generally market-driven. Compared to our processed chicken meat products, the fluctuation of gross profit margin of our raw chicken meat products is generally more volatile, as it is impacted significantly by changes in feed costs as well as fluctuations in average selling prices of raw chicken meat which is generally market-driven. The gross profit margin (before biological assets fair value adjustments) of our raw chicken meat product segment was 13.3%, 10.1%, 11.4% and 29.5% in 2016, 2017, 2018 and 2019, respectively. The gross profit margin of our processed chicken meat product segment is typically more stable when compared to our raw chicken meat product segment. The gross profit margin (before biological assets fair value adjustments) of our processed chicken meat product segment was 17.5%, 17.3%, 13.8% and 22.7% in 2016, 2017, 2018 and 2019, respectively. Our chicken breeds accounted for 6.3%, 2.9%, 5.4% and 10.9% of our

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total revenue in 2016, 2017, 2018 and 2019, respectively. While the segment's revenue contributions were not substantial, the gross profit margin of our chicken breeds segment experienced significant volatility during the Track Record Period due to price fluctuations which are beyond our control. For example, our revenue derived from the chicken breeds segment substantially decreased in 2017 due to a sharp price decrease during the year, and substantially increased in 2019 due to a sharp price increase during the year.

We intend to increase the proportion of our processed chicken meat products among our product segments in light of its relatively stable selling prices and gross profit margin, as compared to raw chicken meat products.

Our mix of product offerings have affected, and will continue to affect, our overall gross profit margin and our financial performance.

Taxation and Government Grants

Our profitability is affected by preferential tax treatments and government grants we enjoy during the Track Record Period. Under the EIT Law and the related implementation rules, our Chinese subsidiaries are subject to EIT at the rate of 25%. Pursuant to the EIT Law and the related implementation rules, our Chinese subsidiaries that engage in animal-husbandry are exempt from EIT on income derived from that business. According to the EIT Law and the related implementation rules and the Circular of the Ministry of Finance and the State Tax Administration on Scope of Agricultural Products' Primary processing Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149) (財政部國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知(財稅[2008]149號)), our Chinese subsidiaries that carry out primary processing of agriculture products (for example, slaughtering of broilers) are exempt from EIT on income derived from that business.

We also received government grants, which are subject to the discretion of government authorities, during the Track Record Period. We recorded government grants of RMB4.0 million, RMB4.9 million, RMB6.6 million and RMB10.2 million in 2016, 2017, 2018 and 2019, respectively, accounting for 0.2%, 0.2%, 0.2% and 0.3% of our revenue during these respective periods, and accounting for 3.3%, 13.2%, 4.8% and 1.2% of our net profit in 2016, 2017, 2018 and 2019, respectively. These government grants included financial subsidies that we received from local governments in connection with the industry that we operate in and from in support of our industry's development.

There is no assurance that we will continue to enjoy the preferential tax treatments and government grants at the levels that we historically have, or at all. Any material reduction in the tax benefits and government grants that we enjoy may have a material adverse effect on our financial results.

Biological Fair Value Adjustments

Our results of operations are affected by changes in fair values of our biological assets. Our biological assets include (1) breeders, (2) broilers, and (3) broiler eggs. As discussed below, our results of operations are affected by these changes in two ways. In aggregate, these changes increased our profit for the year by RMB5.3 million, RMB8.7 million, RMB18.1 million and RMB3.4 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. For a presentation of our full results of operations both before and after biological assets fair value adjustments and the amounts of these three types of adjustments recorded during the Track Record Period, see our consolidated statements of comprehensive income in Appendix I to this prospectus.

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Biological Assets Fair Value Adjustments

Our biological assets represent breeders, broilers, chicken breeds and broiler eggs. We measure our biological assets at their fair value less costs to sell when they are sold or as at the balance sheet dates pursuant to IAS 41 Agriculture. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss and presented as “Gain or loss arising from changes in fair value less costs to sell of biological assets” for the period in which it arises. Changes in the fair value less costs to sell of our biological assets resulted in our recognition of gain in the amount of RMB103.7 million, RMB14.4 million, RMB132.9 million and RMB393.7 million in our consolidated statements of comprehensive income for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. For further details, see “— Critical Accounting Policies and Estimates — Biological assets” below and “— Description of Selected Statement of Comprehensive Income Items — Gain arising from changes in fair value less costs to sell of biological assets” below. These fair value gains represent fair value changes of our live breeders, live broilers and broiler eggs during the year and those remain on our balance sheet at year-end less the costs to sell.

Fair values of biological assets are largely dependent on the number of chickens, type of chicken and their age. The fair value of our biological assets could also be affected by, among other things, the expected market price and the estimated yield of the agricultural produce, being chicken carcass, the expected market price of breeders and survival rate. Fair value gains do not generate any cash inflow for our operations and, similarly, fair value losses do not result in any cash outflows of our operations. We expect that our results will continue to be affected by changes in the fair value of our biological assets.

Fair Value Adjustments of Agricultural Produce

Chicken meat products are produced from agricultural produce (that is, chicken carcass) harvested from the Group’s biological assets. We measure our agricultural produce (that is, the chicken carcass) harvested from the biological assets at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss and presented as “Gain or loss arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest” for the period in which it arises. Changes in the initial recognition of our agricultural produce at fair value less costs to sell at the point of harvest resulted in gains in the amount of RMB225.5 million, RMB250.5 million, RMB169.2 million and RMB402.8 million in our consolidated statements of comprehensive income for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. See “— Description of Selected Statement of Comprehensive Income Items — Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest” below. Agricultural produce is then transferred to inventories and upon subsequent sales, our cost of sales are also charged for changes in the initial recognition of agricultural produce at fair value less costs to sell at point of harvest.

Biological assets fair value adjustments increased our total cost of sales by RMB323.9 million, RMB256.1 million, RMB283.9 million and RMB793.0 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Production Capacity and Capacity Utilisation

Our results of operations are affected by the growth in capacity and utilisation of our production facilities. For 2016, 2017, 2018 and 2019, we had an average utilisation rate of 85.8%, 86.7%, 84.6%,

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88.1% for our breeder farms, an average utilisation rate of 98.8%, 98.6%, 91.0%, 90.0% for our broiler farms, an average utilisation rate of 85.4%, 86.5%, 80.1%, 75.6% for our slaughtering operations and an average utilisation rate of 77.0%, 80.0%, 75.7%, 75.7% for our processing operations. By the end of 2020, the annual maximum design capacity of our breeder farms is expected to increase by 35.5%, the annual production capacity of our broiler farms is expected to increase by 39.7%, and the annual production capacity of our slaughtering operations is expected to increase by 67.0%, as compared to our maximum annual production capacity for the year ended 31 December 2019. We believe increase in our production capacity will help us broaden our market reach and will continue to drive our growth in the foreseeable future.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Our significant accounting policies, which are important for you to understand our financial condition and results of operations, are set forth in details in Note 5 to the Accountant's Report in Appendix I to this prospectus. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management judgements based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgements and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We have set forth below those accounting policies that we believe involve the most significant estimates and judgements used in preparing our financial statements.

Revenue Recognition

- (i) Sale of goods — Revenue is recognised when control over a product or service is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.
- (ii) Interest income — Interest income is recognised as it accrues using the effective interest method.

Biological Assets

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

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

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in

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bringing the inventories to their present location and condition. Cost is determined on standard costing basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Useful Lives and Residual Values of Non-current Assets

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically review the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on our historical experience with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at the end of the reporting period based on changes in circumstances.

Intangible Assets

Computer software

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Computer software is stated at cost less accumulated amortisation and impairment losses, if any. These costs are amortised on the straight-line basis over their estimated useful lives of 10 years.

The intangible assets of the Group and the Company mainly represents its purchased computer software, namely systems applications and products in data processing (“**SAP system**”), a well-developed system which consists of a number of fully integrated modules and covers virtually every aspect of business management. The Company expects that the SAP system would be available for use for 10 years, which forms the basis of its useful life, after taking into account, among other things, that the production processes of the Group did not have material changes in the past few years and are not expected to be changed materially in the near future.

Fair Value Measurement of Biological Assets

The Group’s management determine the fair values less costs to sell of biological assets at the end of each reporting period with reference to the market-determined prices, species, growing conditions, costs incurred and professional valuation.

The Directors work closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. These determinations involve the use of significant judgement. If actual results differ from our original estimates, these differences from the original estimates will affect the fair value changes we recognise in profit or loss in the period in which the estimates change and in future periods. The fair value of our biological assets as at 31 December 2016, 2017, 2018 and 2019 was RMB225.7 million, RMB231.5 million, RMB265.4 million and RMB299.8 million, respectively.

DESCRIPTION OF SELECTED STATEMENT OF COMPREHENSIVE INCOME ITEMS

Revenue

Our revenue is derived from four product segments: (1) revenue from our raw chicken meat products segment includes sales of fresh chilled and frozen chicken meat products, (2) revenue from

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our processed chicken meat products segment includes sales of chilled and frozen processed chicken meat products, including seasoned, semi-cooked and fully-cooked products, (3) revenue from our chicken breeds segment includes sales of live chicks, and (4) revenue from our other segment primarily includes sales of broilers that cannot satisfy our quality requirements (淘汰雞) and excess broiler eggs that exceed our internal need, by-products, organic fertiliser, black-bone chicken meat products (being our Sichuan Mountain Black Bone Chicken), packing materials and other miscellaneous products. Our revenue on a consolidated basis is arrived at after elimination of inter-segment transactions. As a result, our discussions of operating segments below use revenue amounts that include only sales to external customers.

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

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

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

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

Notes:

- (1) Per kg for raw chicken meat products and processed chicken meat products segments, and per bird for chicken breeds segment.
- (2) RMB/kg for raw chicken meat products and processed chicken meat products segments, and RMB/bird for chicken breeds segment. The average selling price has been rounded to one decimal place.
- (3) RMB/kg for raw chicken meat products and processed chicken meat products segments, and RMB/bird for chicken breeds segment. For details of the gross profit and gross profit margins of our product segments during the Track Record Period, see "Financial Information — Description of Selected Statement of Comprehensive Income Items — Gross Profit and Gross Profit Margin".
- (4) The "others" product segment comprises a variety of different products with different measurement basis and average selling prices. Accordingly, an average sale volume and selling price for the entire "others" product segment is not available.

The following sensitivity analysis illustrates the impact of hypothetical changes in the average selling prices of our raw chicken meat products on our revenue, gross profit (before biological assets fair value adjustments) and gross profit margin (before biological assets fair value adjustments) during the Track Record Period. Fluctuations are assumed to be 10% and 20%, for the four years

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ended 31 December 2016, 2017, 2018 and 2019, which are within the range of fluctuations in the average selling price of raw chicken meat products of the Group during the Track Record Period:

For the year ended 31 December 2016

% Change in average selling price of raw chicken meat				
products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	293,983.3	146,991.7	(146,991.7)	(293,983.3)
% Change in revenue	12.5%	6.2%	(6.2%)	(12.5%)
Corresponding change in gross profit (RMB'000)	293,983.3	146,991.7	(146,991.7)	(293,983.3)
% Change in gross profit	75.0%	37.5%	(37.5%)	(75.0%)
Corresponding change in gross profit margin (%)	11.1%	5.9%	(6.7%)	(14.3%)
Absolute change in gross profit margin (%)	9.3%	4.9%	(5.6%)	(11.9%)

For the year ended 31 December 2017

% Change in average selling price of raw chicken meat				
products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	266,195.5	133,097.7	(133,097.7)	(266,195.5)
% Change in revenue	10.9%	5.5%	(5.5%)	(10.9%)
Corresponding change in gross profit (RMB'000)	266,195.5	133,097.7	(133,097.7)	(266,195.5)
% Change in gross profit	90.8%	45.4%	(45.4%)	(90.8%)
Corresponding change in gross profit margin (%)	9.9%	5.2%	(5.8%)	(12.3%)
Absolute change in gross profit margin (%)	8.7%	4.6%	(5.1%)	(10.8%)

For the year ended 31 December 2018

% Change in average selling price of raw chicken meat				
products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	343,855.5	171,927.8	(171,927.8)	(343,855.5)
% Change in revenue	10.8%	5.4%	(5.4%)	(10.8%)
Corresponding change in gross profit (RMB'000)	343,855.5	171,927.8	(171,927.8)	(343,855.5)
% Change in gross profit	74.4%	37.2%	(37.2%)	(74.4%)
Corresponding change in gross profit margin (%)	9.7%	5.1%	(5.7%)	(12.1%)
Absolute change in gross profit margin (%)	8.3%	4.4%	(4.9%)	(10.3%)

For the year ended 31 December 2019

% Change in average selling price of raw chicken meat				
products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	377,366.4	188,683.2	(188,683.2)	(377,366.4)
% Change in revenue	9.6%	4.8%	(4.8%)	(9.6%)
Corresponding change in gross profit (RMB'000)	377,366.4	188,683.2	(188,683.2)	(377,366.4)
% Change in gross profit	30.9%	15.5%	(15.5%)	(30.9%)
Corresponding change in gross profit margin (%)	8.8%	4.6%	(5.0%)	(10.6%)
Absolute change in gross profit margin (%)	6.0%	3.2%	(3.5%)	(7.3%)

The following sensitivity analysis illustrates the impact of hypothetical changes in the average selling prices of our processed chicken meat products on our revenue, gross profit (before biological assets fair value adjustments) and gross profit margin (before biological assets fair value adjustments) during the Track Record Period. Fluctuations are assumed to be 10% and 20%, which are within the range of fluctuations in the average selling price of processed chicken meat products during the Track Record Period:

For the year ended 31 December 2016

% Change in average selling price of processed chicken meat				
products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	125,594.3	62,797.1	(62,797.1)	(125,594.3)
% Change in revenue	5.3%	2.7%	(2.7%)	(5.3%)
Corresponding change in gross profit (RMB'000)	125,594.3	62,797.1	(62,797.1)	(125,594.3)
% Change in gross profit	32.0%	16.0%	(16.0%)	(32.0%)
Corresponding change in gross profit margin (%)	5.1%	2.6%	(2.7%)	(5.6%)
Absolute change in gross profit margin (%)	4.2%	2.2%	(2.3%)	(4.7%)

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For the year ended 31 December 2017

% Change in average selling price of processed chicken meat products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	182,003.5	91,001.8	(91,001.8)	(182,003.5)
% Change in revenue	7.5%	3.7%	(3.7%)	(7.5%)
Corresponding change in gross profit (RMB'000)	182,003.5	91,001.8	(91,001.8)	(182,003.5)
% Change in gross profit	62.1%	31.0%	(31.0%)	(62.1%)
Corresponding change in gross profit margin (%)	7.0%	3.6%	(3.9%)	(8.1%)
Absolute change in gross profit margin (%)	6.1%	3.2%	(3.4%)	(7.1%)

For the year ended 31 December 2018

% Change in average selling price of processed chicken meat products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	236,713.6	118,356.8	(118,356.8)	(236,713.6)
% Change in revenue	7.4%	3.7%	(3.7%)	(7.4%)
Corresponding change in gross profit (RMB'000)	236,713.6	118,356.8	(118,356.8)	(236,713.6)
% Change in gross profit	51.2%	25.6%	(25.6%)	(51.2%)
Corresponding change in gross profit margin (%)	6.9%	3.6%	(3.8%)	(8.0%)
Absolute change in gross profit margin (%)	5.9%	3.1%	(3.3%)	(6.8%)

For the year ended 31 December 2019

% Change in average selling price of processed chicken meat products	20%	10%	(10%)	(20%)
Corresponding change in revenue (RMB'000)	286,612	143,306	(143,306)	(286,612)
% Change in revenue	7.3%	3.7%	(3.7%)	(7.3%)
Corresponding change in gross profit (RMB'000)	286,612	143,306	(143,306)	(286,612)
% Change in gross profit	23.5%	11.7%	(11.7%)	(23.5%)
Corresponding change in gross profit margin (%)	6.8%	3.5%	(3.8%)	(7.9%)
Absolute change in gross profit margin (%)	4.7%	2.4%	(2.6%)	(5.4%)

The following sensitivity analysis illustrates the impact of hypothetical changes in the average selling prices of our chicken breeds on our revenue, gross profit (before biological assets fair value adjustments) and gross profit margin (before biological assets fair value adjustments) during the Track Record Period. Fluctuations are assumed to be 100% and 200% for the four years ended 31 December 2016, 2017, 2018 and 2019, which are within the range of fluctuations in the average selling price of chicken breeds during the Track Record Period:

For the year ended 31 December 2016

% Change in average selling price of chicken breeds	150%	130%	(30%)	(50%)
Corresponding change in revenue (RMB'000)	224,049.9	194,176.5	(44,810.0)	(74,683.3)
% Change in revenue	9.5%	8.3%	(1.9%)	(3.2%)
Corresponding change in gross profit (RMB'000)	224,049.9	194,176.5	(44,810.0)	(74,683.3)
% Change in gross profit	57.1%	49.5%	(11.4%)	(19.1%)
Corresponding change in gross profit margin (%)	8.7%	7.6%	(1.9%)	(3.3%)
Absolute change in gross profit margin (%)	7.2%	6.4%	(1.6%)	(2.7%)

For the year ended 31 December 2017

% Change in average selling price of chicken breeds	150%	130%	(30%)	(50%)
Corresponding change in revenue (RMB'000)	104,813.2	90,838.1	(20,962.6)	(34,937.7)
% Change in revenue	4.3%	3.7%	(0.7%)	(1.4%)
Corresponding change in gross profit (RMB'000)	104,813.2	90,838.1	(20,962.6)	(34,937.7)
% Change in gross profit	35.7%	31.0%	(7.2%)	(11.9%)
Corresponding change in gross profit margin (%)	4.1%	3.6%	(0.9%)	(1.5%)
Absolute change in gross profit margin (%)	3.6%	3.2%	(0.8%)	(1.3%)

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For the year ended 31 December 2018

% Change in average selling price of chicken breeds.....	150%	130%	(30%)	(50%)
Corresponding change in revenue (RMB'000)	258,165.3	223,743.2	(51,633.1)	(86,055.1)
% Change in revenue	8.1%	7.0%	(1.6%)	(2.7%)
Corresponding change in gross profit (RMB'000).....	258,165.3	223,743.2	(51,633.1)	(86,055.1)
% Change in gross profit	55.8%	48.4%	(11.2%)	(18.6%)
Corresponding change in gross profit margin (%)	7.5%	6.5%	(1.6%)	(2.8%)
Absolute change in gross profit margin (%)	6.4%	5.6%	(1.4%)	(2.4%)

For the year ended 31 December 2019

% Change in average selling price of chicken breeds.....	150%	130%	(30%)	(50%)
Corresponding change in revenue (RMB'000)	643,750	557,916.6	(128,750)	(214,583.3)
% Change in revenue	16.4%	14.2%	(3.3%)	(5.5%)
Corresponding change in gross profit (RMB'000).....	643,750	557,916.6	(128,750)	(214,583.3)
% Change in gross profit	52.7%	45.7%	(10.5%)	(17.6%)
Corresponding change in gross profit margin (%)	14.1%	12.4%	(3.4%)	(5.8%)
Absolute change in gross profit margin (%)	9.7%	8.6%	(2.3%)	(4%)

The above sensitivity analyses assume that only one variable changes while other variables remain unchanged. They are intended for reference only, and any variation may differ from the amounts indicated. Investors should note in particular that these sensitivity analyses are not intended to be exhaustive and are limited to the impact of changes in the average selling prices of our main product segments.

The table below sets forth our revenue by geographic areas and product segments for the years indicated.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Mainland China	1,803,800	76.6	1,773,053	72.7	2,236,454	69.9	2,959,778	75.4
Raw chicken meat products	1,290,740	54.8	1,160,219	47.7	1,393,235	43.6	1,641,933	41.8
Processed chicken meat products	256,844	10.9	419,437	17.1	548,966	17.1	712,253	18.1
Chicken breeds	149,367	6.3	69,875	2.9	172,110	5.4	426,448	10.9
Others	106,849	4.6	123,522	5.0	122,143	3.8	179,144	4.6
Japan	338,928	14.4	420,203	17.3	491,071	15.4	461,599	11.8
Processed chicken meat products	338,928	14.4	420,203	17.3	491,071	15.4	461,599	11.8
Malaysia	160,553	6.8	151,028	6.2	302,284	9.5	220,715	5.6
Raw chicken meat products	160,553	6.8	151,028	6.2	302,284	9.5	220,715	5.6
European Union	17,964	0.8	30,440	1.3	66,645	2.1	186,602	4.8
Raw chicken meat products	—	—	5,547	0.2	327	—	—	0.0
Processed chicken meat products	17,964	0.8	24,893	1.1	66,318	2.1	186,602	4.8
Others countries	32,859	1.4	59,668	2.5	100,645	3.1	97,523	2.5
Raw chicken meat products	18,624	0.8	14,183	0.6	23,432	0.7	24,750	0.6
Processed chicken meat products	14,235	0.6	45,485	1.9	77,213	2.4	72,773	1.9
Total	2,354,104	100.0	2,434,392	100.0	3,197,099	100.0	3,926,217	100.0

Our sales to overseas customers during the Track Record Period were not subject to any overseas tax exposure. Any import taxes imposed on our products sold to overseas customers were borne by the overseas customers.

Cost of Sales

Our cost of sales consists primarily of direct raw materials (primarily feed costs), direct labour, depreciation, utilities, repairs and maintenance, as well as biological assets fair value adjustments.

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The direct raw materials used in our production are primarily feeds including corn and soybean meal. Other costs on direct raw materials include costs on procurement of raw chicken meat from third party suppliers, accessory food, packaging materials and medicine. Depreciation represents depreciation on machinery and equipment. Utilities includes electricity and gas.

In addition, when our biological assets and agricultural produces are being sold during the year, our cost of sales is adjusted by changes in fair values of our biological assets. We adjust our cost of sales for changes in fair values of biological assets, with fair value gains increasing our cost of sales and fair value losses decreasing our cost of sales, although the timing of these adjustments to our cost of sales are not necessarily the same as the related gains or losses. Our cost of sales in each reporting year is adjusted to add (i) a gain or loss arising from agriculture produce (i.e. chicken carcass) at fair value less costs to sell at the point of harvest (i.e. slaughtering of live chickens) that we sold in that year, and (ii) gain or loss arising from changes in fair value less costs to sell of biological assets recognised previously. These adjustments increased our total cost of sales by RMB323.9 million, RMB256.1 million, RMB283.9 million and RMB793.0 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. Our biological assets fair value adjustments decreased by 20.9% from RMB323.9 million for the year ended 31 December 2016 to RMB256.1 million for the year ended 31 December 2017, primarily due to the decrease in market prices of chicken breeds in 2017. Our biological assets fair value adjustments increased by 179.3% from RMB283.9 million for the year ended 31 December 2018 to RMB793.0 million for the year ended 31 December 2019, primarily due to the increase in market prices of live broilers and chicken breeds in the year ended 31 December 2019. See “— Principal Factors Affecting Our Results of Operations — Fair value adjustments of biological assets” above for more information on these biological assets fair value adjustments.

The table below sets forth our cost of sales by category for the years indicated.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Direct raw materials								
Feeds.....	985,424	43.1	971,836	40.5	1,037,042	34.3	926,429	26.5
Procurement of raw chicken meat.....	90,454	4.0	132,532	5.5	394,455	13.1	549,337	15.7
Accessory food, packaging materials and others	238,952	10.4	289,226	12.1	366,704	12.2	364,885	10.4
Direct labour.....	265,883	11.6	325,902	13.6	398,104	13.2	347,272	9.9
Depreciation.....	109,577	4.8	114,346	4.8	136,223	4.5	141,184	4.0
Utilities.....	93,617	4.1	108,303	4.5	139,051	4.6	128,664	3.7
Repairs and maintenance	42,966	1.9	44,169	1.8	55,712	1.8	42,420	1.2
Others	135,104	5.9	154,852	6.5	207,861	6.9	204,566	5.9
Cost of sales results before agricultural produce								
fair value adjustments	1,961,977	85.8	2,141,166	89.3	2,735,152	90.6	2,704,757	77.3
Biological assets fair value adjustments.....	323,881	14.2	256,127	10.7	283,943	9.4	793,045	22.7
Total	<u>2,285,858</u>	<u>100.0</u>	<u>2,397,293</u>	<u>100.0</u>	<u>3,019,095</u>	<u>100.0</u>	<u>3,497,802</u>	<u>100.0</u>

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During the Track Record Period, feed costs remained the simple largest cost item in our cost of sales. The following sensitivity analysis illustrates the impact of hypothetical changes in the feed costs on our net profit (before biological assets fair value adjustments) during the Track Record Period:

For the year ended 31 December 2016

% Change in feed costs.....	10%	5%	2%	1%	(1%)	(2%)	(5%)	(10%)
Corresponding change in net profit (RMB'000).....	(98,542.4)	(49,271.2)	(19,708.5)	(9,854.2)	9,854.2	19,708.5	49,271.2	98,542.4
% Change in net profit.....	(86.0)%	(43.0)%	(17.2)%	(8.6)%	8.6%	17.2%	43.0%	86.0%

For the year ended 31 December 2017

% Change in feed costs.....	10%	5%	2%	1%	(1%)	(2%)	(5%)	(10%)
Corresponding change in net profit (RMB'000).....	(97,184)	(48,592)	(19,437)	(9,718)	9,718	19,437	48,592	97,184
% Change in net profit.....	(341.9)%	(171.0)%	(68.4)%	(34.2)%	34.2%	68.4%	171.0%	341.9%

For the year ended 31 December 2018

% Change in feed costs.....	10%	5%	2%	1%	(1%)	(2%)	(5%)	(10%)
Corresponding change in net profit (RMB'000).....	(103,704)	(51,852)	(20,741)	(10,370)	10,370	20,741	51,852	103,704
% Change in net profit.....	(87.5)%	(43.8)%	(17.5)%	(8.8)%	8.8%	17.5%	43.8%	87.5%

For the year ended 31 December 2019

% Change in feed cost.....	10%	5%	2%	1%	(1%)	(2%)	(5%)	(10%)
Corresponding change in net profit (RMB'000).....	(92,642.9)	(46,321.5)	(18,528.6)	(9,264.3)	9,264.3	18,528.6	46,321.5	92,642.9
% Change in net profit.....	(11.1)%	(5.6)%	(2.2)%	(1.1)%	1.1%	2.2%	5.6%	11.1%

The sensitivity analysis above assumes that only one variable changes while other variables remain unchanged and that costs of internally produced feed change at the same rates as the prices for externally purchased feed. This sensitivity analysis is intended for reference only, and any variation may differ from the amounts indicated. Investors should note in particular that this sensitivity analysis is not intended to be exhaustive and is limited to the impact of changes in the price for feed for our operations.

The table below sets forth our cost of sales (before biological assets fair value adjustments) by products segments for the years indicated.

	For the year ended 31 December							
	2016		2017		2018		2019	
	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales	RMB'000	% of cost of sales
Raw chicken meat products.....	1,274,469	65.0	1,196,179	55.9	1,523,908	55.7	1,330,042	49.2
Processed chicken meat products...	518,000	26.4	752,824	35.2	1,020,552	37.3	1,107,655	41.0
Chicken breeds	74,789	3.8	80,676	3.7	81,330	3.0	112,130	4.1
Others	94,719	4.8	111,487	5.2	109,362	4.0	154,930	5.7
Total	<u>1,961,977</u>	<u>100.0</u>	<u>2,141,166</u>	<u>100.0</u>	<u>2,735,152</u>	<u>100.0</u>	<u>2,704,757</u>	<u>100.0</u>

Gross Profit and Gross Profit Margin

Our gross profit represents our revenue less cost of sales, and our gross profit margin represents gross profit as a percentage of revenue. Our cost of sales is adjusted by changes in fair values of our biological assets¹.

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

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

Accordingly, as required by IAS 41, we measure our biological assets at their fair values less costs to sell². We also measure our agricultural produces (that is, the chicken carcass) harvested from the biological assets at their fair values less costs to sell at the point of harvest³. Such measurement is the cost at that date when applying IAS 2 Inventories. In this connection, when we sell our biological assets and agricultural produces, our cost of sales is adjusted, with fair value gains increasing our cost of sales and fair value losses decreasing our cost of sales. We recognised fair value gains during the Track Record Period. As such, fair value adjustments led to an increase in our cost of sales, which in turn led to a reduction in our gross profit, during the Track Record Period.

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

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

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

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

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

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

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

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

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

Generally, the gross profit margin for our processed chicken meat products is higher than that of our raw chicken meat products. In the year ended 31 December 2019, the gross profit margin of our raw chicken meat products was particularly high, primarily due to (i) an increase in the average selling prices of raw chicken meat products primarily as a result of increase in demand stimulated by the substitution effect of protein sources caused by the outbreak of African Swine Fever in 2018, (ii) decrease in feed costs, and (iii) a decrease in direct labour costs. For details, see “— Results of our operations — The year ended 31 December 2019 compared with the year ended 31 December 2018 — Gross profit and gross profit margin”.

Gain Arising on Initial Recognition of Agricultural Produce at Fair Value Less Costs to Sell at the Point of Harvest

We recognised gains of RMB225.5 million, RMB250.5 million, RMB169.2 million and RMB402.8 million arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest in the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. See “— Principal Factors Affecting Our Results of Operations — Fair value adjustments of agricultural produce” above for more information.

Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

For breeders, broilers and broiler eggs that remained as our biological assets at the end of a reporting period, we recognise gains or losses equal to the change in the fair value of these biological assets, less costs to sell at the period-end. At each balance sheet date, the Group’s biological assets are valued at fair value less point-of-sale costs at year-end. The aggregate gains or losses arising from the initial recognition of the biological assets and from the change in the fair value of the biological assets less point-of-sale costs, is recognised in the Group’s income statement as profit or loss. Any such profit or loss reflects only unrealised gains or losses on the Group’s biological assets as at the relevant balance sheet date and does not generate actual cash inflow or outflow. We recognised gains of RMB103.7 million, RMB14.4 million, RMB132.9 million and RMB393.7 million arising from changes in fair value less costs to sell of biological assets in 2016, 2017, 2018 and 2019, respectively. See “— Principal Factors Affecting Our Results of Operations — Biological assets fair value adjustments” above for more information.

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Other Income and Gains

Our other income and gains principally consisted of interest income from banks, exchange gains from foreign currency translation and government grants. We exported a portion of our products to overseas customers outside the PRC. We recorded exchange gains of RMB5.5 million, nil, nil and RMB7.0 million in 2016, 2017, 2018 and 2019, respectively, primarily due to the weakening of RMB against certain currencies used in the countries that we exported to. Government grants, which are subject to the discretion of government authorities, affected our profitability during the Track Record Period. During the Track Record Period, our government grants included financial subsidies, including in the form of reimbursement of certain of our expenses, that we received from various levels of government authorities in support of our business in the agriculture industry and for our use of certain environmentally friendly facilities. Our other income and gains was RMB14.4 million, RMB12.3 million, RMB13.0 million and RMB27.9 million in for the years ended 31 December 2016, 2017, 2018 and 2019, respectively.

Selling and Distribution Costs

Our selling and distribution costs principally consisted of employee compensation for sales and marketing staff, transportation costs, promotion and advertising expenses, travel expenses, depreciation and other sales-related expenses.

The following table sets out our selling and distribution expenses during the Track Record Period:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Employee compensation	38,564	33,025	35,207	44,564
Transportation costs	34,035	33,106	46,985	54,006
Promotion and advertising expenses	24,793	8,407	20,892	43,395
Depreciation	347	343	402	579
Travel expenses	8,366	7,264	8,097	9,207
Rental expenses	1,158	1,254	2,202	1,982
Others	4,944	5,783	6,628	5,557
Total	<u>112,207</u>	<u>89,182</u>	<u>120,413</u>	<u>159,290</u>

In 2016, 2017, 2018 and 2019, our selling and distribution costs were RMB112.2 million, RMB89.2 million, RMB120.4 million and RMB159.3 million, representing 4.8%, 3.7%, 3.8% and 4.1% of our revenue, respectively.

Administrative Expenses

Our administrative expenses principally consisted of employee compensation for administrative staff, other tax expenses (including taxes relating to land-use-rights, property tax and stamp duty), depreciation, travel expenses, rental expenses, consultancy and professional fees, utilities and other administrative-related expenses. In 2016, 2017, 2018 and 2019, our administrative expenses were RMB104.9 million, RMB109.5 million, RMB134.7 million and RMB160.6 million, representing 4.5%, 4.5%, 4.2% and 4.1% of our revenue, respectively.

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The following table sets out our administrative expenses during the Track Record Period:

	Year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Employee compensation	56,501	57,071	70,829	67,682
Other tax expenses	14,965	16,127	21,407	24,165
Depreciation	6,359	7,416	9,794	11,343
Exchange loss	—	3,797	948	—
Travel expenses	4,990	3,768	3,402	3,028
Rental expenses	3,300	2,464	665	4,346
Consultancy and professional fees	1,943	2,798	6,580	14,386
Utilities	1,098	1,840	1,671	2,317
Maintenance and repair	877	1,146	1,156	452
Loss on disposals of property, plant and equipment	3,008	3,320	6,630	12,686
Others	11,810	9,781	11,618	20,226
Total	104,851	109,528	134,700	160,631

Provision for Impairment Loss/Loss Allowance

Our provision for impairment loss is primarily related to our trade receivables and other receivables.

We made a provision for impairment loss in the amount of RMB1.6 million in the year ended 31 December 2016. Such impaired trade receivables relate to one single customer whom our management expected only a portion of its receivables to be recoverable. The Group no longer conducts business transaction with such customer. We did not make provision for impairment loss in 2017. We adopted IFRS 9, effective for the period beginning on or after 1 January 2018. The adoption of IFRS 9 has changed our impairment model by replacing the IAS 39 “incurred loss model” to the “expected credit losses (ECLs) model”. We made provision for impairment loss in the amount of RMB2.6 million and RMB0.7 million for the years ended 31 December 2018 and 2019, respectively, based on the ECLs model.

We elected to measure loss allowances for trade receivables and contract assets using IFRS 9 simplified approach and to calculate ECLs based on lifetime ECLs. We have established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Based on the assessment of the management of the Group for the two years ended 31 December 2018 and 2019, there was no significant change in the historical repayment records of our debtors, and we had not noted any forward-looking factors specific to our debtors or the economic environment which would materially affect the default risk of our debtors. Accordingly, our ECL rates remained the same for 2018 and 2019. For further details on ECLs, see Note 4A to the Accountants’ Report in Appendix I.

Other Expenses

In 2016, 2017, 2018 and 2019, our other expenses solely represented our listing expenses charged to the consolidated statement of comprehensive income in these periods. In 2016, 2017, 2018 and 2019, our other expenses were nil, RMB5.0 million, RMB0.9 million and RMB4.1 million, representing immaterial percentage of our revenue for the corresponding year.

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Finance Costs

Our finance costs consisted of interest on bank and other borrowings, interest on bills payable and interest on lease liabilities. Our bills payable represented payables to our supplier, Yanggu Dafeng. During the Track Record Period, Yanggu Dafeng agreed with the Group to use bills as one of the methods to settle the payable amount to Yanggu Dafeng. It was also agreed that when Yanggu Dafeng required to obtain financing for the funds needed for, inter alia, purchase of raw materials to be sold to the Group by discounting the respective bills, the Group would bear the relevant finance costs incurred which were in the amount of RMB2.9 million, RMB4.4 million, RMB13.8 million and RMB13.7 million for each of the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. The effective interest rate per annum of the bills payable ranged from 3.7% to 6.2% during the Track Record Period. In 2016, 2017, 2018 and 2019, our finance costs were RMB72.3 million, RMB73.7 million, RMB97.0 million and RMB89.3 million, representing 3.1%, 3.0%, 3.0% and 2.3% of our revenue, respectively.

Income Tax Expense

Under the EIT Law and the related implementation rules, our Chinese subsidiaries are subject to EIT at the rate of 25%. Pursuant to the EIT Law and the related implementation rules, our Chinese subsidiaries that engage in animal-husbandry (for example, live chicken production) and poultry feeding are exempt from EIT on income derived from that business. According to the EIT Law and the related implementation rules and the Circular of MOF and SAT on Scope of Agricultural Products' Primary Processing Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), our Chinese subsidiaries that carry out primary processing of agriculture products (for example, slaughtering of chickens) are exempt from EIT on income derived from that business.

We had income tax expense of RMB0.9 million, income tax credit of RMB0.3 million, income tax expense of RMB0.8 million and income tax expense of RMB1.3 million in 2016, 2017, 2018 and 2019, respectively. Our effective tax rates was 0.8%, (0.8)%, 0.6% and 0.2% for the 2016, 2017, 2018 and 2019, respectively. Our effective tax rates during the Track Record Period were lower than the EIT rate of 25% primarily due to the tax exemptions granted to certain of our operations. Further details are set forth in “— Principal Factors Affecting our Results of Operations — Taxation and Government Grants” above and Note 13 to the Accountants' Report in Appendix I.

RESULTS OF OUR OPERATIONS

The following table summarises the consolidated statements of comprehensive income for the years indicated:

	Year ended 31 December								
	2016		2017		2018		2019		
	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	2,354,104	—	2,354,104	3,197,099	—	3,197,099	3,926,217	—	3,926,217
Cost of sales	(1,961,977)	(323,881)	(2,285,858)	(2,141,166)	(256,127)	(2,397,293)	(2,704,757)	(793,045)	(3,497,802)
Gross profit	392,127	(323,881)	68,246	293,226	(256,127)	37,099	1,221,460	(793,045)	428,415
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	—	225,480	225,480	—	250,473	250,473	—	169,173	402,785
Gain arising from changes in fair value less costs to sell of biological assets	—	103,663	103,663	—	14,352	14,352	—	132,912	393,706
Other income and gains	14,373	—	14,373	12,272	—	12,272	27,942	—	27,942
Selling and distribution costs	(112,207)	—	(112,207)	(89,182)	—	(89,182)	(120,413)	—	(159,290)
Administrative expenses	(104,851)	—	(104,851)	(109,528)	—	(109,528)	(134,700)	—	(160,631)
Provision for impairment loss/loss allowance	(1,628)	—	(1,628)	—	—	—	(2,639)	—	(745)
Other expenses	—	—	—	(5,001)	—	(5,001)	(900)	—	(4,141)
Finance costs	(72,286)	—	(72,286)	(73,669)	—	(73,669)	(96,995)	—	(89,322)
Profit before income tax	115,528	5,262	120,790	28,118	8,698	36,816	137,414	3,446	838,719
Income tax (expense)/credit	(942)	—	(942)	303	—	303	(803)	—	(1,338)
Profit for the year	114,586	5,262	119,848	28,421	8,698	37,119	136,611	3,446	837,381

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The Year Ended 31 December 2019 Compared with the Year Ended 31 December 2018

Revenue

Our revenue increased by 22.8% from RMB3,197.1 million in 2018 to RMB3,926.2 million in 2019, primarily due to increase in sales volume of processed chicken meat products and chicken breeds, as well as increase in average selling prices across our main product segments.

Raw chicken meat products

Our revenue from the raw chicken meat products segment increased by 9.8% from RMB1,719.3 million in 2018 to RMB1,887.4 million in 2019. Such increase was mainly due to a 19.2% increase in average selling prices of raw chicken meat products, partially offset by a 7.7% decrease in sales volume in 2019. The decrease in sales volume was primarily due to a decrease in our broilers breeding as a result of (i) the temporary closures of certain of our broiler farms during upgrade of such broiler farms to caged systems, and (ii) our increased sales of chicken breeds in 2019.

Processed chicken meat products

Our revenue from the processed chicken meat products segment increased by 21.1% from RMB1,183.6 million for the year ended 31 December 2018 to RMB1,433.2 million for the year ended 31 December 2019. This increase was mainly due to a 13.7% increase in sales volume, mainly attributable to our domestic sales and sales to the European Union, and a 6.5% increase in average selling prices of processed meat products in 2019.

Chicken breeds

Our revenue from chicken breeds segment increased by 147.8% from RMB172.1 million in 2018 to RMB426.5 million in 2019, primarily due to a significant increase of 91.9% in average selling prices in chicken breeds and a 29.5% increase in sales volume in 2019. The average selling price for chicken breeds is generally volatile, market-driven and beyond our control.

Others

Our revenue from the others segment increased by 46.7% from RMB122.1 million in 2018 to RMB179.1 million in 2019, primarily due to increase in revenue recognised from (i) sales of broilers that did not satisfy our quality requirement as a result of increase in average selling prices of such broilers, and (ii) sales of broiler eggs as a result of increase in sales volume and average selling prices. At times, our breeders may lay broiler eggs in quantity exceeding our need, resulting in an increase in quantity of broiler eggs sold by us at a given time.

Cost of Sales

Our cost of sales increased by 15.9% from RMB3,019.1 million in 2018 to RMB3,497.8 million in 2019; biological assets fair value adjustments increased our cost of sales by RMB283.9 million in 2018 and RMB793.0 million in 2019. The increase in our cost of sales in 2019 was primarily due to a RMB509.1 million, or 179.3%, increase in biological assets fair value adjustments.

Raw chicken meat products

Cost of sales for our raw chicken meat products segment (before biological assets fair value adjustments) decreased by 12.7% from RMB1,523.9 million in 2018 to RMB1,330.0 million in 2019.

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Such decrease was primarily due to (i) a decrease of 7.7% in sales volume of raw chicken meat products in 2019, (ii) a decrease of in feed costs as a result of a decrease in our broilers breeding and a decrease in the average selling prices of soybean meal, and (iii) a decrease in direct labour costs as a result of the temporary closures of certain of our broiler farms during upgrade of such broiler farms to caged systems.

Processed chicken meat products

Cost of sales for our processed chicken meat products segment (before biological assets fair value adjustments) increased by 8.5% from RMB1,020.6 million in 2018 to RMB1,107.7 million in 2019, primarily due to our increased procurement of raw chicken meat from suppliers generally in line with the increase in sales volume of processed chicken meat products in 2019.

Chicken breeds

Cost of sales for our chicken breeds segment (before biological assets fair value adjustments) increased by 37.8% from RMB81.3 million in 2018 to RMB112.1 million in 2019, generally in line with the increase in sales volume of chicken breeds in 2019.

Others

Cost of sales for our others segment (before biological assets fair value adjustments) increased by 41.6% from RMB109.4 million in 2018 to RMB154.9 million in 2019, generally in line with the increase in revenue in this segment during the period.

Gross Profit and Gross Profit Margin

Our gross profit after biological assets fair value adjustments increased by 140.7% from RMB178.0 million in 2018 to RMB428.4 million in 2019. Our gross profit margin was 5.6% for 2018 and 10.9% for 2019. Our gross profit and gross profit margin after biological assets fair value adjustments for each of 2018 and 2019 were significantly impacted by our biological assets fair value adjustments which are included in our cost of sales. Our gross profit before biological assets fair value adjustments increased by 164.5% from RMB461.9 million in 2018 to RMB1,221.5 million in 2019, primarily due to (i) an increase in average selling prices across our raw and processed chicken meat products segments, (ii) an increase in average selling prices of chicken breeds of 91.9%, and (iii) a decrease in feed costs across the period. Our gross profit margin before fair value adjustments for biological assets (which are included in our total cost of sales) were 14.4% and 31.1% for 2018 and 2019, respectively.

Raw chicken meat products

Gross profit from our raw chicken meat products segment (before biological assets fair value adjustments) increased by 185.3% from RMB195.4 million in 2018 to RMB557.4 million in 2019, primarily as a result of (i) an increase in average selling prices of raw chicken meat products, (ii) a decrease in feed costs, and (iii) a decrease in direct labour costs across the period. Our feed costs was particularly high in 2018, primarily due to an increase in the average selling prices of corn and soybean meals across the year. For the foregoing reasons, the gross profit margin for our raw chicken meat products segment increased from 11.4% for 2018 to 29.5% for 2019.

Processed chicken meat products

Gross profit from our processed chicken meat products segment (before biological assets fair value adjustments) increased by 99.8% from RMB163.0 million in 2018 to RMB325.6 million in 2019,

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primarily as a result of (i) a 6.5% increase in average selling prices of processed meat products, and (ii) a decrease in feed costs in 2019. For the foregoing reasons, the gross profit margin for our processed chicken meat products segment increased from 13.8% for 2018 to 22.7% for 2019.

Chicken breeds

Gross profit from our chicken breeds segment (before biological assets fair value adjustments) increased by 246.1% from RMB90.8 million in 2018 to RMB314.3 million in 2019, primarily as a result of a 91.1% increase in average selling prices of chicken breeds in 2019.

Others

Gross profit from our others segment (before biological assets fair value adjustments) increased by 89.1% from RMB12.8 million in 2018 to RMB24.2 million in 2019, primarily as a result of increases in average selling prices of broilers and broiler eggs across the period.

Gain Arising on Initial Recognition of Agriculture Produce at Fair Value Less Costs to Sell at the Point of Harvest

Our gain arising on initial recognition of agriculture produce at fair value less costs to sell at the point of harvest increased by 138.1% from RMB169.2 million in 2018 to RMB402.8 million in 2019, primarily due to an increase in market prices of live broilers in 2019.

Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Gain arising from changes in fair value less estimated costs to sell of biological assets increased by 196.2% from RMB132.9 million in 2018 to RMB393.7 million in 2019, primarily due to an increase in the market prices of chicken breeds in 2019.

Other Income and Gains

Our other income and gains increased by 114.6% from RMB13.0 million in 2018 to RMB27.9 million in 2019, which was primarily due to an exchange gain in the amount of RMB7.0 million as a result of the weakening of RMB against certain currencies used in the countries we exported to in 2019.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 32.3% from RMB120.4 million in 2018 to RMB159.3 million in 2019. As a percentage of revenue, our selling and distribution expenses remained stable at 3.8% and 4.1% in 2018 and 2019, respectively.

Administrative Expenses

Our administrative expenses increased by 19.3% from RMB134.7 million in 2018 to RMB160.6 million in 2019. As a percentage of revenue, our administrative expenses remained stable at 4.2% and 4.1% in 2018 and 2019, respectively.

Provision for Impairment Loss/Loss Allowance

We made loss allowance on trade receivables and other receivables in the amount of RMB2.6 million and RMB0.7 million in 2018 and 2019, respectively, representing solely the expected credit

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losses recognised as required by IFRS 9. In 2018, the Group had a larger amount of trade receivables that were over one year past due, resulting in higher credit risk as determined by our management and the relatively larger amount of provision for impairment loss on trade receivables in such period. Such trade receivables were collected by the end of 2018.

Other Expenses

Our other expenses in 2018 and 2019 solely represented our listing expenses charged to the consolidated statement of comprehensive income in these periods. We charged an insignificant amount (namely, RMB0.9 million and RMB4.1 million) as listing expenses to the consolidated statement of comprehensive income in 2018 and 2019, respectively, as most of our listing expenses incurred during these periods were accounted for as prepayment and subsequently as a deduction from equity upon Listing.

Finance Costs

Our finance costs decreased insignificantly from RMB97.0 million in 2018 to RMB89.3 million in 2019, primarily due to a slight decrease in interest on borrowings as the amount of our borrowings decreased slightly in 2019.

Profit/(loss) Before Income Tax

For the foregoing reasons, our profit before income tax increase significantly from RMB137.4 million in 2018 to RMB838.7 million in 2019.

Income Tax Expense

Our income tax expense was RMB0.8 million and RMB1.3 million in December 2018 and 2019, respectively, representing an effective tax rate of 0.6% and 0.2%, primarily due to tax exemptions granted to us due to the nature of our business.

Profit for the Year

For the foregoing reasons, our profit for the year increased significantly by 513.0% from RMB136.6 million in 2018 to RMB837.4 million in 2019. Our profit margin increased from 4.3% in 2018 to 21.3% in 2019.

The Year Ended 31 December 2018 Compared with the Year Ended 31 December 2017

Revenue

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

Raw chicken meat products

Our revenue from the raw chicken meat products segment increased by 29.2% from RMB1,331.0 million in 2017 to RMB1,719.3 million in 2018. This increase was primarily due to a 9.2% increase in sales volume, as well as a 17.9% increase in our average selling price for raw chicken meat products in 2018. Such increase in sales volume was primarily due to an increase in domestic sales and export sales to Malaysia. The price fluctuation of our raw chicken meat products is generally higher than processed chicken meat products and is generally market-driven beyond our control.

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Processed chicken meat products

Our revenue from the processed chicken meat products segment increased by 30.1% from RMB910.0 million in 2017 to RMB1,183.6 million in 2018. This increase was primarily due to a 28.2% increase in sales volume as a result of (i) an increase in domestic sales, and (ii) our expansion of our exports to Europe and Japan as well as the commencement of operation of our new processing plant in the first half of 2018. It is our strategy to expand our production of processed chicken meat products due to the relatively stable selling prices and gross profit margin as compared to raw chicken meat products. We expect the proportion of our processed chicken meat products to increase as we expand our production volume and diversify our processed chicken meat product portfolio.

Chicken breeds

Our revenue from the chicken breeds segment increased by 146.2% from RMB69.9 million in 2017 to RMB172.1 million in 2018, primarily due to a 146.7% increase in selling price of chicken breeds in 2018 driven by increase in demand. The average selling price for chicken breeds is generally volatile, market-driven and beyond our control.

Others

Our revenue from the others segment decreased slightly by 1.1% from RMB123.5 million in 2017 to RMB122.1 million in 2018.

Cost of Sales

Our total cost of sales increased by 25.9% from RMB2,397.3 million in 2017 to RMB3,019.1 million in 2018; while biological assets fair value adjustments increased our total cost of sales by RMB256.1 million in 2017 and RMB283.9 million in 2018. The increase in our total cost of sales in 2018 was primarily due to a 27.7% increase in cost of sales before biological assets fair value adjustments, generally in line with the increase in our sales volume in 2018 and a RMB27.8 million, or 10.9%, increase in biological assets fair value adjustments as a result of an increase in market prices of chicken breeds.

Raw chicken meat products

Cost of sales for our raw chicken meat products segment (before biological assets fair value adjustments) increased by 27.4% from RMB1,196.2 million in 2017 to RMB1,523.9 million in 2018, primarily as a result of the increase in sales volume of our raw chicken meat products.

Processed chicken meat products

Cost of sales of our processed chicken meat products segment (before biological assets fair value adjustments) increased by 35.6% from RMB752.8 million in 2017 to RMB1,020.6 million in 2018. Cost of sales of our processed chicken meat product segment increased at a higher rate than the revenue derived from this segment primarily due to (i) an increase in average selling price and volume of chicken leg products we purchased from third-party suppliers for further processing in 2018, which increased our raw material costs; and (ii) the recognition of certain fixed costs in relation to our new processing plant to the cost of sales of our processed chicken meat product segment.

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Chicken breeds

Cost of sales of our chicken breeds segment (before biological assets fair value adjustments) remained stable at RMB80.7 million in 2017 and RMB81.3 million in 2018, generally in line with the stable sales volume of chicken breeds across this period.

Others

Cost of sales of our others segment (before biological assets fair value adjustments) remained stable at RMB111.5 million in 2017 and RMB109.4 million in 2018.

Gross Profit and Gross Profit Margin

Our gross profit after biological assets fair value adjustments increased by 379.8% from RMB37.1 million in 2017 to RMB178.0 million in 2018. Our gross profit margin was 1.5% and 5.6% for 2017 and 2018, respectively. Our gross profit and gross profit margin after biological assets fair value adjustments for each of 2017 and 2018 were significantly impacted by our biological assets fair value adjustments which are included in our total cost of sales. Our gross profit before biological assets fair value adjustments increased by 57.5% from RMB293.2 million in 2017 to RMB461.9 million in 2018, primarily due to (i) the increase in average selling prices of raw chicken meat products and processed chicken meat products, and (ii) the significant increase in average selling prices of chicken breeds in 2018. Our gross profit margin before fair value adjustments for biological assets (which are included in our total cost of sales) were 12.0% and 14.4% for 2017 and 2018, respectively.

Raw chicken meat products

Gross profit from our raw chicken meat products segment (before biological assets fair value adjustments) increased by 45.0% from RMB134.8 million in 2017 to RMB195.4 million in 2018. The gross profit margin for our raw chicken meat products segment increased from 10.1% in 2017 to 11.4% in 2018, primarily due to increase in average selling price of raw chicken meat products in 2018.

Processed chicken meat products

Gross profit from our processed chicken meat products segment (before biological assets fair value adjustments) increased by 3.7% from RMB157.2 million in 2017 to RMB163.0 million in 2018. Due to the higher growth of cost of sales than revenue in this segment as described above, gross profit margin for our processed chicken meat products segment decreased from 17.3% in 2017 to 13.8% in 2018.

Chicken breeds

Before biological assets fair value adjustments, we had a gross loss of RMB10.8 million and a gross loss margin of (15.5)% for our chicken breeds segment in 2017. Before biological assets fair value adjustments, we had a gross profit of RMB90.8 million and a gross profit margin of 52.7% for our chicken breeds segment in 2018. The difference is primarily due to a significant increase in selling price of chicken breeds in 2018.

Others

Gross profit from our others segment (before biological assets fair value adjustments) remained stable at RMB12.0 million and RMB12.8 million in 2017 and 2018, respectively. Gross profit margin for our others segment (before biological assets fair value adjustments) remained stable at 9.7% and 10.5% in 2017 and 2018, respectively.

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Gain Arising on Initial Recognition of Agriculture Produce at Fair Value Less Costs to Sell at the Point of Harvest

Our gain arising on initial recognition of agriculture produce at fair value less costs to sell at the point of harvest decreased by 32.5% from RMB250.5 million in 2017 to RMB169.2 million in 2018. The decrease was primarily due to (i) a decrease in breeding volume of live broiler chickens, and (ii) an increase in feed costs in 2018.

Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Gain arising from changes in fair value less costs to sell of biological assets increased by 822.9% from RMB14.4 million in 2017 to RMB132.9 million in 2018, primarily due to the significant increase in the market prices of chicken breeds in 2018.

Other Income and Gains

Our other income and gains increased slightly by 5.7% from RMB12.3 million in 2017 to RMB13.0 million in 2018, which was primarily due to a slightly increase in government grants in 2018.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 35.0% from RMB89.2 million in 2017 to RMB120.4 million in 2018. As a percentage of revenue, our selling and distribution expenses remained stable at 3.7% and 3.8% in 2017 and 2018, respectively.

Administrative Expenses

Our administrative expenses increased by 23.0% from RMB109.5 million in 2017 to RMB134.7 million in 2018. As a percentage of revenue, our administrative expenses remained stable at 4.5% and 4.2% in 2017 and 2018, respectively.

Provision for Impairment Loss/Loss Allowance

We made loss allowance on trade receivables in the amount of RMB2.6 million in 2018, representing solely the expected credit losses recognised as required by IFRS 9.

Other Expenses

Our other expenses in 2017 and 2018 solely represents our listing expenses charged to the consolidated statement of comprehensive income in these periods. We charged RMB5.0 million and RMB0.9 million as listing expenses to the consolidated statement of comprehensive income in 2017 and 2018, respectively. Part of our listing expenses incurred during the Track Record Period was regarded as incremental costs directly attributable to the proposed issue of new Shares under the Global Offering and to be accounted for as a deduction from equity. See “— Listing Expenses” below for further details.

Finance Costs

Our finance costs increased by 31.6% from RMB73.7 million in 2017 to RMB97.0 million in 2018, primarily due to increase in interest on borrowings and interest on bills payable. In 2016 and 2017, the government provided certain subsidies to us in the form of paying a portion of our interests on bank borrowings. In 2018, the extent of these subsidies was reduced, resulting in an increase in our interest on borrowings in 2018. Our interest on bills payable increased from 2017 to 2018 primarily due to an increase in the amount of bills payable to our supplier, Yanggu Dafeng.

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Profit/(loss) before Income Tax

For the foregoing reasons, our profit before income tax increased significantly from RMB36.8 million in 2017 to RMB137.4 million in 2018.

Income Tax Expense

We had an income tax credit of RMB0.3 million in 2017. Our income tax expenses was RMB0.8 million in 2018, representing an effective tax rate of 0.6%.

Profit for the Year

For the foregoing reasons, our profit for the year increased significantly by 268.2% from RMB37.1 million in 2017 to RMB136.6 million in 2018, and our profit margin increased from 1.5% in 2017 to 4.3% in 2018.

The Year Ended 31 December 2017 Compared with the Year Ended 31 December 2016

Revenue

Our revenue increased by 3.4% from RMB2,354.1 million in 2016 to RMB2,434.4 million in 2017, primarily due to increase in sales volume of our processed chicken meat products in 2017.

Raw chicken meat products

Our revenue from the raw chicken meat products segment decreased by 9.4% from RMB1,469.9 million in 2016 to RMB1,331.0 million in 2017. This decrease was primarily due to (i) a 6.6% decrease in sales volume and (ii) a 3.4% decrease in average selling price for raw chicken meat products in 2017. We utilised a higher proportion of our raw chicken meat products for production of our processed chicken meat products, resulting in a decrease in our sales volume of raw chicken meat products in 2017.

Processed chicken meat products

Our revenue from the processed chicken meat products segment increased by 44.9% from RMB628.0 million in 2016 to RMB910.0 million in 2017. This increase was primarily due to a 49.8% increase in sales volume (particularly in domestic sales and export sales to Japan) in line with our strategy to expand production of processed chicken meat products partially offset by a 3.0% decrease in our average selling price for processed chicken meat products in 2017.

Chicken breeds

Our revenue from the chicken breeds segment decreased by 53.2% from RMB149.4 million in 2016 to RMB69.9 million in 2017. The average selling prices of chicken breeds are generally volatile. The average selling prices of chicken breeds decreased significantly in 2017, primarily due to the impact of H7N9 avian influenza reported in 2017. Despite that the sales volume of our chicken breeds remained stable from 2016 to 2017, our revenue from the chicken breeds segments decreased significantly primarily due to a 51.6% decrease in average selling price of chicken breeds in 2017.

Others

Our revenue from the others segment increased by 15.5% from RMB106.9 million in 2016 to RMB123.5 million in 2017, primarily due to increase in sales volume of livestock feeds and by-product.

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Cost of Sales

Our total cost of sales increased by 4.9% from RMB2,285.9 million in 2016 to RMB2,397.3 million in 2017; biological assets fair value adjustments increased our total cost of sales by RMB323.9 million in 2016 and RMB256.1 million in 2017. The increase in our total cost of sales in 2017 was primarily due to a 9.1% increase in cost of sales before biological assets fair value adjustments, partially offset by an RMB67.8 million, or 20.9%, decrease in biological assets fair value adjustments.

Raw chicken meat products

Cost of sales for our raw chicken meat products segment (before biological assets fair value adjustments) decreased by 6.1% from RMB1,274.5 million in 2016 to RMB1,196.2 million in 2017, generally in line with the decrease in our revenue from this segment in 2017.

Processed chicken meat products

Cost of sales of our processed chicken meat products segment (before biological assets fair value adjustments) increased by 45.3% from RMB518.0 million in 2016 to RMB752.8 million in 2017, generally in line with the increase in our revenue derived from this segment in 2017.

Chicken breeds

Cost of sales of our chicken breeds segment (before biological assets fair value adjustments) increased by 7.9% from RMB74.8 million in 2016 to RMB80.7 million in 2017. Our cost of sales of our chicken breeds segment increased by 7.9% despite a 0.9% decrease in our sales volume across the year was primarily due to an increase in production overhead, including labour cost and utilities, attributable to this segment in 2017.

Others

Cost of sales of our others segment (before biological assets fair value adjustments) increased by 17.7% from RMB94.7 million in 2016 to RMB111.5 million in 2017, generally in line with the increase in our revenue derived from this segment across the year.

Gross Profit and Gross Profit Margin

Our gross profit after biological assets fair value adjustments decreased by 45.6% from RMB68.2 million in 2016 to RMB37.1 million in 2017, and our gross profit margin decreased from 2.9% in 2016 to 1.5% in 2017. Our gross profit and gross profit margin after biological assets fair value adjustments for each of 2016 and 2017 were significantly impacted by our biological assets fair value adjustments which are included in our total cost of sales. Our gross profit before biological assets fair value adjustments decreased by 25.2% from RMB392.1 million in 2016 to RMB293.2 million in 2017. Our gross profit margin before fair value adjustments for biological assets (which are included in our total cost of sales) were 16.7% and 12.0% for 2016 and 2017, respectively. The decrease in our gross profit and gross profit margin before fair value adjustments for biological assets from 2016 to 2017 was primarily due to (i) a significant decrease in gross profit from the chicken breeds segment, due to volatility in the price of chicken breeds, and (ii) an increase in labour costs.

Raw chicken meat products

Gross profit from our raw chicken meat products segment (before biological assets fair value adjustments) decreased by 31.0% from RMB195.4 million in 2016 to RMB134.8 million in 2017. The

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gross profit margin for our raw chicken meat products segment decreased from 13.3% in 2016 to 10.1% in 2017. Gross profit from our raw chicken meat products segment decreased at a higher rate than the decrease in our revenue derived from our raw chicken meat products was primarily due to a 3.4% decrease in average selling price of raw chicken meat products in the PRC.

Processed chicken meat products

Gross profit from our processed chicken meat products segment (before biological assets fair value adjustments) increased by 42.9% from RMB110.0 million in 2016 to RMB157.2 million in 2017, generally in line with the increase in our revenue derived from the processed chicken meat products across the year. Gross profit margin for our processed chicken meat products segment remained stable at 17.5% in 2016 and 17.3% in 2017.

Chicken breeds

We had a gross profit of RMB74.6 million from and a gross profit margin of 49.9% for our chicken breeds segment in 2016. We had a gross loss of RMB10.8 million from and a gross loss margin of 15.5% for our chicken breeds segment in 2017. The difference is primarily due to a significant decrease of 51.6% in the selling price of chicken breeds in 2017, primarily due to the impact of H7N9 avian influenza reported in 2017.

Others

Gross profit from our others segment (before biological assets fair value adjustments) decreased slightly by 0.8% from RMB12.1 million in 2016 to RMB12.0 million in 2017. Gross profit margin for our others segment remained stable at 11.4% and 9.7% for 2016 and 2017, respectively.

Gain Arising on Recognition of Agricultural Produce at Fair Value Less Costs to Sell at the Point of Harvest

Our gain arising on recognition of agricultural produce at fair value less costs to sell at the point of harvest increased by 11.1% from RMB225.5 million in 2016 to RMB250.5 million in 2017, primarily due to a decrease in the cost of breeding broilers in 2017 as a result of a slight decrease in feed costs.

Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Our gain arising from changes in fair value less costs to sell of biological assets decreased by 86.1% from RMB103.7 million in 2016 to RMB14.4 million in 2017, primarily due to a decrease in the market prices of chicken breeds in 2017.

Other Income and Gains

Our other income and gains decreased by 14.6% from RMB14.4 million in 2016 to RMB12.3 million in 2017. We recorded exchange gain in the amount of RMB5.5 million in 2016 but recorded an exchange loss in the amount of RMB3.8 million in 2017, which was recognised as part of our administrative expenses in 2017.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 20.5% from RMB112.2 million in 2016 to RMB89.2 million in 2017 mainly due to the management strategies to downscale the marketing and promotional campaigns in 2017.

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Administrative Expenses

Our administrative expenses increased slightly by 4.4% from RMB104.9 million in 2016 to RMB109.5 million in 2017, mainly due to the exchange loss incurred as a result of settlement of sales and procurement transaction in foreign currency, mainly USD, in 2017.

Provision for Impairment Loss

We made a provision for impairment loss in the amount of RMB1.6 million in 2016, which related to a single customer which the Group no longer conducts business with. We did not make any provision for impairment loss in relation to trade receivables in 2017. Based on the IAS 39 “incurred loss model”, the Directors is of the view that no provision of impairment losses for trade receivable is required in 2017.

Other Expenses

Our other expenses was nil in 2016. Our other expenses was RMB5.0 million in 2017 which was primarily due to the recognition of listing expenses in the amount of RMB5.0 million in 2017. We did not incur any listing expenses in 2016.

Finance Costs

Our finance costs remained stable at RMB72.3 million in 2016 and RMB73.7 million in 2017.

Profit/(loss) Before Income Tax

For the foregoing reasons, we had a profit before tax of RMB120.8 million and RMB36.8 million in 2016 and 2017, respectively.

Income Tax Expense

Our income tax expenses was RMB0.9 million in 2016 while we had an income tax credit of RMB0.3 million in 2017 which is mainly derived from the recognition of deferred tax assets related to government grants received but not yet recognised as income. Our effective tax rate in 2016 was 0.8%, primarily due to effect of tax exemptions granted to us due to the nature of our businesses.

Profit for the Year

For the foregoing reasons, our profit for the year decreased by 69.0% from RMB119.8 million in 2016 to RMB37.1 million in 2017.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations principally with cash generated from our operations, borrowings and shareholders' capital contributions. Our primary uses of cash during the Track Record Period were for working capital purposes and capital expenditures for expansion and improvement of production facilities.

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Cash Flow

The following table sets forth selected cash flow data from our consolidated statements of cash flows for the years indicated:

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

Cash Flow Generated from Operating Activities

In 2019, we had net cash generated from operating activities of RMB723.5 million, consisting of RMB1,097.3 million in operating cash inflows before movements in working capital, net cash outflows of RMB371.9 million relating to movements in working capital and income tax paid of RMB1.9 million. Our operating cash inflows before movements in working capital were primarily attributable to our profit before income tax for the year of RMB838.7 million, adjusted for non-cash items, including primarily to add back (i) depreciation of RMB163.1 million, and (ii) finance costs of RMB89.3 million; and to deduct (i) gain arising from changes in fair value less costs to sell of biological assets of RMB3.4 million, (ii) exchange gain of RMB7.0 million, and (iii) interest income of RMB7.4 million. Our net cash outflows relating to movements in working capital were primarily attributable to (i) a RMB138.6 million increase in inventories, primarily due to our import of raw chicken meat from Brazil for our processed chicken meat products production, (ii) a RMB182.1 million decrease in trade and bills payables, primarily due to a decrease in our bills payable, (iii) a RMB24.9 million decrease in accruals and other payables, primarily due to the completion of the construction of new production facility and upgrade of our broiler farms, and (iv) a RMB11.5 million increase in trade receivables; partially offset a RMB5.3 million decrease in prepayments, deposits and a RMB9.4 million increase in contract liabilities.

In 2018, we had net cash generated from operating activities of RMB782.9 million, consisting of RMB378.3 million in operating cash inflows before movements in working capital, net cash inflows of RMB406.5 million relating to movements in working capital and income tax paid of RMB1.9 million. Our operating cash inflows before movements in working capital were primarily attributable to our profit before income tax for the year of RMB137.4 million, adjusted for non-cash items, including primarily to add back (i) depreciation of RMB146.4 million, and (ii) finance costs of RMB97.0 million; and to deduct loss arising from changes in fair value less costs to sell of biological assets of RMB18.1 million. Our net cash inflows relating to movements in working capital were primarily attributable to (i) a RMB160.3 million decrease in inventories, primarily due to our increased sales volume in 2018, and (ii) a RMB293.4 million increase in trade and bills payables, primarily due to increase in bills payables in 2018; partially offset by a RMB85.6 million increase in trade receivables as a result of our receipt of a few large orders from a major customer towards the end of 2018.

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In 2017, we had net cash generated from operating activities of RMB84.4 million, consisting of RMB236.9 million in operating cash inflows before movements in working capital, net cash outflows of RMB150.9 million relating to movements in working capital and income tax paid of RMB1.6 million. Our operating cash inflows before movements in working capital were primarily attributable to our profit before income tax for the year of RMB36.8 million, adjusted for non-cash items, including primarily to add back (i) depreciation of RMB122.1 million, and (ii) finance costs of RMB73.7 million; and to deduct loss arising from changes in fair value less costs to sell of biological assets of RMB8.7 million. Our net cash outflows relating to movements in working capital were primarily attributable to (i) a RMB104.8 million decrease in trade and bills payables, primarily due to our unintentional delay in settlement of trade payables at the end of 2016 resulting in a high level of trade payables as at 31 December 2016, (ii) a RMB73.3 million increase in prepayments, deposits and other receivables, primarily due to an increase in VAT recoverable related to the purchase of property, plant and equipment for our new processing facility in 2017, and (iii) a RMB13.0 million increase in inventories, primarily due to a minor stockpiling of raw chicken meat products in 2017 in anticipation of a market price increase in 2018; partially offset by a RMB66.4 million increase in accruals and other payables as a result of increase in other payables relating to the construction of our new processing facility in 2017.

In 2016, we had net cash generated from operating activities of RMB216.9 million, consisting of RMB308.2 million in operating cash inflows before movements in working capital, net cash outflows of RMB89.7 million relating to movements in working capital and income tax paid of RMB1.6 million. Our operating cash inflows before movements in working capital were primarily attributable to our profit for the year of RMB120.8 million, adjusted for non-cash items, including primarily to add back (i) depreciation of RMB116.3 million, and (ii) finance costs of RMB72.3 million; and to deduct (i) exchange gain of RMB5.5 million, and (ii) gain arising from change in fair value less costs to sell of biological assets of RMB5.3 million. Our net cash outflows relating to movements in working capital were primarily attributable to (i) a RMB73.0 million increase in inventories, primarily due to an increase in inventories of raw chicken meat products in 2016, (ii) a RMB43.1 million increase in biological assets, primarily due to an increase in the quantity of breeder chickens as well as fair value of breeders in 2016, and (iii) a RMB29.1 million decrease in trade and bills payables as we discontinued purchases from suppliers which failed to satisfy our quality requirements; partially offset by net proceeds from related parties of RMB32.2 million.

Cash Flow Used in Investing Activities

In 2019, we recorded net cash used in investing activities of RMB177.8 million, primarily as a result of purchases of property, plant and equipment of RMB258.6 million and an increase in prepayments for prepayments for such purchases of RMB43.8 million, primarily due to the upgrade of our broiler farms battery-cage systems; partially offset by a RMB89.1 million decrease in pledged deposits as a result of a decrease in our bills payable in 2019.

In 2018, we recorded net cash used in investing activities of RMB387.3 million, primarily as a result of (i) purchases of property, plant and equipment of RMB183.0 million primarily due to the upgrade of our broiler farms to battery-cage systems, and (ii) increase of RMB208.1 million in pledged deposits as a result of an increase of bills payables in 2018.

In 2017, we recorded net cash used in investing activities of RMB464.0 million, primarily as a result of purchases of property, plant and equipment of RMB578.7 million in relation to the construction of our new processing facility in 2017; partially offset by a RMB65.5 million decrease in pledged deposits in 2017.

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In 2016, we recorded net cash used in investing activities of RMB127.3 million, primarily as a result of (i) purchases of property, plant and equipment of RMB135.6 million primarily due to the construction of a research and development facility in 2016, (ii) increase of RMB57.4 million in pledged deposits, as a result of an increase of bills payables in 2018, and (iii) land lease prepayments of RMB22.6 million made in relation to our new processing plant, the construction of which was commenced in 2017; partially offset by a decrease in prepayments for purchase of property, plant and equipment in the amount of RMB81.1 million.

Cash Flow Generated from/(Used in) Financing Activities

In 2019, we recorded net cash used in financing activities of RMB231.1 million, reflecting primarily net repayment borrowings of RMB118.4 million, and interest paid in the amount of RMB110.4 million.

In 2018, we recorded net cash used in financing activities of RMB308.1 million, reflecting primarily net repayment of borrowings in the amount of RMB190.5 million and interest paid in the amount of RMB83.2 million .

In 2017, we recorded net cash generated from financing activities of RMB273.9 million, reflecting primarily net proceeds from borrowings of RMB297.9 million.

In 2016, we recorded net cash used in financing activities of RMB6.5 million, primarily as a result of repayment of amount due to immediate holding companies in the amount of RMB72.9 million and interest paid of RMB69.4 million, partially offset by net proceeds from borrowings of RMB121.2 million.

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Net Current Liabilities/Assets

The following table sets forth our current assets and current liabilities as at the dates indicated:

	As at 31 December				As at 30 April 2020 ("the Indebtedness Date")
	2016 RMB'000	2017 RMB'000	2018 RMB'000	2019 RMB'000	RMB'000 (unaudited)
Current assets					
Inventories	497,154	508,809	347,515	485,025	554,371
Biological assets	112,494	120,669	138,422	141,873	148,272
Trade receivables	80,691	106,659	188,648	206,625	213,129
Prepayments, deposits and other receivables	134,879	208,150	164,061	158,531	187,202
Due from related parties	3,214	—	—	46	172
Due from ultimate holding company	43	—	—	—	—
Pledged deposits	131,145	65,600	273,667	184,590	303,052
Cash and cash equivalents	267,011	161,314	248,724	563,365	847,794
Total current assets	<u>1,226,631</u>	<u>1,171,201</u>	<u>1,361,037</u>	<u>1,740,055</u>	<u>2,253,992</u>
Current liabilities					
Trade and bills payables	304,839	204,450	511,378	308,120	290,476
Accruals and other payables	199,746	266,136	277,393	252,470	246,249
Contract liabilities	13,727	8,847	11,765	21,160	33,594
Lease liabilities	7,346	1,438	1,977	3,476	3,476
Due to related parties	4,123	4,948	3,757	5,283	4,510
Due to ultimate holding company	237	—	—	—	—
Due to immediate holding company	—	14,000	—	—	—
Borrowings	1,338,013	1,675,944	1,419,432	1,266,398	1,736,408
Deferred government grants	480	1,711	522	847	—
Income tax payable	3,436	2,359	1,204	545	469
Total current liabilities	<u>1,871,947</u>	<u>2,179,833</u>	<u>2,227,428</u>	<u>1,858,299</u>	<u>2,315,182</u>
Net current liabilities	<u>(645,316)</u>	<u>(1,008,632)</u>	<u>(866,391)</u>	<u>(118,244)</u>	<u>(61,190)</u>

We had net current liabilities of RMB645.3 million, RMB1,008.6 million, RMB866.4 million and RMB118.2 million as at 31 December 2016, 2017, 2018 and 2019, respectively.

Our net current liabilities as at end of the years during the Track Record Period was primarily due to our borrowings, most of which are short-term bank borrowings. Our borrowings were primarily utilised for construction of our production facility, acquisition of property, plant and equipment and for general working capital purposes.

Our net current liabilities was particularly high as at 31 December 2017 as we incurred additional short-term borrowings for construction of our new processing plant in 2017. Our net current liabilities gradually improved after 2017 as we completed the construction of our new processing plant in the first half of 2018 and as our operating cash inflow increased. We expect our net current liabilities position will improve in the future after the Listing as (i) we lessen the use of borrowings for our production facility expansion or upgrades, and (ii) as our business expands and operating cash inflow increases.

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Working Capital

The Directors believe that, after taking into account the financial resources available to us, including internally generated funds, credit facilities available, and the estimated net proceeds of the Global Offering, we have sufficient working capital for our present requirements for at least the next 12 months from the date of this prospectus.

After due consideration and discussions with the Company's management and based on the above and the assumption that there is no material change in the composition and trend of our capital expenditure, the Sole Sponsor has no reason to believe that the Company cannot meet its working capital requirements for the 12-month period from the date of this prospectus.

INDEBTEDNESS

Borrowings

The following table sets forth the composition of our interest-bearing bank and other borrowings as at the dates indicated:

	As at 31 December				As at the
	2016	2017	2018	2019	Indebtedness Date
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)
Bank loans, secured	1,050,600	1,361,097	991,427	894,542	1,548,700
Other loans from financial institution, unsecured	—	198,000	28,000	28,000	—
Other loans from financial institution, secured	327,413	116,847	466,031	444,491	300,806
Total borrowings	1,378,013	1,675,944	1,485,458	1,367,033	1,849,506

The following table sets forth the maturity profile of our bank and other borrowings as at the dates indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans repayable:				
Within one year	1,010,600	1,361,097	991,427	894,542
In the second year	40,000	—	—	—
Subtotal	1,050,600	1,361,097	991,427	894,542
Other loans from financial institution, unsecured:				
Within one year	—	198,000	28,000	28,000
Other loans from financial institution, secured:				
Within one year	327,413	116,847	400,005	343,856
In the second year	—	—	31,986	71,060
In the third to fifth years, inclusive	—	—	34,040	29,575
Subtotal	327,413	116,847	466,031	444,491
	1,378,013	1,675,944	1,485,458	1,367,033

Our borrowings amounted to RMB1,378.0 million, RMB1,675.9 million, RMB1,485.5 million and RMB1,367.0 million as at 31 December 2016, 2017, 2018 and 2019, respectively. Our borrowings were primarily utilised for acquisition of property, plant and equipment.

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Our bank borrowings as at 31 December 2016, 2017, 2018 and 2019 are secured by (i) mortgages of the Group's leasehold lands situated in the PRC with aggregate net carrying values of RMB13.3 million, RMB3.4 million, RMB3.3 million and RMB26.7 million, respectively; (ii) pledge of the Group's bank deposits of RMB131.1 million, RMB65.6 million, RMB273.7 million and RMB184.6 million; (iii) pledge of certain of the Group's property, plant and equipment with aggregate net carrying amount of nil, RMB22.7 million, RMB22.9 million and RMB249.5 million, respectively; (iv) mortgage over 13.19% equity interests in a related company by our controlling shareholder, which will be released before/upon Listing; and (v) pledge of certain inventories of the related company with aggregate net carrying amount of RMB527.1 million, RMB527.1 million, RMB527.1 million and RMB539.4 million, respectively.

As at 31 December 2016, 2017, 2018 and 2019, (i) up to nil, RMB100 million, nil and nil of our bank borrowings was jointly guaranteed by Fengxiang Group, and Shandong Xiangguang Group and Mr. Liu XJ; (ii) up to RMB242.9 million, RMB239.4 million, RMB219.4 million and nil of our bank borrowings were jointly guaranteed by Fengxiang Group and Mr. Liu XJ; (iii) up to RMB125.0 million, RMB40.0 million, nil and nil of our bank loans were jointly guaranteed by Fengxiang Group and Shandong Xiangguang Group, respectively; (iv) up to RMB49.0 million, nil, nil and nil of our bank loans were guaranteed by a related company; and (v) up to RMB355.0 million, RMB370.0 million, RMB355.0 million and nil of our bank loans were jointly guaranteed by and Shandong Xiangguang Group and Mr. Liu XJ, respectively.

The abovementioned pledges over assets of our related company and the personal or corporate guarantees given by our related company or Controlling Shareholders or their close associates will not be released in full prior to the Listing. For more details, see "Relationship with Controlling Shareholder — Independence from the Controlling Shareholders — Financial Independence" in this prospectus.

During the Track Record Period, our unsecured other loans from financial institution solely represented loans from GMK Finance.

During the Track Record Period, our secured other loans from financial institution represented loans from GMK Finance and another financial institution. As at 31 December 2016, 2017, 2018 and 2019, RMB327.4 million, RMB116.8 million, RMB370.0 million and RMB276.2 million, respectively, of our secured other loans from financial institution represented loans from GMK Finance and were secured by bills receivable issued by a subsidiary to the Company for intra-group transactions. Other than the above, the remaining secured other loans from financial institution were jointly guaranteed by GMK Finance, Shandong Xiangguang Group and Mr. Liu XJ and secured by pledge of certain property, plant and equipment held by the Group as at 31 December 2018 and 2019. For details, see Note 29 to the Accountants' Report in Appendix I.

Our borrowings increased by 21.6% from RMB1,378.0 million as at 31 December 2016 to RMB1,675.9 million as at 31 December 2017, primarily due to increase in bank loans in the amount of RMB310.5 million, mainly utilised for the construction of our new processing plant in 2017. Our borrowings decreased by 11.4% from RMB1,675.9 million as at 31 December 2017 to RMB1,485.5 million as at 31 December 2018, primarily due to the repayment of certain bank borrowings. We did not incur substantial new borrowings in 2018. Our balance of borrowings remained relatively stable at RMB1,367.0 million as at 31 December 2019. The Directors confirm that during the Track Record Period and as at the Latest Practicable Date, the Group had not experienced any material difficulties in obtaining bank and other borrowing.

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As at the Indebtedness Date (i.e. 30 April 2020, being the most recent practicable date for the purpose of the indebtedness statements), we had outstanding (i) secured bank loans of RMB1,548.7 million (unaudited) and (ii) secured other loans from financial institution of RMB300.8 million (unaudited) which were secured by bills receivable issued by a subsidiary to the Company for intra-group transactions and certain property, plant and equipment held by the Group.

All of our bank loans and other loans from financial institution are with floating interest rate. The following table sets forth our interest rate for each type of borrowings as at the dates indicates:

	As at 31 December				As at the
	2016	2017	2018	2019	Indebtedness Date
	%	%	%	%	%
Bank loans, secured	1.5 to 7.3	0.4 to 6.6	1.5 to 6.0	2.9 to 5.1	2.9-5.2
Other loans from financial institution, unsecured.....	—	3.9 to 6.2	6.2	6.2	—
Other loans from financial institution, secured	3.1	3.1	3.1 to 6.7	2.7 to 6.7	2.7-6.7

Certain of our bank borrowings contain terms or covenants that require the borrower to, among others, notify or obtain consent from the relevant lenders prior to certain corporate actions or material transactions, including without limitation, the following:

- (i) amendments of the borrower's articles of association, change of legal representative, change of senior management, reduction of capital;
- (ii) public listing, merger and acquisitions, material asset dispositions or transfer, issuance of debt securities, material financing, material transactions with affiliates, incurrence of material indebtedness, provision of guarantees for third party's indebtedness; and
- (iii) any change of control of the borrower.

The Directors confirmed that there had been no material delay or default in repayment of borrowings nor material non-compliance with the covenants contained in our borrowing throughout the Track Record Period and up to the Latest Practicable Date. The Directors confirmed that there are no material covenants which would adversely affect the Group's ability to undertake additional debt or equity financings.

During the Track Record Period and as at the Latest Practicable Date, the Group did not maintain any unutilised banking facilities.

Lease Liabilities

The following table sets forth the minimum lease payments due under our lease liabilities as at the dates indicated below:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Lease liabilities				
Current portion	7,346	1,438	1,977	3,476
Non-current portion.....	171,369	182,508	183,635	193,443
	<u>178,715</u>	<u>183,946</u>	<u>185,612</u>	<u>196,919</u>

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During the Track Record Period, we entered into leases for land use rights and plant and office. As required by IFRS 16, at the commencement of a lease, a lease will recognise a liability to make lease payments (namely, the lease liabilities) and an asset representing the right to use the underlying asset during the lease term (namely, the right-of-use asset). In accordance with the adoption of IFRS 16 throughout the Track Record Period, we recorded lease liabilities in the amount of RMB178.7 million, RMB183.9 million, RMB185.6 million and RMB196.9 million as at 31 December 2016, 2017, 2018 and 2019, respectively. There were not significant fluctuations in our lease liabilities during the Track Record Period.

As at the Indebtedness Date, we had lease liabilities in the amount of RMB195.7 million.

CONTINGENT LIABILITIES

We had the following contingent liabilities not provided for in financial statements as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given to banks in connection with facilities granted to a related company of the Group	124,260	95,000	64,061	—

Given that the fair values of the guarantees are not significant and the Directors consider that the risk of default is remote, no provision for the guarantees have been made in our financial statements. As at 31 December 2019, such guarantees provided by us to banks in connection with facilities granted to a related company had been fully released.

As at the Indebtedness Date, we had no contingent liabilities not provided for in the financial statements.

Save as disclosed in this section, the Group did not have any other loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, authorised or otherwise created but unissued, and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, which are either guaranteed or unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding as at the Indebtedness Date.

The Directors have confirmed that, up to the Latest Practicable Date, there had been no material adverse change in indebtedness of the Group since the Indebtedness Date.

CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Payments for property, plant and equipment	135,561	578,747	183,038	258,622
Payments for lease liabilities	17,536	18,949	13,183	15,280
Payments for other intangible assets	125	6,152	1,451	6
Total	<u>153,222</u>	<u>603,848</u>	<u>197,672</u>	<u>273,908</u>

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Our capital expenditures during the Track Record Period comprised primarily expenditures for the construction and upgrades of our production and ancillary facilities. Our capital expenditure was particularly high in 2017 primarily due to the construction of our new processing plant in 2017. See “Business — Production Facilities” for more information. The increase in our capital expenditure in 2017 was primarily due to the construction of our new processing plant. During the Track Record Period, we funded our capital expenditures primarily with internally generated resources and borrowings.

COMMITMENTS

Capital Commitments

Our capital commitments during the Track Record Period were for the construction and expansion of our production processes and facilities. We plan to finance our capital commitments as at 31 December 2019 primarily with our cash flows generated from operating activities. The table below sets forth our capital commitments as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Commitments for acquisition of property, plant and equipment — contracted for but not yet incurred	19,021	67,087	145,037	171,815

ANALYSIS OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

Inventories

Our inventories include primarily finished goods, as well as raw materials and work in progress. Finished goods consist primarily of raw chicken meat products and processed chicken meat products and feed. Raw materials consist primarily of feed, feed ingredients, food ingredients and consumables. Work in progress consists primarily of meat undergoing processing and related semi-finished packaging materials.

The following table sets forth our inventories as at the dates indicated.

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	160,809	126,411	135,515	146,010
Work in progress	341	631	269	358
Finished goods	336,004	381,767	211,731	338,657
Total	<u>497,154</u>	<u>508,809</u>	<u>347,515</u>	<u>485,025</u>

Our inventories increased by 2.3% from RMB497.2 million as at 31 December 2016 to RMB508.8 million as at 31 December 2017. This increase was primarily due to an RMB45.8 million increase in finished goods as a result of our minor stockpiling of frozen raw chicken meat products towards the end of 2017 as we believed raw chicken meat products prices would be likely to increase in 2018. Our inventories decreased by 31.7% from RMB508.8 million as at 31 December 2017 to RMB347.5 million as at 31 December 2018, primarily due the increase in our sales volume in 2018 using up our inventories. Our inventories increased by 39.6% from RMB347.5 million as at 31 December 2018 to RMB485.0 million as at 31 December 2019, primarily as a result of our import of raw chicken meat from Brazil to meet our planned production volume for processed chicken meat products in the second half of 2019.

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We periodically assess impairment of inventories and typically recognise write-down of inventories when their cost is lower than their net realisable value. We wrote down inventories of RMB0.6 million, RMB1.4 million, RMB1.0 million and RMB1.1 million in 2016, 2017, 2018 and 2019, respectively.

The following table sets forth our inventory turnover days for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
Inventory turnover days ⁽¹⁾	73.6	76.6	51.8	43.4

Note:

- (1) Calculated as the average of the beginning and ending inventory for the year divided by total cost of sales for that year and multiplied by 365 days.

Our inventory turnover days remained relatively stable at 73.6 days for the year ended 31 December 2016 and 76.6 days for the year ended 31 December 2017. Our inventory turnover days then decreased to 51.8 days for the year ended 31 December 2018 and 43.4 days for the year ended 31 December 2019, as we utilised our inventories as a faster rate due to our increased sales volume in 2018 and 2019, respectively.

As at 30 April 2020, we had used or sold RMB434.5 million, or 89.6%, of our balance of inventories as at 31 December 2019.

Trade Receivables

Our trade receivables represent amount receivables in connection with the sales of our products. We typically offer our customers a credit period of 30 to 60 days after the product delivery date to our overseas customers and our major domestic customers. We typically do not grant any credit period to other domestic customers. We seek to maintain strict control over our outstanding trade receivables by assessing our customers' creditworthiness, limiting the credit terms and balances we may grant, and regularly reviewing any overdue balances. We do not hold any collateral or other credit enhancements over our trade receivables.

The following table sets forth our trade receivables as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables	82,319	106,659	191,298	209,816
Impairment provision	(1,628)	—	(2,650)	(3,191)
Total	80,691	106,659	188,648	206,625

Our trade receivables increased by 32.2% from RMB80.7 million in as at 31 December 2016 to RMB106.7 million as at 31 December 2017, primarily due to the increase in our sales volume and the increase in sales to countries outside of mainland China, which carries a longer credit period than domestic sales. Our trade receivables increased by 76.8% from RMB106.7 million as at 31 December 2017 to RMB188.6 million as at 31 December 2018, primarily due to a few large orders from a major customer towards the end of 2018 resulting in a higher amount of trade receivables as at 31 December 2018. Our trade receivables increased by 9.5% from RMB188.6 million as at 31 December 2018 to RMB206.6 million as at 31 December 2019.

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The following table sets forth an ageing analysis of our trade receivables as at the dates indicated, based on invoice date and net of provision:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	66,823	72,773	155,934	136,053
One to three months	11,040	26,614	30,481	62,779
Three months to one year	1,200	3,961	592	1,403
Above one year	1,628	3,311	1,641	6,390
Total	<u>80,691</u>	<u>106,659</u>	<u>188,648</u>	<u>206,625</u>

During the Track Record Period, a substantial majority of our trade-nature receivables were aged within one month.

The following table sets forth an ageing analysis of our trade receivables that are neither individually nor collectively considered to be impaired as at 31 December 2016 and 2017:

	As at 31 December	
	2016	2017
	RMB'000	RMB'000
Neither past due nor impaired	68,117	92,589
Within three month past due	10,074	8,200
Three months to one year past due	872	2,582
Over one year past due	1,628	3,288
Total	<u>80,691</u>	<u>106,659</u>

Our trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Our trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. We believe that no provision for impairment is necessary in respect of these balances, as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The following table sets forth our trade receivables turnover days for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
Trade receivables turnover days ⁽¹⁾	12.0	14.0	16.9	18.4

Note:

- (1) Calculated as the average of the beginning and ending trade receivables for the year divided by revenue for that year and multiplied by 365 days.

Our trade receivable turnover days remained relatively stable at 12.0 days for the year ended 31 December 2016 and 14.0 days for the year ended 31 December 2017. Our trade receivable turnover days increased to 16.9 days for the year ended 31 December 2018 and 18.4 days for the year ended 31 December 2019, primarily due to the receipt of a few large orders from a major customer towards the end of 2018 with a credit period of 30 to 60 days.

As at 30 April 2020, we had collected RMB194.9 million, or 92.9%, of our balance of trade receivables as at 31 December 2019.

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Prepayments, Deposits and Other Receivables

The current portion of our prepayments, deposits and other receivables consists primarily of VAT and other recoverable, prepayments to suppliers for products and services, prepayments of expenses, and other receivables and deposits.

The following table sets forth a breakdown of the current portion of our prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments.....	29,228	36,244	58,717	69,652
Deposits and other receivables.....	10,688	17,055	3,909	3,787
VAT and other recoverable	94,963	154,851	101,435	85,092
Total	<u>134,879</u>	<u>208,150</u>	<u>164,061</u>	<u>158,531</u>

The current portion of our prepayments, deposits and other receivables increased by 54.3% from RMB134.9 million as at 31 December 2016 to RMB208.2 million as at 31 December 2017. This increase was primarily due to an increase in VAT recoverable related to the purchase of property, plant and equipment for the construction of our new processed chicken meat products production facility in 2017. The current portion of our prepayments, deposits and other receivables decreased by 21.2% from RMB208.2 million as at 31 December 2017 to RMB164.1 million as at 31 December 2018, primarily due to a decrease in VAT recoverable as a result of (i) decrease in purchase of property, plant and equipment as our new processing facility completed in early 2018, and (ii) increase in our sales of raw chicken meat products, processed chicken meat products and chicken breeds in 2018. The current portion of our prepayments, deposits and other receivables decreased slightly by 3.4% from RMB164.1 million as at 31 December 2018 to RMB158.5 million as at 31 December 2019, primarily due to a slight decrease in VAT and other receivable as our purchase of property, plant and equipment decreased.

Amounts Due from Related Parties and Ultimate Holding Company

The following table sets forth an analysis of the amounts due from related parties and ultimate holding company as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Related parties	3,214	-	-	46
Ultimate holding company	43	-	-	-
Total	<u>3,257</u>	<u>=</u>	<u>=</u>	<u>46</u>

Our amounts due from related parties amounted to RMB3.2 million, nil, nil and RMB46,000 as at 31 December 2016, 2017, 2018 and 2019, respectively. Our amounts due from ultimate holding company amounted to RMB43,000, nil, nil and nil as at 31 December 2016, 2017, 2018 and 2019, respectively. All amounts due from related parties and ultimate holding company are trade in nature, non-interest-bearing, unsecured and repayable on demand.

During the Track Record Period, we have been purchasing natural gas used in the production of the Group from Liaocheng Aode Energy Co., Ltd. (聊城奥德能源有限公司) (“Aode Energy”). We also

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sold certain natural gas pipelines owned by us to Aode Energy for their provision of services to us. Our balances with Aode Energy as at 31 December 2016 primarily represented outstanding balances owed by Aode Energy to us in relation to sale of certain natural gas pipelines owned by the Group to Aode Energy. Our balances with Aode Energy as at 31 December 2019 primarily represented certain prepayments and deposits made to Aode Energy for use of its natural gas provision services.

During the Track Record Period, our amounts due from ultimate holding company mainly comprised administrative-related balances with our ultimate holding company.

Trade and Bills Payables

Our trade and bills payables include accounts and bills payables to suppliers for purchases of products. Our trade payables are non-interest-bearing. The credit periods granted by each supplier were set on a case-by-case basis in accordance with the supply agreement. Our bills payable are all due within six months. The effective interest rate of our bills payable ranged from 3.7% to 6.2% during the Track Record Period.

The following table sets forth a breakdown of our trade and bills payables as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables	224,839	149,450	151,378	168,120
Bills payable	80,000	55,000	360,000	140,000
Total	<u>304,839</u>	<u>204,450</u>	<u>511,378</u>	<u>308,120</u>

Our trade payables as at 31 December 2016 was particularly high as there was an unintentional delay in settlement of trade payables from the end of 2016 to January 2017. As a result, our trade and bills payables decreased by 32.9% from RMB304.8 million as at 31 December 2016 to RMB204.5 million as at 31 December 2017. Our trade and bills payables increased by 150.1% from RMB204.5 million as at 31 December 2017 to RMB511.4 million as at 31 December 2018, primarily as a result of the increase in our production and sales in 2018. With an aim to improve our liquidity position in 2018, we utilised bills payable to settle certain of our amounts due to our major supplier, Yanggu Dafeng, in 2018, resulting in an increase of our bills payable from RMB55.0 million as at 31 December 2017 to RMB360.0 million as at 31 December 2018. As our liquidity position gradually improved, our bills payable gradually decreased to RMB140.0 million as at 31 December 2019. Our trade and bills payable decreased by 39.7% from RMB511.4 million as at 31 December 2018 to RMB308.1 million as at 31 December 2019, primarily due to a decrease in bills payables.

The following table sets forth an ageing analysis of our trade payables (excluding bills payable) as at the dates indicated, based on the invoice date:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Within one month	165,500	102,980	101,772	123,076
one to three months	36,353	30,167	29,225	33,364
three months to one year	20,459	9,796	11,846	7,469
Over one year	2,527	6,507	8,535	4,211
Total	<u>224,839</u>	<u>149,450</u>	<u>151,378</u>	<u>168,120</u>

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During the Track Record Period, a substantial of our trade payables were aged within one month. Trade payables that were aged above one year primarily related to payables to Yanggu Dafeng who granted us longer credit periods for our purchases.

The following table sets forth our trade payables (excluding bills payable) turnover days for the years indicated:

	For the year ended 31 December			
	2016	2017	2018	2019
Trade payables turnover days ⁽¹⁾	40.3	31.9	20.1	21.6

Note:

(1) Calculated as the average of the beginning and ending trade payables for the year divided by cost of sales (before biological assets fair value adjustments) for that year and multiplied by 365 days.

Our trade payables turnover days was particularly high at 40.3 days for the year ended 31 December 2016, primarily due to an unintentional delay in settlement of trade payables at the end of 2016, which was settled in early 2017. Our trade payables turnover days was relatively low at 20.1 days for the year ended 31 December 2018, primarily due to increase in cost of sales before biological assets fair value adjustments as a result of increase in revenue during the year. Our trade payables turnover days remained stable at 21.6 days for the year ended 31 December 2019.

As at 30 April 2020, we had settled RMB165.4 million, or 98.4%, of our balance of trade payables as at 31 December 2019. Our bills payable in the amount of RMB140.0 million as at 31 December 2019 remained outstanding as at 30 April 2020 as they were not due for repayment as at 30 April 2020.

Accruals and Other Payables

Our accruals and other payables consist primarily of accrued expenses, other payables and VAT and other tax payables. Accrued expenses include accrued salaries and other expenses of the Group. Other payables include deposit received for construction projects and other payables for constructions works and for property, plant and equipment.

The following table sets forth our accruals and other payables as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Accrued expenses	95,363	91,621	125,370	130,511
Other payables	100,727	170,468	145,973	116,553
VAT and other taxes payables	3,656	4,047	6,050	5,406
Total	199,746	266,136	277,393	252,470

Our accruals and other payables increased by 33.2% from RMB199.7 million as at 31 December 2016 to RMB266.1 million as at 31 December 2017, primarily due to an increase in other payables relating to the construction of our new processing plant in 2017. Our accruals and other payables increased slightly by 4.2% from RMB266.1 million as at 31 December 2017 to RMB277.4 million as at 31 December 2018, primarily due to an increase in accrued salaries and wages as we hired new workers for certain of our broiler farms as they completed the adoption of the battery-cage systems; partially offset by a decrease in other payables for property, plant and equipment as the construction

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of our new processing plant was completed in the first half of 2018. Our accruals and other payables decreased by 9.0% from RMB277.4 million as at 31 December 2018 to RMB252.5 million as at 31 December 2019, primarily due to a decrease in other payables for property, plant and equipment as we did not commence any major construction in 2019.

Amounts Due to Related Parties, Ultimate Holding Company and Immediate Holding Company

The following table sets forth an analysis of the amounts due to related parties, ultimate holding company and immediate holding companies as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Related parties	4,123	4,948	3,757	5,283
Ultimate holding company	237	—	—	—
Immediate holding company	—	14,000	—	—
Total	<u>4,360</u>	<u>18,948</u>	<u>3,757</u>	<u>5,283</u>

Our amounts due to related parties amounted to RMB4.1 million, RMB4.9 million, RMB3.8 million and RMB5.3 million as at 31 December 2016, 2017, 2018 and 2019, respectively. Our amounts due to ultimate holding company amounted to RMB0.2 million, nil, nil and nil as at 31 December 2016, 2017, 2018 and 2019, respectively. Our amounts due to immediate holding company amounted to nil, RMB14.0 million, nil and nil as at 31 December 2016, 2017, 2018 and 2019, respectively. All of our trade in nature, amounts due to related parties, ultimate holding company and immediate holding company are non-interest-bearing, unsecured and repayable on demand.

During the Track Record Period, our amounts due to related parties mainly comprised (i) selling and distribution related balances with Qingdao Xiangguang Logistics Co., Ltd. (青島祥光物流有限公司), which provided logistics related services to the Group primarily in relation to export of the Group's products out of the PRC, and (ii) trade balances with Aode Energy, which supplied natural gas used in the production of the Group.

Our amounts due to immediate holding company in the amount of RMB14.0 million as at 31 December 2017 solely represented our payables to immediate holding company for our purchase of an asset from the immediate holding company during the year.

During the Track Record Period, our amounts due to ultimate holding company mainly comprised administrative-related balance with our ultimate holding company.

Biological Assets

During the Track Record Period, our biological assets represent breeders, broilers and broiler eggs. Broilers and broiler eggs are raised for sale and consumption in production, which are classified as current assets. Breeders are held to produce further broiler eggs and broilers, which are classified as non-current assets.

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The following table sets out the breakdown of our biological assets at the end of each of the report periods:

	As at 31 December			
	2016	2017	2018	2019
	RMB'000	RMB'000	RMB'000	RMB'000
Biological assets comprise:				
— Breeders	113,187	110,866	126,956	157,877
— Broilers and broiler eggs	112,494	120,669	138,422	141,873
	<u>225,681</u>	<u>231,535</u>	<u>265,378</u>	<u>299,750</u>
Non-current portion	113,187	110,866	126,956	157,877
Current portion	112,494	120,669	138,422	141,873
	<u>225,681</u>	<u>231,535</u>	<u>265,378</u>	<u>299,750</u>
	As at 31 December			
	2016	2017	2018	2019
Quantities of biological assets (number of heads or eggs):				
— Breeders	1,679,292	1,404,017	1,629,288	1,615,581
— Broilers	11,470,623	10,652,949	9,923,145	10,641,754
— Broiler eggs	16,584,554	13,575,167	14,401,520	13,597,187

During the Track Record Period, the quantities of our biological assets decreased by 13.8% from 29.7 million heads/eggs as at 31 December 2016 to 25.6 million heads/eggs as at 31 December 2017. The decrease was primarily due to our strategy to rear a lower quantity of breeders in response to the decrease in average selling prices of chicken meat products and chicken breeds in 2017. The quantities of our breeders and broiler eggs went back to an increasing trend after 2017, when the average selling prices of chicken meat products and chicken breeds increased. The quantities of our broilers decreased by 7.5% from 10.7 million heads as at 31 December 2017 to 9.9 million heads as at 31 December 2018, primarily due to a relatively lower production volume at our hatcheries in the last two months of 2018. As at 31 December 2018, only two of our broiler farms completed the conversions to battery-caged systems, with one of which commenced receiving chicken breeds in August 2018 and one of which commenced receiving chicken breeds in December 2018. During the year ended 31 December 2019, eight additional broiler farms completed the conversions to battery-caged systems, resulting in an increase in the quantities of our broilers of 7.1% from 9.9 million heads as at 31 December 2018 to 10.6 million heads as at 31 December 2019.

The fair value of our biological assets increased by 2.6% from RMB225.7 million as at 31 December 2016 to RMB231.5 million as at 31 December 2017, primarily due to an increase in market prices assumptions of our key biological assets valuation input, namely, white-feathered broiler chicken breeds, white-feathered mature broilers, white-feathered breeder chicken breeds, culled white-feathered hens, culled white-feathered cocks and broiler eggs, as at the end of 2017. The fair value of our biological assets further increased by 14.6% from RMB 231.5 million as at 31 December 2017 to RMB265.4 million as at 31 December 2018, primarily due to a significant increase in market prices of broiler eggs as at the end of 2018. The fair value of our biological assets increased by 13.0% from RMB265.4 million as at 31 December 2018 to RMB299.8 million as at 31 December 2019, primarily due to an increase in the quantity of our broilers as well as an increase in market prices of white-feathered broiler chicken breeds and white-feathered breeder chicken breeds as at 31 December 2019.

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

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Our biological assets were independently valued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), which is an independent professional valuer not connected with us and has extensive experience in valuation of biological assets. See “—Valuation of Biological Assets” below.

VALUATION OF BIOLOGICAL ASSETS

Information about the independent valuer of our biological assets

We have engaged JLL, an independent valuer, to determine the fair values of our biological assets as at 31 December 2016, 31 December 2017, 31 December 2018 and 31 December 2019, respectively. The key valuer of the JLL team includes Mr. Simon M.K. Chan.

Mr. Simon Chan, Regional Director at JLL, is a Fellow of the Hong Kong Institute of Certified Public Accountants (HKICPA) and a Fellow of CPA Australia. He is also a Chartered Valuer and Appraiser (CVA), a member of The International Association of Consultants, Valuers and Analysts (IACVA), and a member of the Australasian Institute of Mining and Metallurgy (AusIMM). Simon oversees the business valuation services of JLL and has experience in corporate advisory and valuation. He has provided a wide range of valuation services to numerous listed and listing companies of different industries in the PRC, Hong Kong, Singapore and the United States. Simon oversaw the valuation of biological assets for the initial public offerings and subsequent financial reports of Eggriculture Foods Limited (8609.HK), China Modern Dairy Holdings Ltd. (1117.HK), China Huishan Dairy Holdings Company Limited (6863.HK), YuanShengTai Dairy Farm Limited (1431.HK), WH Group Limited (288.HK) and China Shengmu Organic Milk Limited (1432.HK).

Based on market reputation and relevant background research, the Directors and the Sole Sponsor are satisfied that JLL is independent from us and is competent in conducting a valuation on our biological assets.

Valuation methodology

In arriving at the assessed value, two generally accepted approaches have been considered, namely, the market approach and cost approach.

A market approach is adopted to value broilers and hatchable eggs, as market-based prices for broiler chick, mature broiler and hatchable eggs can be obtained as at the respective valuation date of the biological assets. Given the relatively short finishing cycle of broilers, the fair values of the broilers and hatchable eggs are developed through the application of market approach with reasonable adjustments to reflect the age differences during the rearing period.

A replacement cost approach is adopted to value chicken breeds, since (i) there are chicken breeders of various ages and production cycles, and (ii) there are no market prices for these breeders at different stages. The valuation was based on the market prices of breeder chicken breeds and culled chicken breeders and the feed cost for rearing chicken breeders, with adjustment for the reduction or consumption of useful lives of the breeders.

Key assumptions and inputs

The key input and assumption made for valuing our biological assets include the following:

- classification of the Company’s biological assets into three categories, namely, broilers, breeders and broiler eggs. According to different breeds, the broilers can be divided into two categories, namely white-feathered broilers and black-bone broilers; and breeders can also be divided into two categories, namely, white-feathered breeders and black-bone breeders;

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- quantity of each category of our biological assets at each valuation date;
- unit market price of key valuation input, namely, white-feathered broiler chicken breeds, white-feathered mature broilers, white-feathered breeder chicken breeds, culled white-feathered chicken breeders (comprising hens and cocks), black-bone broiler chicken breeds, black-bone mature broilers and broiler eggs, at each valuation date;
- cost for rearing breeders;
- reduction or consumption of the useful lives of breeders, which will be affected by changes in market price of mature breeders that are more than 65 weeks old; and
- there are no hidden or unexpected conditions associated with our business that might adversely affect the reported values.

The following factors form an integral part of the bases of JLL's opinion:

- assumptions on the market and the asset that are considered to be fair and reasonable;
- consideration and analysis on the micro and macro economy affecting our biological assets;
- analysis on tactical planning, management standard and synergy of the biological assets;
- analytical review of the biological assets; and
- assessment of the liquidity of the biological assets.

Set forth below are the key inputs adopted for the valuation of our biological assets:

	As at 31 December			
	2016	2017	2018	2019
Average Unit Price (RMB/head or RMB/egg)				
White-feathered broiler chicken breeds	2.93	3.17	6.04	3.60
White-feathered broilers	16.55	17.24	17.23	20.57
White-feathered breeder chicken breeds	25.00	25.20	23.50	59.30
Culled white-feathered hens	34.81	37.36	45.47	23.30
Culled white-feathered cocks	41.76	44.69	39.33	26.05
Black-bone broiler chicken breeds	—	14.70	15.44	16.51
Black-bone broilers	—	63.28	50.34	46.29
Broiler eggs	0.92	1.26	3.62	2.50
Costs for rearing breeders (RMB)	0-90.62	0-90.50	0-100.43	0-64.17
Reduction/consumption of useful lives of breeders (%)	0-70	0-66	0-63	0-44

Our market unit price of white-feathered chicken and black-bone chicken is based on historical average selling prices, and the market unit price of broiler eggs is from external market data.

The Sole Sponsor and JLL conducted a number of site inspections to perform an independent verification of the biological assets without experiencing any limitation in material aspect. JLL also engaged Professor Tian Yadong as a consultant to advise on the physical and biological attributes of the biological assets. Professor Tian currently heads the department of animal production system and engineering of the College of Animal Science and Veterinary Medicine of the Henan Agricultural University (河南農業大學牧醫工程學院). Professor Tian also serves as the executive director of China Quality Poultry Breeding and Production Research Association (中國優質禽育種與生產研究會), the director of poultry branch of Chinese Association of Animal Science and Veterinary Medicine (中國畜牧獸醫學會), the deputy secretary general of the Henan Animal Husbandry and Veterinary Medicine

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Society (河南畜牧獸醫學會), and the secretary general of Henan Province Poultry Industry Technology Innovation Strategic Alliance (河南省家禽產業技術創新戰略聯盟). Professor Tian graduated from Graduate School of Chinese Academy of Agriculture Sciences (中國農業科學院研究生院) with a doctoral degree in Animal Nutrition and Feed Science (動物營養與飼料科學). JLL determined Professor Tian Yadong to be suitably qualified given his expertise and past experience in the poultry industry. JLL is satisfied that the basis of advice presented by Professor Tian Yadong and believes it is reasonable.

The Sole Sponsor had various discussions with JLL in relation to its valuation procedures, valuation bases and assumptions, valuation techniques and information required to prepare the valuation report of the biological assets to better understand the valuation process. As confirmed by JLL, the valuation of our biological assets were conducted in accordance with the International Valuation Standards issued by the International Valuation Standards Council. JLL has further confirmed that its valuation procedures provide a reasonable basis for its opinion, and that the inputs used in the valuation techniques are appropriate and reasonable. In addition, the Sole Sponsor discussed with our management and the Reporting Accountants with respect to the techniques chosen and inputs used in the valuations. The Sole Sponsor further compared the valuation techniques chosen, bases and assumptions of the valuation with those used in other similar transactions and market practice. The Sole Sponsor and the Reporting Accountants are satisfied that the valuation techniques chosen and the inputs used in the valuation techniques are appropriate and reasonable.

Furthermore, the Sole Sponsor discussed with the Reporting Accountants with respect to their procedures performed on the valuation of the biological assets, including obtaining an understanding on the assumptions and methods used by JLL in the valuation of our biological assets and making inquiries regarding the source data used and procedures undertaken in accordance with the HKSA 500 Audit Evidence. The Reporting Accountants provided an unqualified opinion to the financial information of the Group as a whole as set out in Appendix I to this prospectus.

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Sensitivity Analysis

The following table indicates the instantaneous change in the value of our biological assets that would arise if the key inputs for valuation as at 31 December 2019 had changed at that date, assuming all other risk variables remained constant:

% change in unit market price of white-feathered broiler chicken breeds	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(7,013)	(4,736)	(2,369)	2,366	4,734	7,101
% change in unit market price of white-feathered broilers	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(22,240)	(14,926)	(7,502)	7,559	15,161	22,795
% change in unit market price of white-feathered breeder chicken breeds	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(20,961)	(13,975)	(6,988)	6,987	13,973	20,965
% change in unit market price of culled white-feathered hens	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(4,324)	(2,882)	(1,442)	1,441	2,882	4,323
% change in unit market price of culled white-feathered cocks	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(432)	(288)	(144)	143	287	431
% change in unit market price of black-bone broilers chicken breeds	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(324)	(216)	(108)	107	216	324
% change in unit market price of black-bone broilers	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(1,351)	(901)	(450)	450	901	1,350
% change in unit market price of broiler eggs	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(10,198)	(6,799)	(3,399)	3,399	6,799	10,198
% change in costs for rearing breeders (RMB)	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	(23,940)	(15,961)	(7,980)	7,978	15,958	23,939
Absolute change in reduction or consumption of useful lives of breeders (%)	-30%	-20%	-10%	10%	20%	30%
Change in fair value of our biological assets (RMB'000)	31,508	21,005	10,503	(10,503)	N/A	N/A

Stock-take and Internal Control

We have established standard procedures to ensure accuracy of headcount of our biological assets and other relevant information. Through our production management system, we are able to track the quantity, health, survival rate and other relevant information of our broilers and breeders, as well as quantity, production rate and other relevant information of broiler eggs, on a daily basis.

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Our production management system would produce reports containing details of quantities, survival rates and other information of our broilers when they are sent to our slaughtering facilities. In addition, when broilers are sent to our slaughtering facilities, our production planning department together with our finance department would conduct spot checks on the quantity of the broilers and reconcile the findings against the reports. Reports containing details of the quantities, survival rates and other information of breeders are produced before mature breeders are sold. Reports containing quantity, production rate and other information of broiler eggs are produced on a monthly basis. These reports are reviewed by our production planning department, production management department and finance department.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set forth in Note 35 to the Accountants' Report in Appendix I, the Directors confirm that each transaction set forth therein was conducted on arm's length basis, on normal commercial terms and in the ordinary course of business.

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period and up to the Latest Practicable Date, we did not have any off-balance sheet arrangements.

KEY FINANCIAL DATA AND RATIOS

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

	For the year ended 31 December			
	2016	2017	2018	2019
Gross profit (RMB'000)	68,246	37,099	178,004	428,415
Gross profit margin after biological assets fair value adjustments ⁽¹⁾	2.9%	1.5%	5.6%	10.9%
Gross profit before biological assets fair value adjustments (RMB'000)	392,127	293,226	461,947	1,221,460
Gross profit margin before biological assets fair value adjustments ⁽²⁾	16.7%	12.0%	14.4%	31.1%
Net profit (RMB'000)	119,848	37,119	136,611	837,381
Net profit margin ⁽³⁾	5.1%	1.5%	4.3%	21.3%
Net profit before biological assets fair value adjustments (RMB'000)	114,586	28,421	118,469	833,935
Net profit margin before biological assets fair value adjustments ⁽⁴⁾	4.9%	1.2%	3.7%	21.2%
Return on equity (before biological assets fair value adjustments) ⁽⁵⁾	9.2%	2.2%	8.3%	36.8%
Return on equity (after biological assets fair value adjustments) ⁽⁶⁾	9.7%	2.8%	9.6%	37.0%
Return on assets (before biological assets fair value adjustments) ⁽⁷⁾	3.4%	0.8%	3.0%	18.8%
Return on assets (after biological assets fair value adjustments) ⁽⁸⁾	3.6%	1.0%	3.5%	18.9%
Interest coverage ratio (times) ⁽⁹⁾	2.7	1.5	2.4	10.4

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	As at 31 December			
	2016	2017	2018	2019
Current ratio ⁽¹⁰⁾	0.66	0.54	0.61	0.94
Net debt-to-equity ratio ⁽¹¹⁾	89.9%	117.0%	87.0%	35.7%
Gearing ratio (times) ⁽¹²⁾	111.0%	127.9%	104.2%	60.4%

Notes:

- (1) Equals gross profit for the year after biological assets fair value adjustments divided by revenue for that year and multiplied by 100%.
- (2) Equals gross profit for the year before biological assets fair value adjustments divided by revenue for that year and multiplied by 100%.
- (3) Equals profit for the year divided by revenue for the year and multiplied by 100%.
- (4) Equals profit for the year after biological assets fair value adjustments minus (i) gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest; (ii) gain arising from changes in fair value less costs to sell of biological assets; and (iii) biological assets fair value adjustments for cost of sales divided by revenue for that year and multiplied by 100%.
- (5) Equals profit for the year (before biological assets fair value adjustments) divided by the total equity for that year and multiplied by 100%.
- (6) Equals profit for the year (after biological assets fair value adjustments) divided by the total equity for that year and multiplied by 100%.
- (7) Equals profit for the year (before biological assets fair value adjustments) divided by the total asset for that year and multiplied by 100%.
- (8) Equals profit for the year (after biological assets fair value adjustments) divided by the total assets for that year and multiplied by 100%.
- (9) Equals profit before income tax and finance costs for the year divided by finance costs for that year.
- (10) Equals total current assets divided by total current liabilities as at the respective financial year-end date.
- (11) Equals total interest-bearing borrowings minus cash and cash equivalents, and adding with due to related parties, due to ultimate holding company and due to immediate holding company, divided by total equity as at the respective year-end date and multiplied by 100%.
- (12) Equals total borrowings divided by total equity and multiplied by 100%.

Return on Equity

Our return on equity (before biological assets fair value adjustments) was 9.2%, 2.2%, 8.3% and 36.8% in 2016, 2017, 2018 and 2019 of which the fluctuation was in line with the change in our net profit (before biological assets fair value adjustments) for the four years ended 31 December 2019.

Our return on equity (after biological assets fair value adjustments) was 9.7%, 2.8%, 9.6% and 37.0% in 2016, 2017, 2018 and 2019 of which the fluctuation was inline with the change in our net profit (after biological assets fair value adjustments) for the four years ended 31 December 2019.

Our net profit (both before and after biological assets fair value adjustments) in 2019 was particularly high, primarily due to an increase in the market price of chicken meat products and chicken breeds coupled with a decrease in the average purchase cost of the raw materials, such as, soybean meal, in 2019.

Return on Assets

Our return on assets (before biological assets fair value adjustments) was 3.4%, 0.8%, 3.0% and 18.8% in 2016, 2017, 2018 and 2019 of which the fluctuation was in line with the change in our net profit (before biological assets fair value adjustments) for the four years ended 31 December 2019.

Our return on assets (after biological assets fair value adjustments) was 3.6%, 1.0%, 3.5% and 18.9% in 2016, 2017, 2018 and 2019 of which the fluctuation was in line with the change in our net profit (after biological assets fair value adjustments) for the four years ended 31 December 2019.

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Interest Coverage Ratio

We had an interest coverage ratio of 2.7, 1.5, 2.4 and 10.4 in 2016, 2017, 2018 and 2019, respectively. Our relatively high interest coverage ratio in the year ended 31 December 2019 was primarily attributable to our significant profit in that year.

Current Ratio

Our current ratio was 0.66, 0.54, 0.61 and 0.94 as at 31 December 2016, 2017, 2018 and 2019, respectively. Our current ratio decreased from 0.66 as at 31 December 2016 to 0.54 as at 31 December 2017, primarily due to the reclassification of certain borrowings into current liabilities as at 31 December 2017. Our current ratio increased from 0.61 as at 31 December 2018 to 0.94 as at 31 December 2019, primarily due to the increase in our cash and cash equivalent as at 31 December 2019.

Net Debt-to-equity Ratio

Our net debt-to-equity ratio was 89.9%, 117.0%, 87.0% and 35.7% in 2016, 2017, 2018 and 2019, respectively. Our net debt-to-equity ratio increased from 89.9% as at 31 December 2016 to 117.0% as at 31 December 2017, primarily due to the increase in our borrowings in 2017 to fund the construction of our new processing facility. Our net debt-to-equity ratio decreased from 87.0% as at 31 December 2018 to 35.7% as at 31 December 2019, primarily to the increase in our cash and cash equivalent as at 31 December 2019.

Gearing ratio

Our gearing ratio was 111.0%, 127.9%, 104.2% and 60.4% as at 31 December 2016, 2017, 2018 and 2019, respectively. The fluctuations is in line with that of the net debt-to-equity ratio.

LISTING EXPENSES

Our listing expenses mainly include underwriting commissions and professional fees in relation to the Listing and the Global Offering. The total listing expenses for the Listing of our H Shares (assuming an Offer Price of HK\$4.21 per H Share, being the mid-point of the proposed Offer Price range, and the Over-allotment Option is not exercised) are estimated to be HK\$99.5 million (equivalent to RMB90.7 million), among which HK\$82.7 million (equivalent to RMB75.4 million) is directly attributable to the issuance of H Shares and will be charged to equity upon completion of the Listing, and HK\$16.8 million (equivalent to RMB15.3 million) was/will be charged to our consolidated statement of comprehensive income. During the Track Record Period, we settled listing expenses of HK\$35.9 million (equivalent to RMB32.4 million), of which HK\$24.8 million (equivalent to RMB22.4 million) was included in prepayments and will be subsequently charged to equity upon completion of the Listing and HK\$11.1 million (equivalent to RMB10.0 million) was charged to consolidated statement of comprehensive income.

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

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MARKET AND OTHER FINANCIAL RISKS

We are exposed to various types of market and financial risks including currency risk, interest rate risk, credit risk and liquidity risk. See Note 38 to the Accountants' Report in Appendix I. The following is a description of the principal market and financial risks that we face.

Market Risk

Currency Risk

We sell our products to domestic customers in the PRC as well as overseas customers. During the Track Record Period, we export our products to customers in Japan, Malaysia, the European Union and certain other countries. Accordingly, we are exposed to transactional currency risk with respect to sales that were denominated in currencies other than the functional currency of the Group, namely RMB. 3.0%, 3.0%, 3.0% and 3.0% of the Group's sales for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively, were denominated in currencies other than the functional currencies of the Group. We did not hedge against any fluctuation in foreign currency during the Track Record Period. At present, we do not intend to hedge against foreign currency fluctuations. However, management may consider entering into currency hedging transactions to manage our exposure to fluctuations in exchange rates in the future should such need arises.

We have conducted a sensitivity analysis to determine our exposure to changes in foreign currency exchange rates. As at 31 December 2016, 2017, 2018 and 2019, if US dollars had weakened/strengthened by 5% against RMB with all other variables remain constant, our profit before tax (due to changes in the fair value of monetary assets and liabilities) for the four years ended 31 December 2016, 2017, 2018 and 2019 would have decreased/increased by RMB1.7 million, RMB3.0 million, RMB2.8 million and RMB3.4 million, respectively. As at 31 December 2016, 2017, 2018 and 2019, if euro had weakened/strengthened by 5% against RMB with all other variables remain constant, our profit before tax (due to changes in the fair value of monetary assets and liabilities) for the four years ended 31 December 2016, 2017, 2018 and 2019 would have decreased/increased by nil, nil, RMB141,000 and RMB39,000, respectively.

Interest Rate Risk

Our exposure to the risk of changes in interest rate rates relates primarily to our interest-bearing bank and other borrowings that have a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk. If interest rates had been 25 basis points higher or lower, all other variables being held constant, our profit after income tax and equity would have increased or decreased by RMB0.6 million, RMB1.1 million, RMB1.0 million and RMB0.6 million in 2016, 2017, 2018 and 2019, respectively.

Price Risk

Our major raw materials are commodities and thus we are exposed to commodity price risk. During the Track Record Period, we entered into future contracts as hedging instruments in order to manage our exposure to the variability in the expected future cash flows attributable to commodity price risk associated with the forecasted purchase of soybean meals, corn and soybean oil. We intend to continue to enter into commodity price hedging transactions to manage our exposure to commodity price risk in the future.

As at 31 December 2016, 2017, 2018 and 2019, the Group did not have any material unsettled future contract.

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Credit Risk

Our credit risk mainly arises from granting of credits to our customers in the ordinary course of business and advances to other counterparties. The Group continuously monitors default of customers and other counterparties, identified either individually or by group, and incorporate this information into credit risk controls. The Group's policy is to deal only with creditworthy counterparties. The Directors consider that all of our financial assets that are not impaired for each of the reporting periods are of good credit quality, including those that are past due.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix.

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018 and 2019:

	Expected loss rate	Gross carrying amount	
		As at 31 December	
		2018	2019
	%	RMB'000	RMB'000
Current	0.5%	156,843	193,370
0-90 days past due	1%	30,540	7,066
over 90 days past due	5%-50%	3,915	9,380
		<u>191,298</u>	<u>209,816</u>

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group measures loss allowances for deposits paid and other receivables, cash and cash equivalents, pledged deposits and trade nature amounts due from related parties and ultimate holding company at an amount equal to 12 months ECLs. Applying the ECL model results in impairment of RMB2.0 million on the gross carrying amount of other receivables of the Group of RMB17.1 million as at 1 January 2018. As at 31 December 2018, the gross carrying amount of deposits paid and other receivables of the Group is RMB6.8 million and the loss allowances increased by RMB0.9 million for other receivables of the Group during the year ended 31 December 2018. As at 31 December 2019, the gross carrying amount of deposits paid and other receivables of the Group is RMB6.9 million and the loss allowances decreased by RMB0.3 million for other receivables of the Group during the year ended 31 December 2019. The credit risk on other financial assets is limited because the counterparties have no historical default record and the directors expect that the general economic conditions will not significantly change for the 12 months after the reporting date.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 5(g)(B)(ii)) of Appendix I. At 31 December 2016 and 2017, impairment provision of RMB1.6 million and reversal of impairment provision of RMB1.6 million were made on trade receivables respectively according to the Group's assessment.

During the Track Record Period, we had certain concentration of credit risk. As at 31 December 2016, 2017, 2018 and 2019, 64.0%, 56.0%, 63.0% and 58.0% of our trade receivables were due from our three largest debtors.

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Liquidity Risk

Liquidity risk relates to the risk of us not being able to meet our obligations associated with our financial liabilities. We are exposed to liquidity risk in respect of our trade and other payables and financial obligations, as well as our cash flow management. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool, which considers the maturity of both its financial instruments and financial assets (e.g. trade and bills receivables) and projected cash flows from operations. The Group also maintains a balance between continuity of funding and flexibility through the use of bank and other loans as well as banking facilities in place for contingency purpose.

As at 31 December 2016, 2017, 2018 and 2019, our net current liabilities amounted to RMB645.3 million, RMB1,008.6 million, RMB866.4 million and RMB118.2 million, respectively. Our net current liabilities position as at 31 December 2019 was mainly attributable to short-term bank and other borrowings of RMB1,266.4 million. See "—Basis of Presentation" for the basis of the preparation of the Historical Financial Information under the going concern assumption.

The following table sets forth the maturity profile of our financial liabilities (including trade and bills payables, accruals and other payables, bank and other borrowings, trade nature amounts due to related parties and ultimate holding company) based on the contractual undiscounted payments as at the dates indicated:

	As at 31 December			
	2016	2017	2018	2019
	(RMB'000)			
Carrying amount.....	1,883,302	2,161,431	2,271,936	1,927,500
Total contractual undiscounted cash flow.....	1,889,695	2,171,837	2,323,054	1,969,008
Within one year or on demand.....	1,848,509	2,171,837	2,254,832	1,862,982
More than one year but less than two years	41,186	—	33,050	75,337
More than two years but less than five years	—	—	35,172	30,689

DIVIDEND POLICY

During the Track Record Period and up to the Latest Practicable Date, we did not declare or distribute any dividend. After the completion of the Global Offering, we may distribute dividends in the form of cash or by other means that we consider appropriate. The Company has implemented a three-year dividend plan, pursuant to which, in the absence of certain special circumstances, if the Company records profit for the year and its accumulated undistributed profit is positive, and is capable of meeting the actual demand for distribution, the Company shall distribute dividends in cash, and the aggregate profits distributed in cash for such three years shall not be less than 30% of the total distributable profits realised for the latest three years as set out in the Company's consolidated financial statements and the dividends to be distributed in each particular year shall be decided by the Board. Any proposed distribution of dividends shall be formulated by the Board and will be subject to approval at the Shareholders' meeting. A decision to declare or to pay any dividends in the future, and the amount of any dividends, will depend on a number of factors, including our results of operations, cash flows, financial condition, capital adequacy ratio, payments by our subsidiaries of cash dividends to us, business prospects, statutory, regulatory and contractual restrictions on our declaration and payment of dividends and other factors that the Board may consider important.

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According to the applicable PRC laws and the Articles of Association, we will pay dividends out of our profit after tax only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve equivalent to 10% of our profit after tax, and, when the statutory reserve reaches and is maintained at or above 50% of our registered capital, no further allocations to this statutory reserve will be required;
- allocations, if any, to a discretionary common reserve fund that are approved by our shareholders in a Shareholders' meeting; and
- allocation of employee welfare funds to be borne by the Company.

The Articles of Association stipulate that the Company may distribute dividends by means of cash, stock or a combination of cash and stock.

After the completion of the Global Offering, dividends may be paid only out of distributable profits as determined under PRC GAAP or IFRS, whichever is lower. The major difference between PRC GAAP and IFRS is the biological assets fair value adjustments in determining the amount of the Company's distributable profits under PRC GAAP, which may affect the Group's future decision to declare or pay any dividends.

There is no assurance that we will be able to declare dividends of such any amount each year or in any year.

DIFFERENCE IN BIOLOGICAL ASSETS FAIR VALUE ADJUSTMENTS UNDER IFRS AND PRC GAAP

For the preparation of the historical financial information of the Company under IFRS, the Company determines the fair value of its biological assets under IFRS during the Track Record Period with the assistance of JLL, our independent valuer of our biological assets. In line with the accounting policies adopted by other Chinese enterprises in the same industry and in accordance with the requirements under PRC GAAP, the Company adopted the cost model to measure and value its biological assets under PRC GAAP. As a result, GAAP differences arises between IFRS and PRC GAAP on the fair value measurement of our biological assets. The GAAP difference on our profit after tax was RMB13.4 million, RMB12.2 million, RMB24.0 million and RMB18.5 million for the four years ended 31 December 2016, 2017, 2018 and 2019, respectively. For the four years ended 31 December 2016, 2017, 2018 and 2019, the GAAP difference on profit after tax included (i) biological assets fair value adjustment recognised under IFRS of RMB5.3 million, RMB8.7 million, RMB18.1 million and RMB3.4 million, respectively; and (ii) reversal of the depreciation of biological asset recognised under PRC GAAP of RMB8.1 million, RMB3.5 million, RMB5.9 million and RMB15.1 million, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2019, the Company had RMB1,172 million in retained profits, as determined under IFRS, available for distribution to the Shareholders.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please refer to Appendix II to this prospectus for further details.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules upon the Listing of the H Shares on the Stock Exchange.

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PROPERTY INTERESTS AND PROPERTY VALUATION REPORT

Jones Lang LaSalle Corporate Appraisal and Advisory Limited (“JLL”), an independent property valuation firm, has valued the properties held by us as at 31 March 2020. The text of its letter, summary of values and valuation certificates are set out in the property valuation report as set forth in Appendix III to this prospectus.

The following table presents the reconciliation of the net book value of the relevant property interests as at 31 December 2019 to their market value as at 31 March 2020 attributed by JLL as stated in the valuation certificate in the property valuation report as set forth in Appendix III to this prospectus:

	RMB'000
Net book value of the following properties as at 31 December 2019:	
Buildings included in property, plant and equipment.....	1,097,558
Right-to-use assets (prepaid land lease).....	92,685
Less: Depreciation for the three month ended 31 March 2020	(14,947)
Subtotal: Net book value as at 31 March 2020	1,175,296
Less: Net book value of buildings erected on land leased by the Group where JLL attributed no commercial value as at 31 March 2020 ⁽¹⁾	(554,014)
Less: Net book value of the buildings with no title certificates which JLL attributed no commercial value as at 31 March 2020 ⁽²⁾	(546)
Subtotal	620,736
Valuation Surplus	153,622
Valuation attributed by JLL as at 31 March 2020	774,358

Notes:

- (1) JLL attributed no commercial value to chicken farms leased by the Group in the PRC as at 31 March 2020. See “Summary of Values — Group IV — Property interests leased by the Group in the PRC” in Appendix III to this prospectus. However, the net carrying amount of buildings located on such property interests with no commercial value amounted to RMB630.4 million as at 31 March 2020. The net carrying amount of the buildings located on such property interests is excluded to enable a reconciliation of the net book value of the property interests of the Group as at 31 December 2019 to their market value as at 31 March 2020 attributed by JLL.
- (2) As at the Latest Practicable Date, we had not obtained building ownership certificates for four buildings in the PRC with a total gross floor area of 1,144.72 sq.m.. For details, see “Risk Factors — Risks relating to our business — We are subject to potential adverse consequences due to our lack of building ownership certificates in respect of certain owned properties in the PRC” in this prospectus. JLL attributed no commercial value to these buildings without title certificates. The net carrying amount of these buildings is excluded to enable a reconciliation of the net book value of the property interests of the Group as at 31 December 2019 to their market value as at 31 March 2020 attributed by JLL.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

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

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

The Company conditionally adopted the Share Award Scheme on 4 June 2020. On 26 June 2020, a total of 2,050,000 Awarded Shares were granted to 18 selected participants under the

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Share Award Scheme. For further details, see “Appendix VII — Statutory and General Information — F. Share Award Scheme — (q) Details of the Awards granted under the Share Award Scheme”.

Based on the unaudited management accounts of the Group for the four months ended 30 April 2020, our revenue increased as compared to that of the corresponding period in 2019. Such increase was primarily due to an increase in sales volume of our white-feathered chicken products, in particular, the raw and processed chicken meat products by approximately 33.8% and 14.3%, respectively, as compared to that of the corresponding period in 2019. During the month ended 31 May 2020, our Group continue to record an increase in sales for both our raw and processed chicken meat products as compared to the corresponding month in 2019. The average selling price of our raw chicken meat products and processed chicken meat products remained relatively stable for the four months ended 30 April 2020, which was approximately RMB11.7 per kg and RMB22.0 per kg, respectively, for the four months ended 30 April 2020, respectively. The average selling price of chicken breeds was approximately RMB3.6 per bird for the four months ended 30 April 2020, representing a decrease of approximately 51.2% as compared to the corresponding period in 2019. The average selling price of chicken breeds per bird for the month ended 31 May 2020 decreased as compared to the average selling price for the month ended 30 April 2020. As such, the Company reduced the sales volume of chicken breeds during the period and increased the number of chicken breeds bred due to its lower profitability.

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

Due to the uncertainties brought about by the coronavirus disease outbreak as set out below and its potential further impact on the global economy as a whole, we cannot guarantee that our business operations and results of operations including revenue and profitability during the four months ended 30 April 2020 could be maintained throughout the year ending 31 December 2020, and it might turn out to be lower than the Company’s results of operations for the year ended 31 December 2019. Our profitability may also be potentially impacted by, among other things, (i) the lower average selling price of chicken breeds during the year as compared to the year ended 31 December 2019 that may lead to a decrease in gross profit margin; and (ii) the execution of our expansion plan, including allocating more resources to its sales and marketing activities. See also “Our results of operations are substantially affected by the selling prices of our poultry products, which affect our revenue, and by fluctuations in the purchase prices of raw materials or interruption in the supply of raw materials, which affect our cost” and “The implementation of our expansion plan may lead to an increase in operating expenses and higher depreciation expenses, which may adversely affect our profit margin and results of operations” under “Risk Factors — Risks Relating to Our Business”. Nevertheless, the Directors are of the view that we will have sufficient working capital for our present requirements covering at least 12 months from the date of this prospectus.

For details on impact of the ongoing epidemic of the coronavirus disease (COVID-19) on the business operations of the Group, see “Summary — Recent Developments and No Material Adverse Change — Impact of Coronavirus Disease”.

FINANCIAL INFORMATION

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

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