

CONNECTED TRANSACTIONS

Upon [REDACTED], transactions between members of our Group and our connected persons will constitute connected transactions or continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

SUMMARY OF OUR CONNECTED PERSONS

The table below sets forth parties who will become our connected persons upon [REDACTED] and the nature of their relationship with our Group. We have entered into certain transactions with the following connected persons, which will constitute our connected transactions upon [REDACTED]:

Name	Connected Relationship
Zhumadian Ping Ping	A company owned by Mr. LIU Weiping and Mr. LIU Fuping as to 60% and 40%, respectively, and therefore an associate of our Controlling Shareholders
Mr. LIU Weiping	Chairman of the Board and executive Director of the Company
Delong Color Printing	A company 30% owned by Mr. LIU Fuping and therefore an associate of our Controlling Shareholders

SUMMARY OF OUR CONNECTED TRANSACTIONS

Nature of transactions	Applicable Listing Rules	Waiver sought	Proposed annual caps for the year ending December 31, (RMB in millions)		
			2021	2022	2023
One-off connected transaction					
1. Property Leasing Agreement	14A.34	N/A	N/A	N/A	N/A
Fully exempt continuing connected transactions					
2. IP License Framework Agreement	14A.34 14A.52 14A.53 14A.76	Exempted	N/A	N/A	N/A
Non-exempt continuing connected transactions					
3. Packaging Materials Supply Framework Agreement	14A.34 14A.35 14A.36 14A.76 14A.105	Announcement and independent Shareholders’ approval requirements	126	157	196

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ONE-OFF CONNECTED TRANSACTION

1. Property Leasing Agreements

Our Group has entered into certain property leasing and utilities agreements with Zhumadian Ping Ping with a term from January 1, 2021 to December 31, 2023, pursuant to which the Group has rented certain properties of 40,369.94 sq.m. from members of the Zhumadian Ping Ping for the use of production and business operation (the “**Property Leasing Agreements**”). The Property Leasing Agreements can be renewed upon its expiry as agreed by the parties to the agreement.

We have historically leased certain properties from Zhumadian Ping Ping. Relocating our offices to other premises will cause unnecessary disruptions to our normal business operation and incur unnecessary costs. We believe these Property Leasing Agreements will ensure the continuing smooth operation of our Group and to save costs, which is in the interests of our Group and our Shareholders as a whole.

In accordance with IFRS 16 “Leases” (which is mandatory from January 1, 2019, and applied by our Group since January 1, 2018), the leases under the Property Leasing Agreements are recognized as right-of-use assets on our balance sheet. Therefore, the entering into the Property Leasing Agreements will be regarded as the acquisition of capital assets and one-off connected transactions, rather than continuing connected transactions. Accordingly, the reporting, announcement, annual review and independent shareholders’ approval requirements in Chapter 14A of the Listing Rules will not be applicable.

FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following transactions are conducted in the ordinary course of business of our Group and on normal commercial terms or better, where each of the relevant percentage ratios (except for the profits ratio) for the three years ending December 31, 2024 calculated for the purpose of Chapter 14A of the Listing Rules will, as the Directors of our Company currently expect, be less than 0.1% on an annual basis. By virtue of Rule 14A.76(1)(a) of the Listing Rules, the transactions will be exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

2. IP License Framework Agreement

Our Group entered into an IP license framework agreement (the “**IP License Framework Agreement**”) with Mr. LIU Weiping on [●], 2022, pursuant to which Mr. LIU Weiping has agreed to grant our Group license to use his intellectual property rights, including but not limited to trademarks, patents and copyrights (the “**IP rights**”) for the Group’s products, packaging, services and profile documents at nil consideration. The term of the IP License Framework Agreement will commence on the [REDACTED] and be effective long-term. Our Group’s right to use certain IP rights under the IP License Framework Agreement ceases when the statutory period of such specific IP right expires and is not renewed by Mr. LIU Weiping.

Our Group has been using these IP rights for several years and has received market recognition. We believe that for our Group to continue to use such IP rights after completion of the [REDACTED] is in the best interest of our Group and the shareholders as a whole.

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Our Directors currently expect that all the relevant percentage ratios for transactions under the IP License Framework Agreement calculated for the purpose of Chapter 14A of the Hong Kong Listing Rules will be less than 0.1% on an annual basis. Therefore, such transactions are de minimis transactions and will be exempted from the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders’ Approval Requirements

The following transactions are conducted in the ordinary and usual course of business of our Group and on normal commercial terms or better, where the highest relevant percentage ratios (except for the profits ratio) for the three years ending December 31, 2024 calculated for the purpose of Chapter 14A of the Listing Rules will, as our Directors currently expect, be more than 5% on an annual basis. By virtue of Rules 14A.49, 14A.71, 14A.35 and 14A.36 of the Listing Rules, the transactions will be subject to the reporting, annual review, announcement and independent shareholders’ approval requirements.

3. Packaging Materials Supply Framework Agreement

Parties:

Our Company; and

Delong Color Printing

Principal terms

We entered into a framework agreement on supply of packaging materials with Delong Color Printing (the “**Packaging Materials Supply Framework Agreement**”) on [●], pursuant to which Delong Color Printing will provide food packaging materials to our Group.

The initial term of the Packaging Materials Supply Framework Agreement will commence on the [REDACTED] and end on December 31, 2024, and can be renewed upon its expiry as agreed by the parties to the agreement.

Separate underlying agreements will be entered into which will set out the details of materials, purchase price, payment method and other details of the materials supply arrangements in the manner provided in the Packaging Materials Supply Framework Agreement. The definitive terms of each of such agreements will be determined on a case-by-case basis and on fair and reasonable basis after arm’s length negotiation between the parties.

Reasons for the transaction

Delong Color Printing has historically supplied packaging materials to members of the Group due to its satisfactory products, favorable prices, and geographical advantage. In addition, our Group and Delong Color

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Printing have a long term, stable relationship and Delong Color Printing is familiar with our business needs and requirements. Based on our previous experience in business dealing with Delong Color Printing, we believe Delong Color Printing is capable of effectively satisfying our demands for the relevant products and services in a stable and reliable manner.

Pricing policies

The purchase price payable by us to Delong Color Printing under the Packaging Materials Supply Framework Agreement will be determined through a bidding process according to the internal rules and procedures of our Company. We will send bidding documents to selected suppliers, collect and compare quotes offered by at least two Independent Third Parties for products of the same or similar quality. The Company will also take into consideration the cost of materials provided, the quality of the materials, as well as the production scale and capacity of the supplier. The winning bidder and the purchase price of packaging materials will be subject to approval of our procurement departments.

Historical amounts

We started to purchase packaging materials from Delong Color Printing in 2018, and during the past four years the production capacity of Delong Color Printing has been continuously expanding. The historical amounts of fees relating to the purchase of products paid by our Group to Delong Color Printing for the year ended December 31, 2019, 2020 and 2021 are set out as below:

	For the year ended December 31,		
	2019	2020	2021
	(RMB in millions)		
Aggregate amount of fees relating to the purchase of packaging materials paid by our Group to Delong Color Printing	73.9	92.5	125.9

Annual caps

The following table sets forth the proposed annual caps under the Packaging Materials Supply Framework Agreement:

	Proposed annual caps for the year ending		
	December 31,		
	2022	2023	2024
	(RMB in millions)		
Maximum fees relating to the purchase of packaging materials to be paid by our Group to Delong Color Printing	157	196	246

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Basis of caps

When estimating the annual caps, our Directors have taken into consideration the following factors:

- (i) the growth trend of the historical transaction amount for the year ended December 31, 2019, 2020 and 2021;
- (ii) our needs for packaging materials to be provided by Delong Color Printing in supporting the projected growth of our business operation as part of the manufacturing facility of Xinglin Foods has been put into production in January 2022, and we expect that our production scale will continue to grow in the three years ending December 31, 2024; and
- (iii) the expected increase in the cost of production of packaging materials by Delong Color Printing and resulting expected increase in the purchase price to be charged by Delong Color Printing for supplying packaging materials to our Company (including taking into account the expected annual inflation in the PRC).

Listing Rules implications

In respect of the transactions under the Packaging Materials Supply Framework Agreement, as the highest applicable percentage ratio for each of the three years ending December 31, 2022, 2023 and 2024 calculated for the purpose of Chapter 14A of the Listing Rules is expected to exceed 5%, such transactions will, upon [REDACTED], constitute continuing connected transactions of the Company subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

INTERNAL CONTROL MEASURES

In order to ensure that the terms under relevant framework agreements for the continuing connected transactions are fair and reasonable, or no less favorable than terms available to or from Independent Third Parties, and are carried out under normal commercial terms, we have adopted the following internal control procedures:

- we have adopted and implemented a management system on connected transactions. Under such system, the Audit Committee under the Board is responsible for conducting reviews on compliance with relevant laws, regulations, our Company's policies and the Listing Rules in respect of the continuing connected transactions. In addition, the Audit Committee under the Board, the Board and various other internal departments of the Company (including but not limited to the finance department and compliance and legal department) are jointly responsible for evaluating the terms under framework agreements for the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps under each agreement;
- the Audit Committee under the Board, the Board and various other internal departments of the Company also regularly monitor the fulfillment status and the transaction updates under the framework agreements. In addition, the management of the Company also regularly reviews the pricing policies of the framework agreements;

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- our independent non-executive Directors and auditors will conduct annual review of the continuing connected transactions under the framework agreements and provide annual confirmation to ensure that, in accordance with the Listing Rules, the continuing connected transactions are conducted in accordance with the terms of the agreements, on normal commercial terms and in accordance with the relevant pricing policies, and are fair and reasonable in the interests of the Shareholders as a whole;
- when considering fees to be provided to the above connected persons by our Group, the Group will constantly research into prevailing market conditions and practices and make reference to the pricing and terms between the Group and Independent Third Parties for similar transactions, to make sure that the pricing and terms offered by the above connected persons from mutual commercial negotiations (as the case may be), are fair, reasonable and are no less favorable than those offered to Independent Third Parties; and
- when considering any renewal or revisions to the framework agreements after [REDACTED], the interested Directors and Shareholders shall abstain from voting on the resolutions to approve such transactions at board meetings or shareholders' general meetings (as the case may be), and our independent non-executive Directors and independent Shareholders have the right to consider if the terms of the non-exempt continuing connected transactions (including the proposed annual caps) are fair and reasonable, and on normal commercial terms and in the interests of our Company and our Shareholders as a whole. If the independent non-executive Directors' or independent Shareholders' approvals cannot be obtained, we will not continue the transactions under the framework agreement(s) to the extent that they constitute non-exempt continuing connected transactions under Rule 14A.35 of the Listing Rules.

CONFIRMATION BY DIRECTORS

The Directors (including independent non-executive Directors) are of the view that the non-exempt continuing connected transactions have been and will continue to be carried out in our ordinary and usual course of business of the Company and on normal commercial terms that are fair and reasonable and in the interests of the Company and our Shareholders as a whole; and that the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of the Company and our Shareholders as a whole.

CONFIRMATION BY THE JOINT SPONSORS

The Joint Sponsors have (i) reviewed the relevant documents and information provided by the Group, (ii) obtained necessary representations and confirmation from the Company and the Directors and (iii) participated in the due diligence and discussion with the management of the Company and the PRC Legal Advisors. Based on the above, the Joint Sponsors are of the view that the non-exempt continuing connected transactions have been and will continue to be carried out in the ordinary and usual course of business of the Company and on normal commercial terms that are fair and reasonable and in the interests of the Company and our Shareholders as a whole; and that the proposed annual caps of the non-exempt continuing connected transaction are fair and reasonable and in the interests of the Company and our Shareholders as a whole.

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WAIVERS GRANTED BY THE STOCK EXCHANGE

In respect of the continuing connected transactions as described above under the Packaging Materials Supply Framework Agreement, the highest applicable percentage ratios calculated for the purpose of Chapter 14A of the Listing Rules for the three years ending December 31, 2024 are expected to be more than 5% on an annual basis. Accordingly, the continuing connected transactions under the Packaging Materials Supply Framework Agreement are subject to the annual reporting requirement under Rules 14A.49 and 14A.71 of the Listing Rules, the announcement requirement under Rule 14A.35 of the Listing Rules and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules.

As the above non-exempt continuing connected transactions are expected to be carried out on a recurring basis, our Directors consider that strict compliance with the aforesaid announcement and independent Shareholders' approval requirements will be impractical, and such requirements will lead to unnecessary administrative costs and create an onerous burden on us. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange [has granted] us, pursuant to Rule 14A.105 of the Listing Rules, waivers from strict compliance with the announcement and independent Shareholders' approval requirements under Rule 14A.35 and Rule 14A.36 of the Listing Rules in case of the Packaging Materials Supply Framework Agreement, provided that the total amount of transactions for each of the three years ending December 31, 2024 will not exceed the relevant proposed annual caps as set out above. The independent non-executive Directors and auditors of the Company will review whether the transactions under the non-exempt continuing connected transactions have been entered into pursuant to the principal terms and pricing policies under the relevant agreements as disclosed in this section. The confirmation from our independent non-executive Directors and our auditors will be disclosed annually according to the requirements of the Listing Rules.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the continuing connected transactions referred to in this section, we will take immediate steps to ensure compliance with such new requirements within a reasonable time.