

SUMMARY

This summary aims to give you an overview of the information contained in this document and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial information appearing elsewhere in this document. As this is a summary, it does not contain all the information that may be important to you and we urge you to read the entire document carefully before making your [REDACTED] decision. There are risks associated with any [REDACTED]. Some of the particular risks in [REDACTED] in the [REDACTED] are set out in the section entitled “Risk Factors” in this document. You should read that section carefully before you decide to [REDACTED] in the [REDACTED].

OVERVIEW

We are a leading and rapidly growing livestock and poultry breeding and farming enterprise in China, focusing on the breeding and farming of pigs and yellow-feathered broilers. With a vertically integrated industry chain covering the breeding and farming of pigs and yellow-feathered broilers and feed production, we are committed to becoming an excellent high-end food manufacturing enterprise with full industry chain capabilities in China. Apart from the Self-operated Farm model, we also adopt the Family Farm model, under which we cooperate primarily with individual owners of farms which are Independent Third Parties in our pigs and broiler production. Our results of operation have grown rapidly since our inception, with an increase in the sales volume of our pigs by more than 100 times in the last 10 years. As at 31 May 2023, our business footprint covered 39 cities across 13 provinces and autonomous regions in China. According to the Frost & Sullivan Report, China’s pig market is highly fragmented, with the top three players each accounting for a market share of 7.7%, 2.6% and 1.7%, respectively, in terms of sales volume of pigs for 2022; we ranked sixth among all pig suppliers in China in terms of sales volume of pigs with a market share of 0.8%. According to the same report, for 2022, we ranked third among all yellow-feathered broiler suppliers in China in terms of sales volume of yellow-feathered broilers with a market share of 2.1% while the top player had a market share of 28.2%.

Our business consists of three segments, namely pig, poultry, and ancillary products, which mainly include feed ingredients. Products of our pig segment mainly include market hogs, breeding pigs, market piglets and boar semen. Products of our poultry segment mainly include yellow-feathered broilers and chicks. In addition to breeding and farming of pigs and yellow-feathered broilers at our own facilities, we also cooperate with farm owners in pig and poultry production. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, our pig segment contributed to 70.6%, 72.4%, 78.1%, 75.2% and 78.8% of our total revenue, our poultry segment contributed to 28.1%, 26.4%, 21.4%, 24.3% and 19.9% of our total revenue, and our ancillary products segment contributed to 1.3%, 1.2%, 0.5%, 0.6% and 1.3% of our total revenue, respectively.

Our farming business models

Our pig farming is conducted under the No. 2 Family Farm, No. 1 Family Farm and Self-operated Farm models:

- *No. 2 Family Farm model.* It is a model under which we cooperate with farm owners to raise sows, and to produce weaned piglets that are fattened either in the No. 2 Family Farm or nearby No. 1 Family Farms. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue generated from the sales of pigs raised under the No. 2 Family Farm model amounted to RMB1,596.6 million, RMB1,478.7 million, RMB1,763.1 million, RMB500.9 million and RMB760.1 million which accounted for 27.8%, 20.6%, 15.0%, 14.5% and 15.2% of our total revenue from the sales of pigs, respectively.
- *No. 1 Family Farm model.* It is a model under which farm owners fatten our weaned piglets. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue generated from the sales of pigs raised under the No. 1 Family Farm model amounted to RMB3,626.1 million, RMB3,935.0 million, RMB8,064.7 million, RMB2,281.2 million and RMB3,464.3 million, which accounted for 63.1%, 54.9%, 68.7%, 66.3% and 69.0% of our total revenue from the sales of pigs, respectively.

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- *Self-operated Farm model.* It is a model under which we build the farm and employ labour force to carry out scaled breeding, fattening and other related process. This model has the advantage of high level of centralisation and standardisation, which allows us to implement an efficient management system. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue generated from the sales of pigs raised under the Self-operated Farm model amounted to RMB525.0 million, RMB1,754.4 million, RMB1,917.2 million, RMB661.5 million and RMB789.9 million, which accounted for 9.1%, 24.5%, 16.3%, 19.2% and 15.8% of our total revenue from the sales of pigs, respectively.

For details, please refer to the section headed “Business – Production – Pig Production” in this document.

We breed and select chicken breeders, and hatch fertile eggs in our own poultry farms and hatcheries. For broiler farming, we adopt the Poultry Family Farm model and Poultry Farming Base model:

- *Poultry Family Farm model.* It is a model under which family farms provide the land and facilities and raise the yellow-feathered broilers according to our standards, while we provide chicks, feed, medicines and technical support. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue generated from the sales of yellow-feathered broilers raised under the Poultry Family Farm model amounted to RMB2,074.0 million, RMB2,419.0 million, RMB3,028.7 million, RMB1,049.8 million and RMB1,176.0 million, which accounted for 95.9%, 96.0%, 97.3%, 97.2% and 95.5% of our total revenue from the sales of yellow-feathered broilers for the same periods, respectively.
- *Poultry Farming Base model.* It is a model under which we build facilities by ourselves and lease the land and facilities to farm owners while the farm owners raise the yellow-feathered broilers. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue generated from the sale of yellow-feathered broilers raised under the Poultry Farming Base model amounted to RMB50.7 million, RMB51.9 million, RMB28.4 million, RMB9.4 million and RMB34.2 million which accounted for 2.0%, 1.8%, 0.9%, 0.9% and 2.8% of the total revenue from the sales of yellow-feathered broilers for the same periods, respectively.

For details, please refer to the section headed “Business – Production – Poultry Production” in this document.

Contract Farming

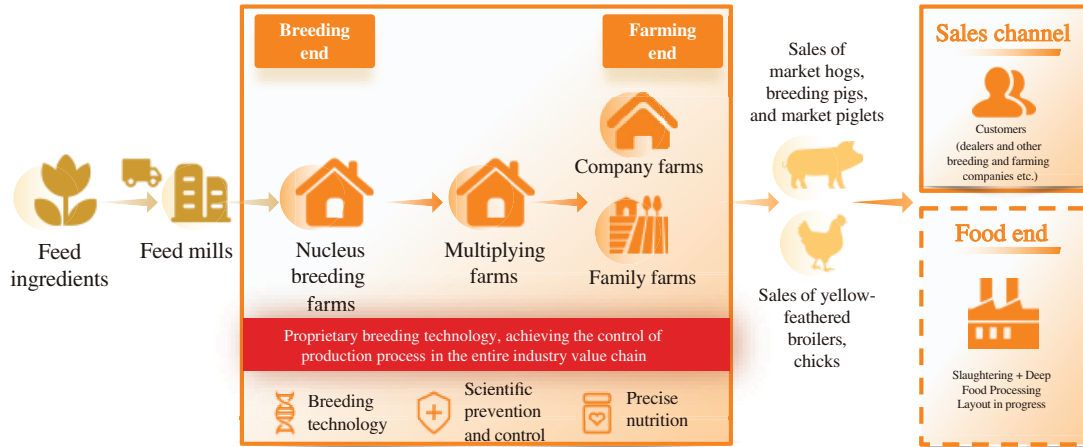
We cooperate with a wide base of farm owners to produce pigs and poultries under our family farm models. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue from the sale of pigs and yellow-feathered broilers raised under the family farm models amounted to RMB7,347.4 million, RMB7,884.6 million, RMB12,884.9 million, RMB3,841.3 million and RMB5,434.6 million, representing 90.2%, 79.6%, 85.7%, 83.8% and 85.4% of our total revenue during the same periods, respectively. For details, please refer to the section headed “Business – Production – Contract Farming” in this document.

We have advanced R&D capabilities in China, and we were the only breeding and farming enterprise in China that had two national key leading enterprises in agricultural industrialisation (農業產業化國家重點龍頭企業) and two national-level core pig breeding farms (國家級生豬核心育種場) as at 31 December 2022 according to the Frost & Sullivan Report. As at the Latest Practicable Date, we have established the Key Laboratory for Poultry Genetics and Breeding of the Ministry of Agriculture (農業部家禽遺傳育種重點實驗室), the Leading Enterprise Technology Innovation Centre of the National Spark Program (國家星火計劃龍頭企業技術創新中心), two national-level core pig breeding farms, the National Huiyang Bearded Chicken Breeding Farm, the “Guangdong Biological Germplasm Resource Bank – Domestic Livestock & Poultry Germplasm Resource Bank” (廣東省生物種質資源庫 – 畜禽種質資源庫) and was selected as one of the National Livestock and Poultry Agriculture Constituent Enterprises (國家畜禽種業陣型企業). We have also cooperated with research institutions to build a number of national and ministerial breeding platforms and key laboratories, including the National Pig Technology Innovation Center – Breeding R&D Centre (國家生豬技術創新中心 – 養殖研發中心). In recent years, by leveraging our strong R&D capabilities, advanced genetic resources and breeding system, we have conducted more than 50 national, provincial and ministerial R&D projects, including multiple National High-tech R&D Programs of China (863 Programme).

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Our Business Model and Products

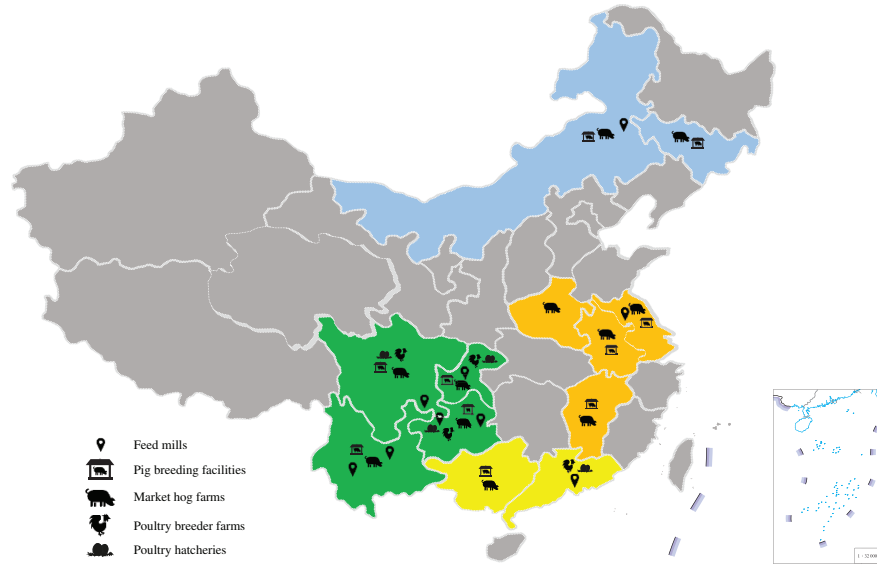
We primarily engage in the breeding and farming of pigs and yellow-feathered broilers. Our vertically integrated business model covers the industry value chain from feed production, breeding, multiplication, farming to sales of pigs and yellow-feathered broilers, which gives us a high degree of control over food quality and safety. Furthermore, we cooperate with farm owners in our pig and poultry production. We provide farm owners with quality breeding pigs and yellow-feathered chicks, techniques, supervision, training and support, while farm owners provide land and facilities and breed and/or raise pigs and poultry for contractual fees. This asset-light family farm model allows us to expand rapidly and equips us with the scale to continuously optimise our standardised farming system and enhance our technological edge. It also incentivises farm owners by improving their livelihood, thereby creating a mutually beneficial cycle. We sell our pigs and poultry products and ancillary products generated in the course of production. The diagram below illustrates our business model:



For details, please refer to the section headed “Business – Our Business Model and Products” in this document.

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The map and tables below illustrate the geographical location of our main production facilities and family farms as at 31 May 2023.



Pig farms					Poultry farms			
Nucleus breeding farms, boar studs and multiplying farms					Our self-operated breeder farms			
As at 31 May 2023					As at 31 May 2023			
Regions	Nucleus breeding farms Number	Boar studs Number	Multiplying farms Number	Total Number	Regions	Number		
Southwest China	7	6	75	88	Southwest China	8		
East China	1	1	10	12	South China	6		
South China	1	-	3	4	Total	14		
Others ⁽¹⁾	1	1	7	9				
Total	10	8	95	113				
Market hog farms					Our self-operated hatcheries			
As at 31 May 2023					As at 31 May 2023			
Regions	Our self-operated Pig farms Number		Family farms Number		Regions	Number		
Southwest China	27		2,196		Southwest China	6		
East China	9		205		South China	4		
South China	2		160		Total	10		
Others ⁽¹⁾	5		47					
Total	43		2,608					
Feed mills					Family farms and farming bases			
As at 31 May 2023					As at 31 May 2023			
Regions	Number				Regions	Family farms Number	Farming bases Number	Total Number
Southwest China	8				Southwest China	1,801	72	1,873
South China	2				South China	1,625	-	1,625
East China	1				Total	3,426	72	3,498
Others ⁽²⁾	1							
Total	12							

Notes:

- (1) Others include Henan, Inner Mongolia and Jilin.
- (2) Others include Inner Mongolia.

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Expansion into Food Processing Business

By leveraging our strengths in the breeding and farming of pigs and poultry, we plan to extend our business to downstream sectors, including the slaughtering and processing of pigs and poultry, the production and sales of fresh pork and chicken meat and processed meat products. Our vertically integrated business model would allow us a high degree of control over quality and safety across the entire value chain, spanning from sourcing feed ingredients to production and sale of final food products. We believe the traceability of the final food products will instill consumers’ confidence in our food safety and quality and allow us to build a high-end food brand. As at the Latest Practicable Date, we had a food processing plant project in progress in Yibin City, Sichuan Province, of which the slaughterhouse is expected to be complete in the third quarter of 2023 with a target annual slaughtering capacity of over three million heads of pigs. We have also established a joint venture with Tönnies (one of the largest integrated meat product enterprise in Germany) and are constructing a slaughterhouse in Meishan City, Sichuan Province with a target initial annual slaughtering capacity of over two million heads of pigs. For details, please refer to the section headed “Business – Our Business Model and Products – Expansion into Food Processing Business” in this document.

Price Fluctuation Management

We have adopted diverse means to mitigate the impact of fluctuations in pig, broiler and feed prices on our business operation.

For our pig segment, we have taken the following means: (i) conducting market survey to collect market information on pigs; (ii) selling pigs through the Dekon Group Pig Selling System (德康集團生豬銷售系統) by way of bidding to obtain feedback on market demand and prices to ensure we can obtain higher sales revenue; (iii) entering into contract with our key customers and agree with our key customers on key sales terms such as the quantity of pigs to be sold and sales rewards; and (iv) using a combination of futures and options to hedge the pig price fluctuations. Please refer to the section headed “Business – Hedging” in this document for details.

For our poultry segment, we have taken the following means to manage the price fluctuation. Based on the statistical analysis of research data on the supply and demand of broilers, our sales department forecast the market price for broilers on an annual and monthly basis. According to the market forecast, we formulate the following year’s broiler production plan in December every year. We also adjust our production plan according to short-term market fluctuations.

We have also adopted diverse means to mitigate the impact of fluctuations in feed prices, including flexibly adjusting feed formula while adhering to nutritional standards, diversifying our feed ingredients so that the price fluctuation of one ingredient would not exert material impact on our feed price, maintaining diversified supply channels and conducting raw material procurement with commodity futures. We use a combination of futures and options hedge the feed price fluctuations. Please refer to the section headed “Business – Hedging” in this document for details.

Please refer to the section headed “Business – Price Fluctuation Management” in this document for details.

OUR COMPETITIVE STRENGTH

We believe that the following competitive strengths contribute to our success and differentiate us from our competitors:

- Excellent scale and growth rate in China, well-positioned to achieve sustainable rapid growth
- Mutually beneficial farming models with strong penetration and expansion capabilities, improving farming efficiency
- Advanced platform and technology system, with significant advantages and outstanding performance

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- A sound animal health management system, ensuring our biological and food safety
- An efficient and standardised operation and management system, covering all business aspects from procurement to production and sales
- A visionary and practical management team, supported by all-round talents

For details, please refer to the section headed “Business – Our Competitive Strengths” in this document.

OUR BUSINESS STRATEGIES

We plan to further implement the following strategies:

- By leveraging our pioneering No. 2 Family Farm model and the integration of our self-operated farms and family farms, we intend to achieve cost-effective and efficient expansion of our pig and yellow-feathered broiler farming business to solidify our market position.
- Continue to increase investment in R&D to improve breeding and farming technology, and further improve breeding efficiency and cost-effectiveness.
- Expand our business into the production and processing of meat products to achieve upstream and downstream integration, and strive to become the leader of high-quality food in China.
- Enhance competitiveness through domestic and foreign investment, acquisitions and cooperation opportunities around our industry value chain.
- Continue to attract, train and motivate talents, strengthen cooperation with world-class talents in R&D, and lay a solid foundation for long-term development.
- Increase investment in ESG, including the investment in the “Hundred Villages and Million Pigs (百村百萬)” project with an aim of benefiting 100 villages in one county, employing 10,000 people, achieving annual production of 1 million pigs, construction of slaughtering and processing plants with an annual capacity of 1 million pigs and annual production of 100,000 mu of organic vegetables and fruits, observe the national action plan for fertiliser reduction, put into practice the cycling of planting and farming, and create a benchmark for sustainable agricultural development.

For details, please refer to the section headed “Business – Our Business Strategies” in this document.

COMPETITION

We mainly compete with pig and yellow-feathered broiler breeding and farming companies in the PRC. According to the Frost & Sullivan Report, unlike the low entry barriers for small-scale farmers, large-scale pig and poultry breeding and farming enterprises face high barriers in terms of management, funds, technologies, channels, talents, etc. According to the Frost & Sullivan Report, for 2022, we were one of the top ten breeding pig providers in the PRC in terms of sales volume of breeding pigs. According to the Frost & Sullivan Report, China’s pig market is highly fragmented, with the top three players each accounting for a market share of 7.7%, 2.6% and 1.7%, respectively, in terms of sales volume of pigs for 2022; we ranked sixth among all pig suppliers in China in terms of sales volume of pigs with a market share of 0.8%. According to the same report, for 2022, we ranked third among all yellow-feathered broiler suppliers in China in terms of sales volume of yellow-feathered broilers with a market share of 2.1% while the top player had a market share of 28.2%. It is expected that the trend of industry concentration will continue to accelerate due to growing scrutiny over food safety matters. Competition for our products in the PRC is primarily based on large-scale batch production capability, brand recognition, quality, genetic traits, price, marketing strategies as well as distribution network. For details of our competitive advantages, please refer to the section headed “Business – Our Competitive Strengths” in this document. For challenges and threat we encounter during our business operation, please refer to the section headed “Industry Overview” in this document.

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QUALITY CONTROL AND FOOD SAFETY

We are committed to providing safe, quality and reliable products. We adopt strict quality control and food management systems from raw material procurement, feed production, pig and poultry production to fully cover all stages of our operation.

We closely monitor animal disease outbreak on our farms and family farms and have developed various disease cleansing programmes in response to reports of disease outbreaks. We implement strict biosecurity measures and promptly eliminate diseased animals once identified. We also divide our pigs and broilers into smaller groups during farming process to prevent the spreading of the disease. During the Track Record Period and up to the Latest Practicable Date, there had been no material animal disease outbreak in our self-operated and family farms.

For details, please refer to the section headed “Business – Quality Control and Food Safety” in this document.

OUR CUSTOMERS

We have different types of customers for our products. Customers for our market hogs are mainly pig dealers. Customers for our breeding pigs and market piglets are mainly large-scale pig breeding and farming companies and to a lesser extent, small and medium-sized farms. Customers for our broilers mainly include dealers. Our chicks customers mainly include dealers and broiler farmers. During the Track Record Period, all of our customers were based in the PRC. For 2020, 2021, 2022 and the five months ended 31 May 2023, our sales to the top five customers accounted for 8.6%, 10.1%, 11.9% and 16.3% of our total revenue, respectively. Our sales to our largest customers accounted for 2.5%, 3.2%, 3.4% and 6.7% of our total revenue during the same periods, respectively. For each of the years/period during the Track Record Period, none of the Directors, Supervisors, their respective associates or shareholders who own 5% or more of the Company’s issued share capital had any interest in the top five customers.

We set the price of our products primarily based on market conditions. Please refer to the sections headed “Business – Sales – Sales of our Pig Segment” and “Business – Sales – Sales of our Poultry Segment” in this document for details.

OUR SUPPLIERS

During the Track Record Period, we procured raw materials including (i) feed, (ii) feed ingredients, such as corn, soybean meal, and other by-products, and (iii) veterinary medicines and vaccines. For 2020, 2021, 2022 and the five months ended 31 May 2023, our purchases from the top five suppliers accounted for 25.6%, 22.1%, 24.6% and 28.1% of our total cost of sales, respectively. For the same periods, our purchases from the single largest supplier accounted for 6.1%, 6.3%, 6.4% and 7.3% of our total cost of sales, respectively. For each of the years/period during the Track Record Period, except for Tequ Husbandry, all our top five suppliers are Independent Third Parties, and no Directors, Supervisors, their respective associates or Shareholders who own 5% or more of the Company’s issued share capital have any interest in the top five suppliers.

RISK FACTORS

Our business and the [REDACTED] involve certain risks, which are set out in “Risk Factors”. You should read that section in its entirety before you decide to [REDACTED] in the [REDACTED]. Some of the major risks we face include:

- Our results of operations are substantially affected by cyclical fluctuations in the selling prices of pigs and poultry products, which affect our revenue, and by fluctuations in the purchase prices of feed and feed ingredients, which affect our costs.
- Outbreak of African Swine Fever, avian influenza, and other diseases among the livestock or attributed to livestock or zoonoses and adverse publicity of these diseases can significantly affect our production, supply and demand for our products and our business.

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- Any perceived or actual food safety or health issues related to our raw materials, products or the food industry generally could adversely affect our reputation, our ability to sell our products and our financial performance, and subject us to liability claims and regulatory actions.
- The fair value of our biological assets may fluctuate significantly from period to period, causing our results of operations to be highly volatile.
- Our historical financial and operating results are not indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability.

OUR CONTROLLING SHAREHOLDERS

As of the Latest Practicable Date, Mr. Wang Degen directly held approximately 3.29% and indirectly held 36.21% of the issued share capital of our Company, through Desheng Ronghe, which is wholly owned by Mr. Wang Degen.

Immediately following the completion of the [REDACTED] (assuming the [REDACTED] is not exercised) and the Conversion of Domestic Shares into H Shares, each of Desheng Ronghe and Mr. Wang Degen will be interested [REDACTED] and [REDACTED] of the issued share capital of our Company, respectively. Each of Desheng Ronghe and Mr. Wang Degen will be regarded as our Controlling Shareholder under the Listing Rules.

PRE-[REDACTED] INVESTMENTS

Since our incorporation, we have completed several rounds of equity financing in the past few years. For further information, see “History and Corporate Structure – Pre-[REDACTED] Investments.”

SUMMARY OF HISTORICAL FINANCIAL INFORMATION

The following tables set forth a summary of our historical financial information for the Track Record Period, extracted from the Accountants’ Report set out in Appendix I to this document. The summary of historical financial information set forth below should be read together with, and is qualified in its entirety by reference to, the historical financial information in this document, including the related notes. Our historical financial information has been prepared in accordance with IFRS.

Selected Consolidated Statements of Profit or Loss and Other Comprehensive Income Data

Our selected consolidated statements of profit or loss and other comprehensive income data for the Track Record Period as set out below are derived from our historical financial information included in Appendix I to this document.

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	For the year ended 31 December				For the five months ended 31 May			
	2020		2021		2022		2023	
	Results before biological assets fair value adjustments RMB'000	Total RMB'000 % of revenue	Results before biological assets fair value adjustments RMB'000	Total RMB'000 % of revenue	Results before biological assets fair value adjustments RMB'000 (unaudited)	Total RMB'000 (unaudited) % of revenue	Results before biological assets fair value adjustments RMB'000	Total RMB'000 % of revenue
Revenue	8,145,349	100.0%	9,901,566	100.0%	15,037,027	100%	6,362,244	100%
Cost of sales	(4,982,717)	(61.2%)	(9,187,459)	(92.3%)	(12,968,848)	(86.2%)	(6,745,121)	(106.0%)
Gross profit	3,162,632	38.8%	714,107	7.7%	2,068,179	13.8%	(382,877)	(6.0%)
Changes in fair value of biological assets	1,295,726	15.9%	(2,753,504)	(27.8%)	304,795	2.0%	(419,278)	(9.2%)
Other net income	77,956	1.0%	102,410	1.0%	110,894	0.7%	57,329	1.3%
Selling expenses	(70,091)	(0.9%)	(72,623)	(0.7%)	(80,275)	(0.5%)	(28,876)	(0.6%)
Administrative expenses	(700,290)	(8.6%)	(899,626)	(9.0%)	(1,058,172)	(7.0%)	(387,089)	(8.4%)
Provision for expected credit loss of trade and other receivables	(2,240)	(0.0%)	(5,917)	(0.1%)	(13,332)	(0.1%)	(5,801)	(0.1%)
Profit/(loss) from operations	2,467,967	46.2%	(151,649)	(28.8%)	1,320,089	8.9%	(832,698)	(30.1%)
Finance cost	(155,589)	(1.9%)	(312,242)	(3.2%)	(405,272)	(2.7%)	(163,223)	(3.6%)
Share of losses of associates	(347)	(0.0%)	(3,271)	(0.0%)	(16,382)	(0.1%)	(4,176)	(0.1%)
Profit/(loss) before taxation	2,312,031	44.3%	(467,162)	(32.0%)	910,435	6.1%	(1,021,880)	(33.8%)
Income tax	(666)	(0.0%)	(1,986)	(0.0%)	(680)	(0.0%)	(346)	(0.0%)
Profit/(loss) and total comprehensive income for the year/period	2,311,365	44.3%	(469,148)	(32.0%)	909,755	6.1%	(1,022,315)	(33.8%)
Attributable to: Equity shareholders of the Company	3,488,173	42.8%	(2,997,303)	(30.3%)	992,866	6.6%	(1,374,998)	(30%)
Non-controlling interests	120,178	1.5%	(175,355)	(1.8%)	(83,111)	(0.6%)	(173,746)	(3.8%)
							(2,026,138)	(31.8%)
							(158,326)	(2.5%)

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Our business has grown rapidly during the Track Record Period. Our revenue increased by 21.6% from RMB8,145.3 million for 2020 to RMB9,901.6 million for 2021 and further increased by 51.9% to RMB15,037.0 million for 2022. Our revenue increased by 38.9% from RMB4,581.2 million for the five months ended 31 May 2022 to RMB6,362.2 million for the same period of 2023. We recorded a profit of RMB3,608.4 million, a loss of RMB3,172.7 million, a profit of RMB909.8 million, a loss of RMB1,548.6 million and a loss of RMB2,184.5 million for 2020, 2021 and 2022 and the five months ended 31 May 2022 and 2023, respectively.

Our revenue is significantly affected by the average selling price and the sales volume of our products. We operate in a highly fragmented and competitive industry. Our primary products are our pig and poultry products which are commodities. The selling prices of our pig and poultry products are subject to significant market price fluctuations. Selling prices generally fluctuate with market conditions, including supply and demand, outbreaks of diseases and government policies. For example, selling prices for our pig products have been cyclical over the years, reflecting changes in market supply and demand, and the supply of pigs is affected by, among others, government policies and outbreaks of diseases. See “Industry Overview – Pig Cycle” and “Industry Overview – China’s yellow-feathered broiler market – market size of yellow-feathered broilers” for more information on historical fluctuations of pig and poultry prices.

Gross profit and gross profit margin

The following table sets forth a breakdown of our gross profit and gross profit margin of each business segment/sub-segment during the Track Record Period:

	For the year ended 31 December						For the five months ended 31 May			
	2020		2021		2022		2022		2023	
	Segment/ sub- segment gross profit	Segment/ sub- segment gross profit margin	Segment/ sub- segment gross profit	Segment/ sub- segment gross profit margin	Segment/ sub- segment gross profit	Segment/ sub- segment gross profit margin	Segment/ sub- segment gross profit	Segment/ sub- segment gross profit margin	Segment/ sub- segment gross profit	Segment/ sub- segment gross profit margin
	<i>(RMB'000, except for percentages)</i>						<i>(unaudited) (unaudited)</i>			
Sales of pigs										
Market hogs	3,043,482	55.2%	326,966	5.2%	1,694,503	14.7%	(624,632)	(18.5%)	(297,456)	(6.1%)
Breeding pigs	112,716	76.1%	306,002	66.4%	27,492	39.6%	4,206	26.9%	7,920	32.4%
Market piglets	52,410	65.0%	101,159	22.5%	(49,074)	(32.5%)	(51,175)	(102.6%)	4,674	4.2%
Boar Semen	275	64.3%	147	61.8%	984	44.1%	31	37.8%	1,383	38.2%
Subtotal gross profit and gross profit margin	3,208,883	55.8%	734,274	10.2%	1,673,905	14.3%	(671,570)	(19.5%)	(283,479)	(5.7%)
Sales of poultry										
Yellow-feathered broilers	(50,560)	(2.3%)	16,330	0.6%	383,517	12.3%	71,728	6.6%	(95,760)	(7.8%)
Chicks and eggs	1,260	1.0%	2,030	2.1%	2,044	2.0%	(255)	(0.8%)	(329)	(1.0%)
Subtotal gross profit and gross profit margin	(49,300)	(2.2%)	18,360	0.7%	385,561	12.0%	71,473	6.4%	(96,089)	(7.6%)
Sales of ancillary products	4,309	3.9%	11,467	9.9%	8,713	11.4%	2,913	11.2%	(3,309)	(4.0%)
Total gross profit and gross profit margin	3,163,892	38.8%	764,101	7.7%	2,068,179	13.8%	(597,184)	(13.0%)	(382,877)	(6.0%)

SUMMARY

Gross profit and gross profit margin

Our total gross loss was RMB597.2 million and RMB382.9 million in the five months ended 31 May 2022 and 31 May 2023, respectively. Our overall gross profit margin was -13.0% and -6.0% in the five months ended 31 May 2022 and 2023, respectively. We recorded improved gross profit and gross profit margin for the five months ended 31 May 2023 as compared with the corresponding period in 2022 mainly due to the relatively high average selling price of our market hogs for the five months ended 31 May 2023 as compared with the corresponding period in 2022.

Our total gross profit increased by 170.7% from RMB764.1 million in 2021 to RMB2,068.2 million in 2022. Our overall gross profit margin was 7.7% and 13.8% in 2021 and 2022, respectively. The increase in our overall gross profit and gross profit margin was primarily due to the increase in average selling prices of our market hogs. The average selling price of our market hogs per head increased by 9.8% from 2021 to 2022 even though the average selling price for market hogs in China per kg decreased from 2021 to 2022, primarily due to the fact that the average selling price for our market hogs per kg increased by 7.0% from RMB17.1/kg to RMB18.3/kg as we sold more market hogs in the second half of 2022 when the market price was relatively high.

Our total gross profit decreased by 75.8% from RMB3,163.9 million for 2020 to RMB764.1 million for 2021. Our overall gross profit margin was 38.8% and 7.7% for 2020 and 2021, respectively. The decreases in our overall gross profit and gross profit margin were primarily due to the decrease in average selling prices of our market hogs driven by more supply of market hogs becoming available in 2021.

Our profit/(loss) for the year/period was a net profit of RMB3,608.4 million, a net loss of RMB3,172.7 million, a net profit of RMB909.8 million and a net loss of RMB1,548.6 million and a net loss of RMB2,184.5 million for 2020, 2021 and 2022, and for the five months ended 31 May 2022 and 2023, respectively. During the Track Record Period, our profit/(loss) for the year was primarily affected by the following factors: (i) gross profit; (ii) changes in fair value of biological assets; and (iii) our administrative expense. We recorded gains arising from changes in fair value of biological assets of RMB1,295.7 million for 2020 primarily because a significant increase in the stock volume and in the appraisal value of pigs. We recorded losses arising from changes in fair value of biological assets of RMB2,753.5 million in 2021 primarily due to the decrease in the average selling price of market hogs, which was partially offset by the increase in the stock volume of our pigs and poultry products in 2021. We recorded gains arising from changes in fair value of biological assets of RMB304.8 million in 2022 primarily because of the significant increase in appraisal value of the pigs as at 31 December 2022 arising from the increase in price and stock volume. We recorded losses arising from changes in fair value of biological assets of RMB419.3 million in the five months ended 31 May 2022 primarily due to the decrease in appraisal value of the pigs as at 31 May 2022 arising from the decrease in market price, which was slightly offset by an increase in stock volume. We recorded losses arising from changes in fair value of biological assets of RMB1,202.4 million in the five months ended 31 May 2023 primarily because of the significant decrease in appraisal value of the pigs as at 31 May 2023 arising from the decrease in market price, which was slightly offset by an increase in stock volume. Our administrative expenses increased by 27.0% from RMB700.3 million for 2020 to RMB889.6 million for 2021 and further increased by 19.0% to RMB1,058.2 million for 2022 and increased by 26.4% from RMB387.1 million for the five months ended 31 May 2022 to RMB489.3 million for the corresponding period in 2023, which was primarily due to (i) the increase in our depreciation and amortisation in connection with our office buildings and office equipment; (ii) the increase in our insurance cost as we purchased more insurance to cover the price drop and deaths of our pig and poultry products; and (iii) the increase in our research and development costs. For detailed information on the fluctuation of our gross profit, gross profit margin and net profit/(loss) during the Track Record Period, please see “Financial Information – Period-to-Period comparison of Results of Operation”.

SUMMARY

Summary of Consolidated Statements of Financial Position Data

The following table sets out a breakdown of our assets and liabilities as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	31 May 2023
	<i>(RMB'000)</i>			
Total current assets	6,325,326	6,064,863	9,214,613	7,086,981
Total current liabilities	4,496,522	6,323,053	9,084,396	9,770,830
Net current assets/(liabilities)	1,828,804	(258,190)	130,217	(2,683,849)
Total non-current assets	8,712,994	9,706,545	10,085,844	10,539,847
Total non-current liabilities	3,382,068	5,315,589	5,152,259	4,940,160
Net assets	7,159,730	4,132,766	5,063,802	2,915,838
Non-controlling interests	313,866	159,878	94,165	(37,861)

Our net assets decreased from RMB7,159.7 million as at 31 December 2020 to RMB4,132.8 million as at 31 December 2021, mainly due to loss for the year of RMB3,172.7 million, which was partially offset by the issue of our ordinary shares in the amount of RMB120.0 million. Our net loss for 2021 was primarily due to the loss from changes in fair value of biological assets in the amount of RMB2,753.5 million. Our net assets increased to RMB5,063.8 million as at 31 December 2022, mainly due to profit for the year of RMB909.8 million as well as capital contribution from non-controlling interest in the amount of RMB18.6 million. Our net profit for 2022 was primarily attributable to our gross profit in the amount of RMB2,068.2 million. Our net assets decreased to RMB2,915.8 million as at 31 May 2023, mainly due to the loss from changes in fair value of biological assets in the amount of RMB1,202.4 million.

We had net current assets of RMB1,828.8 million, net current liabilities of RMB258.2 million, and net current assets of RMB130.2 million and net current liabilities of RMB2,683.8 million as at 31 December 2020, 2021 and 2022, and 31 May 2023, respectively.

We recorded net current assets of RMB130.2 million as at 31 December 2022 and net current liabilities of RMB2,683.8 million as at 31 May 2023, the change was primarily due to (i) a significant decrease in current biological assets due to low pig and poultry prices in the five months ended 31 May 2023 and accordingly a decrease in the valuation of our biological assets and (ii) a significant decrease in cash and cash equivalents and restricted deposits, as we used more cash in our business operations.

We recorded net current liabilities of RMB258.2 million as at 31 December 2021 and net current assets of RMB130.2 million as of 31 December 2022, the change was primarily due to (i) a significant increase in current biological assets which is primarily due to the increase in the stock volume of our pig and poultry products; and (ii) a significant increase in cash and cash equivalents and restricted deposits, which is a result of an improvement in our operating performance.

Our net current assets decreased from RMB1,828.8 million as at 31 December 2020 to net current liabilities of RMB258.2 million as at 31 December 2021, primarily due to (i) an increase in interest-bearing borrowings as we scaled our business in 2021; (ii) an increase in trade and bills payables as we increased the size of our breeding pigs in order to expand our business and purchased more raw materials; and (iii) a significant decrease in financial assets at fair value through profit or loss which was caused by our redemption of such financial assets for cash to be used in our operations.

SUMMARY

Selected Information of our Consolidated Cash Flows Statement

The following table sets forth a summary of our cash flows for the Track Record Period:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	(RMB'000)			
Net cash generated from operating activities	1,671,484	406,528	2,191,663	63,100
Net cash used in investing activities	(3,775,833)	(1,760,401)	(1,246,388)	(585,639)
Net cash generated from/(used in) financing activities	3,149,466	1,450,972	89,007	(78,953)
Net increase/(decrease) in cash and cash equivalents	1,045,117	97,099	1,034,282	(601,492)
Cash and cash equivalents at 1 January	666,757	1,711,874	1,808,973	2,843,255
Cash and cash equivalents at 31 December/31 May	1,711,874	1,808,973	2,843,255	2,241,763

Key Financial Ratios

	2020 or as at 31 December 2020	2021 or as at 31 December 2021	2022 or as at 31 December 2022	For the five months ended 31 May 2023 or as at 31 May 2023
Return on equity ⁽¹⁾	50.4%	-76.8%	18.0%	-182.3%
Return on total assets ⁽²⁾	24.0%	-20.1%	4.7%	-30.2%
Current ratio ⁽³⁾	1.4	1.0	1.0	0.7
Quick ratio ⁽⁴⁾	1.3	0.9	0.9	0.7
Gearing ratio ⁽⁵⁾	76.1%	194.8%	178.1%	320.2%
Debt to equity ratio ⁽⁶⁾	50.5%	146.4%	113.6%	227.4%
Interest coverage ⁽⁷⁾	24.2	-9.2	3.2	-10.5

Notes:

- (1) Return on equity is calculated as profit/(loss) for the year/period divided by the closing balance of total equity as at the respective reporting dates.
- (2) Return on total assets is calculated as profit/(loss) for the year/period divided by the closing balance of total assets as at the respective reporting dates.
- (3) Current ratio is calculated as current assets divided by current liabilities as at the respective reporting dates.
- (4) Quick ratio is calculated as current assets minus inventories, then divided by current liabilities as at the respective reporting dates.
- (5) Gearing ratio is calculated as total interest-bearing bank borrowings plus lease liabilities, divided by total equity at the respective reporting dates. Our gearing ratio increased from 76.1% for 2020 to 194.8% for 2021, which was mainly due to (i) an increase in our total interest-bearing bank borrowing plus lease liabilities by 47.6% from RMB5,452.1 million as at 31 December 2020 to RMB8,049.2 million as at 31 December 2021, which was due to the fact that we were in expansion of the business scale with increasing lease liabilities from farm leasing and increasing bank borrowings to fund the farms building; and (ii) a decrease in total equity by 42.3% from RMB7,159.7 million as at 31 December 2020 to RMB4,132.7 million as at 31 December 2021 as a result of a decrease in retained earnings in 2021.

SUMMARY

- (6) Debt to equity ratio is calculated as net debts divided by total equity as at the respective reporting dates. The net debts are defined as the sum of interest-bearing borrowings and lease liabilities net of cash and cash equivalents. Our debt to equity ratio increased from 50.5% for 2020 to 146.4% for 2021, which was mainly due to (i) an increase in our total interest-bearing bank borrowing plus lease liabilities by 47.6% from RMB5,452.1 million as at 31 December 2020 to RMB8,049.2 million as at 31 December 2021, which was due to the fact that we were in expansion of the business scale with increasing lease liabilities from farm leasing and increasing bank borrowings to fund the farms building; and (ii) decrease in total equity by 42.3% from RMB7,159.7 million as at 31 December 2020 to RMB4,132.7 million as at 31 December 2021 as a result of a decrease in retained earnings for 2021.
- (7) Interest coverage is calculated as profit/loss before interest and tax divided by interest.

BIOLOGICAL ASSETS AND VALUATION

The fair value of our biological assets decreased by 28.1% from RMB5,681.0 million as at 31 December 2020 to RMB4,084.1 million as at 31 December 2021, primarily due to the combined effect of a significant decrease in the appraisal value and an increase in the stock volume of pigs. The fair value of our biological assets increased by 32.4% from RMB4,084.1 million as at 31 December 2021 to RMB5,409.1 million as at 31 December 2022, primarily due to a rebound in prices of pigs. The fair value of our biological assets decreased by 23.9% from RMB5,409.1 million as at 31 December 2022 to RMB4,114.0 million as at 31 May 2023, primarily due to a decrease in the prices of pigs and accordingly a decrease in appraisal value.

The following table sets out the fair value of our biological assets as at the dates indicated:

	As at 31 December			As at
	2020	2021	2022	31 May 2023
	<i>(RMB'000)</i>			
Breeding stocks				
– Sows and boars	1,253,662	816,007	792,905	898,455
– Gilts and studs	1,182,760	102,047	153,456	209,683
– Mature chicken breeders	47,873	57,758	58,136	68,487
– Immature chicken breeders	29,312	20,604	22,652	18,685
Commodity stocks				
– Piglets	104,574	167,344	166,569	175,908
– Nursery market hogs	119,850	67,392	102,660	53,247
– Growers	2,708,075	2,494,772	3,637,545	2,322,167
– Broilers	226,597	344,586	458,938	341,336
– Commodity Chicks	224	–	1	12
– Fertile eggs	8,024	13,585	16,251	19,727
Total	<u>5,680,951</u>	<u>4,084,095</u>	<u>5,409,113</u>	<u>4,107,707</u>

Our financial results have been, and will continue to be, affected by changes in the fair value of our biological assets. We are required under IFRS to recognize such changes under “gain/(loss) arising from changes in fair value less costs to sell of biological assets”. This line item represents the changes in fair value of biological assets due to the changes in the stock volume, physical attributes, market-determined price and replacement cost of the biological assets in our two segments of pigs and poultry. We measure our biological assets at their fair value less costs to sell. The fair value is measured by reference to local market selling prices. Gains or losses arising from initial recognition of biological assets at fair value less costs to sell and from changes in fair value of biological assets less costs to sell are included in profit or loss in the period in which they arise. During the Track Record Period, our biological assets were revalued at each reporting date by the Valuer. We recognised gains of RMB1,338.5 million, losses of RMB2,735.0 million, gains of RMB417.5 million, losses of RMB376.8 million and losses of RMB1,111.2 million for the changes in fair value of biological assets in our pig segment, and recognised losses of RMB42.8 million, losses of RMB18.5 million, losses of RMB112.7 million, losses of RMB42.5 million and losses of RMB91.3 million for the changes in fair value of biological assets in our poultry segment for 2020, 2021 and 2022, and for the five months ended 31 May 2022 and 2023, respectively.

SUMMARY

IMPACT OF COVID-19 OUTBREAK

The outbreak of COVID-19 has impacted our business in many aspects including the following:

- *Impact on supply chain.* As affected by the COVID-19 pandemic, certain parts of China adopted relevant pandemic prevention measures, which resulted in delays of resuming feed production in our feed plants and by our feed suppliers. Also, certain of the family farms experienced a temporary shortage of feed as the suppliers were unable to deliver in time. Government authorities subsequently issued policies requiring that, during the prevention and control of the COVID-19 pandemic, the supply of meat and other necessities shall be ensured, and the transportation of agricultural raw materials including livestock, poultry and feeds shall not be intercepted.
- *Impact on sales.* Despite the impact of the COVID-19 pandemic, including (i) certain local governments suspending live poultry markets as part of the pandemic prevention measures, (ii) the suspension of transportation of live pigs and closure of certain slaughterhouses, and (iii) social distancing and travel and traffic restrictions, consumption of pork and chicken remained relatively stable during the Track Record Period and up to the Latest Practicable Date.
- *Other impacts.* Due to the restrictions on the logistics in certain abovementioned regions, our inventory of frozen chicken increased.

With the gradual resumption of normal economic and business activities in the PRC since 2020 and the further relaxation of the preventive measures since December 2022, and based on our financial performance during the Track Record Period, as at the Latest Practicable Date, our Directors confirmed that the COVID-19 outbreak will not have any material adverse impact on our business operation and financial performance, mainly due to the facts that (i) pork and chicken are the most important protein sources for Chinese people, and the per capita consumption thereof remained stable during the COVID-19 outbreak; (ii) government authorities have implemented policies and measures to ensure the stable supply of pork and other necessities during the COVID-19 outbreak, as well as uninterrupted transportation of agricultural production materials (including livestock, poultry and feeds) across regions; and (iii) we have established a system for prevention and control of the COVID-19 pandemic and adopted strict biosecurity measures for our farms and employees.

DIVIDENDS

In 2020, we declared cash dividends of RMB80 million to our then Shareholders, which was fully settled in cash in October 2020. Past payments and non-payments of dividends are not indicative of our future dividend policy. Our Board may declare dividends in the future after taking into account our operations, earnings, financial condition, cash requirements and availability and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of dividends will be subject to our constitutional documents and the applicable laws, including the approval of our Shareholders. Our future declarations of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

DISTRIBUTABLE RESERVES

As at 31 May 2023, our Company had retained earnings of RMB901.6 million under IFRS, as reserves available for distribution to our Shareholders.

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[REDACTED]

[REDACTED] represent professional fees, [REDACTED] commissions and other fees incurred in connection with the [REDACTED]. We expect to incur [REDACTED] of RMB[REDACTED], representing approximately [REDACTED]% of the [REDACTED] from the [REDACTED] (based on the mid-point of the indicative [REDACTED] and assuming the [REDACTED] is not exercised and taking into account any discretionary incentive fees, if applicable), of which RMB[REDACTED] will be directly attributable to the issue of our H Shares and will be deducted from capital reserve upon [REDACTED]. The difference between the amount of [REDACTED] and the amount that will be directly attributable to the [REDACTED] of our H Shares and deducted from capital reserve upon [REDACTED] is RMB[REDACTED]. During the Track Record Period, we incurred [REDACTED] of RMB [REDACTED], of which RMB[REDACTED] was charged to our consolidated statement of profit or loss and other comprehensive income in 2022 and RMB[REDACTED] will be deducted from equity. We expect to incur additional [REDACTED] after 31 May 2023, of which RMB[REDACTED] is expected to be charged to our consolidated statement of profit or loss and other comprehensive income and RMB[REDACTED] is directly attributable to the [REDACTED] and is to be accounted for as a deduction from equity in accordance with the relevant accounting standards.

The [REDACTED] (based on the mid-point of the indicative [REDACTED] and assuming the [REDACTED] is not exercised and taking into account any discretionary incentive fees, if applicable) we incurred during the Track Record Period and expect to incur for this [REDACTED] would consist of (1) RMB[REDACTED] in [REDACTED]-related expenses, and (2) RMB[REDACTED] in [REDACTED]-related expenses, which include (i) RMB[REDACTED] in fees and expenses of legal advisors and accountants, and (ii) RMB[REDACTED] in other fees and expenses.

LEGAL PROCEEDINGS AND COMPLIANCE

During the Track Record Period and up to the Latest Practicable Date, there was no litigation, arbitration or administrative proceeding pending or threatened against our Group or any of our Directors which could have a material adverse effect on our business, financial condition or results of operations. Our Directors are of the view that we had complied with all relevant laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. We had certain historical non-compliance incidents during the Track Record Period and details of which are disclosed in “Business – Legal Proceedings and Compliance – Compliance – Non-compliance Incidents”. During the Track Record Period and up to the Latest Practicable Date, we did not have any non-compliance incidents which our Directors believe would, individually or in the aggregate, have a material operational or financial impact on our business.

[REDACTED]

	Based on an [REDACTED] of HK\$[REDACTED] per H Share	Based on an [REDACTED] of HK\$[REDACTED] per H Share
Market capitalization of our Shares ⁽¹⁾ [REDACTED] per Share ⁽²⁾	HK\$[REDACTED] HK\$[REDACTED]	HK\$[REDACTED] HK\$[REDACTED]

Notes:

- (1) The calculation of market capitalization is based on [REDACTED] Shares expected to be in issue immediately upon completion of the [REDACTED], assuming the [REDACTED] is not exercised.
- (2) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 May 2023, including a possible distribution of RMB300 million undistributed profits according to the special shareholder resolution dated 26 December 2022. As detailed in the section headed “Summary – Special Shareholder Resolution”, such potential distribution shall be subject to the approval by a separate resolution at the general meeting of shareholders after receiving hearing notice and before formal

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hearing. Had such dividends been declared on 31 May 2023, the [REDACTED] attributable to equity shareholders of the Company would have decreased by approximately RMB[REDACTED] and the [REDACTED] attributable to equity shareholders of the Company per Share would have decreased by approximately by RMB[REDACTED]. The [REDACTED] attributable to equity shareholders of the Company per Share has been arrived at after adjustments referred to in the section entitled “Appendix II – [REDACTED]”

FUTURE PLANS AND [REDACTED]

We intend to use the [REDACTED] from the [REDACTED] for the following purposes (assuming an [REDACTED] of HK\$[REDACTED] per [REDACTED] (being the mid-point of the [REDACTED] stated in this document), after deducting the [REDACTED] fees and commissions and other estimated expenses in connection with the [REDACTED] and the [REDACTED] is not exercised):

- Approximately [REDACTED]% of our estimated net proceeds, or approximately [HK\$[REDACTED] (equivalent to approximately [RMB[REDACTED]) will be used over the next three years for expanding our existing pig and yellow-feathered broiler farming business;
- Approximately [REDACTED]%, or approximately [HK\$[REDACTED] (equivalent to approximately [RMB[REDACTED]) will be used over the next two years for developing our food processing business;
- Approximately [REDACTED]%, or approximately [HK\$[REDACTED] (equivalent to approximately [RMB[REDACTED]) will be used for the next three years for investment in R&D and information technology system to further solidify our competitive advantages;
- Approximately [REDACTED]%, or approximately [HK\$[REDACTED] (equivalent to approximately [RMB[REDACTED]) will be used for strategic investments or potential acquisitions;
- Approximately [REDACTED]%, or approximately [HK\$[REDACTED] (equivalent to approximately [RMB[REDACTED]) will be used for repaying certain outstanding bank loans with interest ranging from 2.1% to 4.2%; and
- Approximately [REDACTED]%, or approximately [REDACTED] (equivalent to approximately [RMB[REDACTED]) is planned to be used for working capital and general corporate purposes.

RECENT DEVELOPMENTS AND MATERIAL ADVERSE CHANGE

We currently forecast our net profit will decrease in 2023 as compared with that in 2022, primarily as a result of the decrease in average selling price of market hogs.

Update on Yibin Project and Meishan Project

As at the Latest Practicable Date, we had a food processing plant project in progress in Yibin City, Sichuan Province, of which the slaughterhouse is expected to be completed in the third quarter of 2023 with a target annual slaughtering capacity of over three million heads of pigs. The expected time of commencing production was postponed from the second quarter as originally planned to the third quarter of 2023, mainly due to an enhancement to the original design to enable automated pre-cooling, which led to prolonged delivery of equipment and construction. We have also established a joint venture with Tönnies (one of the largest integrated meat product enterprise in Germany) and are constructing a slaughterhouse in Meishan City, Sichuan Province with a target initial annual slaughtering capacity of over two million heads of pigs. Subsequent to the Track Record Period and up to the date of this document, we had purchased equipment and were in the process of constructing factory facilities for our Yibin Project and Meishan Project. For details of our plan to expand into food processing business and the latest status as at the Latest Practicable Date, please refer to “Business – Our Business Model and Products – Expansion into Food Processing Business” in this document.

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Special Shareholder Resolution

On 26 December 2022, taking into account the interests of our existing Shareholders and future H Shareholders, our Shareholders resolved that RMB300 million of our remaining undistributed profits as of 31 December 2022 would be shared by all Shareholders as of 26 December 2022 in proportion to their respective shareholdings in the Company. The specific distribution plan shall be subject to the approval by a separate resolution at the general meeting of shareholders after the financial statements of the Company for 2022 are prepared in accordance with the IFRS. Where the [REDACTED] and [REDACTED] are completed within 18 months from the date of passing of the resolution at the general meeting of shareholders, the retained undistributed profits after the aforesaid distribution (the “**Remaining Retained Undistributed Profits**”) will be shared by the new and existing Shareholders after the [REDACTED] and [REDACTED] in proportion to their respective shareholdings following the [REDACTED]. Where the Company fails to complete the [REDACTED] and [REDACTED] within the aforesaid period, a separate resolution on the distribution of the Remaining Retained Undistributed Profits of the Company shall be proposed for consideration at the general meeting of shareholders.

Material Adverse Change

Our Directors confirm that, as of the date of this document, except as disclosed above, there has been no material adverse change in our financial, operational or trading position, indebtedness, contingent liabilities or prospects of our Group since 31 May 2023, the end of the period reported in the Accountants’ Report set out in Appendix I to this document, and there has been no event since 31 May 2023 that would materially affect the information as set out in the Accountants’ Report in Appendix I to this document.