
BUSINESS

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, we ranked sixth among all pig suppliers in China in terms of sales volume of pigs, and third among all yellow-feathered broiler suppliers in China in terms of sales volume of yellow-feathered broilers, in 2022.

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.

We have rich pig and yellow-feathered broiler genetic resources and an advanced breeding system. Our advanced breeding technologies and facilities together constitute a self-sufficient breeding system, which allows us to continuously produce quality lines. We also have a portfolio of highly competitive pig and yellow-feathered broiler products. With our rich genetic resources and advanced breeding system, we are able to continuously improve the performance of our products, build a highly competitive product portfolio, reduce production costs, and rapidly increase production scale. This allows us to gain significant competitive advantages over other enterprises that have no or insufficient breeding capability.

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

BUSINESS

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, excellent 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).

Our tightly integrated pig farming business model consists of our No. 1 Family Farm model, No. 2 Family Farm model, and Self-operated Farming model. Under our No. 1 Family Farm model, farm owners are only responsible for fattening the weaned piglets they receive from us. Under the No. 2 Family Farm model, farm owners are responsible for raising the sows they receive from us as well as producing weaned piglets that are fattened either in the No. 2 Family Farm or nearby No. 1 Family Farms. In particular, we pioneered the asset-light, cost-effective and production-efficient No. 2 Family Farm model in China. Compared with other farming models, the No. 2 Family Farm model (i) is less capital intensive and more scalable; (ii) has stronger profitability; (iii) is more conducive to the prevention and control of animal diseases and the protection of the biological assets of crossbred sows; (iv) has a higher entry barrier and offers a more comprehensive training programme for farm owners, which enables farm owners to master more professional farming technologies; and (v) generates higher and more stable income for and provides stronger incentives to farm owners.

With our highly standardised farm management system and farming business model, the scale of our business had grown rapidly during the Track Record Period. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, the sales volume of our pigs amounted to approximately 1.4 million heads, 3.7 million heads, 5.4 million heads, 2.3 million heads and 2.9 million heads, respectively, and the sales volume of our yellow-feathered broilers amounted to approximately 72.4 million birds, 75.8 million birds, 78.6 million birds, 29.4 million birds and 34.6 million birds, respectively. During the same periods, our revenue amounted to RMB8,145.3 million, RMB9,901.6 million, RMB15,037.0 million, RMB4,581.2 million and RMB6,362.2 million, respectively.

We believe that we are well-positioned to capture the strong and steady-growing pork and chicken consumption demand in China. Along with the improvement of living standard and the increase in meat consumption, Chinese consumers’ demand for animal-based protein continues to grow. According to the Frost & Sullivan Report, in terms of revenue, the scale of pig and yellow-feathered broiler breeding and farming industry in China is expected to exceed RMB1.5 trillion by 2027, with a trend of increasing market concentration. According to the same report, for 2022, CR10 of China’s pig farming enterprises was only approximately 18.0%, as compared with approximately 50.6% in the United States, which indicates that there is still ample room for leading enterprises to grow.

BUSINESS

OUR COMPETITIVE STRENGTHS

Excellent scale and growth rate in China, well-positioned to achieve sustainable rapid growth

Since inception, we have experienced rapid growth in terms of sales volume of our pigs and yellow-feathered broilers, which were dual drivers for our business growth

We are an industry leader in breeding and farming of pigs and yellow-feathered broilers in terms of scale. For 2022, according to the Frost & Sullivan Report, the sales volume of our pigs amounted to approximately 5.4 million heads, ranking sixth among pig suppliers in China in terms of sales volume of pigs, and we ranked third among all yellow-feathered broiler suppliers in China in terms of sales volume of yellow-feathered broilers.

We have experienced rapid growth since our inception in 2011, with an increase in the sales volume of our pigs by more than 100 times in the last 10 years. We ranked first in terms of CAGR in sales volume from 2020 to 2022 among the top ten enterprises in China, according to the Frost & Sullivan Report. Our mutually beneficial and asset-light family farm models have contributed to our sustainable, quality and rapid growth. With pork and chicken being the two primary sources of animal protein for Chinese consumers and having long dominated the meat consumption market, our pig and poultry segments are not only dual drivers for our business growth, but also provide us with significant flexibility in our business strategies as well as strong resistance against market volatility risks.

An ample stock of quality nucleus and multiplication herds

We have an excellent nucleus breeding herd in terms of stock volume. As at 31 May 2023, we had two national-level core pig breeding farms. As at the same date, we had a nucleus herd of approximately 14,800 breeding pigs (including gilts and studs) and 148,100 purebred breeding pigs, which formed an established breeding and multiplying system that spans from the great grand parent, grand parent to parent generations of pigs. As at 31 May 2023, we had also established 14 chicken breeder farms, which can continuously breed quality chicken breeders and DOCs. As at 31 May 2023, we had a nucleus flock of approximately 267,500 chicken breeders and were a leader in the industry among large-scale livestock and poultry breeding and farming enterprises in China according to the Frost & Sullivan Report.

Our ample stock of nucleus and multiplication herd provides adequate resources of piglets and DOCs, which afford us our core cost competitiveness and enable us to increase profitability by swiftly ramping up production when pork and chicken prices rise. As at 31 May 2023, based on our nucleus herd, we had the ability to reach a production scale of over 550,000 heads of quality sows, which can support an annual production capacity of over 30.0 million heads of piglets. As at the same date, our nucleus flock can support an annual production capacity of approximately 147.3 million birds of DOCs. Our breeding stock breeding system can satisfy our demand for piglets and DOCs without relying on external breeding stocks. Given the industry’s continuous increase in scale, the ability to achieve self-sufficiency of

BUSINESS

piglets and DOCs supports our business expansion, ensures the stability of our industry chain, and provides us control over the costs of piglets and DOCs. Furthermore, geographical locations of our nucleus and multiplication herds are highly compatible with those of our farms, which effectively ensures that our farms’ demands for sows, piglets and chicks can be met by nearby nucleus and multiplication herds, thereby reducing the risks and costs of transportation.

Continuous increase in market concentration, providing ample room for development

Currently, China’s breeding and farming industry still has relatively low concentration. For 2022, CR10 of China’s pig farming enterprises was approximately 18.0%, as compared with approximately 50.6% in the United States, which indicates that there is still ample room for leading enterprises to increase their market share in China, according to the Frost & Sullivan Report. The development of China’s breeding and farming industry in recent years is characterised by a rapid increase in concentration and scale. Furthermore, as the Chinese government continues to attach great importance to food safety, environmental protection and other related issues, the increasingly stringent industry standards for pig production provide a favorable environment for scaled farms that are equipped with advanced technologies to enhance their competitive advantages.

We have a vertically integrated business model covering the entire industry chain from feed production to breeding and farming of pigs and yellow-feathered broilers. Our business model enables us to effectively control production costs and monitor production processes, and supports the continuous expansion of our business scale. We believe that with our ample stock of nucleus herds with significant advantages, advanced breeding and ancillary technology supporting system, and mature and standardised farming models, we will be able to capitalise on the industry consolidation trend and continue to solidify our scale advantage and sustain rapid growth.

Mutually beneficial farming models with strong penetration and expansion capabilities, improving farming efficiency

Synergistic farming models, laying the foundation for our asset-light expansion

Our tightly integrated farming business model consists of the Self-operated Farm model, the No. 1 Family Farm model and the No. 2 Family Farm model which support and complement each other, laying a solid foundation for our development. Under the Self-operated Farm model, we breed and farm sows and piglets and fatten market hogs. Under the No. 1 Family Farm model, farm owners only fatten market hogs. Under the No. 2 Family Farm model, farm owners use crossbred sows and boar semen they receive from us to produce piglets that are either fattened at the No. 2 Family Farm or nearby No. 1 Family Farms.

Our self-operated farms provide quality sows for family farms and enable us to establish and continuously optimise our standardised farming system. The large-scale of our family farms allows us to obtain abundant breeding and farming data, including data in relation to the

BUSINESS

performance of pigs, fattening technology and feed nutrition technology to continuously improve our breeding and farming performance. Furthermore, the mature and standardised fattening technology and management system developed in our self-operated farms can be applied across our family farms.

Our family farms operate based on an asset-light model that supports our rapid expansion. During the Track Record Period, the growth in our sales volume was primarily driven by family farms, with the sales of pigs raised under the No. 1 Family Farms contributing to 63.1%, 54.9%, 68.7%, 66.3% and 69.0% of our total revenue from the sales of pigs for 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, respectively. The family farm models lower our overall capital investment and enhance our investment returns, thereby facilitating our scale expansion. In particular, our No. 2 Family Farms and No. 1 Family Farms are adjacently located to complement each other. Piglets bred by No. 2 Family Farms can be used to meet the demand for piglets and improve the farming scale and efficiency of the surrounding No. 1 Family Farms. This arrangement also reduces the movement of piglets, thereby mitigating the risk of loss of biological assets from diseases and stress and improving the safety of our biological assets. We typically have higher knowledge and skill requirements for our No. 2 Family Farm owners, and we train No. 1 Family Farm owners, who have strong fattening skills and willingness to learn and a strong sense of responsibility, into No. 2 Family Farm owners.

Family farm models mutually benefiting farm owners and us, forming the bedrock of our business

The family farm models allow us to continuously expand our business scale using an asset-light approach. Under the family farm models, we provide farm owners with production materials such as sows, piglets, feed, medicines and vaccines on open account terms subject to farm owners’ payment of deposits, which reduces the capital requirement for daily operation and alleviates the financial pressure on farm owners. Farm owners are mainly responsible for providing the fixed assets required for farming, such as lands and farming facilities.

We provide farm owners with technical support and guidance to help them raise pigs with confidence as well as a stable source of income. We provide farm owners with comprehensive trainings, including ad-hoc training sessions to facilitate the exchange of farming experience, to continuously enhance the farming knowledge of our farm owners. We have dedicated technical personnel who regularly monitor and visit farm owners to help resolve problems they encounter in the farming process and veterinarians who provide timely technical advice to our farm owners. Furthermore, this arrangement ensures that farm owners are adequately compensated and motivated to invest in farming on a long-term basis, and improves their breeding and farming technology, which in turn increases our pig sales volume and revenue.

Our mutually beneficial business model has earned us a good reputation among farm owners, which facilitates the expansion of the scale of our cooperation. For 2022, the average annual income of our farm owners was approximately RMB247,450, which was approximately 3.1 times the disposable income of a four-person household in rural China. We have a close and

BUSINESS

long-standing cooperation relationship with farm owners. As at 31 May 2023, family farms with whom we had more than three years of cooperation accounted for approximately 37.0% of our family farms. As a result, new farm owners continue to join and cooperate with us, thereby facilitating our penetration and expansion in rural China.

Efficient No. 2 Family Farm model, further improving our farming and expansion efficiency

Our pig farming business mainly adopts the family farm models. In our constant exploration and optimisation of the family farm models, we have pioneered the No. 2 Family Farm model in China, which has significant advantages compared to other farming models.

The No. 2 Family Farm model provides farm owners with more stable and predictable income, which incentivises farm owners to continuously improve their farming techniques, which in turn increases the sales volume and revenue of our pigs. The breeding scale of sows raised by farm owners can better support the demand for piglets on the farm, and the ability to ensure stable supply of piglets minimises disruptions to the farms’ production plans. Compared with the No. 1 Family Farm model which adopts an all-in-all-out model in its production, the farm owners are responsible for raising crossbred sows under the No. 2 Family Farm model, which provides the farm owners a more reliable source of piglets, and more stable and predictable income. As a result, the No. 2 Family Farm model is more stable in terms of operation and provides farm owners with a stronger sense of security. Under the No. 2 Family Farm model, the efforts made by the farm owners are directly reflected in key performance indicators such as the survival rate of piglets, which has a more direct impact on the income of the farm owners.

The No. 2 Family Farm model can effectively reduce risks in relation to disease prevention and control. Our sows are dispersed and raised in various regions across China. Our No. 2 Family Farms are usually moderate-scale farms that are less prone to epidemics such as African Swine Fever, which in turn improves the safety of our biological assets and ensures the continuous, efficient and stable growth of our sow population and the stability of our production. In addition, the No. 2 Family Farm model enables individual farms to be self-reliant by having sufficient piglets to meet their own production needs. This model also reduces the risks of losses and diseases associated with transportation of piglets.

Farm owners under the No. 2 Family Farm model are more technically capable and sticky. For No. 2 Family Farms, we select high-quality farm owners and provide them with longer-term and comprehensive training to enhance their farming and disease prevention and control techniques. Our No. 2 Family Farm model has cultivated a large number of high-quality and diligent farm owners, whose stickiness and loyalty have further strengthened our competitive position.

BUSINESS

Moderate-scale farming optimal for China, enabling us to work with farm owners to revitalise rural communities

Increasing the scale of production is one of the key indicators of development in modern animal husbandry, and that of China’s breeding and farming industry is still relatively low. According to the Frost & Sullivan Report, as at 31 December 2022, the proportion of pig farms with an annual output volume of 500 or more heads accounted for approximately 60.8% of the total number of pig farms as compared with approximately 97.0% in the United States. This indicates that China’s breeding and farming industry still has plenty of room for growth in terms of production scale.

We believe that moderate-scale farms with a stock volume of 500 to 5,000 heads of pigs, which constitute the majority of our farms, are optimal for China. As a result of China’s diversified geographical landscape, uneven economic development and fragmented market demand, there are many constraints on the development of farms with stock volume of over 5,000 heads of pigs. Moderate-scale family farms with a stock volume of 500 to 5,000 heads of pigs have the requisite scale and standard to enable division of labor and benefit sharing mechanism between farming enterprises and farm owners, and are environmentally friendly, efficient and sustainable. During the Track Record Period, the scale of our family farms were generally maintained at 50 to 500 sows per farm, 1,000 to 3,000 market hogs per farm and 10,000 to 50,000 broilers per farm, respectively.

The opportunity to participate in the investment and management of farms not only meets the needs of “homecoming farm owners” who returned to their hometowns to start their own businesses, but is also well suited for these farm owners in terms of the required knowledge and production experience. Farms that operate under the cooperation of enterprises and individual farm owners can serve as examples in local areas and promote economic development. Our family farm models are in line with the Chinese government’s initiative on scaled farming and “homecoming farm owners”. While continuing to expand our business scale, we work with farm owners to help them escape poverty and become prosperous, which in turn contribute to the rural revitalisation in China. We were awarded, among others, the honorary title of Advanced Private Enterprise in the National “Thousands of Enterprises Helping Thousands of Villages” Targeted Poverty Alleviation Action jointly by the All-China Federation of Industry and Commerce and the State Council Leading Group Office of Poverty Alleviation and Development (國務院扶貧開發領導小組辦公室) in 2020. Please refer to the section headed “– Major Awards and Recognition” for details.

BUSINESS

Business model with strong penetration and expansion capabilities

We are deeply rooted in Southwest China. As at 31 May 2023, we had 2,226 family farms in Southwest China, forming an established farming system in the region. Our business model equips us with strong penetration capabilities. For example, as at the same date, we had 170 family farms in Hechuan County, Chongqing alone, and there remains immense potential for us to further expand in the Southwest China market.

In addition, we have established our operations throughout the main food production and pig sales regions in South China, East China and Northeast China. As at 31 May 2023, we had three nucleus breeding farms, two boar studs, and nine multiplying farms to support our future expansion plans in these regions.

Our family farm models are scientific and efficient with mature management systems, which lay a solid foundation for our national business expansion. In the future, while we will continue to lead and cultivate the Southwest China region, we also plan to replicate our family farm models across the country.

Advanced platform and technology system with significant advantages and outstanding performance

Advanced technological platform, reinforcing our competitiveness

We also have cooperated with research institutes to build the National Pig Technology Innovation Center – Breeding R&D Center (國家生豬技術創新中心 – 養殖研發中心), and the Southwest Branch of the National Pig Health Collaborative Innovation Centre (國家生豬健康協同創新中心西南分中心). These R&D facilities provide us with a first-class domestic R&D platform for pig and poultry breeding, healthy farming and precision nutrition, and a first-class domestic R&D team. In addition, as at 31 May 2023, we had five national and five provincial and municipal R&D platforms, which primarily serve to facilitate the R&D of breeding and farming technology, covering areas including genetic researches, operation enhancement, new product development, collaboration with universities and research institutions. We have two national core pig breeding farms and was selected as one of the National Livestock and Poultry Agriculture Constituent Enterprises (國家畜禽種業陣型企業). In recent years, by leveraging our strong technological advantages, genetic resources and breeding system, we have undertaken more than 50 national, provincial and ministerial major R&D projects, including multiple National High-tech R&D Programs of China (863 Programme). Please refer to the section headed “– Research and Development” for details.

Self-sufficient breeding system, excellent performance of breeding pigs and chicken breeders

We are equipped with a range of advanced breeding technologies, which include pure line genetic evaluation technology, such as genome selection technology, marker-assisted selection and conventional breeding technology, targeted matching technology for pure line and hybrid matching, and AI and induction technology based high-throughput phenomics assay

BUSINESS

technology. Through combining various breeding technologies, we have constructed an efficient and advanced breeding system. As a result of our continuous investment in our in-house breeding system, our breed supply capabilities have been continuously enhanced. Quality breeds form the core competitive strengths of breeding and farming enterprises, which we have been able to develop on the foundation of our breeding system.

For each of the twelve months ended 31 December 2022, our national-level core pig breeding farms were consistently ranked one of the top farms by the Monthly Data Analysis Report of National Core Pig Breeding Farm (《生豬國家核心育種場月度數據分析報告》) issued by the National Pig Genetic Evaluation Center (全國種豬遺傳評估中心). Among others, in May 2022, one of our national-level core pig breeding farms ranked first in China in terms of the growth performance of Duroc, Large White and Landrace.

As at 31 May 2023, we had five foreign breeding pig variety lines with excellent performance and two domestic local pig variety lines and 45 proprietary variety lines of broilers. Furthermore, as at the Latest Practicable Date, one of our supporting broiler lines has been awarded the National Certificate for New Breeds (Supporting Lines) of Livestock and Poultry (國家畜禽新品種(配套系)證書), and two other supporting broiler lines were in the course of applying for the National Certificate for New Breeds (Supporting Lines) of Livestock and Poultry. For example, through research on the protection, development and utilisation of Huiyang beard chickens, we have successfully bred “Lingnan Yellow-Feathered Chicken No. 3”, a new supporting line of nationally recognised broilers, the egg production of which is double and the feed consumption for egg production is half that of the original breed.

Precision nutrition technology system, improving the efficiency of livestock and poultry breeding and farming

Our nutrition technology system includes five major aspects, namely precision nutritional needs, precision raw materials, precision formula, precision processing and precision feeding, which allows us to maximise the reproduction and growth performance of pigs. This technology adopts different nutritional strategies for pigs at different growth stages. It enables accurate evaluation and use of raw materials through in vitro bionic digestion technology, near-infrared detection technology and dynamic raw material database. It adopts net energy/digestible amino acid/digestible phosphorus system for formula design. We also have feed production and processing technology, which is characterised by high maturity, high precision and high efficiency.

We adopt different feed formulas to accurately meet the nutritional needs of pigs at different growth stages and achieve optimal feeding and production efficiency. For sows feeding, we use dynamic data-based fat measurement and seasoning technology to achieve precise nutrition. They can decrease the annual feed consumption per sow by more than 49 kilograms while increasing PSY by more than 1.61 heads. The feed conversion rate of 110 kilograms of body weight were 2.47, 2.52, 2.50 and 2.48, respectively, for 2020, 2021, 2022 and the five months ended 31 May 2023.

BUSINESS

We have a comprehensive feed cost control system, including raw material valuation assessment and valuation procurement technology, high-efficiency enzyme preparation technology, low-protein diet technology and low corn/low soybean meal diet technology. This system enables us to promptly adjust the formulas and procurement strategies and increase the proportion of unconventional feed ingredients, such as peanut meal, sunflower meal and rice polishing powder, when the prices of major feed ingredients rise, thus allowing us to effectively control our feed costs, save grains and reduce emissions. When the price of corn and soybean meal is relatively high, we apply low corn or low soybean meal diet technology to some of our feed. For example, since 2021, we employed a technique that can reduce proportion of corn and soybean meal in feed to only approximately 5.0% and 2.8%, respectively, which allowed us to significantly reduce the cost per head of pig without lowering their performance.

In addition, we have successfully applied antibiotic-free technology to our feed. Our fermentation technology also improves the digestibility and utilisation rate, which can reduce the cost of each market hog. In addition, we apply advanced feed technology to our self-operated feed mills. Furthermore, we have built our own feed mills to enhance our control over the quality of our products. As at 31 May 2023, we had 12 feed mills across China, with an aggregate annual production capacity of up to 2.7 million tonnes and an overall feed self-sufficiency rate of approximately 55.4% for 31 May 2023. Our feed mills are well situated and close to our major pig and yellow-feathered broiler farms to minimise transportation cost.

A sound animal health management system, ensuring our biological and food safety

Animal health management is essential to ensure our steady development. We have taken active prevention and control measures for the outbreak of African Swine Fever and other diseases, purification of major diseases, and food safety enhancement through our biosafety system and related disease purification technologies. We have established an effective biosecurity system that covers, among others, the following aspects:

Site selection. We develop and implement strict biosecurity specifications, including terrain, separation of roads for entry and exit, distance from dangerous areas, water quality, air quality, distribution and ventilation of the barns. Ecological environment and means of isolation are also considered holistically to ensure that the farm has a natural barrier against epidemic.

Application of advanced design concepts. We adopt various advanced concepts in designing our facilities, including that (i) the planning and design of our farms strictly follow the principle of separating the areas of personnel isolation, living, production and environmental protection; (ii) the layout of the production sites of our pig farms are well-suited to the production process, which reduces the time and distance for the transfer of pigs during different stages of production; (iii) the pig house follows the model of large buildings and small units, which is conducive to cooling in the summer and heat preservation in the winter, facilitating all-in and all-out of units and epidemic prevention and control; and (iv) decontamination facilities are installed in each area.

BUSINESS

Use of advanced hardware. We leverage advanced biosecurity facilities and equipment on and off-site to decontaminate materials, personnel and vehicles to reduce the risks of contamination in the pig farms. We use advanced ventilation and modern environmental control equipment to stabilise the environment, including air quality and temperature, and reduce the risk of the spread of diseases. Due to our rapid expansion in recent years, we enjoy latecomer advantage as the design, construction, and scale of our pig farms and relevant equipment are relatively modernised, advanced and complete, which allow us to maintain optimal biosecurity conditions.

Comprehensive biosafety training system. We have a well-established biosecurity training system for all employees to raise their awareness, enhance their skills and sense of responsibility, and lay a foundation for a strong organisational commitment to disease prevention and control.

Close supervision. We have formulated a strict and effective biosecurity system and supervision mechanism for livestock and poultry farms to ensure that all personnel, materials, vehicles and livestock and poultry are transported, cleaned, disinfected and isolated in accordance with biosecurity regulations, and we monitor the infection pressure in the areas surrounding the pig farms in order to detect early warning of infection pressure in the surrounding environment. We have also established a quality traceability system through which we are able to strictly control and monitor the flow of our products along the industry value chain.

Disease purification technology, ensuring food safety of poultry and livestock products

We are committed to providing safe, quality and reliable products, and we believe that the continuous development of disease purification technology is key to ensuring safety. We have designed and deployed a laboratory system based on the regional distribution of our pig farms. The system specifies the positioning and functions, is equipped with standards for the construction and operation of laboratories at all levels and establishes pathogens, serology and other detection technologies to meet various testing needs and ensure the timeliness and accuracy of testing.

We formulate a customised health monitoring plan for each pig herd to monitor the overall antibody level and pathogen prevalence. We have systematically carried out and achieved notable progress on the purification of several key swine diseases, including African Swine Fever.

For yellow-feathered chicken breeders, we have established a disease monitoring, prevention and control system that integrates pathogen isolation, identification, drug resistance monitoring, host serology monitoring, immunity prevention and control, and clinical prevention and treatment. We have purified *Mycoplasma synoviae* through purification technologies such as biosecurity and vaccination and have reduced (i) the incidence rate of leg diseases caused by *Mycoplasma synoviae* in our chicken breeders by approximately 42% and the incidence rate within the flock by 90%, and (ii) the average cost of medicine for a single chicken breeder by approximately RMB0.12.

BUSINESS

An efficient and standardised operation and management system, covering all business aspects from procurement to production and sales

Procurement process

We adopt a centralised procurement strategy. The vast majority of our raw materials are purchased in bulk by the headquarters through centralised procurement, which allows us to leverage economies of scale, reduce overall procurement cost and achieve greater efficiency.

Production process

We have a complete, efficient and standardised family farm operation system, which affords us a high degree of control over the entire production process, ensures stable product quality, reduces overall operating costs and improves production efficiency. The system covers various aspects of our business operation, spanning from farm site selection, farm construction, animal safety management, feeding and production, training and supervision of farm owners, product quality control of pigs and broilers to environmental protection, in particular:

Selection of farm owners. We select farm owners with reference to their financial resources, education background, integrity as well as conditions of the family farms. As at 31 May 2023, approximately 13.6% of our family farm owners held a college degree or above. Please refer to the section headed “Production – Pig farming – Selection and supervision of farm owners” for details.

Batch production. Our pig farms adopt a batch production model. We set the production of the pig farms to a regular schedule of mating, farrowing, weaning and immunisation within a fixed period of time to ensure more regular production. This allows us to manage the production of pigs more efficiently and enables us to raise the per capita feeding capacity to over 200 heads of breeding pigs, thereby reducing the management cost per capita for each pig.

Medicine withdrawal period management. We strictly implement the medicine withdrawal period management system to ensure that all pigs and broilers reach the medicine withdrawal period before sampling for medicine residue testing. We have also established a special medicine residue testing system that trains and monitors the execution of testing personnel on a regular basis to ensure the accuracy of execution and stability of testing.

Environmental protection. In respect of our environmental protection efforts, we have established noise, wastewater and solid waste treatment systems. For example, we recycle biogas to use as fuel in pig farms. We use a hazard-free high-temperature biodegradation machine to treat sick and dead pigs in pig houses, and use the by-products as raw materials for organic fertiliser. In terms of management mechanism, we implement a grid-based management of headquarter personnel and a three-level management system for regional companies. Please refer to the section headed “– Environment and Social Matters” for details.

BUSINESS

Sales process

We have established a sales prediction model to predict the best timing for the sales of pigs to maximise profits. Based on years of market research and the accumulation of massive data, we have established a visual forecasting model based on a number of parameters, such as pig growth curve, dynamic farming cost and market sales price, to predict the optimal weight and timing for the sales of pigs. In addition, we have established the “Dekon Group Pig Selling System (德康集團生豬銷售系統)”, through which our customers can order pigs by bidding after registering and paying a deposit. The system allows us to expand the pool of customers, sell our pigs at the best price, achieve standardisation, and improve the efficiency and effectiveness of our sales process.

A visionary and practical management team, supported by all-round talents

Mr. Wang Degen, our founder, is an entrepreneur with a history of continuous business success, and he has extensive experience in the breeding and livestock feed industry with a strategic vision. For details of Mr. Wang Degen’s experience, please refer to the section headed “Directors, Supervisors and Senior Management” in this document. Our senior management members, with an average of more than ten years of industry experience, are committed to our mission of “doing real work to provide high-quality food for Chinese consumers” and strive to develop our Company into a high-end food ecosystem builder. Under their leadership, we have grown rapidly and have been able to focus on solving the bottleneck problem of breeding, achieving self-sufficiency in breeding pigs and chicken breeders.

We have a highly qualified R&D team. As at 31 May 2023, our R&D team had 147 employees, among which 82 held master’s degree or above, including nine holding doctor’s degree. As at the same date, the majority of the members of our R&D team were holders of bachelor’s degrees or above. In addition, we have established a multi-disciplinary R&D team with experts in fields such as genomics, genetics, mathematical statistics, breeding, nutrition and veterinary medicine.

We have the ability to attract global talents. We have engaged various experts as our regular technical and R&D consultants to provide advice on our R&D strategies and direction when we encounter technical bottlenecks. These experts include Professor Guosheng Su, an internationally renowned breeding expert from Aarhus University, Denmark, as well as leading domestic R&D teams from various universities. Please refer to the section headed “– Production – Pig Production – Pig Breeding” for details.

We place great emphasis on the recruitment and training of talents. As at 31 May 2023, we had 8,670 employees, which we believe can adequately support our long-term development. As at 31 May 2023, approximately 30.7% of our employees held associate degrees, 17.7% held bachelor’s degrees and 1.8% held master’s degrees or above. We also place great importance on talent training to help our employees achieve career development and hold key positions within our Group in the future. For example, as at 31 May 2023, we had sponsored over 100 visits for our employees to participate in exchanges of technology and experience relevant to our business abroad. Please refer to the section headed “– Employees” for details.

BUSINESS

OUR BUSINESS 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

Further expand the footprint of our farms nationwide through integration of our self-operated farms and family farms

With the sustained operation of our self-operated farms, we have developed breeding and farming know-how, including our breeding technique, precise nutrition strategies and farming technique. We plan to continuously promote the application of these know-how to No. 1 Family Farms and No. 2 Family Farms, so as to allow farm owners to improve their breeding efficiency. While we will continue to strengthen our market position in the southwestern region of China where we currently operate, we intend to further expand our geographical presence, focusing on regions such as provinces in South China and East China where demand and price for pork are high and feeding and transportation costs are low. Through the above strategies, we strive to become a top three player in terms of sales volume among all pig suppliers in China in the next five years.

Rapidly increase our pig farming scale by promoting the No. 2 Family Farm model in China

For pig farming, while we will maintain sound operation and expand our self-operated farms and No. 1 Family Farms, we will also continue to focus on the development of our No. 2 Family Farm model so as to expand our network and breeding scale under this model, increase our R&D investment and improve our breeding efficiency, thereby solidifying our market position and cost advantages to enhance high entry barriers to our competitors. Under the No. 2 Family Farm model, farm owners are responsible for feeding a certain portion of sows, as well as the fattening of piglets, which helps us increase the number of sows using an asset-light approach. While better supporting the needs of farm piglets and expansion of the breeding scale, the No. 2 Family Farm model also offers unique advantages in terms of biosecurity, farming costs, expansion capabilities, internal replication, decentralisation, sustainable development, and asset investment.

In addition, we plan to increase our R&D investment in No. 2 Family Farms to strengthen the nurturing and promotion of quality variety lines, in order to enhance competitiveness of the products. We also plan to improve the IT systems in No. 2 Family Farms and promote digitalisation of their breeding processes with a goal of enhancing breeding efficiency, achieving standardisation and ensuring safety. We will continue to optimise the No. 2 Family Farm model and further extend our farming network from Southwest China to South China, East China and other major provinces where there is strong demand for pork consumption.

BUSINESS

Through the No. 2 Family Farm model, we are committed to observing the PRC government’s policy on supporting the development and modernisation of the rural agriculture industry and helping farm owners build inheritable family businesses to increase their income, so as to achieve sustainable development that benefits farm owners, enterprises and the country as a whole.

Continuously expand the scale of yellow-feathered broiler farming, and realise the dual-wheel driver of the pig and yellow-feathered broiler segment

We will continue to leverage our broiler breeding resources to further expand our farming scale and increase the proportion of slow and medium-growth yellow-feathered broilers in our product portfolio. We will also improve the quality of our products to differentiate from our competitors’ and further enhance our market share in the high-quality yellow-feathered broiler market, which we believe will complement our business in the pig segment and create a dual-wheel driver for both business segments.

Continue to increase investment in R&D to improve breeding and farming technology, and further improve breeding efficiency and cost-effectiveness

Apply digital intelligent breeding technology to accelerate breeding selection to comprehensively improve the genetic performance of breeding pigs and chicken breeders, thereby enhancing market competitiveness

We will continue to increase our investment in R&D of breeding and farming technologies to maintain our advantages in this regard. We will utilise our rich genetic resources to conduct selective breeding through advanced genome selection technology to accelerate genetic progress, further optimise pig and yellow-feathered broiler breeds, and improve genetic performance such as meat quality, reproductive performance, and growth speed, in order to improve the market competitiveness and lower production costs of our products.

Furthermore, in response to consumers’ pursuit of better quality and healthier products, we strive to develop varieties and products (such as pork products with high intramuscular fat content) that meet consumer needs through variety development and nutritional strategies. By adjusting the feeds during the farming process, we aim to create unique products that can become differentiated product resources for our downstream food business that will soon be put into production.

Increase investment in R&D of farming technology, improve farming efficiency, animal health management and product quality

We plan to continuously improve our farm design, feed nutrition management, precision feeding technology, animal health management, food safety control and our ability to capture optimal timing for sales of our products, so as to improve our production efficiency. For

BUSINESS

example, we plan to reduce feeding cost, feed to meat ratio and meat production cost through accurate assessment of raw materials required, increased use of local raw materials, precise evaluation of nutritional needs, as well as the development of new feeding equipment and feeding models.

In addition, we will continue to accelerate our application of digital intelligence throughout the stages of feed preparation, farming, and slaughtering. We intend to develop a pig and yellow-feathered broiler breeding platform based on “AI + Internet of Things + Cloud Computing + Big Data”, and continue to develop related technologies to facilitate pig farming management, farming technology, disease prevention, biosecurity and data collection throughout the process of pig farming. With the use of technology and big data, we believe that we can ensure food safety and achieve environmental protection on one hand, and improve our production efficiency on the other, thereby improving the economic, ecological and social benefits of our business.

Furthermore, we will continue to strengthen cooperation with domestic and foreign universities and research institutions. We will continue to improve and optimise our technical know-how through cooperation with the R&D platforms, domestic and foreign universities and research institutions.

Expand our business into the production and processing of meat products to achieve upstream and downstream integration, and strive to become a leader of quality food in China

Expand into food business, and create an integrated upstream and downstream model with food safety, quality products and cost advantages

With the goal of producing quality and reliable products, we are committed to building a high-end and trusted food brand through the integration from our upstream farming to downstream end-user consumption. We have implemented stringent quality management and food safety control measures in accordance with national regulations for our upstream farming business, which allows us to provide quality, safe and stable raw materials for our downstream slaughtering and food processing businesses. By leveraging the advantages of upstream and downstream integration and through modern production lines and cold chain logistics system, we believe that we will be able to ensure food safety and trace food sources through controlling and monitoring the quality of the whole industry value chain from farming to meat processing, transportation and sales, and establish a complete industry value chain “from farm to table”. We believe that providing services throughout the entire industry value chain can also generate strong synergies, such as the reduction in the cost of downstream food processing business as a result of control over raw materials upstream.

With the advantage of our upstream and downstream integration model, we plan to promote the use of technology that meets the European Union standards, adopt an eco-friendly farming model, and produce differentiated high-end food products through variety development and nutrition strategy to meet our consumers’ demand. By leveraging our quality

BUSINESS

control from upstream farming to downstream consumption and as a natural extension of our existing businesses, we also plan to tap into the business of pre-made food production and produce quality and safe pre-made food.

Steadily develop our branded fresh food and deep processing production, following the commencement of production of our food processing plant in Yibin

The construction and operation of food factories are an integral part of our business strategies and are particularly critical to our strategy of integrating upstream and downstream businesses. As at the Latest Practicable Date, we have 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. The slaughterhouse will adopt global leading processing and food safety and quality control technology provided by Tönnies to achieve “Euro Standard” performance, which is expected to significantly enhance the capacity of our quality food manufacturing business.

In anticipation of the commencement of production of our first food processing plant in Yibin in the third quarter of 2023, we have conducted market research on the cooked food product market and plan to launch our food processing business. We expect that the construction of our food processing production line will be completed by the fourth quarter of 2023, with an estimated annual capacity of over 60,000 tonnes. We will utilise this production line as a benchmark to gradually establish a large-scale and branded production model and system, and replicate it continuously.

Enhance competitiveness through domestic and foreign investment, acquisitions and cooperation opportunities around our industry value chain

We will seek opportunities for domestic and foreign investment or acquisitions relevant to our industry value chain to diversify our product mix and improve our product quality, thereby further expanding our business footprint. We will selectively look for domestic investment, acquisition and cooperation opportunities, such as breeding farms with high-quality genetic resources, research institutions with revolutionary technologies in pig and poultry farming, food processing, and other high-end food brands, which could further unleash the commercial potential of our established business operations in the industrial chains. In addition, we also plan to look for potential investment, joint venture and cooperation opportunities from well-established overseas food companies, through which, we believe that, we will be able to introduce recognised brands and food processing technology to enhance the attractiveness of our products, and benefit from long-term synergies by assisting these overseas companies in entering the Chinese market, thereby enhancing the layout and advantages of our integrated value chain.

BUSINESS

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

We focus on the development of our talents, and since inception, we have formed an outstanding professional team, covering talents from genomics, genetics, mathematical statistics, breeding, nutrition and other profession.

Internally, we will continue to provide our employees with various training programs to help them achieve career growth. In the future, we will continue to utilise our internal talent pool and nurture professional and management talents through our internal training. We will also continue to motivate our employees through share award incentive scheme and distribution of dividends. Externally, we will recruit top talents to solidify our advantage in human resources. We will also continue to provide trainings for our business partners, such as technical guidance for farm owners to improve their breeding and farming skills. We will also continue to strengthen cooperation with world-class talents in R&D to further enhance our R&D capabilities.

Increase investment in ESG, including the investment in the “Hundred Villages and Million Pigs (百村百萬)” project, 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.

We are committed to practicing our strategy of promoting rural revitalisation and contributing to the construction of a strong agricultural country (推進鄉村振興，建設農業強國), working with the government to create a benchmark for sustainable agricultural development. We adhere to our business motto – “Six Ones (六個一)” and strive to carry out the “Hundred Villages and Million Pigs (百村百萬)” project with the following targets: benefiting 100 villages in one county, employing 10,000 people, annual production of 1 million pigs, construction of slaughtering and processing plants with an annual capacity of 1 million pigs, annual production of 100,000 mu of organic vegetables and fruits, and construction of one feed mill with an annual capacity of 360,000 tonnes. We will also actively observe the national policy of fertilisers and pesticides reduction, and will continue to help create an environmentally friendly and sustainable farming model in accordance with stringent requirements, so as to put into practice the integration and cycling of planting and farming, and create a benchmark for sustainable agricultural development in line with the national policy. To this end, we intend to:

- leverage our technical advantages to develop and provide better environmentally friendly technologies to our family farms, and improve soil fertility through environmentally friendly farming processes, thereby creating an organic growth environment for healthy food;

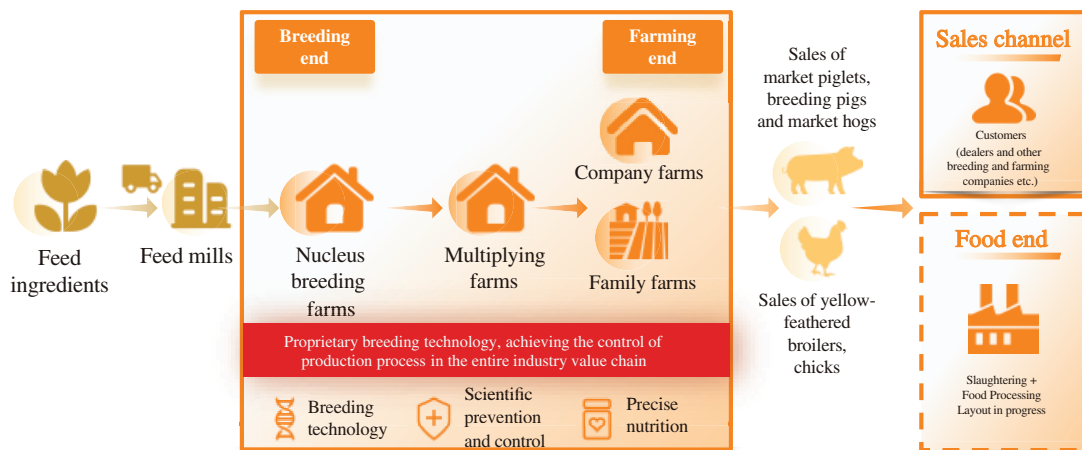
BUSINESS

- continue to implement energy-saving and carbon-reduction programmes, and develop carbon emission reduction measures in our upstream and downstream businesses, such as encouraging the use of biogas and manure as fuel and fertilisers to reduce carbon emission. We will also encourage our peers to assume social responsibility and jointly reduce carbon emissions to create a green ecology; and
- closely cooperate with the government, other enterprises and research institutions to promote sustainable development of planting and farming, drive the development of high-quality rural revitalisation through our family farm models to help alleviate poverty in rural China, and complement China’s strategy to build an agriculturally strong country.

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. We will expand our business into downstream sectors when it is opportune, including the slaughtering and processing of pigs and poultry, the production and sales of fresh pork and chicken meat and processed meat products.

The diagram below illustrates our business model:



BUSINESS

Main Products of Pig Segment




Our pig products mainly include market hogs, breeding pigs, market piglets and boar semen. 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; for 2022, we ranked sixth among all pig suppliers in China in terms of sales volume of pigs. For our pig production, we had 156 pig farms and 2,608 family farms as at 31 May 2023. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, our pig farms and family farms had an aggregate output volume of approximately 1.4 million, 3.7 million, 5.4 million, 2.3 million and 2.9 million heads of pigs, respectively.

Market hogs and Market Piglets




Market hogs and market piglets are pigs primarily held for trading and production of pork products, with market piglets being small market hogs. Pigs that are not selected as breeding pig candidates will be raised and sold as market hogs and market piglets. In addition, breeding pig candidates that are not used for our own production or sold as breeding pigs will also be sold as market hogs.

Breeding Pigs

Our breeding pigs include purebred and crossbreeding pigs. As a result of our continuous effort to enhance our breeding stocks, the genetic performance of our breeding pigs has improved rapidly over the years. For the five months ended 31 May 2023, in terms of growth performance, the adjusted days to 100 kilograms of our Yorkshire, Landrace and Duroc breeding pigs decreased to 146.0, 144.1 and 146.7, respectively. For the same period, in terms of breeding performance, the average littering size of our Yorkshire and Landrace breeding pigs increased to 15.3 heads and 13.4 heads, respectively. The table below sets out our main varieties of breeding pigs and their respective features:

Breed	Sample pictures	Characteristics
1. Dekon Series E breeding pig (德康E系列種豬)		<ul style="list-style-type: none"> • Terminal sire imported from a leading Dutch swine genetics company • Fast growth • Good feed conversion rate
2. Yorkshire Z-line breeding pig		<ul style="list-style-type: none"> • A female parent breeding pig produced by continuous improvement of a leading Dutch swine genetics company based on Yorkshire breeding pigs • Excellent breeding performance, large litter size and excellent litter carrying performance
3. Landrace breeding pig		<ul style="list-style-type: none"> • Excellent female parent breeding pig • Large litter size • Strong resilience • Strong and plump size

BUSINESS

Breed	Sample pictures	Characteristics
4. Yorkshire breeding pig		<ul style="list-style-type: none"> • Sire • Fast growth • Healthy, strong with plump muscles • Good feed conversion rate, high lean yield and premium meat quality
5. Duroc breeding pig		<ul style="list-style-type: none"> • Classic terminal sire • Fast growth • Healthy, strong with plump muscles • Good feed conversion rate • High lean yield and premium meat quality
6. Crossbred sow		<ul style="list-style-type: none"> • Market sow • Excellent breeding and litter carrying performance

Boar Semen

Boar semen is produced by breeding boars at our nucleus breeding farms. We produce boar semen for our internal pig breeding and production purposes. We also sell excess boar semen on the market.

Main Products of Poultry Segment

The main products of our poultry segment include yellow-feathered broilers and chicks. We ranked second among all yellow-feathered parent stock chicken breeder providers in China in terms of sales volume of yellow-feathered Parent Stock DOCs for 2022, and third among all yellow-feathered broiler suppliers in China in terms of sales volume of yellow-feathered broilers for 2022, according to the Frost & Sullivan Report.

Yellow-feathered broilers

We sell yellow-feathered broilers, which are mainly used for the production of chicken products. Our well-recognised brands mainly include “Lingnanhuang” (嶺南黃®), “Yupinfeng (御品鳳®)”, “Xiangyuema (香粵麻®)” and “Dexiang (德鄉®)”. Among others, our Lingnanhuang (嶺南黃®) chickens have been recognised by the MARA as the National Agricultural Leading Variety. The “Lingnanhuang No. 1”, “Lingnanhuang No. 2”, and “Lingnanhuang No. 3” varieties of “Lingnanhuang” series have been awarded the title of “Guangdong Famous-brand Product”. “Yupinfeng” (御品鳳®) huxu chicken won the titles of 2018 Lingnan Top Ten Quality National Chicken, 2018 Lingnan Top Ten Quality National Chicken – first place in the Network Popularity Award and 2019 Lingnan Quality National Chicken.

BUSINESS

The major breeds are set out below:



Huxu chicken (胡須雞)
(such as “Yupinfeng (御品鳳®)”)



Xiangyuema (香粵麻)



Tuhuang 2 (土皇2)



Dekanghong (德康紅)






Tu 1.5 (土1.5)






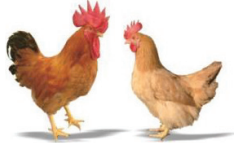

Yushanhong (雲山紅)

Yellow-feathered chicks

We sell Parent Stock DOCs and commodity DOCs. We have a wide range of varieties that allow us to satisfy the diversifying market demand. The following table sets out the main categories of our Parent Stock breeders and their respective features:

Breed	Sample pictures	Characteristics
1. Kuaiyu Kuaizhang (快羽快長)		<ul style="list-style-type: none"> Parent Stock breeders are of normal sizes, fast-feathering growth, pure yellow, neat and consistent feather
2. Jieliang Kuaizhang (節糧快長)		<ul style="list-style-type: none"> Parent Stock cocks are of normal sizes and fast-feathering growth Hens are of short sizes, slow-feathering growth, low feed consumption and high egg production
3. New Tu 3 (新土三)		<ul style="list-style-type: none"> Parent Stock breeders are of normal sizes and fast-feathering growth Parent Stock cocks are of crimson feather colour and red cockscomb

BUSINESS

Breed	Sample pictures	Characteristics
4. Tu 4 (土四)		<ul style="list-style-type: none">• Parent Stock cocks are of normal sizes and fast-feathering growth• Hens are of short sizes, slow-feathering growth, low feed consumption and high egg production
5. Mahuang (麻黃)		<ul style="list-style-type: none">• Parent Stock cocks are of normal sizes and slow-feathering growth• Hens are of short sizes, slow-feathering growth• Low feed consumption and high egg production
6. Tu 2 (土2)		<ul style="list-style-type: none">• Parent Stock cocks are of normal sizes, crimson feather colour and red cockscomb• Hens are of short sizes, slow-feathering growth, low feed consumption and high egg production
7. Tu 1.5 (土1.5)		<ul style="list-style-type: none">• Parent Stock cocks are of normal sizes, golden yellow feather colour and red cockscomb• Hens are of short sizes, fast-feathering growth, low feed consumption and high egg production
8. Zhusi chicken (竹絲雞)		<ul style="list-style-type: none">• Parent Stocks are of typical features such as silk feathers, cherry-sized heads, rose crowns, green ears, five or six toes, hairy feet, black bones, black skin and black meat• Hens are of strong disease resistance and fast-feathering growth

BUSINESS

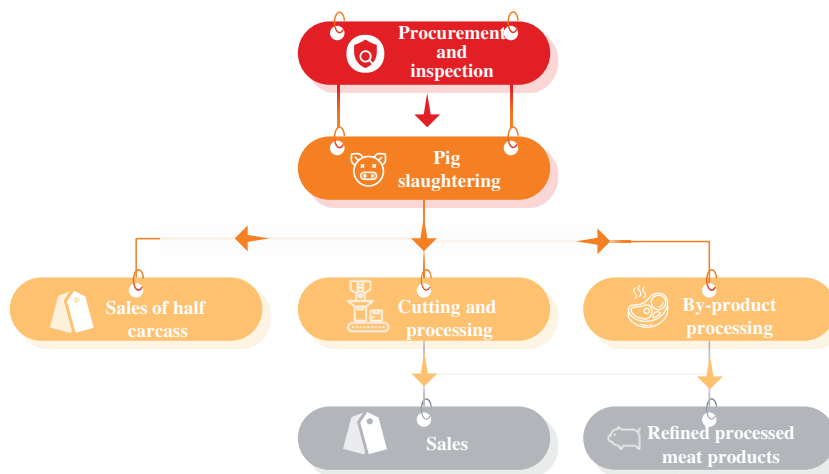
Ancillary Products

We also sell ancillary products that are generated in the course of our production, which mainly include feed ingredients.

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 instil consumers’ confidence in our food safety and quality and allow us to build a high-end food brand. To roll out our food processing business, we will initially focus on the markets where we have sufficient market hog output volume for our slaughtering business, and with strong demand for fresh pork and processed meat products. Please refer to the section headed “– Our Business Strategies” for details.

The diagram below illustrates the intended workflow of our future food processing business:



BUSINESS

As at the Latest Practicable Date, we had the following projects in progress, which were located in Yibin City, Sichuan Province and Meishan City, Sichuan Province. The table below sets forth the details of the projects:

<u>Project</u>	<u>Facility and designed annual production capacity</u>	<u>Expected time of commencing production</u>	<u>Total expected investment cost</u> <i>(RMB million)</i>
Yibin Project	Slaughterhouse (3 million heads)	The third quarter of 2023 ⁽¹⁾	800.0
	Food processing production line (60,000 tonnes)	The fourth quarter of 2023	
Meishan Project	Slaughterhouse (2 million heads)	The fourth quarter of 2023	630.0
Total			<u><u>1,430.0</u></u>

Note:

- (1) The expected time of commencing production was postponed from the second 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.

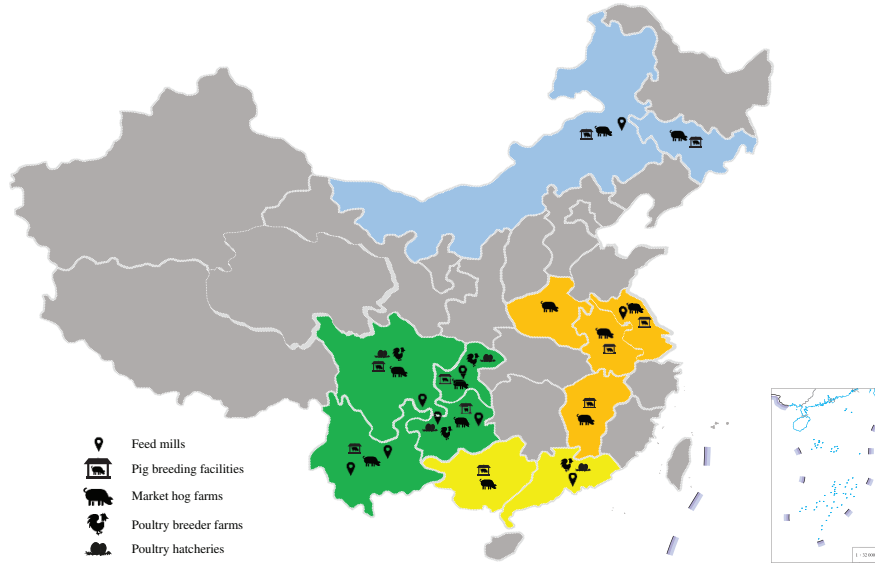
Cooperation with Tönnies

In October 2020, we commenced cooperation with Tönnies, one of the largest integrated meat product enterprise in Germany. Tönnies has deep know-how regarding the operation of pig slaughterhouses, food quality and product safety, food preservation, product development and brand operation. Pursuant to our agreement with Tönnies, in March 2021, we jointly established DT Food in Meishan City, Sichuan Province with an initial term of 99 years. We and Tönnies will combine our respective operational expertise and know-how to provide quality pork products to meet consumer demand in China. DT Food is constructing a slaughterhouse with a target initial annual slaughter capacity of two million heads of pigs, which is expected to commence production in December 2023. Pursuant to the agreement, we and Tönnies have each contributed EUR 2.3 million (approximately RMB17.9 million) in cash to the capital of DT Food. We will provide livestocks, and Tönnie will provide know-hows and technologies to DT Food. Each of the Company and Tönnies has the right to nominate directors and senior management of DT Food. Each party may terminate the agreement upon, among others, a material breach of the terms by the other party, upon which the non-terminating party shall be entitled to acquire the other party’s interest in DT Food.

BUSINESS

PRODUCTION

We have strategically built our production facilities across regions with the highest consumption demand for pigs and poultry, including Southwest China, Eastern and Southern China, which we believe will allow us to further expand our scale of pig and poultry breeding and farming. The map and tables below illustrate the geographical distribution of our main production facilities and family farms as at 31 May 2023:



Pig farms				
Nucleus breeding farms, boar studs and multiplying farms				
As at 31 May 2023				
Regions	Nucleus breeding farms Number	Boar studs Number	Multiplying farms Number	Total Number
Southwest China	7	6	75	88
East China	1	1	10	12
South China	1	-	3	4
Others ⁽¹⁾	1	1	7	9
Total	10	8	95	113

Market hog farms		
As at 31 May 2023		
Regions	Our self-operated Pig farms Number	Family farms Number
Southwest China	27	2,196
East China	9	205
South China	2	160
Others ⁽¹⁾	5	47
Total	43	2,608

Feed mills	
As at 31 May 2023	
Regions	Number
Southwest China	8
South China	2
East China	1
Others ⁽²⁾	1
Total	12

Poultry farms	
Our self-operated breeder farms	
As at 31 May 2023	
Regions	Number
Southwest China	8
South China	6
Total	14

Our self-operated hatcheries	
As at 31 May 2023	
Regions	Number
Southwest China	6
South China	4
Total	10

Family farms and farming bases			
As at 31 May 2023			
Regions	Number	Regions	Total Number
Southwest China	8	Southwest China	1,801
South China	2	South China	1,625
East China	1	Total	3,426
Others ⁽²⁾	1	Farming bases	72
Total	12	Total	3,498

Notes:

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

BUSINESS

Pig Production

Based on the widely adopted DLY crossbred model, a crossbreeding production model that produces market hogs with good growth performance, slaughtering performance and meat quality, we have established a pig breeding and multiplying system that mainly includes the nucleus breeding farms, boar studs, multiplying farms, and commercial production farms. We have also formulated systematic standards and guidelines, including breeding practise manual. The structure of our breeding system is illustrated in the diagram below:



Pig Breeding and Farming System

Our pig breeding and farming system consists of the following production facilities:

Nucleus breeding farms. They include nucleus breeding pig farms and nucleus terminal sire farms, and serve as the base for preserving and cultivating quality breeding pigs and new lines of pigs. We sell quality Grand Parent breeding pigs to our customers from time to time.

Boar studs. They provide quality semen using boars from nucleus breeding farms.

Multiplying farms. They use breeding pigs and semen from boar studs from nucleus breeding farms for production. Pure breeding is conducted in first-level multiplying herds to provide quality purebred breeding pigs for multiplying herds. Crossbreeding is conducted for second-level multiplying herds to provide quality crossbred sows for our own market hog farms and No. 2 Family Farms, as well as for external sales. Some of our multiplying farms are sow farms, which use terminal boars or their semen provided by boar studs and crossbred sows for production of DLY crossbred piglets. The sow farms generally transfer weaned piglets to No. 1 Family Farms and our own market hog farms for fattening.

Market hog farms. They are mainly responsible for fattening weaned piglets for sale.

BUSINESS

No. 2 Family Farms. These farms are owned by farm owners. They use terminal boars or their semen provided by boar studs and the crossbred sows from multiplying farms for production of DLY market hogs, and ultimately produce (i) market hogs and market piglets for sale and (ii) weaned piglets for fattening at nearby No. 1 Family Farms.

No. 1 Family Farms. These farms are owned by farm owners. They receive weaned piglets from our market hog farms and nearby No. 2 Family Farms (or weaned non-breeding pigs from breeding farms) for fattening before sale.

The table below sets out certain information of our production facilities during the Track Record Period:

	As at 31 December			As at 31 May	
	2020	2021	2022	2022	2023
Designed stock					
volume of					
sows ⁽¹⁾ (<i>heads</i>)	242,020	405,410	464,080	429,590 ⁽²⁾	483,230 ⁽²⁾
Actual stock volume					
of sows ⁽³⁾ (<i>heads</i>)	211,299	266,645	303,491	271,228	333,236
Utilisation rate ⁽⁴⁾	87.3%	65.8%	65.4%	63.1%	69.0%

Notes:

1. Represents the theoretical maximum number of sows that could be raised on our pig farms and family farms based on the estimated number of sow stalls available in our own pig farms and family farms. The maximum number of sows increased during the Track Record Period primarily due to the commencement of operation or expansion of our new pig farms and family farms. The total output volume is determined by the number of sows.
2. The pro-rata designed stock volume for the actual number of months in a year during which the facilities were in operation.
3. Represents the actual number of sows raised on in our own pig farms and family farms, which does not take in account the number of gilts.
4. Utilisation rate is calculated by dividing the actual number of sows by the designed capacity of sows. It decreased in 2021 primarily due to the increase in the designed stock volume of sow and our adjustment to our production plan in light of the market conditions in the same year, and remained relatively stable in 2022. Utilisation rate increased from 63.1% for the five months ended 31 May 2022 to 69.0% for the five months ended 31 May 2023 primarily due to the increase in the actual stock volume of sows to support the growing output volume of pigs.

Pig Breeding

We focus on developing and applying pig breeding technologies and have established a self-sustainable breeding herd, which are the core to our competitiveness, to the pig production and breeding process. We use the widely used DLY crossbred model for pig production and breeding, which refers to a crossbreeding production model (i) using Landrace boars and Yorkshire sows to produce LY sows with high level of breeding performance and stress resistance, while retaining maternal characteristics inherited from Yorkshire, and then (ii) crossbreeding the LY sows with terminal sire to produce market hogs with excellent growth performance, slaughtering performance and meat quality.

BUSINESS

The table below sets forth the movement in the number of our self-operated pig breeding farms for the periods indicated.

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
Nucleus breeding farms				
At the beginning of the year/period	8	9	10	10
Addition	1	1	–	–
Termination	–	–	–	–
At the end of the year/period	<u>9</u>	<u>10</u>	<u>10</u>	<u>10</u>
Boar studs				
At the beginning of the year/period	–	2	8	8
Addition	2	6	–	1 ⁽¹⁾
Termination	–	–	–	(1) ⁽¹⁾
At the end of the year/period	<u>2</u>	<u>8</u>	<u>8</u>	<u>8</u>
Multiplying farms				
At the beginning of the year/period	32	56	85	93
Addition	24	29	8	2
Termination	–	–	–	–
At the end of the year/period	<u>56</u>	<u>85</u>	<u>93</u>	<u>95</u>

Note:

- (1) We terminated one boar stud due to wear and tear of its facilities and equipment, and established a new boar stud as replacement.

For 2020, 2021, 2022 and the five months ended 31 May 2023, the number of our nucleus breeding farms and boar studs remained relatively stable. During the same periods, the number of our multiplying farms gradually increased due to the increase in our production volume.

BUSINESS

Our breeding pig resources

Breeding pig resources, also referred to as the “chip” of the pig breeding industry, is key to ensuring our core competitiveness. By leveraging on our gene pool and core proprietary breeding technology, we independently breed our own lines of breeding pigs. In order to secure quality genetic materials, we introduce new pig resources to enrich the genetic pool of our breeding pigs from time to time. We experiment on different combinations of these resources to continuously enhance the competitiveness of our products. Over years of selection and breeding, the genetic performance of our nucleus breeding herd has continued to improve and the size has continued to expand. We have also developed a self-sustainable herd of Dekon breeding stock with outstanding breeding, growth and slaughtering performance. Among others:

- in March 2013, we entered into an one-off purchase contract with a Canadian pig genetics company specialising in pig breeding to import 868 pure breeding pigs, pursuant to which we obtained non-exclusive rights to use its breeding pig genetic resources. Using this batch of imported breeding pigs, we formed our first nucleus breeding herd. In order to ensure the smooth transition of breeding after the introduction of breeding pig, we have also entered into a cooperation agreement with a leading Canadian swine genetics improvement company on joint breeding. Under the cooperation, we sent employees for training and also invited breeding experts from the Canadian swine genetics improvement company to visit our breeding pig farms for on-site training and guidance;
- in July 2019, we entered into an one-off purchase contract with a renowned provider of advanced genetic solutions, to import 500 breeding pigs to form our terminal sire herd, providing excellent terminal sire boars for subsequent large-scale commercial production; and
- as at 31 May 2023, we had imported five foreign breeding pig varieties (lines) from reputable breeding enterprises, as well as two domestic pig variety lines. These foreign breeding pig varieties included the Landrace, Duroc and Yorkshire breeding pigs as well as Large White Z-line and Large White E-line breeding pigs.

Nucleus breeding herd

Nucleus breeding herd is the bedrock of our pig production. We established nucleus breeding farms in different regions. Our nucleus breeding farms primarily serve to establish a nucleus breeding herd for purebred breeding. Through continuous genetic evaluation, mating, pig selection and elimination of substandard breeding pigs, we have cultivated quality breeding pigs tailored for the Chinese market, thereby providing excellent purebred boars and sows to our multiplying farms and excellent terminal sire breeding pig for commercial production farms.

BUSINESS

As at 31 May 2023, we had established 10 nucleus breeding farms in Sichuan, Chongqing, Guizhou, Guangxi, Jiangxi, and Inner Mongolia. Our nucleus breeding farms are strategically located in regions with favourable environmental conditions and in close proximity to our pig farms. As at 31 May 2023, we had a nucleus breeding herd of over 14,800 heads, which affords us the biological resources to establish a downstream herd of over 1,170,000 heads of sows and gilts in our multiplying farms.

Our breeding technologies

We strive to breed breeding pigs with high reproduction and high growth performance. We set our breeding goals based on the characteristics of the breeding pig production herd and the market demand. The scale of our operation affords us sizable data of various dimensions, including data in relation to pig performance, fattening technology and feed nutrition technology.

We continuously apply new breeding technologies to accelerate our breeding progress. For example, in 2019, we started applying genome-wide association technology to the breeding of our nucleus breeding herd. In 2020, we achieved coverage of genome-wide association on all of our pig varieties (lines). In addition, we have actively cooperated with experts in the field of breeding from universities and research institutions at home and abroad, in particular:

- we cooperated with well-known universities and biotech companies, which helped us in applying molecular and genomic breeding technology to our breeding pig farms, analysing and monitoring data of our breeding pigs, providing feedback and on-site guidance to our breeding process in a timely manner, and cultivating new variety lines of breeding pigs;
- we cooperated with domestic breeding and research institutions which helped us breed new variety lines of breeding pigs;
- we engaged the team led by Professor Li Zhu (朱礪) from Sichuan Agricultural University, Professor Hu Xiaoxiang (胡曉湘) from China Agricultural University, Professor Su Guosheng (蘇國生) from Aarhus University Denmark (丹麥奧斯胡大學), and other well-known breeding experts at home and abroad to directly guide our breeding process; and
- since the establishment of our nucleus breeding herd in 2013, we have cooperated with a leading canadian swine genetics improvement company in standardising the breeding process of our breeding pigs through using their software database, operation training on breeding pig production and monitoring feedback from time to time.

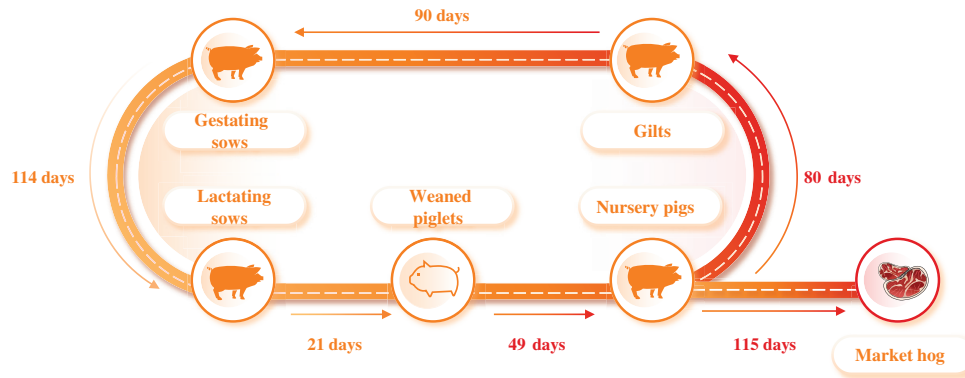
We also leverage advanced information system to optimise the breeding process. For example, our “Pig Farming Platform”, among others, is able to analyse historical production information of sows and boars to develop a semen usage model to designate breeding semen. Please refer to the section headed “– Information System – Pig Farming Platform” for details.

BUSINESS

Through the aforesaid efforts, we have made significant progress in breeding. The genetic performance of our nucleus breeding herd has continuously improved over the years.

Pig farming

The following diagram illustrates the process of our pig farming business:



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

(a) *No. 2 Family Farm model*

The No. 2 Family Farm model 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.

We operate two sub-models under the No. 2 Family Farm model. Under the first sub-model, we cooperate with farm owners to raise sows and produce piglets, which are then nursed until weaned, and fattened. Under the second sub-model, we cooperate with farm owners to raise sows and produce piglets, which are then nursed until weaned, and such weaned piglets are then transferred to our No. 1 Family Farms for fattening.

BUSINESS

(b) No. 1 Family Farm model

The No. 1 Family Farm model 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.

(c) Self-operated Farm model

The Self-operated Farm model is a model under which we build the farm and employ labourers 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.

Our pig farms adopt a batch production model. Through optimising the pig farming process, we set the production of the pig farm to a regular schedule of mating, farrowing, weaning and immunisation within a fixed period of time with more regular production, so that we can manage the production of pigs more efficiently. Furthermore, we use data management software to manage production data online and achieve more efficient production.

Key advantages of the No. 2 Family Farm model

In particular, the No. 2 Family Farm model is an unique model which we pioneered in the domestic pig breeding and farming industry. We plan to continue our efforts in developing the No. 2 Family Farm model, which is expected to be increasingly prevalent and has the following advantages:

- *Biosecurity and animal diseases prevention and control:* Under the No. 2 Family Farm model, as we only have to transport sows, rather than a large number of weaned piglets, to the family farm, the production cycle of “crossbred sows-piglets-market hogs” is all completed at the family farm. By keeping the sows in separate locations and reducing the flow and transportation of pigs, the model facilitates the prevention of animal diseases and control of biosecurity.

BUSINESS

- *Rapid expansion of asset-light production:* Under the No. 2 Family Farm model, the crossbred sows are maintained at family farms. In addition, we do not need to bear the cost of land, labour, water and electricity in connection with the breeding and reproduction of sows which enable us to save breeding costs and carry out production expansion in relatively short amount of time. The production scale under the No. 2 Family Farm model increased significantly during the Track Record Period.
- *Promotion and upgrading of local industrial industry:* Under the No. 2 Family Farm model, we teach farm owners professional techniques, including sow reproduction techniques, to enable them to operate family farms with a long-term vision, hence promoting the upgrading of local industries.
- *High entry barriers and long-term stable cooperation:* The breeding process of our No. 2 Family Farms involves breeding of sows as well as the fattening of weaned piglets, which requires farm owners to grasp more sophisticated breeding technologies. We typically conduct rigorous training for the farm owners of No. 2 Family Farms, and establish long-term cooperative relationships with them through the farming contracts. Therefore, our cooperative relationship with No. 2 Family Farms imposes technical and management barriers on our competitors, which will help us form long-term stable cooperative relationship with No. 2 Family Farms. As at 31 May 2023, we had three years or more of relationship with approximately 77.1% of our No. 2 Family Farm owners.

No. 2 Family Farms and No. 1 Family Farms

Family farms we contracted with were mainly located in Sichuan, Chongqing, Yunnan, Guizhou, Jiangsu and Guangxi Zhuang Autonomous Region. During the Track Record Period and up to the Latest Practicable Date, all of our family farms were operated by Independent Third Parties. The table below sets forth the movement in the number of our family farms for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
No. 2 Family Farms				
At the beginning of the year/period	879	1,011	889	814
Addition	262	38	18	17
Termination	(130)	(160)	(93)	(13)
	1,011	889	814	818
At the end of the year/period	1,011	889	814	818

BUSINESS

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
No. 1 Family Farms				
At the beginning of the year/period	726	1,000	1,569	1,775
Addition	579	876	798	197
Termination	(305)	(307)	(592)	(182)
At the end of the year/period	<u>1,000</u>	<u>1,569</u>	<u>1,775</u>	<u>1,790</u>

The number of our No. 2 Family Farms decreased from 1,011 as at 31 December 2020 to 889 as at 31 December 2021, and further to 814 as at 31 December 2022, primarily because (i) we focused on increasing the production scale of individual No.2 Family Farms to enhance economies of scale; and (ii) we raised our standards for No. 2 Family Farms, such as requiring farm owners to enhance their existing facilities and increasing the training requirements. The number of our No. 2 Family Farms remained stable at 818 as at 31 May 2023 as compared with that as at 31 December 2022.

The number of our No. 1 Family Farms increased from 1,000 as at 31 December 2020 to 1,569 as at 31 December 2021, and further to 1,775 as at 31 December 2022, primarily due to (i) the increase in our production scale, which was partially offset by (ii) No. 1 Family Farms that we terminated for failing to meet our standard. Terminations during the Track Record Period were primarily due to the relevant family farms’ failure in meeting (i) our biosecurity standards and rectify the situation in due course; (ii) the production targets and (iii) standards on staff and facilities. The number of our No.1 Family Farms remained stable at 1,790 as at 31 May 2023 as compared with that as at 31 December 2022. Please refer to the section headed “– Our Relationship with Farm Owners” for details.

Our relationship with farm owners

Under both the No. 2 Family Farm and No. 1 Family Farm models, the farm owners are responsible for completing the land registration and procedures, and constructing the pig houses in accordance with our requirements. We provide pigs, feeds, vaccines and medicines to farm owners, who shall breed and fatten the pigs in accordance with our standards. In the case of No. 2 Family Farms, before the fattening stage, we provide the farm owners with crossbred sows and boar semen for the production of weaned piglets, which are either fattened at the No. 2 Family Farm or nearby No. 1 Family Farms. For No. 1 Family Farms, we provide weaned piglets that are produced at our own multiplying

BUSINESS

farms or nearby No. 2 Family Farms for fattening. After the fattening stage, the Family Farms will deliver the market hogs back to us for sale. Throughout the process, we provide farm owners with technical guidance and support, such as advising them on the design and location of pig farms, pig raising techniques, and measures to prevent diseases and treatment for unwell pigs. After the pig houses pass the acceptance inspection, we enter into contract farming agreements with the farm owners.

The key terms of our agreements with farm owners generally include the followings:

Term: The terms of contract farming agreements with No. 2 Family Farms are typically ten years, while those of No. 1 Family Farms are typically five years, both with no express renewal provisions.

Responsibilities: Farm owners are responsible for fattening and/or breeding pigs with their own farms, facilities and staff, for a contract farming fee. We are responsible for providing weaned piglets and/or breeding pigs, technical guidance and support, feeds, medicines and vaccines. Farm owners are required to pay for such feeds, vaccines and medicines, the fees for which are typically determined by reference to our procurement costs, and are deducted from the contract farming fee.

Deposits: Farm owners are generally required to pay an upfront deposit of RMB1,000 per market hog/weaned piglet and RMB10,000 per breeding pig that are raised in the farm.

Ownership: We have the ownership of the pigs raised by the farm owners, as well as the feeds, vaccines and medicines. Farm owners have the ownership of the farms and facilities.

Termination: The agreement is terminable by mutual consent. A farm owner may not unilaterally terminate the contract prior to the expiry date without breaching the agreement and paying a fixed early termination fee of RMB100,000, which is determined by reference to the costs of training and design we incur for a farm. On the basis that the historical revenue generated by the family farms can cover such costs and that the farm owners timely return the pigs, feeds, medicines and other materials to us, we would typically waive the early termination fees, and as a result, we did not receive any early termination fees from farm owners during the Track Record Period. We may unilaterally terminate the agreement without being subject to the payment of an early termination fee under a range of circumstances, including where (i) the farm owner fails to raise and deliver pigs in accordance to our schedule and standards, (ii) the farm owner enters into any other contracts with other parties for breeding of pigs, (iii) the farm owner uses feeds, vaccines or medicine that are not provided by us. Upon termination, the farm owner shall return the pigs, feeds and medicines and compensate losses we may incur as a result of their breach of the agreements. For 2020, 2021, 2022 and the five months ended 31 May 2023, we unilaterally terminated our agreements with 111, 110, 213 and 33 farm owners due to their failure to meet our standards, including environmental protection, raising and

BUSINESS

delivering pigs and maintenance of the farms. During the same periods, we did not incur any loss as a result of such farm owners’ breach of agreements, and accordingly, we did not receive any compensation as a result of termination.

As at 31 May 2023, we had on average 2.7 years of relationship with owners of pig family farms. The table below sets forth the expiry portfolio of our agreements with farm owners as at 31 May 2023:

Expiry profile	No. of family farms	% of total
<i>No. 2 Family Farms</i>		
Within one year	21	2.6%
One year to three years	166	20.3%
Three years or above	631	77.1%
<i>No. 1 Family Farms</i>		
Within one year	463	25.9%
One year to three years	969	54.1%
Three years or above	358	20.0%

After market hogs are sold, we settle the contract farming fee with the farm owner at a price determined at the time when we receive the market hogs from farm owners. For each batch of pigs, we affix the fee for pigs raised by the farm owner, which is determined mainly by reference to the prevalent market price and estimated production costs. The contract farming fee is calculated by multiplying the pre-agreed fee with the weight of pigs raised by the farm owner, minus by the costs of the pigs we provide to the farm owner. The following table sets out the contract farming fee we settled with the farm owners during the Track Record Period:

Year/period	Contract farming fee settled with farm owners by us	Total actual output volume pigs raised by farms	Average contract farming fee per head
	<i>(RMB’000)</i>	<i>(heads)</i>	<i>(RMB/head)</i>
2020			
No. 1 Family Farm	284,991	815,840	349.3
No. 2 Family Farm	177,754	401,012	443.3
2021			
No. 1 Family Farm	418,090	1,813,877	230.5
No. 2 Family Farm	226,809	713,689	317.8

BUSINESS

<u>Year/period</u>	<u>Contract farming fee settled with farm owners by us</u> <i>(RMB'000)</i>	<u>Total actual output volume pigs raised by farms</u> <i>(heads)</i>	<u>Average contract farming fee per head</u> <i>(RMB/head)</i>
2022			
No. 1 Family Farm	770,059	3,423,802	224.9
No. 2 Family Farm	276,100	790,980	349.1
Five months ended 31 May			
2022			
No. 1 Family Farm	237,027	1,394,756	169.9
No. 2 Family Farm	92,357	320,001	288.6
Five months ended 31 May			
2023			
No. 1 Family Farm	405,351	1,869,529	216.8
No. 2 Family Farm	148,202	435,466	340.3

The total contract farming fees generally increased during the Track Record Period, primarily as a result of the increase in the output volume of pigs. The average contract farming fee for both No. 2 Family Farms and No. 1 Family Farms decreased in 2021 primarily due to our downward adjustment of the fee for pigs based on prevailing market conditions. The average contract farming fee for No.1 Family Farms remained relatively stable in 2022, while that of No. 2 Family Farms increased mainly as a result of our efforts in increasing the production scale of each No.2 Family Farms. The average contract farming fee for both No. 2 Family Farms and No. 1 Family Farms increased for the five months ended 31 May 2023 as compared to the same period in 2022 primarily due to our upward adjustment of the fee for pigs, taking into account the increase in market price of pigs.

As the costs of pigs have been factored into the calculation of contract farming fees, farm owners bear the losses from death of pigs and are not required to pay us additional compensation.

Selection and supervision of farm owners

We select farm owners with reference to their financial resources, education background, integrity as well as conditions of the family farms (such as geographical locations, epidemic prevention conditions, and surrounding environment). We have a higher standard for No. 2 Family Farm owners, as sow breeding requires more expertise and efforts as compared to piglet fattening.

BUSINESS

We work closely with, and supervise, farm owners. We help farm owners with site selection and farm design. Our production management specialists regularly visit family farms to monitor and provide guidance to farm owners. Our production management specialists will (i) check on-site key production processes, such as immunisation, mating, farrowing, weaning, sales and output, (ii) define and confirm the number and conditions of pigs, and (iii) require the farm owners to sign the relevant documents for confirmation. When farm owners report that the pigs are culled or abnormal, the production management specialist will promptly provide feedback on treatment plan, check the pigs on-site, and issue a document for biosafety disposal upon signing and confirmation by the farm owners.

Training and management of farm owners

Before we provide pigs to farm owners, we train farm owners on building and construction of family farms, farming technology (with a cumulative training time of not less than three months) as well as our corporate culture. Only those who meet the requirements can start production. During the transition period, we assign production management specialists to carry out on-site production management training and guidance. In subsequent day-to-day management, we arrange production management specialists to train farm owners at least once a month. The training content generally includes biosecurity, production technology, case analysis and management structure of our Group. We organise seasonal production training and review, and maintain our relationship with farm owners. We also assign dedicated technical personnel at the ratio of approximately one personnel per 10,000 pigs at No. 1 Family Farms and one personnel per 500 sows at No. 2 Family Farms, who make frequent visits to farm owners and advise them on technical issues. In addition, we select model farm owners and encourage other farm owners to learn from them.

In addition, we provide control and technical training and guidance to No. 2 Family Farm owners, so as to improve the sow farrowing rate and increase the number of quality, sellable market hogs.

- We use timed artificial insemination technique, where artificial insemination is achieved by adjusting the oestrus of sows according to the batch mating time, to realise batch production and improve reproductive efficiency.
- We strictly check the equipment and facilities and require farm owners to adopt stringent biosecurity measures. Among others, farm owners are required to adjust stalls regularly, purify drinking water, control the density of pig houses, and provide a suitable growth environment for pigs. Furthermore, we require farm owners to use rubber mats for heat preservation, and feed pigs with porridge feeders during the entire nursing period.

We also leverage our “Pig Farming Platform” to optimise various parts of the farming process, including systematically generating the recommended feeding amount, using equipment to monitor the pigs, and devising work plans and immunisation tasks. Please refer to the section headed “– Information System – Pig Farming Platform” for details.

BUSINESS

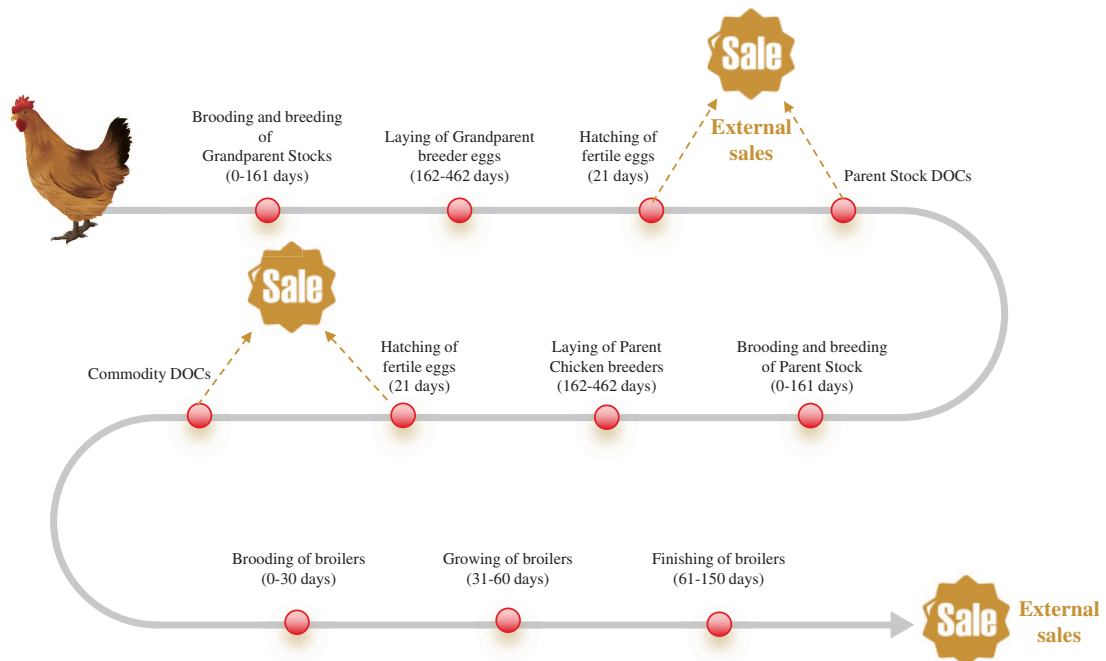
The table below sets forth the movement in the number of our self-operated market hog farms for the periods indicated.

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	Market hog farms			
At the beginning of the year/period	14	22	38	41
Addition	8	16	3	2
Termination	–	–	–	–
At the end of the year/period	<u>22</u>	<u>38</u>	<u>41</u>	<u>43</u>

For 2020 and 2021, the number of our market hog farms increased as a result of our efforts in establishing self-operated farms to complement the operation of our family farms across various regions. For 2022 and the five months ended 31 May 2023, the number of our market hog farms remained relatively stable.

Poultry Production

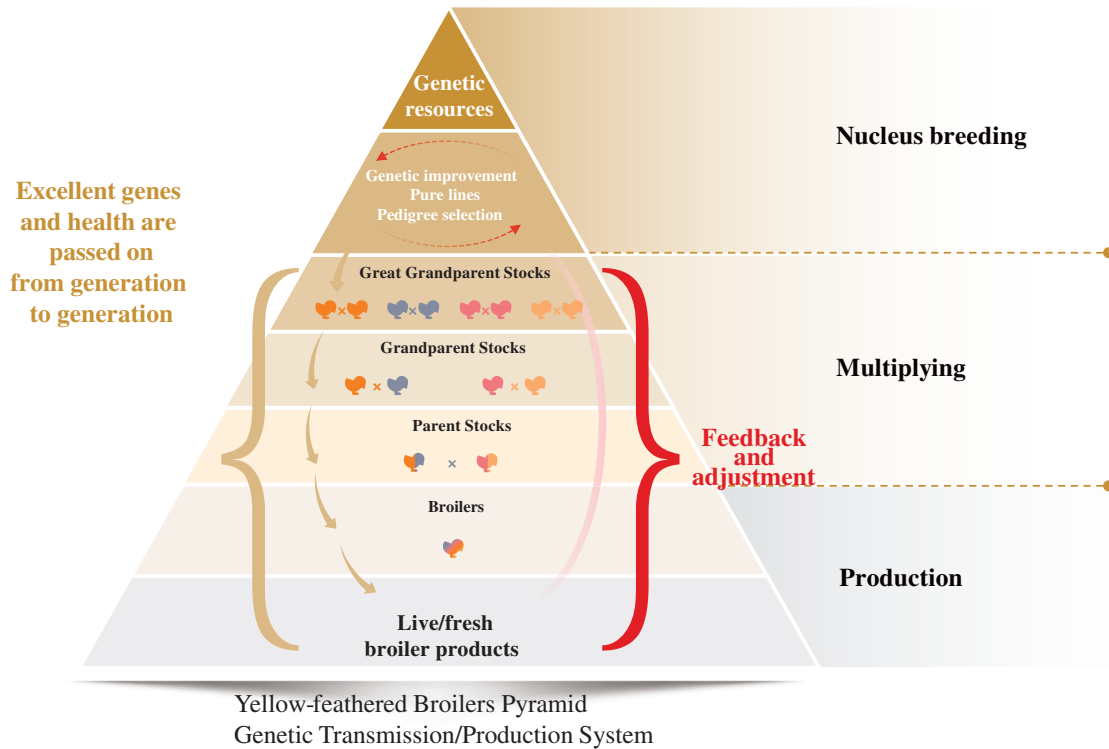
We mainly engage in the breeding, multiplication, farming and sales of yellow-feathered broilers. The following diagram illustrates our production process from chicken breeders, chicks (including Parent Stock DOCs and Commodity DOCs) to yellow-feathered broilers:



BUSINESS

Poultry Breeding

Breeding is the core of our poultry business. We breed and select chicken breeders in our chicken breeder farms. The process is illustrated in the following diagram:



Nucleus breeding technology

By leveraging our gene pool and proprietary breeding technology, we independently breed our own varieties of yellow-feathered broilers. As at the Latest Practicable Date, we had 14 patents in broiler breeding and farming technology and management, and 45 variety lines of yellow-feathered broilers.

Compared with other types of chickens, yellow-feathered broilers are known for their product diversity. Our nationwide sales network enables us to have an in-depth understanding of the market and a precise forecast of the changes in different customer demands for yellow-feathered broilers and chicks.

BUSINESS

In addition, the utilisation of genetic resources, accurate and efficient character determination technology, precise genetic evaluation technology and large-scale genetic selection are the four key elements for successful breeding. We have adopted the following genetic technologies for breeding:

- We have adopted internationally advanced genetic evaluation methods such as genomic selection to enable DNA selection.
- We expand the base population on a large scale and create more types of gene combinations to select the best chicken breeders from the population.
- With modern facilities and equipment, we continue to carry out compatibility and crossbreed combination experiments to assess the production performance and select breeds that can meet the market demand.
- To produce healthy broilers, we strive to eradicate avian leukosis, pullorum, mycoplasma and other provenance pathogens that seriously affect the production of chicken breeders and broilers.

Poultry farms

We select chicken breeders and hatch fertile eggs on our breeder farms. As at 31 May 2023, we had 14 breeder farms and 10 hatcheries, which are located in Sichuan Province, Chongqing municipality, Guizhou Province and Guangdong Province. The table below sets out the details of our self-operated production facilities:

Facilities	Function description	Region
Breeder farms	Selection of breeders	Sichuan, Chongqing, Guizhou and Guangdong
Hatcheries	Hatching of fertile eggs	Sichuan, Chongqing, Guizhou and Guangdong

The table below sets forth the movement in number of our breeder farms and hatcheries for the periods indicated.

	For the year ended 31 December			For the five months ended
	2020	2021	2022	31 May
	2023			
Breeder farms				
At the beginning of the year/period	13	14	14	14
Addition	1	–	–	–
Termination	–	–	–	–
At the end of the year/period	<u>14</u>	<u>14</u>	<u>14</u>	<u>14</u>

BUSINESS

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	Hatcheries			
At the beginning of the year/period	10	10	10	10
Addition	–	–	–	–
Termination	–	–	–	–
At the end of the year/period	<u>10</u>	<u>10</u>	<u>10</u>	<u>10</u>

The following table sets out the production capacity and utilisation rates of our self-operated breeder farms during the Track Record Period:

Facilities	As at/for the year ended 31 December			As at/for the five months ended 31 May	
	2020	2021	2022	2022	2023
	'000	'000	'000	'000	'000
Breeder farm⁽¹⁾					
Designed stock volume (sets) ⁽²⁾	1,507.2	1,507.2	1,507.2	628.0 ⁽³⁾	628.0 ⁽³⁾
Actual stock volume (sets) ⁽⁴⁾	1,297.4	1,420.8	1,402.9	619.0	668.0
Utilisation rate (%) ⁽⁵⁾	86.1	94.3	93.1	98.6	106.4
Hatchery					
Designed production capacity (birds) ⁽⁶⁾	199,135.0	199,135.0	199,135.0	82,972.9 ⁽³⁾	82,972.9 ⁽³⁾
Actual output (birds) ⁽⁷⁾	164,872.8	159,579.9	167,292.4	67,949.0	71,573.2
Utilisation rate (%) ⁽⁸⁾	82.8	80.1	84.0	81.9	86.3

Notes:

- Each female-breeder that has been matched with a male breeder for fertilisation constitutes one set of breeders. The mating ratio of female breeders to male breeders is approximately 35:1. Therefore, the number of female breeders is equivalent to the number of sets of breeders.
- The estimated number of cages of mature chicken breeders in chicken breeder farms as at the date of the respective years/periods.
- The pro-rata designed stock volume for the actual number of months in a year during which the facilities were in operation.
- The number of mature chicken breeders produced throughout the year/period in our breeder farms.

BUSINESS

5. Utilisation rate is calculated by dividing the actual output by the designed production capacity for the relevant year. The decrease of utilisation rate of breeder farms for 2022 was mainly due to extension to the last breeding cycle according to demand for broilers and parental seed supply. Utilisation rate increased for the five months ended 31 May 2023 alongside the increase in stock volume of breeders to support the rise in our output volume of broilers.
6. The number of fertile eggs hatched in hatchery at full capacity throughout the year/period.
7. The number of fertile eggs actually hatched in hatchery throughout the year/period.
8. Utilisation rate is calculated by dividing the actual output by the designed production capacity for the relevant year/period.

With the growth of the production capacity of our yellow-feathered broilers, the demand for chicken breeders and their Parent Stock DOCs has also increased significantly. Therefore, we plan to gradually expand our chicken breeder farms, so as to increase the production capacity of chicken breeders and Parent Stock DOCs.

Chicken breeders rearing and fertile egg hatching

Our enclosed chicken breeder farms are installed with automatic environmental control, lighting and manure cleaning system, creating the optimal living environment for our chicken breeders. We adopt different feeding methods for chicken breeders at different growth stages to maximise their production performance. Among others, we have mitigated *Mycoplasma synoviae* with purification technologies such as biosecurity and vaccination, and have reduced (i) the incidence rate of leg diseases caused by *Mycoplasma synoviae* in our chicken breeders by approximately 42%, (ii) the incidence rate within the flock by approximately 90%, and (iii) the average cost of medicine for a single chicken breeder by approximately RMB0.12. Below are some of the measures we adopt at for chicken breeders at different growth stages:

- During the brooding period, we strictly follow the relevant biosecurity measures and implement a fully enclosed management. The purpose of the brooding phase is to condition the chicks to manage growth and maximise the flock uniformity.
- During the rearing period, we focus on the uniformity of weight and sexual maturity of the chicken breeder, formulate different feeding restrictions according to the characteristics of the different breeds, carry out a full range of weighing and grouping of the chicken breeder multiple times, and adopt the hierarchical feeding method after grouping, so as to eliminate defected individuals whose weight and appearance do not conform to the characteristics of the breed in a timely manner.
- During the laying period, we focus on the management of feed volume and artificial insemination to maximise fertile settable eggs and meet the broiler production demands. Through weekly analysis of the laying conditions of the chicken breeder, we regularly monitor the chicken breeder, comprehensively evaluate them, and formulate reasonable feed to maximise their egg laying performance.

BUSINESS

We use advanced equipment to hatch fertile eggs, which maintains a stable hatching environment through an automated environmental control system to ensure a high hatching rate of fertile eggs and stable quality of chicks. To safeguard our production, we also use a centralised control system and video surveillance to monitor the production process.

Broiler farming

For broiler farming, we adopt the Poultry Family Farm model and Poultry Farming Base model:

- *Poultry Family Farm model*, 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, feeds, medicines and technical support. We settle the contract farming fee with the family farms after collection and sales of yellow-feathered broilers. 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, respectively.
- *Poultry Farming Base model*, is a model under which we build the facilities and lease the land and facilities to farm owners to raise the yellow-feathered broilers. This model is the same as the Poultry Family Farm model other than that we own the farming bases. 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 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.

Our yellow-feathered broilers are mainly raised under the Poultry Family Farm model, which enables us to effectively reduce the capital investment in fixed assets, and focus on technological breakthroughs, product development, and nutritional formula research. We mainly use our farming bases for experiments regarding new production process management methods. We test new environmental control and feeding equipment on site and prepare for equipment upgrades in family farms.

BUSINESS

Family farm and farming base

During the Track Record Period and up to the Latest Practicable Date, all the family farms and farming bases we contracted with were operated by Independent Third Parties and were mainly located in Sichuan, Chongqing, Yunnan, Guizhou, Guangdong and Guangxi Zhuang Autonomous Region. The table below sets forth the movement in the number of our family farms for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
Poultry Family Farm				
At the beginning of the year/period	2,946	3,395	3,450	3,354
Addition	1,261	863	789	334
Termination	(812)	(808)	(885)	(262)
At the end of the year/period	<u>3,395</u>	<u>3,450</u>	<u>3,354</u>	<u>3,426</u>
Poultry Farming Bases				
At the beginning of the year/period	58	54	61	71
Addition	11	14	16	4
Termination	(15)	(7)	(6)	(3)
At the end of the year/period	<u>54</u>	<u>61</u>	<u>71</u>	<u>72</u>

As at 31 December 2020, 2021 and 2022 and 31 May 2023, the number of our family farms and farming bases remained relatively stable at 3,395, 3,450, 3,354 and 3,426, and 54, 61, 71 and 72, respectively. The mild fluctuation in the number of family farms was due to our effort in continuously optimising the operation of our family farms by phasing out farms that do not meet our standard from time to time.

BUSINESS

Our relationship with farm owners

Prior to cooperating with farm owners under either the Poultry Family Farm model or Poultry Farming Base model, we screen for those who meet our standards. Under the Poultry Family Farm model, the farm owner provides the site, equipment and labour for farming, whereas under the Poultry Farming Base model, the farm owner leases our site. We provide chicks, feeds, vaccines and medicines to farm owners, who shall raise the chicks into broilers according to our standards. After the chicks are raised into broilers, farm owners will transfer the broilers back to us for sale. Throughout the process, we provide farm owners with technical guidance and support. All the chicks, feed, medicines, vaccines and other materials we provide to farm owners are our properties. After the sale of each batch of yellow-feathered broilers, we settle the contract farming fee with the farm owners.

Both models use the same form of contract farming agreement. The key terms of our agreements with farm owners generally include the followings:

Term: The terms of contract farming agreements are typically one year or three years, and will automatically be renewed absent objection from either party.

Responsibilities: Farm owners are responsible for raising broilers with their own farms, facilities and staff, for a contract farming fee. Farm owners are required to comply with our standards with respect to the operation of family farms, which include complying with the applicable laws and regulations. We are responsible for providing chicken breeders, technical guidance and support, feeds, medicines and vaccines. Farm owners are required to pay for such feeds, vaccines and medicines, the fees for which are typically determined by reference to our procurement costs and are deducted from the contract farming fee.

Deposits: Farm owners are generally required to pay an upfront deposit that ranged from RMB8 to RMB10 per broiler that are raised in the farm.

Ownership: We have the ownership of the broilers raised by the farm owners, as well as the feeds, vaccines and medicines. Farm owners have the ownership of the farms and facilities.

Termination: The agreement is terminable by mutual consent. Before the completion and sale of the current batch of broilers, farm owners are not allowed to unilaterally terminate the contract. There is no provision for a termination fee in the agreements, but farm owners are liable for losses we may incur as a result of their unilateral termination. We did not incur any such loss during the Track Record Period, as there was not any incident where a farm owner unilaterally terminates the agreement before the completion and sale of the current batch of broilers. We may unilaterally terminate the agreement under a range of circumstances, including where (i) the farm owners breach any terms of the agreements, such as failing to raise and deliver broilers in accordance to our requirements and standards, (ii) the farms and/or facilities do not meet our standards and, (iii) the farm owners dispose the broilers, feeds, vaccines or medicines, such as selling to a third party, without our consent. The farm owner shall return the broilers, feeds, vaccines and medicines and compensate losses we may incur

BUSINESS

as a result of their breach of the agreements upon termination. For 2020, 2021, 2022 and the five months ended 31 May 2023, we unilaterally terminated our agreements with 260, 223, 229 and 111 farm owners due to their failure to comply with our standards in respect of, among others, environmental protection, raising and delivering broilers and maintenance of the farms. During the same periods, we did not incur any loss as a result of such farm owners’ breach of agreements, and accordingly, we did not receive any compensation as a result of termination.

As at 31 May 2023, we had on average 3.5 years of relationship with our poultry farm owners. The table below sets forth the expiry portfolio of our agreements with our farm owners as at 31 May 2023:

<u>Expiry profile</u>	<u>No. of family farms</u>	<u>% of total</u>
Within one year	726	20.8
One year to three years	1,111	31.8
Three years or above	1,661	47.4

For each batch of broilers, we affix the fee for broilers raised by the farm owner, which is determined mainly by reference to the prevalent market price and production costs. The contract farming fee is calculated by multiplying the pre-agreed fee with the weight of broilers raised by the farm owner, minus by the costs of the chicks we provide to the farm owner, and further adjusted by reference to other factors including the quality and condition of the broilers, subsidies and rewards, and penalties and deductions. The following table sets out the contract farming fee we settled with farm owners under the Poultry Family Farm model and Poultry Farming Base model during the Track Record Period:

<u>Year/period</u>	<u>Contract farming fee</u>	<u>Total sales of broilers raised by farm owners</u>	<u>Average contract farming fee per bird</u>
	<i>(RMB'000)</i>	<i>('000 birds)</i>	<i>(RMB/bird)</i>
2020	260,009	70,848	3.7
2021	232,533	74,115	3.1
2022	276,957	76,931	3.6
For the five months ended 31 May 2022	92,630	28,651	3.2
For the five months ended 31 May 2023	126,356	33,909	3.7

The contract farming fees decreased from RMB260.0 million for 2020 to RMB232.5 million for 2021 primarily because we lowered the average contract farming fee per bird after taking into account a range of factors including market conditions. The contract farming fees increased from RMB232.5 million for 2021 to RMB277.0 million for 2022 primarily due to our

BUSINESS

initiative to increase the profit of farm owners, taking into account the improvement in overall breeding performance and an increase in farm owners’ costs. The contract farming fees increased from RMB92.6 million to RMB126.4 million primarily due to our upward adjustment to the fees for broilers, taking into account the increase in production costs.

As the costs of chicks have been factored into the calculation of contract farming fees, farm owners bear the losses from death of chicks and are not required to pay us additional compensation.

Selection, training and supervision of farm owners

We have established a set of standards and procedures to manage farm owners. We evaluate and select prospective farm owners based on a comprehensive set of criteria, including their personal backgrounds and reputation. We hold at least two large-scale training seminars every year to provide trainings on new production technology and our management standards. We issue feeding management standards and manual to the farm owners and assign regional technical administrators to provide small-scale and individual technical tutorial sessions to the farm owners. The regional administrators will promptly correct the farm owners who deviate from our standards and report any anomalies.

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. Our farm owners were primarily individual owners of farms. During the Track Record Period and up to the Latest Practicable Date, all our farm owners were Independent Third Parties. For each of the years during the Track Record Period, none of the pig family farms individually contributed to more than 0.8% of our revenue from the sales of pigs, none of the poultry family farms individually contributed to more than 0.2% of our revenue from sales of broilers, and none of the family farms contributed to more than 0.6% of our total revenue, respectively. Please refer to the section headed “Risk Factors – Risks Relating to Our Business and Our Industry – Our operations are subject to the risks associated with our family farms, and we rely on family farms to raise pigs and yellow-feathered broilers” in this document for further details.

The family farm models are mutually beneficial to us and the farm owners. On one hand, the family farm models allow us to defer the manual labour processes of pig and poultry production to farm owners and reduce our capital input. On the other hand, the family farm models allow individual farm owners to tap into our scale for more efficient farming, access to our technologies, training and support system, and secure a stable source of income. As a result, the operations of family farms are deeply integrated with our breeding and farming system. With our scale, resources, and deep integration of family farms’ operations into our

BUSINESS

breeding and farming system, we believe we have been able to maintain a close and stable relationship with farm owners. As at 31 May 2023, we had on average 2.7 years and 3.5 years of relationship with our pig and poultry family farms, respectively. Furthermore, given the relatively insignificant contribution from each individual farm owner, as well as our strong supporting system and attractive compensation structure for farm owners, we believe that alternative candidates for farm owners are readily available and we do not envisage material difficulty in recruiting new farm owners.

Management and Control

Although we allow farm owners to enjoy the products of our technologies, the core technologies remain attached to and safeguarded within our breeding and farming system. For example, while we cooperate with No. 2 Family Farms to raise crossbred sows, these crossbred sows can only be produced by crossing breeding pigs from our nucleus breeding farms and boar from our boar studs. In addition, our core technologies, including breeding technology, nutrition and feeding technology, and disease control technology, are built upon the scale of our operation, and our deep understanding of breeding and farming. Among others, while we provide farm owners with resources and guidance that are developed based on our technologies, such as providing them with feeds that are produced with our precise nutrition technology, and advising them on prevention of animal diseases and appropriate treatment for unwell animals, farm owners do not have access to our core technologies, nor the scale necessary to procure supplies at a low cost on their own. We therefore believe that individual farm owners would not be able to replicate these technologies independently outside of our system.

We maintain close supervision throughout all stages of farm owners’ operations to ensure they comply with our standards. In particular, during our regular inspections, we examine if the operations of family farms comply with the requisite standards, and assess and record the status and quantity of biological assets in the family farms. Furthermore, our internal audit department maintains and regularly audits the records of our biological assets, including those held at the family farms. We have established a standard protocol for all our farms for stock take. Each of our family farms is required to perform a full stock take on a monthly basis to ensure the relevant information are accurately reflected in our information management system and submit a stock-take report to the internal audit department at our headquarters. Our staff, including staff that are responsible for supervising farm owners and staff of the internal audit department, conduct the monthly stock-take on-site, and confirm the result in writing. Please refer to the section headed “Financial Information – Biological Assets and Valuation – Stock Take and Internal Control” in this document for details. During the Track Record Period, there had not been any material adverse findings from any audits carried out by our internal audit department in relation to the operations of family farms. During the Track Record Period, some of farm owners did not obtain the requisite licences and/or complete the requisite environmental impact assessment and inspection procedures, and we have accordingly implemented enhanced internal control measures with a view to ensuring their compliance. For details, please refer to the section headed “– Requisite Licences and Procedures – Rectification and Enhanced Internal Control”.

BUSINESS

Requisite Licences and Permits in respect of Farm Owners

As advised by our PRC Legal Adviser, under the applicable PRC laws and regulations, material licenses and permits required for family farms' contract farming business include (i) the Certificate for Production and Operation of Breeding Livestock and Poultry (種畜禽生產經營許可證), where applicable, and (ii) the Certificate for Animal Epidemic Disease Prevention (動物防疫條件合格證) (the “**Required Licenses**”). Potential legal consequences for farm owners as a result of the lack of the Required Licenses include fines, confiscation of the relevant income attributable to such operations and an order to cease operation. As at the Latest Practicable Date, 144, 183, 262 and 220 of the pig farm owners, and 548, 556, 585 and 408 of the broiler farm owners that cooperated with us in 2020, 2021, 2022 and 31 May 2023, respectively, (i) did not possess all of the Required Licenses and (ii) have not received confirmation from the competent PRC authorities that (1) no penalty or order to cease operation would be levied against the farm owner as a result of the lack of the Required Licenses or (2) the relevant farm may continue to operate, representing 8.9%, 8.5%, 9.1% and 9.4% of the numbers of the pig farm owners, and 14.1%, 14.0%, 14.2% and 11.5% of the broiler farm owners that cooperated with us during the same period. For 2020, 2021, 2022 and 31 May 2023, revenue generated in respect of the abovementioned pig farm owners amounted to RMB316.4 million, RMB402.7 million, RMB648.8 million, and RMB171.0 million, respectively, representing 5.5%, 5.6%, 5.5% and 3.4% of our revenue from the sales of pigs during the same period, respectively; revenue generated in respect of the abovementioned broiler farm owners amounted to RMB227.4 million, RMB254.2 million, RMB342.0 million and RMB119.7 million, respectively, representing 9.9%, 9.7%, 10.6% and 9.5% of our revenue from the sales of broilers during the same period, respectively; and together, revenue generated in respect of the above mentioned farm owners amounted to RMB543.8 million, RMB656.9 million, RMB990.8 million and RMB290.7 million, respectively, representing 6.7%, 6.6%, 6.6% and 4.6% of our total revenue during the same period, respectively.

As at the Latest Practicable Date, among our farm owners that neither possess the Required Licences nor have obtained regulatory confirmations (i) 16.5%, 63.1% and 20.4% of our agreements with the pig farm owners will expire in less than two years, two to five years and over five years, respectively, and (ii) 49.6%, 40.3% and 10.1% of our agreements with the broiler farm owners will expire in less than one year, one year to two years and over two years, respectively. As at the Latest Practicable Date, all of the farm owners we are currently cooperating with have signed an acknowledgment letter, confirming that if they are subject to any administrative and regulatory measures, litigation or arbitration related to the Required Licenses (“**Legal Consequences**”) for their own reasons or fault, they will be solely responsible for the Legal Consequences, and they will ensure that we do not suffer any losses as a result. As at the Latest Practicable Date, our relevant subsidiaries cooperating with the farm owners have obtained the applicable Required Licenses and we have fully performed our obligations under the signed contract farming agreement. During the Track Record Period and up to the Latest Practicable Date, we had not been held liable or subject to any penalty or fine as a result of the farm owners' lack of Required Licenses. Based on the results of public searches via certain websites on the farm owners who are legal persons, and the acknowledgment letter of the farm owners whom we are cooperating with, none of the farm

BUSINESS

owners cooperating with us had been penalised as a result of the lack of the Required Licenses during the same period. Given the above, our PRC Legal Adviser is of the view that we are not liable for penalty or fine, if any, imposed on the farm owners because of their lack of the Required Licenses, and the revenue contributed by the abovementioned farm owners to us during the Track Record Period will not be forfeited.

According to the Frost & Sullivan Report, due to (i) the differentiated regulatory requirement and enforcement process of local authorities in different regions in China; (ii) local policies to help alleviate farm owners from poverty by providing a more lenient regulatory environment; and (iii) farm owners not being fully aware of the regulations and laws that are applicable to their operations, particularly in light of the local differences in applicable requirements and enforcement, it is common for farm owners in China’s breeding and farming industry not to possess all of the material licenses and permits for their operations. According to the same report, based on public information and expert interviews conducted, while there have been incidents where farm owners cooperated with listed breeding and farming enterprises in China do not fully comply with the applicable laws and requirements, our industry consultant did not identify any breeding and farming enterprise which was held liable for farm owners’ lack of material licenses and permits as of 31 May 2023.

Our Directors are of the view that the lack of the Required Licenses will not have any material adverse impact on our operations and financial condition, on the basis that:

- (i) as advised by our PRC Legal Adviser, we are not liable for penalty or fine, if any, imposed on the farm owners because of their lack of the Required Licenses. According to the Frost & Sullivan Report, our industry consultant did not identify any breeding and farming enterprise which was held liable for farm owners’ lack of material license and permits;
- (ii) during the Track Record Period, (i) no results of public searches on the farm owners who are legal persons on an online database of companies and organization indicates that relevant farm owners were subject to any administrative penalties for failure to obtain the Required Licenses and (ii) based on the acknowledgment letter of the farm owners whom we are cooperating with, none of these farm owners had been penalised as a result of the lack of the Required Licenses; and
- (iii) we cooperated with a wide base of family farms and has established a mutually beneficiary cooperative relationship with the family farms. None of the farm owners individually contributed to more than 0.6% of our total revenue for each of the years during the Track Record Period. Therefore, termination of relationship with certain family farms will neither distort business operations of, nor have any material adverse impact on our financial condition. Moreover, according to the Frost & Sullivan Report, as at 31 December 2020, there were approximately 11.7 million farms operating in Southwest China, and as it is unlikely that we would be required to close or relocate a significant number of family farms at the same time given that (a) the farms of the cooperating farm owners are geographically dispersed and under

BUSINESS

the jurisdiction of different local authorities and (b) none of the farm owners cooperating with us had been penalised, fined or ordered to cease operations during the Track Record Period, we would be able to readily locate alternative cooperative family farms in a short period of time.

Nevertheless, to ensure the compliance of our farm owners, we require our farm owners to comply with applicable laws and regulations (including obtaining the requisite license and permits). In addition, to better promote the compliance culture among our industry value chain, we have implemented systematic internal control measures to ensure the compliance of farm owners, including:

- (i) enhancing our contract terms with farm owners, expressly making the possession of all material licenses and permits for farm owners for their operations as prerequisite before commencing the cooperation since April 2023;
- (ii) making the possession of all material licenses and permits or regulatory confirmations for their operations as prerequisite before renewing contracts upon their expiration. Such regulatory confirmations shall be issued by the relevant competent local branches of the MARA, and to the effect that (1) no penalty or order to cease operation would be levied against the farm owner as a result of the lack of the Required Licenses or (2) the relevant farm may continue to operate. As advised by our PRC legal adviser, we assess the competency of the relevant branches of the MARA are on the basis of the provisions under applicable laws and regulations, and in accordance to the administrative service guidelines published by the local governments which sets out the responsible MARA branch for each region;
- (iii) assigning designated employees to regularly inspect family farms’ possession status of material licenses and permits for their operations, as well as maintaining records of such compliance status;
- (iv) our local subsidiaries shall keep records of each of their farm owners’ compliance status. The designated compliance personnel shall update the records based on findings from their monthly inspections on a timely basis, and the relevant subsidiaries shall compile the updated records for group-level review on a monthly basis; and
- (v) organising compliance training for the farm owners that we are currently cooperating as well as our relevant staff on a semi-annual basis since April 2023 to enhance farm owners’ compliance awareness.

Legal Proceedings and Compliance

To the best knowledge of our Directors, none of the owners of our family farms was a party to any pending or threatened litigation, arbitration or administrative proceeding that could have an impact on their ability to discharge their obligations under the contract farming agreements as at the Latest Practicable Date. Save as disclosed above in relation to the

BUSINESS

Required Licenses, to the best knowledge of our Directors, during the Track Record Period and the up to the Latest Practicable Date, there had been no material non-compliance for the owners of our family farms that would have a material adverse impact on our financial position or results of operations.

Furthermore, our agreements with farm owners provide that the farm owners shall be responsible for losses incurred as a result of, among others, failing to operate the family farms in accordance to our standards, which include complying with the applicable laws and regulations. According to applicable PRC laws and regulations, we are entitled to recourse for losses incurred as a result of farm owners’ breach of the agreements. Further, as at the Latest Practicable Date, all of the farm owners we are currently cooperating with have confirmed that they will be solely responsible for the Legal Consequences and will ensure that we do not suffer any losses as a result. Given the above, we believe that we have effective mechanisms in place to safeguard our interests.

Feed Management and Control

Feed Technology

We have developed a precision nutrition technology system, which covers precise nutritional needs, raw materials, formula, processing and feeding. By leveraging our system, we are able to monitor the conditions of our pigs and yellow-feathered broilers in real-time, accurately determine their nutritional needs at different growth stages, and design the optimal feed formulas to enhance output efficiency. Please refer to the section headed “– Research and Development” for details.

Our feed control technology system, which comprises raw material valuation assessment and valuation procurement technology, high-efficiency enzyme preparation technology, low-protein diet technology and low corn/low soybean meal diet technology, allows us to adjust feed formula and procurement strategies in a timely manner. We operate our own feed mills to produce feed in accordance to own stringent quality and safety standards. We also procure feed and feed ingredients from selected suppliers. Please refer to the section headed “– Suppliers, Raw Material and Inventory – Raw material procurement – Feed and feed ingredients procurement” for details.

Feed Production and Procurement

We secure feeds by (i) producing at our own feed mills, (ii) procuring from trading companies and feed manufacturers; and (iii) engaging feed manufacturers to produce feeds with our feed ingredients. In deciding whether to produce or procure feeds, we primarily take into account the costs, which are mainly affected by the transportation costs and the prevalent costs of feed ingredients. For instance, since our feed mills are mainly located in Southwest China, it may be more cost efficient to procure feeds from external suppliers, or engage them to produce feeds with our feed ingredients, for farms that are located in other regions.

BUSINESS

We sell feed ingredients that are not used in our feeds production as ancillary products to trading companies and manufacturers. During the Track Record Period, we also procured feeds from some of these feed manufacturers to whom we sell feed ingredients. Sales to these feed manufacturers are recorded as revenue, and purchases from them are recorded as raw materials in our inventories as they will be consumed in our production process. During the Track Record Period, feed ingredients sold were not designated for the production of feeds that we procured.

Feed Production

As at 31 May 2023, we had 12 feed mills, including nine pig feed mills and three poultry feed mills occupying a site area of approximately 364,306 square metres, with a gross floor area of approximately 157,507 square metres. Our feed mills are strategically located in regions that close to our nucleus breeding farms. As at 31 May 2023, our pig feed mills were on average 83 km away from our breeding pig farms, and our poultry feed mills were on average 66 km away from our chicken breeder farms. For 2020, 2021, 2022, and the five months ended 31 May 2022 and 2023, our own feed mills produced approximately 34.3%, 51.9%, 53.8%, 54.2% and 55.4% of feed used in our breeding and farming business.

The following table sets out the production capacities and utilisation rates of our feed mills during the Track Record Period:

	As at/for the year ended 31 December			As at/for the five months ended 31 May	
	2020	2021	2022	2022	2023
Feed mills					
Number	6	12	12	12	12
Designed production capacity (tonnes) ⁽¹⁾	700,000	2,610,000	2,610,000	1,087,500 ⁽²⁾	1,125,000 ⁽²⁾
Actual output (tonnes)	446,877	1,052,619	1,468,949	586,396	700,689
Utilisation rate (%) ⁽³⁾	63.8	40.3	56.3	53.9	62.3

Notes:

1. The designed annual production capacity of feed mills are calculated as the total designed production capacity of the feed mills in operation at the end of the year/period.
2. The pro-rata designed production capacity for the actual number of months in a year during which the facilities were in operation.
3. Utilisation rate is calculated as the output as a percentage of the designed production capacity for the relevant year/period.

During the Track Record Period, we had a relatively low utilisation rate primarily because (i) six feed mills were only established in 2021 with three of them commencing operations in the second and third quarter of the year, which lowered the utilisation rate in the same year; (ii) the feed mills are designed to meet the demand from nearby farms in the long run, with a buffer in capacity to meet future operational needs in the area; and (iii) we chose to procure

BUSINESS

feed from external suppliers if, after taking into account factors including production and transportation costs, we consider that it is more cost efficient. For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, the average production costs per tonne of feeds amounted to RMB2,989, RMB3,554, RMB3,471, RMB3,605 and RMB3,677, respectively, and the average procurement costs per tonne of feeds amounted to RMB3,081, RMB3,445, RMB3,673, RMB3,600 and RMB3,619, respectively. During the same periods, the average monthly fixed costs for our feed mills amounted to RMB8.9 million, RMB34.7 million, RMB50.3 million, RMB20.6 million and RMB17.3 million, respectively.

To ensure food safety of the source of feed, we have established stringent quality standards and inspection and control procedures covering the whole feed production process from procurement of feed ingredients, feed production and processing to feed transportation to ensure that the feed we produce meets our quality requirement. This also reduces the cost of our feed, thereby increasing our gross profit margin. The main measures are as follows:

- We conduct on-site inspections of the main production areas of our suppliers and select quality and reliable suppliers. We have also established a comprehensive system of raw material evaluation, acceptance and use. Please refer to the paragraph headed “– Suppliers, Raw Material and Inventory – Raw material procurement – Feed and feed ingredients procurement”.
- We have stringent feed quality control standards in place to ensure that the feed quality meets national standards as well as the needs of our pig and broiler farms. We have implemented feed quality and safety management standards and developed a traceable system covering source control, process control and raw material procurement management.
- We regularly maintain and repair feed production equipment to ensure that the equipment is in good operating condition and improve utilisation rate of the equipment.

In addition to quality control measures, we also focus on enhancing the formula design of our feed with precision nutrition technology. For example, for pig feed, we analyse the composition of raw materials for formula design, so as to meet the nutritional needs of pigs at different growth stages and achieve precise nutrition and cost control. For details, please refer to the section headed “– Research and Development”.

BUSINESS

RESEARCH AND DEVELOPMENT

Our R&D team is committed to the preservation and exploration of livestock and poultry breeding resources, the selection and breeding of new varieties of livestock and poultry, precision nutrition technology, livestock and poultry health management, food safety control, and optimisation of production. As at 31 May 2023, our R&D team had 147 employees of which 82 held master’s degree or above, including nine held doctor’s degree.

We have established, either through our cooperation with external partners or independently, a number of national and ministerial breeding platforms and key laboratories, including the National Pig Technology Innovation Centre – Breeding R&D Centre (國家生豬技術創新中心–養殖研發中心), the Key Laboratory for Poultry Genetics and Breeding of the MARA (農業部家禽遺傳育種重點實驗室), National Spark Programme Leading Enterprise Technology Innovation Centre (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 Huxu Chicken Breeding Farm and 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). As at 31 May 2023, we had undertaken more than 50 national, provincial and ministerial R&D projects such as the National 863 Plan and 948 Major Special Projects, and have obtained a number of scientific and technological achievements.

We have obtained numerous awards and recognitions in respect of our R&D achievements, including the Champion of the Guangdong Seed Industry Science and Technology Innovation Competition Gold Star Award (廣東種業科創大比武「金星獎」冠軍), and First Prize of Shennong China Agricultural Science and Technology Award (神農中華農業科技獎一等獎).

We cooperate with domestic and foreign universities and research institutions for technology development. In addition, we hire reputable experts in the field of breeding as consultants to provide us with relevant technical services.

For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, our R&D expenses were RMB75.0 million, RMB132.8 million, RMB196.6 million, RMB65.6 million and RMB99.4 million, respectively. Our R&D expenses had continued to increase during the Track Record Period primarily because we (i) carried out more R&D activities in connection with our breeding and feed production; and (ii) increased compensation for our R&D personnel. Please refer to the section headed “Financial Information – Period-to-Period Comparison of Results of Operations” in this document.

BUSINESS

We focus on the R&D of the following core technologies:

- *Breeding technology.* We possess advanced breeding technology, which mainly focuses on genome selection technology, marker-assisted selection technology (for example, pure line genetic evaluation and breed evaluation), directional selection technology (selective crossbreeding among excellent individuals to produce better offspring after directional crosses) and AI and induction technology based high-throughput phenomics assay technology (i.e., performing selected cultivation according to breeding benchmarks). Through the development and application of these technologies, we have developed new varieties and variety lines of breeding pigs and yellow-feathered broilers with outstanding advantages. For our breeding technology and achievement, please refer to the sections under “– Production – Pig Production – Pig Breeding” and “Production – Poultry Production – Poultry Breeding – Nucleus Breeding Technology”, respectively.
- *Nutrition and feeding technology.* We evaluate and develop the nutritional value of feed ingredients to determine the nutritional needs of pigs and yellow-feathered broilers at different growth stages of production. We accurately determine the nutritional needs of pigs and yellow-feathered broilers at different growth stages according to the breeds and production goals, and design feed nutrition formulas accordingly. The feed formula is designed by animal nutrition experts according to the nutritional needs of pigs and yellow-feathered broilers at different stages. For example, based on the pig breeds and production goals, we use near-infrared and detection results to establish a dynamic feed database that analyses the feed ingredients for formulation design, so as to meet the nutritional needs of pigs at different physiological stages, and achieve precise nutrition and cost control. In addition, the precision feeding technology and control feeding strategy we have developed for sows enable sows to achieve a reasonable conditions for reproduction, ensure high reproductive performance, and reduce feed consumption.
- *Disease control technology.* We focus on the R&D of prevention and control technologies for major diseases, as well as consider factors such as site selection, introduction of new varieties and variety lines, production management, and nutritional feeding to form a comprehensive disease prevention and control plan that meets the requirements of large-scale pig farms and monitors pig herds by using multiple detection methods. Our effective disease prevention and control technology allows us to purify major pig and poultry diseases. We have developed precision immunisation methods and precision medical treatments to enhance the growth performance and safety of our products.
- *Food safety control technology.* We focus on three major research directions, namely breeding production safety technology, meat processing safety technology and traceability monitoring and analysis technology, to reinforce the key common technologies of meat safety production and provide technical support for the meat industry.

BUSINESS

- *Optimisation in the R&D of production technology.* The R&D of production technology in the production and feeding process and the implementation of regulated management and standardised tools can help us reduce production costs, improve management efficiency, and improve the overall quality of our products.
- *Technology for forecasting optimal sales time.* We collect basic data such as pig growth curve, fixed cost, production cost, sales price and related functional relationships to establish a visual model that can forecast optimal sales time. By leveraging years of market research and accumulated big data, we can accurately predict the best weight and timing for the sale of market hogs, so as to maximise profits.
- *Data management and analysis technology.* We use data management software to achieve online data management, which can greatly improve per capita efficiency.

SALES

Structure of Sales Team

We have separate sales teams for the pig and poultry segments which are responsible for determining and supervising the implementation of our sales strategies. Our pig sales network covers all major regions of China, and our yellow-feathered broiler sales network covers markets including Sichuan, Chongqing, Yunnan, Guizhou, Guangdong and Guangxi.

We actively monitor the condition of the pig and yellow-feathered broiler markets, making reference to indicators such as current selling price, seasonal patterns and price fluctuation alerts issued by the relevant authorities. Based on these indicators, we project demand for our products in the subsequent period and adjust our production plan accordingly.

Sales of Our Pig Segment

Customers for our market hogs are mainly pig dealers. Customers for our breeding pigs and market piglets are mainly pig breeding and farming companies. According to the Frost & Sullivan Report, it is an industry norm for a PRC livestock and poultry farming enterprise to sell its products to third-party dealers, primarily because (i) dealers represent one of the major players in the downstream livestock and poultry industry with extensive distribution channels and (ii) dealers are able to provide more flexibility as to timing, location and volume of sales as compared to other downstream players, such as slaughterhouses. As at 31 May 2023, our broiler dealers were in general located within 100 km to 200 km from our relevant self-operated and family pig farms. The vast majority of our pig segment customers make payment via online banking transfers, and we generally do not grant credit term to such customers.

BUSINESS

The table below sets forth our revenue, gross profit and gross profit margin by type of customers for the periods indicated:

	For the year ended 31 December						For the five months ended 31 May													
	2020			2021			2022			2022			2023							
	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit					
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>					
	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>	<i>% of total</i>	<i>total</i>					
Dealers	3,985,907	69.3	2,160,745	54.2	5,377,066	75.0	289,793	5.4	9,356,024	79.7	1,346,364	14.4	2,808,913	81.6	(576,226)	(20.5)	3,798,370	75.8	(307,954)	(8.1)
Others	1,761,790	30.7	1,048,138	59.5	1,791,090	25.0	444,482	24.8	2,389,032	20.3	327,541	13.7	634,683	18.4	(95,344)	(15.0)	1,215,945	24.2	24,475	2.0
Total/overall	5,747,697	100.0	3,208,883	55.8	7,168,155	100.0	734,274	10.2	11,745,056	100.0	1,673,905	14.3	3,443,596	100.0	(671,570)	(19.5)	5,014,315	100.0	(283,479)	(5.7)

BUSINESS

Market hogs constitute the majority of the products we sell to pig dealers. Our revenue from sales to dealers increased from RMB3,985.9 million for 2020 to RMB5,377.1 million for 2021 and further to RMB9,356 million for 2022. It further increased from RMB2,808.9 million for the five months ended 31 May 2022 to RMB3,798.4 million for the five months ended 31 May 2023. The increase in our revenue from sales to dealers was largely in line with the increase in our sales volume of pigs during the same periods. Accordingly, revenue contribution of sales to dealers increased from 69.3% for 2020 to 75.0% for 2021 and further to 79.7% for 2022 alongside the increase in our sales volume of pigs, which was primarily attributable to the increase in the scale of our market hog production to gain more market share. Revenue contribution of sales to dealers slightly decreased from 81.6% for the five months ended 31 May 2022 to 75.8% for the five months ended 31 May 2023, primarily due to the increase in contribution from large slaughterhouse customers. The gross profit margin from sales to dealers decreased from 54.2% for 2020 to 5.4% for 2021, and increased to 14.4% for 2022. The gross profit margin from sales to dealers increased from -20.5% for the five months ended 31 May 2022 to -8.1% for the five months ended 31 May 2023. The changes in gross profit margin from sales to dealers were also in line with the changes in the gross profit margin of our sales of market hogs during the periods, which were largely results from changes in average selling prices of our market hogs. For details, please refer to the section headed “Financial Information – Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income” in this document.

We sell pigs through the “Dekon Group Pig Selling System (德康集團生豬銷售系統)” by way of bidding. Our customers need to register with the system as users, and pay a deposit before they can order pigs on the system. We update the information of pig sales on the system. Once a customer enters the quantity and bidding prices of market hogs on the system, the system will automatically rank the orders based on the bid price and the time when such orders are placed. The purchase and sale contract with a customer takes effect immediately once the order is confirmed. We have also entered into cooperation agreements with certain core customers, the term of which is generally one year, with a minimum purchase requirement.

Pig dealers

Most of our market hogs and market piglets are sold to pig dealers. Pig dealers are generally self-employed individuals, intermediaries between breeding enterprises and farmers and butchers.

For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, the revenue from sales of market hogs to our pig dealers was RMB3,916.5 million, RMB5,303.4 million, RMB9,306.6 million, RMB2,790.2 million and RMB3,784.9 million, respectively, representing 71.0%, 84.8%, 80.8%, 82.6% and 77.7% of the total revenue from sales of market hogs; the revenue from sales of breeding pigs to pig dealers was RMB39.9 million, RMB27.4 million, RMB12.8 million, RMB3.2 million and RMB1.3 million, respectively, representing 26.9%, 5.9%, 18.5%, 20.3% and 5.2% of the total revenue from sales of breeding pigs; the revenue

BUSINESS

from sales of market piglets to pig dealers was RMB29.3 million, RMB46.2 million, RMB36.4 million, RMB15.6 million and RMB12.2 million, respectively, representing 36.3%, 10.3%, 24.1%, 31.2% and 10.8% of the total revenue from sales of market piglets.

The table below illustrates the changes of our dealers during the Track Record Period:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	Pig dealers			
At the beginning of the year/period	1,602	1,951	1,318	1,090
Addition	1,513	756	606	147
Termination ⁽¹⁾	(1,164)	(1,389)	(834)	(715) ⁽²⁾
At the end of the year/period	<u>1,951</u>	<u>1,318</u>	<u>1,090</u>	<u>522</u>

Notes:

- (1) Represents dealers that did not make any purchase from us during a financial year/period and dealers that were terminated for other reasons, including mutual agreement.
- (2) Only represents the status as at 31 May 2023, and dealers that make any purchase from us during the remaining period of the year ending 31 December 2023 will not be counted as termination for such financial year.

We are dedicated to continuously optimising our base of pig dealers. The number of our pig dealers decreased from 1,951 as at 31 December 2020 to 1,318 as at 31 December 2021, and further to 1,090 as at 31 December 2022. It further decreased to 522 as at 31 May 2023. The decrease in the number of pig dealers during the Track Record Period was primarily as a result of our efforts in streamlining our dealer base by retaining only high-value dealers that make frequent and sizable purchases. Our efforts include recruiting and focusing on retaining only dealers with a higher degree of purchase commitment, as these dealers tend to have more extensive distribution channels and therefore more stable demand for our products. Among others, we started to gradually raise the amount of deposits (保證金) payable by pig dealers from RMB20,000 to RMB50,000 since 2021, with an aim of screening out dealers with a relatively lower degree of purchase commitment. As a result, despite the decrease in the number of dealers during the Track Record Period, our total revenue from the sales of pigs to dealers, as well as average revenue per dealer, had increased. We may also terminate our

BUSINESS

relationship with pig dealers who failed to observe our standards or meet our requirements, including failure to perform their obligations under the relevant agreements. Given that our agreements with pig dealers typically only have a term of one year, we generally do not unilaterally terminate our relationship with dealers, save for serious misconducts, such as dishonestly overstating the weight of pigs. During the Track Record Period, there was no material breach of the agreements by our pig dealers and accordingly, we had not terminated our relationship with any pig dealer due to such reason. During the Track Record Period and up to the Latest Practicable Date, there were no material disputes between the dealers and us.

The table below sets forth the movement of deposits we received from pig dealers for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year/period	1,165	4,846	11,643	29,958
Inflow	6,075	13,162	42,155	11,795
Outflow	(2,394)	(6,365)	(23,840)	(6,833)
Balance at the end of the year/period	4,846	11,643	29,958	34,920

During the Track Record Period, we required certain pig dealers to pay a deposit of RMB20,000, and have since 2021 started to gradually increase such deposit to RMB50,000 as part of our efforts to streamline our dealer base. The balance of deposits increased from RMB4.8 million for 2020 to RMB11.6 million for 2021, and further to RMB30.0 million for 2022, primarily because we started to raise the amount of deposits payable by pig dealers since 2021. The balance of deposits further increased to RMB34.9 million as at 31 May 2023, primarily due to the increase adoption of the Dekon Group Pig Selling System among our pig dealers, which requires payment of deposits. The deposits may not be used to settle the purchase price, and will be refunded upon completion of the agreements. We may forfeit the deposits upon dealers' breach of our platform rules, such as where the dealers fail to pay in advance or settle payment upon collection of pigs. During the Track Record Period, there had not been occurrence of such incidents and accordingly, we did not forfeit any deposit from dealers.

We only charge our pig dealers deposits under certain circumstances. There were only 8.9%, 26.9%, 41.2% and 72.4% of the pig dealers which paid deposit for 2020, 2021, 2022 and the five months ended 31 May 2023, respectively. The pig dealers usually pay deposit in the

BUSINESS

following situations: (i) the pig dealer opens an account in our online Dekon Group Pig Selling System, through which the pig dealer can order pigs online by bidding; (ii) the pig dealer signs a core customer agreement with us which specifies purchase volume for the pig dealer; and (iii) the pig dealer participates in our offline pig sales and signs a specific pig sales agreement with us, such as the sales agreement for elimination of breeding pigs. The increase in the average deposit paid by our pig dealer was mainly due to the fact that (i) the proportion of pig dealers which paid deposit increased, which was partly as a result of the increase adoption of the Dekon Group Pig Selling System among our pig dealers; and (ii) we started to gradually increase the deposit amounts for pig dealers from RMB20,000 to RMB50,000 since 2021.

Deposits from dealers only contributed to a relatively small portion of our deposits received during the Track Record Period. For details, please refer to the section headed “Financial Information – Current Assets and Current Liabilities – Accruals and Other Payables” in this document.

We typically entered into dealership agreements with our dealers for sales of our pigs. The key terms of our dealership agreements generally include the following:

- Term: Generally one year.
- Designated distribution regions and/or channels: Dealers are not subject to restrictions on distribution regions and/or channels.
- Sales target and reward plan: Dealers are not subject to mandatory sales targets. To incentivise certain dealers, we generally provide rebates that range from RMB4 to RMB10 per pig to dealers that meet specified sales targets, which is determined on a sliding scale based on the sales volume of pigs of the relevant dealer.
- Minimum purchase volume: Certain dealers for our pigs are required to purchase a minimum purchase volume from us. For 2020, 2021, 2022 and the five months ended 31 May 2023, dealers that were subject to minimum purchase requirement contributed to nil, 23.8%, 36.9% and 21.2% of our revenue from the sales of pigs. We have the right to terminate our relationship with dealers that fail to meet such requirement but do not typically enforce it given the term of only one year in general. For 2020, 2021 and 2022, nil, 17 and 27 dealers failed to meet such requirement and such dealers contributed to nil, 13.3% and 9.5% of our revenue from the sales of pigs, respectively. In line with our general practice, we did not terminate any of these dealers for failing to meet the minimum purchase volume.
- Pricing policy: We set the price at which we sell products to dealers based on market conditions, and dealers shall place order on our Dekon Group Pig Selling System by way of bidding.
- Termination: If the dealer breaches material terms or fails to meet the minimum purchase amount, we may terminate the dealership agreement.

BUSINESS

Our relationships with pig dealers are characterised as seller and buyer relationships, which do not grant us control over their operations or inventories, and pig dealers are free to formulate their own pricing policies and compete with one another. As we sell our pigs to dealers outright, we do not have a policy on the geographical distribution of our dealers, and we do not impose restrictions on the appointment of sub-dealers or on the resell price. According to the Frost & Sullivan Report, it is a norm in China’s breeding and farming industry that breeding and farming enterprises sell pigs to dealers outright and do not impose restrictions on the onward distribution by dealers. Once our pigs are sold to pig dealers, we recognise the revenue, and the ownership and risks of the pigs are transferred the pig dealers. To our best knowledge, pig dealers generally resell our products to slaughterhouses. If pig dealers fail to sell the products subsequently, they have no right of recourse against us after their acceptance of the relevant products. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors, all our pig dealers are Independent Third Parties.

Sales of Our Poultry Segment

Customers for our broilers mainly include dealers. According to the Frost & Sullivan Report, it is an industry norm for a PRC livestock and poultry farming enterprise to sell its products to third-party dealers, primarily because (i) dealers represent one of the major players in the downstream livestock and poultry industry, with extensive distribution channels and (ii) dealers are able to provide more flexibility as to timing, location and volume of sales as compared to other downstream players, such as slaughterhouses. As at 31 May 2023, our broiler dealers were in general located within 100 km to 200 km from our relevant self-operated and family broiler farms. Our chick customers mainly include dealers and broiler farmers. Most of our customers for the poultry segment make payments via bank transfer, and we generally do not offer credit term.

BUSINESS

The table below sets forth our revenue, gross profit and gross profit margin by type of customers for the periods indicated:

	For the year ended 31 December						For the five months ended 31 May											
	2020			2021			2022			2022			2023					
	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit	Revenue	Gross profit margin	Gross profit			
	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000	RMB'000	%	RMB'000			
	<i>% of total</i>		<i>% of total</i>	<i>% of total</i>		<i>% of total</i>	<i>% of total</i>		<i>% of total</i>	<i>% of total</i>		<i>% of total</i>	<i>% of total</i>		<i>% of total</i>			
Dealers	2,202,838	(2.2)	2,572,978	98.3	18,102	0.7	3,138,120	97.6	379,542	12.1	1,089,897	98.0	70,761	6.5	1,224,016	96.7	(93,945)	(7.7)
Others	84,946	3.7	(319)	1.7	258	0.6	77,216	2.4	6,018	7.8	21,810	2.0	712	3.3	41,142	3.3	(2,144)	(5.2)
Total/overall	<u>2,287,783</u>	<u>(2.2)</u>	<u>(49,300)</u>	<u>100.0</u>	<u>18,360</u>	<u>0.7</u>	<u>3,215,336</u>	<u>100.0</u>	<u>385,561</u>	<u>12.0</u>	<u>1,111,707</u>	<u>100.0</u>	<u>71,473</u>	<u>6.4</u>	<u>1,265,158</u>	<u>100.0</u>	<u>(96,089)</u>	<u>(7.6)</u>

BUSINESS

Yellow-feathered broilers constitute the majority of the products we sell to broiler dealers. Our revenue from sales to dealers increased from RMB2,202.8 million for 2020 to RMB2,573.0 million for 2021 and further to RMB3,138.1 million for 2022, which was largely in line with the increase in our sales volume of yellow-feathered broilers during the same periods. Our revenue from sales to dealers increased from RMB1,089.9 million for the five months ended 31 May 2022 to RMB1,224.0 million for the five months ended 31 May 2023, which was also in line with the increase in our sales volume of yellow-feathered broilers during the same period. Accordingly, for 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue contribution of sales to dealers remained relatively stable at 96.3%, 98.3%, 97.6%, 98.0% and 96.7%, respectively. The gross profit margin from sales to dealers increased from -2.2% for 2020 to 0.7% for 2021, and further to 12.1% for 2022. It decreased from 6.5% for the five months ended 31 May 2022 to -7.7% for the five months ended 31 May 2023. The changes in our gross profit margin from sales to dealers were also in line with the gross profit margin of our sales of yellow-feathered broilers during the periods. For details, please refer to the section headed “Financial Information – Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income” in this document.

Broiler and chick dealers

We sell a majority of our yellow-feathered broilers and chicks through dealers. Given that (i) broilers and chicks are fresh and live agricultural products; (ii) dealers shall bear all risks related to the products after the products are delivered to them; and (iii) we require dealers to pay us on delivery, our Directors believe that our sales reflect the market demand for our products and may avoid the risk of dealer inventory accumulation.

We formulate assessment standards for dealers’ sales volume and contribution and tiered incentive policies based on sales volume to encourage broiler dealers to develop more sales channels and expand sales scale. Additionally, we implement systematic management of broiler dealers. Through skills training, corporate value building and assistance with expanding distribution channels, we enhance dealers’ marketing skills, promote the integration of values between dealers and us and expand distribution channels and customer groups, thereby increasing the market share and profitability of our core products.

For 2020, 2021, 2022, and the five months ended 31 May 2022 and 2023, the revenue of chicks made through dealers was RMB93.6 million, RMB62.0 million, RMB38.7 million, RMB14.2 million and RMB15.9 million, respectively, accounting for 78.9%, 70.8%, 58.6%, 52.9% and 57.2% of the total sales of chicks, respectively. The revenue of yellow-feathered broilers made through dealers was RMB2,142.1 million, RMB2,500.2 million, RMB3,075.3 million, RMB1,070.4 million and RMB1,202.8 million, respectively, accounting for 99.3%, 99.3%, 98.8%, 99.2% and 97.6% of the total sales of yellow-feathered broilers, respectively.

BUSINESS

The table below illustrates the changes of our dealers during the Track Record Period:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	Dealers of chicks and yellow-feathered broilers			
At the beginning of the year/period	3,730	6,126	5,184	4,951
Addition	3,967	2,517	2,303	647
Termination ⁽¹⁾	(1,571)	(3,459)	(2,536)	(2,529) ⁽²⁾
At the end of the year/period	<u>6,126</u>	<u>5,184</u>	<u>4,951</u>	<u>3,069</u>

Notes:

- (1) Represents dealers that did not make any purchase from us during a financial year/period and dealers that were terminated for other reasons, including mutual agreement.
- (2) Only represents the status as at 31 May 2023, and dealers that make any purchase from us during the remaining period of the year ending 31 December 2023 will not be counted as termination for such financial year.

As at 31 May 2023, our relationship with our dealers lasts for approximately one year. Our dealers are mainly engaged in sales in designated areas in China. The number of dealers decreased during the Track Record Period primarily as a result of our efforts to continuously streamline our dealer base. Among others, we focused on retaining dealers that make relatively frequent and sizable purchases. As a result of our efforts, the revenue per dealer increased from RMB496,331 in 2021 to RMB633,835 in 2022, and further increased from RMB342,950 for the five months ended 31 May 2022 to RMB398,832 for the five months ended 31 May 2023. During the Track Record Period and up to the Latest Practicable Date, there was no material breach of the agreements by our dealers and accordingly, we had not terminated our relationship with any broiler dealer due to such reason. During the Track Record Period and up to the Latest Practicable Date, there were no material disputes between us and the dealers.

BUSINESS

The table below sets forth the movement of deposits we received from broiler dealers for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at the beginning of the year/period	1,944	776	2,117	1,531
Inflow	409	1,755	161	152
Outflow	(1,576)	(413)	(747)	(150)
Balance at the end of the year/period	776	2,117	1,531	1,533

During the Track Record Period, a small portion of broiler dealers were required to pay a deposit (保證金) that ranged from RMB1,000 to RMB10,000. As at 31 December 2020, 2021 and 2022 and 31 May 2023, the balance of deposits remained relative stable at RMB0.8 million, RMB2.1 million, RMB1.5 million and RMB1.5 million, respectively. The deposits may not be used to settle the purchase price, and will be refunded to the dealers upon completion of the agreement. We may forfeit the deposits upon dealers’ breach of our rules, such as where the dealers fail to settle payment upon collection of broilers. During the Track Record Period, there had not been occurrence of such incidents and accordingly, we did not forfeit any deposit from dealers.

Our broiler dealers only pay deposit if they enter into an exclusive sales agreement with us. There were 2.0%, 2.1%, 2.2% and 2.5% of our broiler dealers paid deposit for 2020, 2021, 2022 and the five months ended 31 May 2023, respectively.

Deposits from dealers only contributed to a relatively small portion of our deposits received during the Track Record Period. For details, please refer to the section headed “Financial Information – Current Assets and Current Liabilities – Accruals and Other Payables” in this document.

BUSINESS

We typically entered into dealership agreements with our dealers for the sales of our yellow-feathered broilers and chicks. The key terms of our dealership agreements generally include the following:

- Term: Generally one year.
- Designated distribution regions and/or channels: Dealers are not subject to restrictions on distribution regions and/or channels.
- Sales target and reward plan: Dealers are not subject to mandatory sales targets. To incentivise certain dealers, we generally provide rebates of no more than 1% of the contract fee per broiler to dealers that meet specified sales targets.
- Minimum purchase volume: Certain dealers for our broilers are required to purchase a minimum purchase volume from us. For 2020, 2021, 2022 and the five months ended 31 May 2023, dealers that were subject to minimum purchase requirement contributed to 8.9%, 6.5%, 6.3% and 9.9% of our revenue from the sales of yellow-feathered broilers. We have the right to terminate our relationship with dealers that fail to meet such requirement but do not typically enforce it given the term of only one year in general. For 2020, 2021 and 2022, 41, 25 and 29 dealers failed to meet such requirement, and such dealers contributed to 4.0%, 2.2% and 4.1% of our revenue from the sales of broilers, respectively. In line with our general practice, we did not terminate any of these dealers for failing to meet the minimum purchase volume.
- Pricing policy: We set the price at which we sell products to dealers based on market conditions.
- Termination: If the dealer breaches certain material terms or fails to meet the minimum purchase amount, we may terminate the dealership agreement.

Our relationships with dealers for our chicks and yellow-feathered broilers are characterised as seller and buyer relationships, which do not grant us control over their operations or inventories. As we sell our broilers to dealers outright, we do not have a policy on the geographical distribution of our dealers, and we do not impose restrictions on the appointment of sub-dealers or on the resell price. According to the Frost & Sullivan Report, it is a norm in China’s breeding and farming industry that breeding and farming enterprises sell broilers to dealers outright and do not impose restrictions on the onward distribution by dealers. To our best knowledge, the dealers resell our products primarily to wholesale markets, supermarkets or canteens. Once our products are sold to the dealers, we recognise the sales and the ownership and risks related to the products will be transferred to the dealers. In case of their failure to sell the products subsequently, dealers will have no right of recourse against us after their acceptance of the relevant products. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge and belief of our Directors, all our broiler dealers are Independent Third Parties.

BUSINESS

Customers for Ancillary Products Segment

Our customers for ancillary products are mainly trading companies and feed manufacturers. All payments are made via online bank transfer, and the credit term is generally within seven to 30 days.

Return Policy

We do not have a return policy. Our customers are generally not allowed to return our products after acceptance of the products. During the Track Record Period and up to the Latest Practicable Date, our Directors confirmed that we did not receive any material complaints and did not make any material refund.

Major Customers

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 period. For each of the years/periods 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.

The table below provides details of our top five customers during the Track Record Period:

For the year ended 31 December 2020

Rank	Customer ^(Note)	Background	Location	Products purchased from us	Revenue (RMB'000)	% of our total revenue	Year of commencement of the business relationship	Settlement method	Credit term
1	Customer A	Pig dealer	PRC	Pigs	202,874.0	2.5%	2013	Bank transfer	N/A
2	Customer B	Pig dealer	PRC	Pigs	128,122.7	1.6%	2018	Bank transfer	N/A
3	Customer C	Pig dealer	PRC	Pigs	128,087.8	1.6%	2019	Bank transfer	N/A
4	Customer D	Pig dealer	PRC	Pigs	126,032.9	1.5%	2016	Bank transfer	N/A
5	Customer E	Pig dealer	PRC	Pigs	113,939.8	1.4%	2017	Bank transfer	N/A
Total					699,057.2	8.6%			

BUSINESS

For the year ended 31 December 2021

Rank	Customer ^(Note)	Background	Location	Products purchased from us	Revenue (RMB'000)	% of our total revenue	Year of commencement of the business relationship	Settlement method	Credit term
1	Customer F	Farm operator	PRC	Pigs	314,988.8	3.2%	2020	Bank transfer	N/A
2	Customer G	Pig dealer	PRC	Pigs	241,458.0	2.4%	2020	Bank transfer	N/A
3	Customer D	Pig dealer	PRC	Pigs	164,149.3	1.7%	2016	Bank transfer	N/A
4	Customer A	Pig dealer	PRC	Pigs	146,466.0	1.5%	2013	Bank transfer	N/A
5	Customer H	Feed manufacturer and farm operator	PRC	Pigs	128,216.6	1.3%	2017	Bank transfer	N/A
Total					995,278.7	10.1%			

For the year ended 31 December 2022

Rank	Customer ^(Note)	Background	Location	Products purchased from us	Revenue (RMB'000)	% of our total revenue	Year of commencement of the business relationship	Settlement method	Credit term
1	Customer G	Pig dealer	PRC	Pigs	511,568.7	3.4%	2020	Bank transfer	N/A
2	Customer I	Pig dealer	PRC	Pigs	479,405.2	3.2%	2021	Bank transfer	N/A
3	Customer J	Pig dealer	PRC	Pigs	283,230.2	1.9%	2018	Bank transfer	N/A
4	Customer K	Slaughter house	PRC	Pigs	271,477.0	1.8%	2021	Bank transfer	N/A
5	Customer L	Slaughter house	PRC	Pigs	245,958.4	1.6%	2019	Bank transfer	N/A
Total					1,791,639.5	11.9%			

For the five months ended 31 May 2023

Rank	Customer ^(Note)	Background	Location	Products purchased from us	Revenue (RMB'000)	% of our total revenue	Year of commencement of the business relationship	Settlement method	Credit term
1	Customer G	Pig dealer	PRC	Pigs	423,465.3	6.7%	2020	Bank transfer	N/A
2	Customer I	Pig dealer	PRC	Pigs	187,917.6	3.0%	2021	Bank transfer	N/A
3	Customer M	Pig dealer	PRC	Pigs	172,494.5	2.7%	2023	Bank transfer	N/A
4	Customer K	Slaughter house	PRC	Pigs	136,372.0	2.1%	2021	Bank transfer	N/A
5	Customer L	Slaughter house	PRC	Pigs	111,935.1	1.8%	2019	Bank transfer	N/A
Total					1,032,184.5	16.3%			

Note:

Member entities of the same group are represented on a consolidated basis as a single customer.

BUSINESS

Pricing

During the Track Record Period and up to the Latest Practicable Date, our products were not subject to any price control regulations by the PRC governmental authorities. Our pricing for pig and poultry products varies by product, in particular:

- *Market hogs.* We adopt daily pricing with reference to major factors such as prevailing market conditions, prices set by slaughtering companies and wholesale meat markets, our current inventory and prediction of future market conditions, policy trends and epidemic situation.
- *Breeding pigs and market piglets.* We generally adopt monthly pricing with reference to factors such as the prevailing market conditions, the current purchase prices of our major customers, the quality of our breeding pigs, geographical distribution, quantity, and our breeding pig inventory.
- *Yellow-feathered broilers and chicks.* We adopt daily pricing for yellow-feathered broilers. Commodity DOCs are priced three days before the sale. Parent Stock DOCs are priced uniformly throughout the year. The major factors for pricing include the prevailing market conditions, output volume, internal and external supply in the market, low and peak consumption seasons, consumption habits, epidemics and other factors. Chicks that are sold externally are priced uniformly as stipulated in the contract.
- *Ancillary products.* We adopt monthly pricing for our ancillary products with reference to factors such as the cost per tonne of our products, loss rate, packaging cost, processing cost, biosecurity cost and any adjustments to our cost calculations.

LOGISTICS AND TRANSPORTATION

Generally, our customers are responsible for transportation of the products we sell them. We are sometimes responsible for transporting our products to customers depending on the products and sales contracts. During the Track Record Period, we outsourced most of our product transportation to logistics service providers that are Independent Third Parties. As at 31 May 2023, we had 200 external logistics service providers.

Our transportation arrangements with third party logistics providers allow us to reduce capital investment and save us from having to develop and maintain our own large-scale logistics system. Outsourcing such services also allows us to avoid bearing most of the risks associated with the transportation and delivery of our products. During the Track Record Period and as at the Latest Practicable Date, we did not experience any material delays or improper handling of our products by logistics providers that would have a material adverse impact on business operations, nor suffer from any shortage of logistics services and material rise in transportation costs. The current logistics service market provides us with sufficient options of alternative logistics service providers that can provide similar terms as those provided by our existing logistics service providers.

BUSINESS

BRAND AND MARKETING

Our fundamental marketing strategy is to provide safe and quality products to our customers. We also adopt diversified brand promotion strategies to continuously increase the brand influence and popularity of our products, in particular:

- *Pig segment.* Our major marketing channels include participation in large-scale animal fairs and exhibitions, sponsorship of various conferences, online advertising, offline advertising (such as on high-speed road signs and wall advertisements), publication of various promotional materials and promotional items (such as feature articles on our WeChat public account).
- *Poultry segment.* We promote our yellow-feathered broilers and chicken breeders through various advertising channels, including poultry industry magazines (such as Poultry Raising and Poultry Disease Prevention (《養禽與禽病防治》)), offline advertising such as sponsoring community tasting events and influential conferences (such as China Animal Agriculture Association (中國畜牧業協會), National Chicken Culture Promotion Alliance (國雞文化推廣聯盟)).

SUPPLIERS, RAW MATERIAL AND INVENTORY

Raw material procurement

During the Track Record Period, our raw materials mainly included (i) feed, (ii) feed ingredients, such as corn, soybean meal, and other by-products, and (iii) veterinary medicines and vaccines. We adopt a centralised procurement strategy. The majority of our raw materials used by our Group are purchased in bulk by the headquarter to leverage economies of scale and enhance quality control. We have entered into strategic cooperation framework agreements with important partners, with terms ranging from six months to two years. Our supply agreements with general suppliers last for six to 12 months. The credit term typically ranges from ten to 180 days.

Feed and feed ingredients procurement

We adopt strict measures to select quality and stable suppliers of feed and feed ingredients to control food safety in upstream processes. We have established a supplier admission system and maintain a list of qualified suppliers. We conduct preliminary screening, lab-testing on samples and on-site inspection before admitting a supplier into the list. We conduct annual performance evaluation of our suppliers based on their product quality and service standards.

We have developed and maintained supplier management and control measures across our operations. We require feed suppliers to implement the same management and control standards as those at our feed mills. We have a dedicated department that supervises feed suppliers through spot inspections and regular on-site inspections and have implemented rules and procedures covering various aspects of the feed production.

BUSINESS

We have established a comprehensive raw material evaluation, raw material acceptance and raw material processing system. The supplier shall provide the required certification documents for each batch of raw materials delivered. Samples of raw materials are sent to our laboratory for inspection upon arrival. The inspector inspects the samples based on certain nutritional and sanitary indicators, and the person in charge of quality control communicates with the purchasing department based on the inspection results and issues an inspection report. When the delivery is completed, the purchasing department provides relevant documents and reports to the finance department for settlement.

The purchasing manager prepares monthly and weekly feed purchasing plans and submits them to the purchasing department. The purchasing department formulates a purchasing strategy according to the weekly purchasing plan and market conditions. Then, through inquiries, price comparisons and negotiation with qualified suppliers, the purchasing department finally forms and submits a purchasing application for approval and signs a procurement contract.

Procurement of veterinary medicines and vaccines

Our animal healthcare products purchasing department reviews the suppliers of veterinary medicines and vaccines annually and determines the qualified suppliers list. We qualified suppliers to submit tenders for products we require, and select the most cost-effective products to be included in our procurement catalogue. We enter into annual framework agreements with product suppliers listed in the procurement catalogue. Our breeding subsidiaries formulate monthly veterinary medicines and vaccine procurement schedules and submit them to the animal healthcare products purchasing department for review.

Major Suppliers

For 2020, 2021, 2022 and the five months ended 31 May 2023, our purchases from the top five suppliers were RMB1,369.9 million, RMB1,814.4 million, RMB2,752.1 million and RMB1,461.1 million, respectively, accounting for 25.6%, 22.1%, 24.6% and 28.1% of our total purchase of products and services. For the same period, our purchases from the single largest supplier accounted for 6.1%, 6.3%, 6.4% and 7.3% of our total purchase of products and services. 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.

BUSINESS

For the year ended 31 December 2020

Rank	Supplier ⁽¹⁾	Background	Location	Products supplied to us	Purchase amount (RMB'000)	% of our total Year of purchase of products and services relationship		Settlement method	Credit term
							of commencement of the business		
1	Supplier A	Feed manufacturer	PRC	Feed	324,014.9	6.1%	2018	Bank transfer	30 days
2	Supplier B	Feed manufacturer	PRC	Feed	289,440.8	5.4%	2018	Bank transfer	30 days
3	Supplier C	Feed manufacturer	PRC	Feed	278,790.1	5.2%	2018	Bank transfer	30 days
4	Supplier D	Feed manufacturer	PRC	Feed	267,958.1	5.0%	2018	Bank transfer	30 days
5	Tequ Husbandry ⁽²⁾	Feed manufacturer	PRC	Feed	209,722.2	3.9%	2016	Bank transfer	30 days
Total					1,369,926.1	25.6%			

For the year ended 31 December 2021

Rank	Supplier ⁽¹⁾	Background	Location	Products supplied to us	Purchase amount (RMB'000)	% of our total Year of purchase of products and services relationship		Settlement method	Credit term
							of commencement of the business		
1	Supplier B	Feed manufacturer	PRC	Feed	517,580.3	6.3%	2018	Bank transfer	30 days
2	Tequ Husbandry ⁽²⁾	Feed manufacturer	PRC	Feed	376,738.4	4.6%	2016	Bank transfer	30 days
3	Supplier D	Feed manufacturer	PRC	Feed, raw materials	346,489.9	4.2%	2018	Bank transfer	7-30 days
4	Supplier C	Feed manufacturer	PRC	Feed	297,203.9	3.6%	2018	Bank transfer	30 days
5	Supplier E	Feed manufacturer	PRC	Feed	276,346.0	3.4%	2019	Bank transfer	7-30 days
Total					1,814,358.5	22.1%			

BUSINESS

For the year ended 31 December 2022

Rank	Supplier ⁽¹⁾	Background	Location	Products supplied to us	Purchase amount (RMB'000)	% of our total Year of purchase of products and services relationship		Settlement method	Credit term
						of the business commencement			
1	Tequ Husbandry ⁽²⁾	Feed manufacturer	PRC	Feed	717,649.0	6.4%	2016	Bank transfer	30 days
2	Customer H	Feed manufacturer, farm operators	PRC	Feed	663,094.0	5.9%	2016	Bank transfer	30 days
3	Supplier B	Feed manufacturer	PRC	Feed	589,652.5	5.3%	2018	Bank transfer	30 days
4	Supplier D	Feed manufacturer	PRC	Feed, raw materials	430,557.2	3.9%	2018	Bank transfer	7-30 days
5	Supplier A	Feed manufacturer	PRC	Feed	351,146.8	3.1%	2018	Bank transfer	30 days
Total					<u>2,752,099.5</u>	<u>24.6%</u>			

For the five months ended 31 May 2023

Rank	Supplier ⁽¹⁾	Background	Location	Products supplied to us	Purchase amount (RMB'000)	% of our total Year of purchase of products and services relationship		Settlement method	Credit term
						of the business commencement			
1	Supplier D	Feed manufacturer	PRC	Feed, raw material	380,403.4	7.3%	2018	Bank transfer	7-30 days
2	Customer H	Feed manufacturer, farm operators	PRC	Feed	359,741.1	6.9%	2016	Bank transfer	30 days
3	Supplier B	Feed manufacturer	PRC	Feed	290,477.4	5.6%	2018	Bank transfer	30 days
4	Tequ Husbandry	Feed manufacturer	PRC	Feed, raw material	253,464.6	4.9%	2016	Bank transfer	30 days
5	Supplier F	Feed manufacturer	PRC	Feed, veterinary drug	177,043.0	3.4%	2018	Bank transfer	30-180 days
Total					<u>1,461,129.5</u>	<u>28.1%</u>			

Notes:

- Member entities of the same group are represented on a consolidated basis as a single supplier.
- Tequ Husbandry is a PRC company, which was owned as to 94.6% by Sichuan Tequ, a connected person of our Company, as at the Latest Practicable Date.

BUSINESS

Overlapping of Customers and Suppliers

During the Track Record Period, to the best knowledge and belief of our Directors, (i) certain member entities of our top five suppliers, being Suppliers A, B, D and F, Customer H, and Tequ Husbandry, were also our customers; and (ii) save for Customer H, none of the member entities of our top five customers was our supplier. We procured feed from these supplier-customers and sold (i) feed ingredients to Suppliers A, B and D for their feed production, (ii) breeding pigs and piglets to Customer H for their farm operation and (iii) market hogs to Tequ Husbandry for their internal consumption.

For 2020, 2021, 2022 and the five months ended 31 May 2023, purchases from the member entities of our top five suppliers and customers, with which we had both sales and purchases, accounted for 19.6%, 14.5%, 18.0% and 17.0% of our total cost of sales, and our sales to them accounted for 0.6%, 0.4%, 0.2% and 0.2% of our total revenue, respectively. During the same periods, the gross profit margin for our sales to these member entities of our top five suppliers and customers were 4.2%, 7.0%, 9.5% and 21.3%, respectively. The table below sets forth the gross profit margin for our sales to these member entities of our top five suppliers and customers for the periods indicated:

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	%	%	%	%
Supplier A	2.7	4.6	18.7	22.7
Supplier B	13.7	7.2	13.3	16.1
Supplier D	5.0	8.4	4.5	35.7
Supplier F	–	–	–	34.9
Customer H	–	–	30.5	24.5
Tequ Husbandry	16.0	2.3	11.7	18.3

According to the Frost & Sullivan Report, it is common that leading enterprises in the breeding and farming industry operate across multiple segments across the entire value chain, and it is a norm in the breeding and farming industry that upstream and downstream enterprises along the value chain, such as feed manufacturers and breeding and farming enterprises, transact with each other as suppliers and customers.

Negotiations of the terms of our sales to and purchases from these companies were conducted on an individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other. Our Directors confirmed that all of our sales to and purchases from these companies were conducted in the ordinary course of business under normal commercial terms and on arm’s length basis.

BUSINESS

Hedging

Since February 2021, in order to hedge the risks of price fluctuations of raw materials including soybean meal, soybean oil, corn and wheat, we started to purchase financial derivative instruments. Since pig futures were launched in China in January 2021, we have also started to utilise financial derivative instruments to hedge risks of fluctuations in the selling prices of pigs. According to the Frost & Sullivan Report, we are among one of the first batch of Chinese pig breeding companies to utilise pig futures to hedge risks of fluctuations in the selling prices of pigs, and we have established one of the first Chinese delivery houses for pig futures. As the pig future trading market in China matures gradually, we may hedge pig prices to mitigate risks in fluctuations in selling prices of pigs when we determine market conditions are appropriate. We usually enter into transactions using derivative financial instruments when (a) we forecast that the selling prices of pigs will decrease; or (b) the current selling prices of pigs are at a relatively high level which we consider it a good opportunity for us to lock-in the profits.

We use a combination of futures, and options to hedge our production and operation activities. Our hedging activities are mainly conducted through our futures contracts. We use hog, corn futures and options, soybean meal futures to hedge price risks such as decreasing hog prices and rising raw material prices. To mitigate our risk exposure, we mostly purchase futures and options products which enable us to sell our market hogs products at a fixed price in future to hedge against the price dropping of a small portion of our pig products.

Futures contracts

We recorded derivative assets of nil, RMB38.7 million, nil and RMB16.1 million and derivative liabilities of nil, RMB0.3 million, RMB0.4 million and RMB3.5 million in respect of our futures contracts as at 31 December 2020, 2021 and 2022 and 31 May 2023, respectively.

The futures contracts are standardized contracts, which typically contain the following material terms. The minimum units of change for hog futures, soybean meal futures and corn futures are RMB5 per ton, RMB1 per ton and RMB1 per ton respectively. The price limit, which is the maximum price range permitted for the futures contract per trading session, for hog futures is 8% of the settlement price of the previous trading day and the minimum trading margin, which is the minimum deposit we are required to deposit with the futures commission merchant in connection our trading of futures contracts, is in general 8% of the value of the relevant futures contract, which is the product of the holding position and the daily settlement price of the futures contract. In respect of the closing and settlement of futures contracts, ways of settlement include buying at opening position, selling at opening position, selling at closing position, early settlement, and settlement at maturity.

BUSINESS

Options contracts

We recorded derivative liabilities of nil, nil, RMB2.0 million and RMB22.2 million in respect of our option contracts as at 31 December 2020, 2021 and 2022 and 31 May 2023, respectively. The decrease in the market value of our options contracts as at 31 May 2023 was primarily caused by the decrease in pig prices. A summary of the salient terms of our outstanding options contracts as at 31 May 2023 pursuant to which we sold options in hog futures, is as follows:

Salient terms	Description
Effective Date	March to May 2023
Settlement Date	May to June 2023
Total Market Value as at 31 May 2023	RMB(19.33) million

A summary of the salient terms of our outstanding options contracts as at 31 May 2023 pursuant to which we held options in feed ingredients futures, is as follows:

Salient terms	Description
Effective Date	April to May 2023
Settlement Date	August to October 2023
Total Market Value as at 31 May 2023	RMB(2.92) million

Price Fluctuation Management

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

Pig

- Conduct market survey to collect market information on pigs: we have set up a market research department to focus on the collection and research of market information for market hogs and breeding pigs, and to understand industry-related information including the price fluctuation of pigs. After a comprehensive analysis of the market information, the market research department will release sales strategies every month, which will provide the sales department with guidance on market prices for market hogs and breeding pigs. The sales department will adjust the timing of the sales according to the sale strategies suggested by the market research department. In addition, we make adjustments to our pig production plans in response to the fluctuation in market prices of its pig products. For example, if we foresee a near term price increase in pig prices, we can reduce the current sales volume of pigs and keep pigs in stock for longer period of time. We can also increase the weight of the pigs by prolonging the fattening period; and if we foresee an increase in the pig prices in the next six months, we can increase the stock volume of our pigs by increasing the stock volume of piglets in our production. We can either reduce the external sales of our piglets or by purchasing more piglets from other pig producers;

BUSINESS

- Bidding platform sales: we sell pigs through the Dekon Group Pig Selling System (德康集團生豬銷售系統) by way of bidding. Our customers can bid and order our pigs on the platform according to their needs. We set a minimum purchase price for our pigs on our Dekon Group Pig Selling System every day. The bidder with the highest bidding price wins the bid. We can get a sense of whether the minimum price we set on the selling system is too high or too low by comparing the volume of pigs we intend to sell on the system with the actual sales volume on the system for that day. If we fail to sell all of the pigs we intend to sell on the system, then we will lower the minimum price on the system the next day. Through the sales on our bidding platform, we can get feedback on market demand and prices in a timely manner to ensure that the group can obtain higher sales revenue;
- Contract with key customers: in order to ensure the smooth sales, our sales department will enter 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. The contract usually specifies annual minimum purchase quantity. We have the right to terminate our relationship with such customers that fail to meet such requirement but we do not typically enforce it given the term of only one year in general. We did not terminate any of these customers for failing to meet the minimum purchase volume during the Track Record Period. The sales price is usually the weighted average unit price on the our Dekon Group Pig Selling System for the day when orders are placed. When the market price falls and the customers demand on our bidding platform is low, the contracted sales with our key customers can ensure we will continue to sell our pigs to key customers; and
- We use a combination of futures and options to hedge the pig price fluctuations. Please see “– Hedging” for details.

Broiler

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. For example, when our sales department predicts the following month’s market will be better than this month’s, the sales will be reduced for this month and postponed to next month. Otherwise, the sales plan for this month will be increased. The postponement of sales of broilers would not cause any delay in delivery of products to our customers as there is no pre-sales for broilers. The broilers are sold and delivered to our customers at the same time.

BUSINESS

Feed

We have 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 to hedge the feed price fluctuations. Please see “– Hedging” for details.

Inventory

Our inventory mainly includes feed and feed ingredients, veterinary medicines and vaccines and inventory commodities. In view of the perishable nature of most inventories, we seek to strike a balance between maintaining flexibility of our operations at an appropriate inventory level and avoiding unnecessary waste of excess inventory. We maintain strict inventory control and regularly review inventory to identify slow-moving, obsolete, or depreciated inventories. We have implemented detailed warehousing procedures, such as first-in first-out inventory management practices, batch accounting for consumable assets, timely records, proper labelling and regular inventory taking. We manage our inventory based on expected demand, production estimates for the next period, seasonality, existing inventory levels, and prevailing market rates of raw materials. For more information, please refer to “Financial Information – Discussion of Certain Key Statement of Financial Position Items – Inventories”.

QUALITY CONTROL AND FOOD SAFETY

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

Quality Control of Raw Material Procurement

For quality control of our raw material procurement, please refer to the paragraph under “– Suppliers, Raw Material and Inventory – Raw material procurement”.

Quality Control of Feed Production

For quality control of our feed production, please refer to the paragraph under “– Production – Feed Production”.

BUSINESS

Quality Control of Pig Production

In the process of pig breeding and farming, we have adopted the following strict quality control and biosecurity measures to reduce the risk of disease introduction and spread and to ensure the health and quality of pigs:

Biosecurity measures

In order to continue the prevention and control of African Swine Fever, we strictly implement the following biosecurity measures:

- *Site selection of pig farms.* We develop and implement strict biosecurity specifications for pig farm site selection, including terrain, separation of roads for entry and exit, and straight-line distance from dangerous areas (other farms, slaughter plants, biosafety disposal areas, garbage dumps, public roads).
- *Equipment and personnel protection.* We adopt a four-level decontamination circle outside the pig farm, including (i) first-level decontamination at the initial cleaning point/food material disinfection point, (ii) second-level decontamination at the standard decontamination centre/pre-storehouse/off-site personnel isolation point, (iii) third-level decontamination at the pre-disinfection point of the pig farm, and (iv) fourth-level decontamination at the gate of the pig farm. We also adopt the five-level protection circle inside the farm with decontamination points at isolation area, living area, production area, pig house, and environmental protection and biosafety disposal area to ensure strict disinfection and isolation management and the one-way biosecurity flow of people, vehicles, logistics, pigs, etc. Both our own farms and family farms are equipped with multiple peripheral and internal biosecurity equipment.
- *Infection stress testing.* We monitor the infection stress testing in the areas surrounding the pig farms in order to detect early warning of infection risk in the surrounding environment. Through real-time tracking and investigation of the disease of pig farms and farm owners in areas surrounding our pig farms, virus detection and monitoring of personnel, vehicles, and materials on the pig farms, we comprehensively assess the risk of infections and make adjustments to the biological safety level according to the assessment results and prepare an early warning plan for epidemic prevention and control.
- *Disease control measures.* 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 spread of the disease.

BUSINESS

Disease cleansing

The key to pig herd management lies in isolation and purification of breeding pigs. We formulate corresponding purification plans for our pig farms based on local investigations of different diseases, adopt strict biological safety measures, immune preventive measures, pathogenic testing, immune antibody monitoring, and achieve disease purification by weeding out infected animals and through separate breeding of separate herds. 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 pigs.

Pig herd monitoring

We have designed and deployed a laboratory system based on the regional distribution of our pig farms. Laboratories are assigned different levels based on their functions, and there are standards for the construction and operation of laboratories at each level. Laboratories are equipped with pathology, serology and other detection technologies. We formulate a pig herd health monitoring plan for different pig herds to monitor the overall antibody level and pathogen prevalence of the pig herd.

Quality Control of Poultry Production

In the poultry production process, we have adopted the following strict biosecurity and quality control measures to reduce the risk of disease introduction and spread, and to ensure the health and quality of the chicken flock:

Biosecurity measures

- *Breeding farm site selection and planning.* We start with site selection to perform a comprehensive assessment of the chicken flocks, including water quality assessment, air assessment, and pathogen infection risk assessment. In terms of chicken house construction, we strictly follow: (i) bio-safety requirements, which include measures that impede the spread of pathogenic microorganisms, (ii) allocation of chicken houses based on the feeding requirements of small, medium, and large chickens or chicken flocks of different breeds, and (iii) orientation of chicken houses to ensure good ventilation and other aspects in planning and construction.
- *Environmental control.* We comprehensively upgrade the environmental control equipment of the chicken house to stabilise air quality and temperature in the chicken house and reduce the risk of disease. In particular, we carried out a comprehensive environmental control transformation of the hatchery, and the slight adjustment of various parameters allows us to create a stable incubation environment, which plays a very important role in the stability of the quality of the chicks. We monitor the microorganisms in the hatchery environment every month to prevent pathogenic bacteria from being brought into the broiler farms and reduce the

BUSINESS

incidence of diseases. We also strengthen water quality management and purification by sampling the amount of microorganisms in water against benchmarks every month to prevent pathogenic bacteria from passing through orally to chickens. We perform cleaning of the weeds around the chicken house regularly and strictly prohibit littering of vaccine bottles, dead chickens, and garbage.

- *Immunisation management.* We formulate immunisation procedures according to different seasons and regions and strictly manage immunisation operations to ensure that vaccine immunisation is in place. Meanwhile, we established a laboratory for each subsidiary to monitor antibodies and evaluate the effectiveness of immunity.
- *Management systems for personnel and disinfection.* Pursuant to our Management Measures on Poultry Farm Epidemic Prevention, we implement strict disinfection management measures, personnel and vehicle management, medication management, isolation, broiler sales management, and biosafety management. Specialised personnel are designated to conduct inspections on each subsidiary every month to ensure strict compliance with the standards. In terms of disinfection, we have specialists who evaluate various disinfection procedures and optimise the disinfection procedures to ensure effective disinfection.
- *Other control measures.* We strictly prohibit bringing any non-local poultry products into the chicken breeder farm. It is strictly forbidden to visit the chicken houses at will, especially the management personnel responsible for the diseased chicken flock. In principle, the arrangement of all personnel should be carried out in the order from small chicken, medium chicken, to big chicken. If there are arrangements to check sick chicken, healthy chickens shall be checked before the sick chickens.

Disease cleansing

To raise healthy chickens, we start with healthy chicks. We have reduced the level of germ-derived disease pathogens in our chicks, such as leukaemia, salmonella, mycoplasma, etc. The positive rate of leukaemia pathogens and salmonella in our chicks has reached a very low level. 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 poultries.

Medicine residue monitoring

We strictly implement the medicine withdrawal period management system. All chickens must reach the medicine withdrawal period before sampling for medicine residue testing. We have established a special medicine residue testing system that regularly trains and evaluates the execution of testing personnel to ensure the accuracy of execution and stability of testing. In addition, we pay close attention to the updates of residue detection methods and projects from relevant government departments and the industry, and update our medicine residue

BUSINESS

detection methods in a timely manner. The staff of our production department must provide the medicine residue test report, the status of the medicine withdrawal period of the chickens, the status of the feed withdrawal period, and the sales staff may market the chickens only after all the criteria are met.

Traceability System

We have established a complete quality traceability system for our pigs and poultry products to help us track the flow of products. We can trace the use and the suppliers of procured chicks, feed, vaccine and medicines via the information system.

INFORMATION SYSTEM

Pig Farming Platform

Our “Pig Farming Platform” employs a range of advanced technologies, including image, video, and acoustic feature recognition technology, intelligent sensor, Internet of Things, cloud computing and big data technology, to automate and facilitate various workflows across our production process, which include:

- *Feeding.* The platform uses big data and AI technology to record status, including ages, growth stage and oestrus rate of individual pigs, and generate feeding instructions to the staff accordingly.
- *Induction and Mating.* The platform leverages image, video and acoustic feature recognition technology and thermal imaging to monitor the oestrus cycles of pigs and tracks and analyses historical production information to generate recommendations on mating and insemination.
- *Disease monitoring.* The platform monitors health conditions of pigs by tracking metrics including their heart rate, breathing rate and body temperature to identify pigs with symptoms of diseases and alerts the relevant staff of any abnormalities in a timely manner.

BUSINESS

EMPLOYEES

As at 31 May 2023, we had 8,670 employees, all of which are located in the PRC. The table below sets out the breakdown of our employees by function as at the same date:

Functions	Number of employees
Production	6,773
Finance, human resources and administration	706
Sales and marketing	312
Research and development	147
Others	732
Total	8,670

We value educational background when it comes to the recruitment of employees. Our employees have higher than average educational achievement than the industry norm. As at 31 May 2023, 30.7% of our employees held associate degrees, 17.7% held bachelor’s degrees and 1.8% held master’s degrees.

Employee remuneration package includes salary, bonus and allowance. In accordance with PRC laws and regulations, we participate in social insurance schemes operated by relevant local government authorities and maintain mandatory pension contribution schemes, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance for employees. We also pay housing provident fund contributions for our employees. During the Track Record Period, we did not make full contributions to the social insurance and housing provident fund for our employees. For details, please refer to “– Legal Proceedings and Compliance – Compliance – Non-compliance Incidents”. We provide continuous education and training courses to our employees to improve their skills and develop their potential. We have also adopted evaluation programmes based on which employees can receive feedback. We promote strong employee relationships by providing various employee benefits and personal development support.

We have established a labour union in accordance with applicable PRC laws. We do not need to comply with any collective bargaining agreement. During the Track Record Period and up to the Latest Practicable Date, we did not encounter any material labour disputes or claims.

INTELLECTUAL PROPERTY

As at 31 May 2023, we held a variety of intellectual properties including 352 trademarks, 194 patents, 8 computer software copyrights and 4 domains in the PRC. For details, please refer to the section headed “Appendix VI – Statutory and General information – Further information about our business” in this document.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any intellectual property rights infringement that had a material impact on us. We may be subject to claims from third parties alleging that we are infringing on their intellectual property rights.

ENVIRONMENT AND SOCIAL MATTERS

We are committed to adhering to “the path of green and sustainable development” and becoming a highly competitive green enterprise. We will embrace our environmental, social and governance responsibilities and build a “real multi-win, win-win, sustainable and efficient ecological model for agriculture and animal husbandry development”. Among others, we have been working on the following ESG areas:

- establishing a clear ESG governance structure and ESG functions, formulating ESG policies and promoting the implementation of ESG management;
- engaging the Board and our management in the management of risks and opportunities in relation to ESG and climate-related matters, and the formulation and adoption of risk mitigation measures;
- improving the food safety management system along the entire value chain, regulating and controlling the use of veterinary medicine, and strictly carrying out food safety inspection;
- expanding the “planting and farming cycle model” (種養循環模式), and helping farmer owners with planting by utilising the waste from livestock and poultry to simultaneously achieve economic, ecological and social benefits;
- improving the environmental management system, optimising the environmental protection treatment practices, and making every effort to reduce the environmental impact of breeding and farming;
- emphasising occupational health and safety, and continuously improving safety production performance with the goal of ensuring safety production with “zero accidents”.

We have adopted ESG measures that are in line with the industry. This is achieved mainly through the following practices: (i) we comply with the regulatory policies and guidance for our industry. Under the same regulatory framework, our measures in managing food safety, environmental protection and comprehensive utilisation of resources are largely in line with that of the industry; and (ii) in the course of formulating our ESG-related management measures, we have benchmarked ESG governance structure, ESG strategy, ESG issues and key ESG indicators against those of our major peers, and established ESG governance structure, formulated a list of material ESG issues, which primarily include pollutant management, energy efficiency enhancement, climate change, occupational health and safety, ethics and

BUSINESS

integrity management, and a statistical mechanism for ESG indicators with reference to the common industry practice. From time to time, we revisit the effectiveness and results of the above mentioned practices and make adjustments accordingly.

ESG Governance

We understand that risks associated with ESG and climate change may affect our business. With reference to ESG-related listing requirements and advanced industry practice, we have established an ESG governance system which requires the Board to participate in the formulation of ESG strategies and goals and coordinate with the management to jointly identify and manage ESG-related risks and opportunities. In order to continuously enhance our ESG performance, we have engaged a professional ESG consultant to assist us in making necessary improvements and preparing independent ESG reports with reference to the international ESG-related standards to comprehensively report on our ESG practices in 2022.

ESG Governance Structure

Our Board is responsible for supervising and engaging in ESG matters, identifying and assessing our ESG risks and opportunities, studying and formulating our ESG strategies, policies and goals, monitoring and evaluating our ESG practice, reviewing ESG reports and assessing the effectiveness of our ESG efforts. The Group has established an ESG Working Group under our management, which is responsible for maintaining close communications with the Board. Mr. Yao Hailong, the leader of the ESG Group, and Mr. Zeng Min, the deputy leader, are also our directors, who will keep the Board promptly informed of and participate in discussions on key ESG issues. The ESG Group shall be responsible for various related duties including organising the preparation of the working plan on ESG issues, identifying and controlling ESG-related risks, and leading the preparation of ESG reports, and shall submit the related issues as proposals to the Board for consideration and discussion. The Board shall make decisions with feedbacks and guidance. The ESG Working Group shall report their work to the Board with a working report at least once a year.

ESG Policy and System

We are dedicated to building a comprehensive set of ESG policy and system. We have formulated an ESG policy (“ESG Policy”) in accordance with the “Environmental, Social and Governance Reporting Guidelines” set out in Appendix 27 to the Listing Rules, which sets out our ESG governance structure, ESG strategy and target formulation procedures, ESG risk management mechanism, ESG key performance indicators and target management and control mechanism, and ESG information disclosure mechanism. We have formulated key policies and prepared system documents for various aspects, including risk management, business ethics, safety, environmental protection, biological safety, and human resources, to ensure that we effectively implement ESG practises in all fronts.

BUSINESS

ESG Issues

We have identified ESG issues that are closely linked to our daily operations and have formulated a list of material ESG issues to evaluate key issues that have significant impacts on our operations.

<u>Environmental</u>	<u>Social</u>	<u>Governance</u>
<ul style="list-style-type: none"> ▪ Pollutant management ▪ Integrated resources utilisation ▪ Energy efficiency enhancement ▪ Water resources management ▪ Animal welfare and biodiversity ▪ Land resources management ▪ Climate change 	<ul style="list-style-type: none"> ▪ Protection of labour rights and interests ▪ Occupational health and safety ▪ Staff development and training ▪ Supply chain management ▪ Responsible sourcing ▪ Food safety and quality ▪ Product traceability system ▪ Biosafety prevention and control ▪ Customer service and communications ▪ Marketing and product labelling ▪ Rural revitalisation support 	<ul style="list-style-type: none"> ▪ Corporate governance ▪ Risk Management ▪ ESG governance ▪ Digital transformation ▪ Ethics and integrity management

The process through which the Group identifies ESG issues includes: (i) identifying stakeholders that will be directly affected by the operation of the Company, including Shareholders, regulators, employees, customers, suppliers, and local communities and other industry participants; (ii) engaging an ESG consultant to provide analysis on backdrops, ESG standards and guidelines and special issues regarding animal husbandry that are applicable to sustainable development of the Group, and suggesting preliminary ESG issues to the Group; (iii) the ESG Working Group reviewing and confirming the ESG issues based on factors such as business strategies of the Group and concerns of stakeholders. Meanwhile, the ESG Working Group has also participated in materiality analysis of the issues, and has made disclosures as highlights in this document based on results of the analysis. The Group will also consider key ESG issues in developing its working plans on ESG issues, so as to make achievements in key areas among the ESG issues as soon as possible.

BUSINESS

ESG Strategy and Targets

We focus on key ESG issues and determine our strategies and key action items accordingly.

Focus areas	Key action items
Food safety and quality	Strictly complying with laws and regulations related to food safety; establishing a multi-level food safety management system to ensure food safety.
Occupational health and safety	Abiding by the principle of “people-oriented, safe development” through continuous improvement in the occupational health and safety assurance system and prevention and avoidance of potential accidents.
Integrated resources utilisation	Enhancing the cycling of planting and farming of “breeding-biogas fertiliser-ecological agriculture”; recycling animal manure resources.
Climate change	Actively monitoring carbon emission; enhancing efficiency of energy utilisation; supporting the national “dual carbon goals” while exploring low-carbon farming.

The Group has set the following targets:

- (i) In 2023, we will continue to maintain food safety with “zero accidents” and “zero recalls”.

This target aims at improving the Group’s food safety management, so as to ensure that no significant safety hazard will be posed to the consumers. For 2020, 2021, 2022 and the five months ended 31 May 2023, the Group did not experience any food safety related incident. To achieve the target, the Group will make full use of laboratory resources to conduct food safety testing, actively cooperate with external organisations to conduct product sampling and testing, and strengthen its efforts in training and of our employees on biosafety and food safety. In the foreseeable future, it will not cause material impact on the operation of the Group.

BUSINESS

- (ii) In 2023, we will strive to achieve the safety management target of zero fatality and zero injury.

This target aims to strengthen the Group’s occupational health and safety management to protect the health of employees. For 2020, 2021, 2022 and the five months ended 31 May 2023, the Group’s fatality rate was 0.040%, 0.025%, 0.022% and 0%. To achieve the above targets, the Group will strengthen the safety-related regime, enhance the identification and prevention of potential hazards, and conduct employee safety education and training to strive to achieve the target of the project. In the foreseeable future, it will not cause material impact on the operation of the Group.

- (iii) In 2023, we will achieve innocuous treatment rate of 100%. This target aims at strengthening the Group’s environmental protection management, so as to ensure that solid wastes will be properly disposed of and no material impact will be caused to the environment. For 2020, 2021, 2022 and the five months ended 31 May 2023, the Group has achieved an innocuous treatment rate of 100% (i.e., sick and dead pigs and poultries being processed harmlessly by using professional methods for disposal to eliminate potential health hazards). To achieve the target, the Group will strictly implement waste-related standards and management procedures. In the foreseeable future, it will not cause material impact on the operation of the Group.

- (iv) We plan to achieve a decrease in energy consumption intensity by 2.8% from 2022 to 2025, and a decrease in greenhouse gas emissions intensity by 2.8% from 2022 to 2025.

This target aims at improving our Group’s performance in energy and carbon emission, so as to support the national strategy of “dual carbon” and enhance its ability to adapt to climate changes. The Group has not set targets for reducing energy consumption and GHG emissions by volume, because total volume will increase as the Group expands its operations, and intensity objectives allow the Group to set emissions reduction targets while accounting for economic growth. Given the existing statistics of the Group, our indicators and targets related to GHG emissions only cover Scope 1 and Scope 2. During the period from 2020 to 2022, the Group’s energy consumption intensity (energy consumption per unit of products produced) and GHG emission intensity (GHG emission per unit of products produced) have shown a decreasing trend. The target is expected to be achieved as the Group has further improved its energy mix and increased the proportion of clean energy. To achieve the target, the Group will moderately increase the investment in energy equipment such as biogas utilisation and photovoltaic power generation, but the relevant initiatives will not cause material impact on the operation of the Group.

BUSINESS

ESG-Related Risk Factors

The Group recognises complexity and diversity of ESG risks, and has established the process of ESG risks identification and management that require its departments and subsidiaries to highlight environmental and social risks during the course of their operations, identify events that may cause effects and the corresponding risk factors, and adopt appropriate risk mitigation measures. For key areas such as safety production and environmental protection, the Group clearly specifies levels, classification standards, flows of reporting and criteria of punishment for these events/incidents. The Group has also exercised effective control on the causes of ESG risks through various measures such as specific trainings and hazard screening.

In assessing the materiality of ESG risk factors, the Group has taken aspects and extents of impacts of the issues on the daily operation of the Group as a major consideration. These impacts include but are not limited to impairment and depreciation of assets, increase/decrease in operating costs, increase/decrease in sales revenue and enhancement/impairment of reputation. These impacts may have further effects on realisation of our strategies and financial performance.

<u>Risk factors</u>	<u>Potential impact</u>	<u>Actions taken</u>
Climate change	Physical risks (such as rainstorms, floods and other extreme weathers) may lead to loss of breeding facilities and biological assets and trigger secondary disasters such as environmental pollution, occupational safety and other incidents. Transition risks including “limiting electricity and limiting production” measures and rising energy prices may also lead to higher energy expenses or business interruptions.	Strengthen monitoring and early warning of extreme weathers, and prepare updated emergency response plans for disasters; improve our energy mix, and promote synchronisation to the grid with methane-fired generation; explore possibilities of developing photovoltaic power generation projects in breeding farms.
Use of Water Resources	Strengthened control by the government over the total amount and intensity of water use may result in the increase in water consumption quota or higher water use costs.	Strengthen monitoring and analysis of water use, strengthen efforts in assessing the fulfilment of water-saving targets; increase the use of wastewater by reusing purified wastewater for various techniques such as spraying deodorants.

BUSINESS

Risk factors	Potential impact	Actions taken
Waste & pollution	Improper or delayed treatment or leakage of odour, biogas and wastes biogas slurry may cause adverse impacts on surrounding environment, resulting in complaints and environmental penalties.	All breeding farms are equipped with diversion system that segregates rainwater from wastewater, which segregates pollutants from wastewater for resource utilisation; by adopting various measures such as “source control, process control and end treatment”, we have reduced the extent of environmental impact of odors; ensure innocuous treatment of sick and dead livestock and poultry is fully implemented and resource utilisation of livestock dung.
Antibiotics misuse	Incompliant use of antibiotics and veterinary drugs may have an impact on public health and subject us to regulatory penalties and consumer resistance.	Strictly follow management on ear tags for epidemic prevention and the medicine withdrawal period management system; complete testing of drug residues; improve the pig health test plan together with testing of drug residues.
Work conditions	Our production process involves risks such as poisoning and suffocation in confined spaces, biogas safety, fire, and mechanical injury that may cause occupational hazards. Failure to improve work conditions or a low awareness among employees of protection that led to a lack of protective gears may cause occupational hazards.	We conduct testing and routine monitoring of factors of occupational diseases and hazards on a regular basis, provide adequate protective gears for workers and employees, and conduct annual health check of employees; we enhance occupational safety and protection through various means such as hierarchical management, hazard screening and trainings for occupational hazards.

BUSINESS

Risk factors	Potential impact	Actions taken
Business ethics and compliance	Violation of business ethics by our employees or suppliers may damage our business interests and image.	We improved the anti-corruption and compliance systems, by which our employees are not allowed to obtain or receive unjust enrichment from suppliers and offering bribes to the related personnel; we provided corruption and anti-bribery trainings to enhance the awareness of ethics among employees and suppliers.

Environmental Protection

We are dedicated to complying with the applicable laws and regulations in relation to environmental protection. For details, please refer to the section headed “Regulatory Overview – Environmental Protection”.

We actively take preventive measures and strengthen environmental protection management to minimise pollution and damage to the environment. We have established the relevant policies, guidelines and manuals to standardise the environmental protection management systems and the treatment process and procedures of pollutants and emissions. For 2020, 2021, 2022 and the five months ended 31 May 2023, we incurred costs related to environmental protection of RMB148.6 million, RMB184.3 million, RMB97.8 million and RMB50.3 million, respectively.

Environmental Management Measures

Our breeding and farming activities involve impacts on the atmosphere and environment, surface water and groundwater, impacts of solid wastes on the environment, and impacts on the environment in terms of soil and noise. We have established an environmental management system. By leveraging on an advanced environmental management and organisational structure, we have implemented a grid-based management system for headquarter personnel and a three-level management system for environmental protection for regional companies. We have also established a professional and experienced environmental protection team.

We strictly follow relevant laws and regulations such as Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), Measures for Public Participation in Environmental Impact Assessment (《環境影響評價公眾參與辦法》) and Classified Administration Catalogue of Environmental Impact Assessments for Construction Projects (《建設項目環境影響評價分類管理名錄》), pursuant to which third-party institutions are engaged for all the construction projects to prepare the environmental impact reports that identify key environmental issues and environmental impacts, contain comprehensive preventive measures and emergency proposals for environmental risks, and have been approved and granted administrative licensing by the local environmental authorities. For 2020, 2021, 2022 and the five months ended 31 May 2023, we completed and announced our environmental impact assessment reports for all of our construction projects. The details of

BUSINESS

environmental impact assessment include: types and sources of pollution sources; impacts of changes in wastewater, waste gas, noises and solid wastes on the surrounding environment; feasibility and reliability of adopted pollution prevention and control measures; plans of reusing solid wastes and disposing of hazardous waste; plans of controlling total pollutant emissions and preventive measures and emergency responses for environmental risks.

An example is No.1 Lede-Lechang fattening farm of Rongxian Dekon Food Co., Ltd. (榮縣德康食品有限公司榮縣樂德樂昌一場育肥場). With a total investment of RMB300 million, the designed output volume of pigs of the project is 150,000 pigs (or an annual stock volume of 75,000 pigs). We have fully assessed the environment impacts of the project at the planning stage and have made an investment of RMB10.8 million for environmental protection for relevant expenses including the establishment of treatment facilities for waste gas pollution and water pollution, as well as prevention and control of underground water pollution and soil pollution. According to the environmental impact reports issued by third-party institutions as approved by local environmental authorities, we have adopted various environmental measures for the project, by which the discharge of pollutants meets the standards and the environment risks are put under control. The details are as follows:

Key impacts on the environment	Monitoring and treatment	Conclusion of Environmental Impact Assessments
Impact on environment in terms of atmosphere	Ammonia (NH ₃) and hydrogen sulphide (H ₂ S) generated from pig houses are approximately 5.475 tonnes/year and 0.465 tonnes/year, respectively. Through scientific design of diets, EM preparation and dry manure cleaning process, spraying deodorants and greening around factory areas, the emissions reduced to 1.4235 tonnes/year and 0.0093 ton/yea, respectively. During the Monitoring Period, the existing concentration of NH ₃ and H ₂ S did not exceed the reference limits under Technical guidelines for environmental impact assessment – Atmospheric environment (《環境影響評價技術導則大氣環境》). The total biogas generated from the project was 14.4546 tonnes/year and was used solely as fuel for daily life and heating for barns.	The impacts of the pollutants discharged to the atmosphere are insignificant, and will not exceed the atmosphere environment limit in regions and sensitive areas when they are discharged on normal conditions. The development of the project will not result in changes in atmospheric environment in the regions. Accordingly, the effects of the project on the atmospheric environment is acceptable.

BUSINESS

Key impacts on the environment	Monitoring and treatment	Conclusion of Environmental Impact Assessments
Impacts on environment in terms of surfacewater	The total wastewater generated from the project is approximately 93,747.5 tonnes/year (mainly waste water for farming). Following Solid-liquid separation and treatment by sewage treatment system, the sewage will be used solely for greening of the project site and irrigation of the surrounding lands. No sewage will be discharged. A land of 17,500 mu will be provided around the site for the consumption of fecal waste, meeting the minimum requirement of 15,000 mu under Technical guidelines for assessment of land elimination capacity to livestock and poultry wastes (《畜禽糞污土地承載力測算技術指南》).	The treated wastewater that meets the standards stipulated by the “Discharge Standards of Pollutants for Livestock and Poultry Breeding Industry” (《畜禽養殖業污染物排放標準》) and Farmland Irrigation Water Quality Standards (《農田灌溉水質標準》) relating to dry farming will be used for greening of the project site and irrigation of surrounding areas, and the impacts on surface water would be minimal.
Impacts on environment in terms of solid wastes	The total amount of pig manure generated from the project is approximately 49,275 tonnes/year, and the total number of death as a result of diseases is about 75 pigs/year. Following dry-wet separation and manual cleaning, pig manure will be transported to the third parties for use as raw materials of organic fertilisers; dead pigs will be treated through innocuous treatment with high-temperature biological fermentation and will be used as agricultural fertilisers.	The treatment of solid wastes is traceable. Measures for storage and treatment of solid waste treatment will be fully implemented to prevent further pollution to the environment, so as to minimise the impacts on the environment.

BUSINESS

Key impacts on the environment	Monitoring and treatment	Conclusion of Environmental Impact Assessments
Impacts on the environment in terms of ground water	The monitoring and testing results of the quality of ground water by professional institutions have demonstrated that all the indicators meet Class III limit of groundwater in the Standard for groundwater quality (GB/T14848-2017).	We adopted source control, measures to prevent seepage in various areas, monitoring and test of underground water, and emergency response measures, to minimise the impacts on underground water.
Impacts on environment in terms of soil	The monitoring and testing results of the quality of soil by professional institutions have demonstrated that all the indicators meet the Class II standard for land under Table 1 in the Soil environmental quality Risk control standard for soil contamination of agricultural land (《土壤環境質量農用地土壤污染風險管控標準》) (GB15618-2018) and that the soil where the project locates at is in good condition.	Measures of preventing seepage under environment assessment requirements for the project. With reasonable deployment and various measures such as those applied for preventing seepage, the impacts on the soil in the region would be insignificant.
Impacts on environment in terms of noise	Monitoring points set up by professional institutions at the boundary have demonstrated that the noise has met class II standard of the Environmental quality standard for noise(GB3096-2008)(day time≤60; night time≤50).	Noises will be blocked or reduced by adopting low-noise facilities, conducting regular maintenance, establishing sound-deadening at pig houses and building walls, so as to ensure the noise at the boundary will meet the Emission standard for industrial enterprises noise at boundary. (《工業企業廠界環境噪聲排放標準》) and minimise the impacts on the environment.

BUSINESS

Environmental protection requirements for family farms

We include family farms in our scope of environmental protection management and have implemented environmental protection guidance system for family farms. The system comprehensively manages the environmental impact of family farms in various aspects, including project site selection and layout, management of environmental protection equipment and facilities, daily environmental protection supervision, and environmental protection training and publicity. We designate safety and environmental protection specialists to inspect and guide family farms in relation to safety and environmental protection. If we identify any issues, we may undertake a range of actions including issuing notices of criticism, and ordering the relevant family farms to limit production and rectify the issues within a prescribed period.

Energy Consumption

In 2020, 2021, 2022, the Group’s energy consumption has shown a rising trend, which was mainly due to a rapid expansion in our production scale in terms of output volume of market hogs. In which: the Group’s total energy consumption increased by 53.2% and 18.4% in 2021 and 2022 respectively compared to the previous year. The increase in the Group’s energy consumption mainly came from the use of electricity and natural gas, while the use of fossil energy such as diesel, gasoline and coal remained stable or showed a decreasing trend.

	For the year ended 31 December			For the five months ended
	2020	2021	2022	31 May 2023
Intensive farming – Energy				
Consumption (thousand MWh)	249.8	467.7	437.1	255.4
Liquefied petroleum gas (tonnes)	25.6	36.9	36.5	12.3
Natural gas (ten thousand cubic metres)	672.2	1,577.7	1,251.9	737.8
diesel (tonnes)	568.9	513.4	502.5	314.6
Gasoline (tonnes)	3.7	5.8	3.7	15.1
Coal-fired (tonnes)	403.3	467.2	388.3	361.3
Power acquired from external parties (thousand MWh)	167.6	287.6	292.9	169.3
Family farms – Energy Consumption				
(thousand MWh)	1,000.3	1,447.9	1,830.9	866.4
Liquefied petroleum gas (tonnes)	331.6	319.7	248.5	85.5
Natural gas (ten thousand cubic metres)	36.0	55.6	148.0	1,299.2
diesel (tonnes)	9,010.0	13,206.1	16,951.1	4,983.8
Gasoline (tonnes)	655.9	875.8	869.8	427.4
Coal-fired (thousand tonnes)	14.8	22.7	27.4	7.2

BUSINESS

	For the year ended 31 December			For the five months ended 31 May
	2020	2021	2022	2023
	Power acquired from external parties (thousand MWh)	790.6	1,138.0	1,440.2
Total Energy Consumption (thousand MWh)	1,250.1	1,915.6	2,268.0	1,121.8
Energy consumption per unit of products produced (MWh/tons of product)	3.8	3.5	2.8	2.7

Note: Given the large number of our family farms, we have not gathered energy consumption statistics for all of them. Instead, we gathered pilot energy consumption statistics in some family farms to measure the energy consumption of our family farms. The data may deviate from actual levels.

The Group plans to achieve a decrease in energy consumption intensity (energy consumption per unit of products produced) by 2.8% from 2022 to 2025. To achieve this target, the Group will continue to improve its energy mix, promote synchronisation to the grid with methane-fired generation and accelerate the development of photovoltaic power generation projects in breeding farms.

GHG Emission

With reference to GHG Protocol, the Group classified its greenhouse gas emissions into the following scopes: Scope 1: direct greenhouse gas emissions; Scope 2: Indirect greenhouse gas emissions; and Scope 3: other indirect greenhouse gas emissions.

For direct greenhouse gas emissions (Scope 1), the emissions are mainly generated from burning and emissions of fossil fuels such as gasoline, diesel and natural gas for the consumption by the Group. The Group has been striving to fully utilise the biogas generated from anaerobic reaction during wastewater treatment of livestock manures and wastewater, so as to reduce the use of fossil fuels.

For indirect greenhouse gas emissions (Scope 2), the emissions are mainly generated from the consumption of power acquired from external parties. The Group attaches great importance to energy use efficiency, and has fully identified movements in energy consumption and abnormal fluctuations through statistics and monitoring of energy consumption, thereby managing power consumption and the corresponding indirect greenhouse gas emissions in a reasonable manner.

BUSINESS

For other indirect greenhouse gas emissions (Scope 3), the emissions are mainly generated from employee travel, upstream transportation and delivery and downstream transportation and delivery. It is difficult to audit such emissions as they are mainly generated from upstream and downstream value chain. The Group did not make statistics and auditing for these emissions. In the future, the Group expects to conduct emissions and measurements on GHG emissions (Scope 3) that are accountable in the Group’s business operations to help the Group better manage its GHG emissions.

In 2020, 2021, 2022, our total GHG emissions (Scope 1 and Scope 2) showed an upward trend, mainly because the Group further expanded our scale of pig and poultry breeding and farming, and it was generally in line with our business development.

As at 31 May 2023, the Group did not aware of any standard or industry benchmark related to greenhouse emissions in the animal husbandry. The emissions as mentioned above were measured by the Group based on its energy consumption and had not been audited by the consultancy.

	For the year ended 31 December			For the five months ended
	2020	2021	2022	31 May 2023
Total Greenhouse Gas Emissions (thousand tons of CO ₂ equivalent)	636.2	957.8	1,152.2	535.9
Greenhouse Gas Emissions (Scope 1) (thousand tons of CO ₂ equivalent)	79.6	129.5	145.3	78.3
Greenhouse Gas Emissions (Scope 2) (thousand tons of CO ₂ equivalent)	556.7	828.3	1,006.9	457.5
Intensive farming – Greenhouse Gas Emissions (thousand tons of CO ₂ equivalent)	114.8	204.3	200.1	116.4
Family farms – Greenhouse Gas Emissions (thousand tons of CO ₂ equivalent)	521.4	753.4	952.1	419.5
GHG emission per unit of products produced (kg of CO ₂ equivalent/tons of product)	1,921	1,746	1,422	1,278

BUSINESS

Water Resources Management

Our water resources are mainly consumed as drinking water for animals, water for feed processing, water for washing livestock and poultry pens as well as water consumed by employees in factory areas. The major sources of our water supply are municipal tap water, surface water and groundwater. In the intensive farming process, over 90% of water consumption is municipal tap water and the remaining is from surface water and groundwater. We have installed individual water meters in each key area to monitor water usage and have taken various water-saving measures starting at the source. All breeding farms are equipped with diversion system that segregates rainwater from wastewater and their sewage treatment system. We use drinking water facilities with water-saving functions to avoid pigs wasting water, adopt high-pressure washing systems at pens to reduce wastewater generation, and enable the recycling of water resources by reusing purified wastewater for wastewater and waste gas treatment process.

Waste Water Management

We have established a water quality testing and reporting system to effectively monitor the real-time status of sewage treatment at each site. To ensure normal and stable operation of the sewage treatment system, we regularly test water samples from faecal sewage and the effluent from the sewage system, collect and analyse the data, monitor the real-time status of sewage treatment and make timely adjustments and rectifications. We have full monitoring coverage of all environmental protection zones under the Group and carry out video surveillance of on-site environmental protection treatment to enable real-time monitoring.

Waste Gas Management

Our waste gas emissions, mainly being compound containing sulphur, nitrogen and oxygen and hydrocarbons, primarily come from the malodorous gases generated from pig houses, composting sites and sludge tanks. The Group strictly implements the Regulations on the Prevention and Control of Pollution from Large-scale Farming of Livestock and Poultry (《畜禽規模養殖污染防治條例》), the Discharge Standards of Pollutants for Livestock and Poultry Breeding Industry” (《畜禽養殖業污染物排放標準》), Odour Pollutant Discharge Standard” (《惡臭污染物排放標準》) and other relevant pollutant emission standards and local regulations, and optimise relevant processes and procedures to continuously improve the management of exhaust pollutants and promote the reduction or intensity reduction of exhaust emissions. By controlling the nutritional structure of feed and stocking density, cleaning and ventilating in a timely manner, and spraying deodorants etc., we are able to reduce waste gas emission and the impact of odour on the environment.

BUSINESS

Waste Management

Wastes produced in our operation are mainly manure generated in production, as well as the remains of sick and dead livestock and poultry. We strictly follows the “Discharge Standards of Pollutants for Livestock and Poultry Breeding Industry” (《畜禽養殖業污染物排放標準》) and other local regulations in the discharge of waste. We actively implement the “planting and farming cycle model” (種養循環模式) to achieve resources utilisation, reduction and ecological disposal of livestock and poultry manure by introducing the advanced biosafety disposal of waste. The model includes, upon meeting the standard, using the purified tail water from animal waste for farmland irrigation; using the manure residue after composting, fermentation and biosafety disposal as fertiliser or raw material of organic fertiliser; processing sick and dead poultry by biosafety disposal, and thereafter putting them together with manure residue for fermentation for transforming such into organic fertiliser. Please refer the section headed “Planting and Farming Cycle Model” for details.

Addressing Climate Change

The Group has made an assessment with reference to the recommendations given by the Task Force on Climate-Related Financial Disclosures (TCFD), and has actively identified and assessed the potential impacts of factors associated with climate on current and future periods, which will allow us to take comprehensive actions and measures to enhance our resilience against climate risks.

Types	Climate Factors	Descriptions	Duration-extent of the impact	Risk mitigation measures
Physical risk	Extreme weather events	Increase in frequency of disastrous weather such as typhoon, rainstorms, snowstorms and drought may cause a disruption of our operation and secondary disasters that result in various incidents such as personal safety and environment pollution.	Medium-high	We pay close attention to early warning of climate events, and prepare emergency plans and specific operating procedures for extreme climate events. We also conduct routine trainings and emergency drills

BUSINESS

Types	Climate Factors	Descriptions	Duration-extent of the impact	Risk mitigation measures
	Medium- and long- term natural disasters	Medium- and long- term natural disasters such as movements in rainfall and higher average temperature may have impacts on our business continuity and business costs or expenses. For example, control on temperature of a farming unit may cause a change in energy costs or expenses.	Long-term- medium	We track the Survey of Agro-Climatic Resources and Agro-climatic zones of the PRC, and assess the local climate conditions and the foundation of agro planting in planning and development of our new projects.
Transition risks	Demand for energy management and control	Any regional power outage or limiting electricity measures may result in a disruption of our operation or higher investment in transformation of energy facilities and maintaining costs.	Short-term-high	We fully utilise biogas resources around the sites and explore opportunities of developing photovoltaic power generation projects in the farming zones
	changes in market demand	As the concept of green consumption become popular, some consumers may have increasing demand for ingredients such as plant- based protein, which may have an effect on the sales of our meat products.	Long-term-low	We have been expanding our high-quality food processing business and enhance the layout of our whole food industry chain

Also, the Company is looking at the potential opportunities that may be brought about by climate changes, including: (i) increase in the proportion of clean energy and enhancement in energy efficiency may help reducing our operating costs such as energy expenses; (ii) climates changes such as an increase in heart resources in northern regions may have positive effects on

BUSINESS

growing of agricultural products. For example, it may help stabilise and reduce the prices of corns and soybean meal; (iii) emissions reduction and carbon sequestration promoted by government authorities may help better utilisation of the waste from livestock and poultry.

At present, the Group mainly adopts qualitative analysis method to analyse climate risks, and regards energy consumption intensity (energy consumption/products produced) and carbon emission intensity (greenhouse gas emission/products produced) as important management metrics to adapt to climate change. The details on the performance of the relevant metrics and targets are set out in the above.

Environmental Compliance Performance

We attach great importance to complying with laws and regulations in relation to environmental protection, including the “Water Pollution Prevention and Control Law of the PRC” (《中華人民共和國水污染防治法》), the “Atmospheric Pollution Prevention and Control Law of the PRC” (《中華人民共和國大氣污染防治法》), the “Regulation on the Administration of Pollutant Discharge Permits” (《排污許可管理條例》), the “Catalogue of Classified Management of Pollutant Discharge Permits for Stationary Pollution Sources (2019 Version)” (《固定污染源排污許可分類管理名錄(2019年版)》) and the Regulations on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry (《畜禽規模養殖污染防治條例》). Please refer to the section headed “Regulatory Overview – Environmental Protection” for details.

For 2020, 2021, 2022 and the five months ended 31 May 2023, we were not subject to any environmental protection administrative penalty that exceeded RMB1 million. We have also duly rectified the relevant incidents. Please refer to the section headed “– Legal Proceedings and Compliance – Compliance – Non-compliance Incidents” for details.

Planting and Farming Cycle Model (種養循環模式)

We advocate the harmonic unity of economic, ecological and social benefits. Through collectively leasing the idle lands from villagers in the nearby villages and towns, we provide such lands to the villagers in the area to conduct centralised planting. We also provide biogas slurry to villagers to jointly explore and build an ecological circular agricultural technology model combining planting and farming. This allows us to achieve a virtuous planting and farming ecological cycle of breeding pigs, planting rice with manure, and returning manure to the field, in order to reduce the impact on the environment while developing responsible and sustainable industry practices.

BUSINESS

Environmental Impact Management of Biogas Slurry Agricultural Irrigation

Before returning biogas slurry to agricultural fields for irrigation, we analyse the local environmental conditions, assess the types of local crops and the area of land consumption, and ensure the biogas slurry meets the strict requirements under in the “Discharge Standards of Pollutants for Livestock and Poultry Breeding Industry” (《畜禽養殖業污染物排放標準》), “Farmland Irrigation Water Quality Standards” (《農田灌溉水質標準》) and will not affect the groundwater in irrigation areas. We have also set up monitoring points for groundwater, surface water, and soil around the project and regularly observe the environmental quality around the sites in order to ensure that the operation of biogas slurry returning to the field will not pollute the surrounding environment. We also assess the effectiveness of biogas slurry fertiliser on soil fertility and agricultural planting by analysing the soil nutrient changes.

Active Promotion of Planting and Farming Cycle Model

We are dedicated to continuously create an environmentally friendly and sustainable planting and farming model, which is in line with the national agricultural and animal husbandry policy. As at 31 May 2023, we have established planting and breeding bases in many regions, including Jiangsu Regional Planting Base, Eastern Sichuan Regional Planting Base, northern regional base etc. We observe the national policy of accelerating the reduction of chemical fertilisers and pesticides to increase efficiency and improve the mechanism of chemical fertilisers and pesticides reduction, and realise resource utilisation by selling fermented dung to organic fertilizer factories. We are also preparing to build our own organic fertiliser factory to further promote the new development of the planting and farming cycle model.

We plan to select districts and counties that are suitable for the combination of planting and farming to implement the “Hundred Villages and Million Pigs (百村百萬)” project, which serves to break down the barriers between planting and farming, and promote the planting of green vegetables and fruits in areas where family farms are concentrated. Please refer to the section headed “– Our Business Strategy” for details.

Supporting Rural Revitalisation

In response to the “Opinions on Comprehensively Promoting Rural Revitalisation and Accelerating the Modernization of Agriculture and Rural Areas”(《關於全面推進鄉村振興加快農業農村現代化的意見》), we have actively integrated our development into the national rural revitalisation strategy and observe the guiding principle of “accelerating the construction of a modern farming system, protecting the basic production capacity of pigs, and improving the long-term mechanism for the stable and orderly development of the pig industry” to explore advanced development models for the livestock and poultry farming and planting industries.

BUSINESS

By leveraging our industrial advantages and rich resource, and by increasing our support for family farms, we have developed our core business into a pillar for rural revitalisation, helping local areas to effectively connect poverty alleviation with rural revitalisation strategy and promote region development. Meanwhile, we are committed to taking root in communities through community-based initiatives. By leveraging on the synergistic advantages of the industrial chain, we aim to stimulate the local economy and continue to contribute to rural revitalisation. In 2020, we were awarded the Advanced Private Enterprise of “Enterprise-Helping-Village” (「萬企幫萬村」) project targeted at poverty alleviation jointly issued by the All-China Federation of Industry and Commerce and the Office of the Leading Group for Poverty Alleviation and Development of the State Council. For details, please refer to the section headed “– Our Competitive Strengths – Mutually beneficial farming models with strong penetration and expansion capabilities, improving farming efficiency”.

Food Safety and Quality

Food safety and quality are our top priorities. Our food safety and quality assurance system covers the entire process of production, including farming and breeding, manufacturing, storage and sales. For 2020, 2021, 2022 and the five months ended 31 May 2023, we did not encounter any material food safety incidents.

Food Safety Inspection and Quarantine

To optimise and implement our system of food safety inspection and quarantine system, we abide by the laws and regulations in relation to food safety inspection and quarantine of animals. Please refer to the section headed “– Quality Control and Food Safety” for details.

Management of Use of Antibiotics

We comply with the relevant laws and regulations in relation to use of antibiotics and comprehensively standardise and control the use of antibiotics in the farming and breeding and production process. For details, please refer to the section of “Regulatory Overview – Establishment and Operation of Livestock and Poultry Farms”. We have set clear requirements: before bringing the breeding pigs to the market, all applicable national regulations shall be strictly followed with all required testing of drug residues completed and test reports properly filled. The medicine withdrawal period for antibiotics used in pigs shall be strictly implemented and pigs are not allowed to be sold in the market during the medicine withdrawal period. Banned drugs are prohibited throughout the production process. We conduct residue testing on pig urine to ensure the pigs are free from banned drugs and medicine residue before being released to the market. Only those passed the testing can be sold in the market. For example, according to our policy, there must not be any detectable level of antibiotics in the pigs.

BUSINESS

As at 31 May 2023, we had 36 laboratories at different levels equipped with advanced instruments and equipment such as fluorescent quantitative PCR instruments and automatic nucleic acid extraction instruments with the capabilities to screen more than 200 parameters. We have designed a pig health test plan based on factors such as region, season and herd structure to facilitate the general research on antigens and antibodies in herd, analysing the pattern of growth and decline of antigens and antibodies and the health of pigs as references for disease prevention and control, and immunisation and health care procedures.

Protection of Labour Rights and Interests

The gender and age composition of the Group’s employees are shown in the table below. For details of our employees, including their functions and academic qualifications, please refer to the section headed “Business – Employees”.

Indicators	For the five months ended 31 May
	2023
Number of employees (person)	8,670
Male employees (person)	6,081
Female employees (person)	2,589
Employees aged 18-29 (%)	42.0
Employees aged 30-49 (%)	48.1
Employees aged 50 and above (%)	9.9

The Group strictly complies with the Labour Law of the People’s Republic of China (《中華人民共和國勞動法》), the Labour Contract Law of the People’s Republic of China (《中華人民共和國勞動合同法》), the Labour Union Law of the People’s Republic of China (《中華人民共和國工會法》) and other laws and regulations. The Recruitment Management Regulations (《招聘管理辦法》) of the Group expressly stipulates that it is prohibited to hire personnel under the age of 18. The true age of employees shall be verified through information verification during the on-boarding process; forced labor and any form of discrimination (including but not limited to gender, ethnicity and religion factors) are prohibited. In the recruitment process, the Group adheres to the principle of gender equality, prohibits discrimination against women, focuses on the work ability of candidates, rather than factors such as gender, age, education background, and widely accepts school recruitment and social recruitment to recruit employees from different schools and with different educational backgrounds, to enhance the diversity of talents.

The Group attaches great importance to the career development of employees, has set up a dual-channel development path of management and professionalism, and strengthened the construction of talent echelon to promote the succession plan of cadres at all levels. The Group has established an employee incentive system covering the short, medium and long term, providing annual profit sharing plans, stock incentive plans, etc., to maximise the initiative, enthusiasm and creativity of all employees.

BUSINESS

The Group has established a comprehensive complaint and whistle-blowing channel, for anyone who finds any violations of employment practice of the Group to report the same through various methods such as telephone and email. The Group will also assess the compliance of employment policies through daily supervision by labor unions, regular audit inspections and human resources inspections. Since 2016, the Group has conducted an anonymous survey on organisational climate every July through the system, to understand and analyse the various needs of employees by asking 38 questions in eight major aspects, and urges the relevant group companies to rectify the confirmed problems.

Occupational Health and Safety

We abide by the regulatory requirements of the Chinese government on workplace safety and adhere to the principle of “prioritising safety, emphasising prevention and managing comprehensively”, and are committed to achieving safe production with “zero accidents”. We have established standards and procedures on safe production management and a comprehensive occupational health and safety production management system. We continuously improve our safety production performance to prevent and reduce the occurrence of accidents to safeguard the safety and health of our personnel along with the orderly production and operation. For 2020, 2021, 2022 and the five months ended 31 May 2023, we invested RMB12.2 million, RMB29.6 million, RMB35.0 million and RMB5.4 million in production safety.

We have identified the safety risks in the production and operation process, including fire, poisoning and suffocation, electric shock, vehicle injury, pig bites, falls, slips, and other injuries. In response to the above-mentioned risks, we have established a mechanism for safety hazard screening, which involves monthly safety inspections on breeding farms, safety hazard checks at each farm and monitoring of rectification progress on safety hazards. In order to standardise the management of safety incidents, reporting and assessment, we have established a set of standards to classify safety accidents into four severity levels. The disciplinary actions, such as penalties and year-end bonus deductions, against the directly responsible person, responsible management, and responsible leader are determined based on the severity of the accidents.

For family farms, the Group requires family farms to develop reasonable production plans and safety production systems under the premise of ensuring safety, to stop acts that violate safety production systems, regulations, and safety technical procedures. The Group has assigned a specific person in charge of supervising and inspecting unsafe factors in the farming process of the family farms and urging the family farms to rectify the problems found in a timely manner. At the same time, the person in charge provides daily safety production education and training, conducts safety inspection, hidden danger rectification and other management work.

BUSINESS

We require new recruits to pass a three-level safety training and learning assessment before they commence work. For existing employees, we provide production safety training and learning opportunities to ensure that they are equipped with the knowledge and skills required for safe operation, emergency rescue and contingency response. For 2020, 2021, 2022 and the five months ended 31 May 2023, our coverage of safety production training and practical emergency drills have maintained at 100%.

For 2020, 2021, 2022 and the five months ended 31 May 2023, we had three, two, two and zero employee fatalities, representing 0.040%, 0.025%, 0.022% and 0.0% of the total number of employees of each reporting period, respectively. Three of these incidents were purely accidental, caused by reasons including sudden deaths as a result of latent health conditions of the relevant employees. The remaining four incidents were caused by failure of the relevant employees in following our policies and guidelines, including (i) three counts of deaths from suffocation as a result of the relevant employees’ failure to undertake the protective measures as mandated in our guidelines with respect to working in a sealed space; and (ii) one count of death from falling from height as a result of the relevant employee’s opening of the elevator door without permission in breach of our prescribed measures. For 2020, 2021, 2022 and the five months ended 31 May 2023, we were not subject to any claim or penalty as a result of the above incidents.

We have conducted investigations on all employee fatalities and the cause of the respective incidents was either accidental or due to the breach of standard operating procedures by the relevant employees. While all matters have been handled with utmost care after the passing of the respective personnel, we have also conducted a thorough reform on the factors of occupational hazards. Along with the enhancement and strengthening of our work safety measures and policies, our work safety record has also been improved. Among others, we have established a production safety leading group and local execution subgroups to enhance the management and implementation of production safety across various levels in relation to the six aspects, namely (i) safety management mechanism; (ii) safety inspection; (iii) workplace safety measures; (iv) hidden danger identification and rectification; (v) safety training and (vi) employee health management. For 2020, 2021, 2022 and the five months ended 31 May 2023, we have seen a decreasing trend in our fatality rate and incidents caused by the above-mentioned failure of the relevant employees in following our policies and guidelines were non-recurring. We have enhanced our standards and guidelines on production safety with respect to safety risks including suffocation, fire and falling from height. We have also enhanced our training programmes to raise the safety awareness among our employees.

Animal Welfare and Biodiversity

We place strong emphasis on animal welfare and are committed to provide a reasonable and humane treatment to animals during our production, from farm design to actual operations. We employ a range of measures to ensure the healthy growth of animals in comfortable environments. These measures include: (i) environmental welfare, scientific design and construction of breeding farms, increased ventilation and temperature control measures, providing high-quality air for animals, preventing animals from being disturbed by mosquitoes

BUSINESS

and flies, preventing animals from cold and heatstroke to improve the comfort of the animals for example, our policy requires, among others, that (i) the living space per pig should be no less than 0.26 m²; (ii) the temperature should be maintained at between 18°C to 34°C; and the air ventilation should be maintained at between 0.3 m²/H/kg to 0.7 m²/H/kg, respectively; (ii) health welfare, for different strains of pigs and chicken, we reasonably formulate diets that meet their nutritional needs at different growth stages, ensure sufficient and clean drinking water supply and ensure healthy growth of animals; (iii) treatment welfare, our staff and farmers are strictly forbidden from treating the pigs roughly, all employees are required to get along with and care for pigs; (iv) psychological welfare, pig houses are equipped with facilities such as chain balls, tires and soil analogues for pigs to play, and we provide appropriate lighting and light music to make pigs feel comfortable.

At the planning and site selection stage, we follow the principles of not encroaching on forest land, animal habitats and nature reserves, and select sites away from water sources. At the construction stage, we conduct environmental impact assessment according to the law. According to the characteristics of the surrounding environment, we adopt measures such as setting up broad-leaved arbor greening around manure dumps and factory areas and cultivating forage grass around pig houses to reduce the impact on the land and ecological environment.

We are also dedicated to the protection and utilisation of local breeds of pigs and yellow-feathered broilers. Among others, we participated in the protection and commercialisation of genetic resources of the Neijiang black pigs and Hechuan black pigs. While backing up pig embryos, protecting breeds and developing the supporting lines for breeds selection, we also explore new pig hybrids by crossbreeding the Neijiang pigs and our own foreign-breeding pig varieties. Meanwhile, we are dedicated to the independent breeding of yellow-feathered broilers.

Supply Chain Management

The Group has formulated the Management Measures for Material Suppliers (《物資供應商管理辦法》) and the List of Qualified Suppliers (《合格供應商名錄》) to regulate the management of suppliers. As of 31 May 2023, the Group had a total of 1,643 suppliers, with 1,633 located in China and 10 located in overseas.

The Group proactively integrates the concept of sustainable development into the procurement process, and is committed to promoting suppliers to improve the comprehensive performance of quality, safety and environmental protection, so as to reduce the environmental and social risks of the supply chain. In the process of supplier qualification review, the Group divides the supplier selection indicators into three levels: the mandatory indicators (i.e. the suppliers' qualifications and materials supplied must meet the requirements of national laws and regulations, and who fails to meet any requirement at this level will be exclusive); the important indicators (including technological advancement, quality stability, safety assurance, safety and environmental protection of production); and the reference indicators (the supplier's financial status, service capability, industry influence, business reputation, etc.).

BUSINESS

The raw materials purchased by the Group are mainly feed, feed ingredients (such as corn, soybean meal and other by-products) and a small amount of veterinary drugs and vaccines. To improve the economy and environmental protection of hog production, the Group has precisely formulated the nutritional formula of hogs at different growth stages to reasonably reduce the annual feed consumption of each hog. To ensure the nutrition of hogs, the Group has required feed and raw material suppliers to ensure the quality of raw materials.

LICENSES AND PERMITS

Save as disclosed in the section headed “– Legal Proceedings and Compliance – Compliance – Non-compliance Incidents”, our PRC Legal Adviser confirmed that during the Track Record Period and up to the Latest Practicable Date, we had obtained material licenses and permits from relevant PRC authorities for our operation in the PRC, and such licenses and permits were valid as at the Latest Practicable Date. The following table sets forth the material permits and licences related to our business operation:

<u>Business Activities</u>	<u>License/Permit</u>	<u>Issuing Authority</u>	<u>Validity period</u>	<u>Expiry date</u>
Pig and yellow-feathered broiler breeding, and market piglet and yellow-feathered broiler production	Certificate for Production and Operation of Breeding Livestock and Poultry (種畜禽生產經營許可證)	Provincial, municipal or county level branch of the MARA and other local authorities ⁽¹⁾	Validity period unspecified ⁽²⁾	From August 2023 to July 2026 ⁽³⁾
Pig and yellow-feathered broiler farming	Certificate for Animal Epidemic Disease Prevention (動物防疫條件合格證)	Municipal or county level branch of the MARA and other local authorities ⁽⁴⁾	Validity period unspecified ⁽⁵⁾	Not applicable
Feed production	Feed Production Licence (飼料生產許可證)	Provincial, municipal or county level branch of the MARA	Five years	From December 2023 to July 2027 ⁽⁶⁾
Purchase of feed ingredients	Cereals Purchase Licence or Filing (糧食收購許可證或備案)	County level branch of the Development and Reform Commission (發展和改革委員會) and the Food and Strategic Reserves Administration (糧食和物資儲備局)	Validity period unspecified	Not applicable

BUSINESS

<u>Business Activities</u>	<u>License/Permit</u>	<u>Issuing Authority</u>	<u>Validity period</u>	<u>Expiry date</u>
Breeding of Parent Stock DOCs	National Certificate for New Breeds (Supporting Lines) of Livestock and Poultry (國家畜禽新品種(配套系)證書)	National Commission for the Livestock and Poultry Genetic Resources (國家畜禽遺傳資源委員會)	Validity period unspecified	Not applicable
Veterinary medicine operation	Veterinary Medicine Licence (獸藥經營許可證)	Provincial or County level branch of the MARA and County level branch of the Administrative Examination and Approval Bureau	Five years	From December 2023 to February 2028 ⁽⁷⁾

Notes:

- Other local authorities include the municipal or country level of the Administrative Examination and Approval Bureau (行政審批局), Mountain Eco-Livestock Development Center (山地生態畜牧業發展中心) and Bureau of Agriculture, Forestry, Water Affairs and Migration (農林水務和移民局).
- The Animal Husbandry Law of the PRC (《中華人民共和國畜牧法》), last amended on 30 October 2022 and implemented on 1 March 2023, no longer specifies the validity period of the Certificate for Production and Operation of Breeding Livestock and Poultry as three years. The validity period of certificates issued after 1 March 2023 would be subject to the decision of the Issuing Authority.
- Eight certificates will expire before 31 October 2023. There is no specified timeframe for submitting renewal applications pursuant to the relevant PRC laws and regulations. Based on our experience with local issuing authorities, they generally expect certificate holders to submit the renewal application within two weeks prior to the expiry date. As at the Latest Practicable Date, for the eight certificates which will expire between August 2023 to October 2023, we submitted or will submit the renewal applications two weeks prior to the respective expiry dates accordingly.
- Other local authorities include the municipal or country level branch of the Administrative Examination and Approval Bureau, Mountain Eco-Livestock Development Center (山地生態畜牧業發展中心) and Bureau of Agriculture, Forestry, Water Affairs and Migration (農林水務和移民局).
- We are subject to an annual report obligation despite there is no specified validity period.
- Pursuant to the relevant laws and regulations, a licence holder shall apply for the renewal six months prior to the expiry date of the licence.
- Pursuant to the relevant laws and regulations, a licence holder shall apply for the renewal six months prior to the expiry date of the licence. One of the licences held by us will expire before 31 December 2023. Such licence will expire in December 2023, and we do not plan to renew it as the subsidiary holding the licence will not conduct the business requiring the Veterinary Medicine Licence.

BUSINESS

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; during the same period, we ranked sixth among all pig providers in the PRC in terms of sales volume of pigs and third among all yellow-feathered broiler providers in the PRC in terms of sales volume of yellow-feathered broiler. 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 “– Our Competitive Strengths” above. For challenges and threat we encounter during our business operation, please refer to the section headed “Industry Overview”.

MAJOR AWARDS AND RECOGNITION

We have received some awards and recognitions in respect of our product quality, brand recognition and social contributions, including the key awards and recognitions set forth in the table below:

<u>Award/recognition</u>	<u>Award Year</u>	<u>Issuing Authority</u>
Chengdu Enterprise Technology Centre (成都市企業技術中心)	2020	Chengdu Municipal Bureau of Economic and Information Technology (成都市經濟和信息化局)
2020 Chengdu Top 100 Tertiary Enterprises (2020成都服務業百強企業), Chengdu Top 100 Private Enterprises (成都民營百強企業), Chengdu Top 100 Enterprises (成都百強企業), and Chengdu Top 20 Private Enterprises for Employment (成都民營企業就業20強)	2020	Chengdu Enterprises Confederation (成都企業聯合會), Chengdu Entrepreneurs Association (成都企業家協會), and Chengdu Enterprise Culture Association (成都企業文化協會)

BUSINESS

Award/recognition	Award Year	Issuing Authority
2020 Top 10 Ecology-empowered Platform Enterprises in Animal Husbandry and Feed Industry (2020 畜牧飼料行業十大生態型賦能平台企業)	2020	Organising Committee of China Animal Husbandry and Feed Technology and Economy High-level Forum (中國畜牧飼料科技與經濟高層論壇組委會)
Demonstration Forms for Livestock Farming Standardisation (畜禽養殖標準化示範場)	2020	MARA
“Thousands of Enterprises Helping Thousands of Villages” Targeted Poverty Alleviation Action Advanced Private Enterprise (“萬企幫萬村”精準扶貧行動先進民營企業)	2020	All-China Federation of Industry and Commerce and the Office of the Leading Group for Poverty Alleviation and Development of the State Council (國務院扶貧開發領導小組辦公室)
Sichuan Outstanding Enterprise of “Industrial Poverty Alleviation” (四川省“產業扶貧”優秀企業)	2020	Sichuan Animal Husbandry Association (四川省畜牧業協會)
Shennong China Agricultural Science and Technology Award, First Prize (神農中華農業科技獎一等獎)	2020-2021	MARA
Sichuan “Thousands of Enterprises Helping Thousands of Villages” Targeted Poverty Alleviation Action Advanced Collective (四川省“萬企幫萬村”精準扶貧行動先進集體)	2021	Leading group of the Sichuan “Thousands of Enterprises Helping Thousands of Villages” Targeted Poverty Alleviation Action (四川省“萬企幫萬村”精準扶貧行動領導小組)
Guangdong Seed Industry Science and Technology Innovation Competition Gold Star Award, Champion (廣東種業科創大比武「金星獎」冠軍)	2021	Department of Agriculture and Rural Affairs of Guangdong Province (廣東省農業農村廳)

BUSINESS

<u>Award/recognition</u>	<u>Award Year</u>	<u>Issuing Authority</u>
African Swine Fever Free Zone (非洲豬瘟無疫小區)	2021, 2022	MARA
National Livestock and Poultry Agriculture Constituent Enterprises (國家畜禽種業陣型企業)	2022	MARA
2022 Sichuan Top 100 Enterprises (2022四川百強企業), Sichuan Top Tertiary Enterprises (四川服務業百強 企業)	2022	Sichuan Enterprises Confederation (四川省企業 聯合會), Sichuan Entrepreneurs Association (四川省企業家協會)

RISK MANAGEMENT

With our business development and expansion, there are also increasing potential risks relating to our business. To identify, assess and control the risks which may hinder our business growth, we have formulated and implemented a risk management system to cope with various potential risks identified in our operation, including strategy risk, legal risk, operational risk, market risk, financial risk and credit risk. Our risk management system contains relevant procedures for the identification, analysis, classification, resolving and monitoring of various risks, as well as the reporting grade related to the risks identified in our operation. Each of the business departments and functional departments is responsible for identifying and assessing the risks relating to its business scope and implementing the risk management and internal control system.

Our audit committee is responsible for supervising the management in implementing the overall risk management and internal control system and assessing the risk management and internal control system. For details of qualifications and experiences of the members of our audit committee, please refer to section headed “Directors, Supervisors and Senior Management”.

For our measures against quality control and other risks, please refer to section headed “– Quality Control and Food Safety” above and “Financial Information – Market and Other Financial Risks”.

Investment Risk Management

We have adopted an investment management policy regarding the supervision and approval process for our investments in futures and derivatives products and wealth management products. For details, please refer to the section headed “Financial Information – Investment Risk Management”.

BUSINESS

INTERNAL CONTROL

The Board is responsible for ensuring that we maintain sound and effective internal controls to safeguard the Shareholders’ investments and our assets. We have adopted, or expect to adopt before the [REDACTED], a series of internal control policies, procedures and plans designated to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations, including the following:

- *Internal control manual.* We have formulated an internal control manual, which includes the corresponding systems and standards, flow charts, risk control matrix, etc. for key business procedures of our various business segments and elaborates on the risk and control points of the key procedures. Internal control standards for business operations are formed based on the above and executed and promoted via training on the internal control manual.
- *Authority system.* We have developed a manual of rights and responsibilities, which clearly specifies the authorised persons, conditions, scopes and limits, etc. for various posts involved in our internal controls. No organisation or individual is allowed to make any risk decision which exceeds the relevant limits of authority.
- *Internal audit.* Our internal audit department regularly monitors key controls and procedures in order to assure our management and Board that the internal control system is functioning as intended. The internal audit department is also responsible for monitoring the reporting management. The audit committee under our Board is responsible for supervising our internal audit function.
- *Compliance with the Listing Rules.* Our various policies aim to ensure compliance with the Listing Rules, including but not limited to the aspects related to corporate governance, connected transactions and securities transactions by our Directors.
- *Compliance adviser.* We have engaged Maxa Capital Limited as our compliance adviser to advise on our ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

INSURANCE

We consider our insurance coverage adequate and in line with the commercial practices in the PRC. Our insurance coverage in China primarily consists of property insurance, pig and yellow-feathered broiler farming insurance and employee related insurance. Our property insurance mainly covers our buildings, facilities and equipment. Our pig and yellow-feathered broiler farming insurance mainly covers the prices and deaths of our pigs and yellow-feathered broilers. Our employer related insurance mainly consists of contributions to or provisions of the employee pension insurance, work-related injury insurance, maternity insurance, unemployment insurance, medical insurance and housing provident funds as required by the PRC laws and regulations.

BUSINESS

IMPACT OF DISEASE AND EPIDEMIC

Impact of African Swine Fever

African Swine Fever is a fatal disease for pigs. In August 2018, China’s first African Swine Fever case was discovered in Northeast China and subsequently spread from north to south. In April 2019, all provinces, municipalities and autonomous regions in the PRC had reported African Swine Fever cases. As African Swine Fever is highly contagious, once an outbreak happens in one pig farm, all pigs on that pig farm would be disposed in extreme cases. By 2020, African Swine Fever had subsided compared with 2019. Since 2021, only sporadic African Swine Fever cases have occurred in certain provinces in China. Currently, there is no vaccine available on the market. We have adopted strict quality control and biosecurity measures to reduce the risk of introduction and spread of African Swine Fever. Please refer to the section headed “– Quality Control and Food Safety – Quality Control of Pig Production”.

The impact of African Swine Fever on our operation are set out below.

Demands for pigs and pork products. During the Track Record Period, the lagging effect of restocking pig herds led to a persistent shortage of pigs in the market, as it takes time for part of the restocked pigs to grow up. Furthermore, the government imposed restrictions on the transport of pigs to prevent and control African Swine Fever, resulting in an imbalance of supply and demand of pigs among regions. However, according to the Frost & Sullivan Report, the pork consumption in China increased steadily despite the impact of African Swine Fever during the Track Record Period, mainly as a result of pork being the primary protein source for Chinese consumers and the gradual recovery of the pig breeding and farming industry from African Swine Fever. For details, please refer to the section headed “Industry Overview – Pig Cycle” in this document. As a result of the above, the average selling prices of our breeding pigs, market hogs and market piglets generally decreased in 2021 as compared with those in 2020 due to (i) the relatively high average selling prices in 2020 and (ii) the disruption of supply and demand of pigs as a large number of pigs were disposed of as a result of the restriction on pig transportation due to outbreak of African Swine Fever. The prices of breeding pigs, market hogs and market piglets further dropped in 2022 as the outbreak of African Swine Fever was under control and more supply of pigs became available. Nonetheless, our sales volume of market hogs increased from 1.3 million heads in 2020 to 3.0 million heads in 2021 and further increased to 5.0 million in the same period in 2022. Our sales volume of market hogs further increased from 2.1 million heads for the five months ended 31 May 2022 to 2.7 million heads for the five months ended 31 May 2023. Please refer to the section headed “Financial Information – Key Factors Affecting Our Results of Operations and Financial Condition” in this document for details.

Demands for yellow-feathered broilers. During the Track Record Period, the demand for yellow-feathered broilers products remained relatively stable and was relatively unaffected by African Swine Fever.

BUSINESS

Operation of pig farms. We have taken measures to ensure our compliance with all applicable laws and regulations in relation to African Swine Fever and strengthened our measures to control African Swine Fever. For 2020, 2021, 2022 and the five months ended 31 May 2023, we incurred RMB140.4 million, RMB180.4 million, RMB97.2 million and RMB37.6 million, respectively, of expenses relating to strengthening of the biosecurity measures. This mainly represented the expenses on the procurement of extra disinfectants and the setup of additional sterilisation equipment. We managed to eliminate African Swine Fever’s route of transmission with enhanced biosecurity measures, such as implementing quarantine measures on our pig farms and disinfecting feed and materials coming in or out of our pig farms. We did not experience any material disruption of our pig farming operation as a result of African Swine Fever and other swine diseases.

Supply chain. During the Track Record Period, we did not experience any major shortage of feed as a result of the outbreak of African Swine Fever and other swine diseases.

Expansion plan. In general, African Swine Fever and other swine diseases have not caused any material adverse impact on our business strategy and expansion plan. In light of the facts that there were no cases of African Swine Fever recorded for pigs on our pig farms during the Track Record Period and up to the Latest Practicable Date and that the stock of pigs in the PRC is recovering, our Directors believe that (i) our strengthened biosecurity measures are adequate and effective at this stage, and (ii) the outbreak of African Swine Fever had subsided since late 2019 in the PRC and no material adverse impact caused by African Swine Fever is expected on us going forward. For details of the impacts of African Swine Fever on the pig farming industry, please refer to the section headed “Industry Overview – Impact of African Swine Fever on the Pig and Broiler Farming Industries” in this document. For details of the risks relating to African Swine Fever and other swine diseases, please refer to the section headed “Risk Factors – Risks Relating to Our Business and Our Industry – 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”.

Impact of Avian Influenza

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, there were no avian influenza infection cases recorded for our chickens on our family farms and farming bases.

Impact of the COVID-19 Outbreak

An outbreak of COVID-19 was first reported in December 2019 and continues to expand across the globe. The World Health Organisation is closely monitoring and evaluating the situation, and it declared such outbreak as a public health emergency of international concern and a global pandemic on 30 January 2020 and on 11 March 2020, respectively. To cope with such outbreak, China implemented necessary pandemic prevention measures at the beginning of 2020. Since the beginning of the second quarter of 2020, although many of the measures

BUSINESS

within China have been relaxed, certain cities re-impose relevant prevention measures in accordance with the situation of the pandemic from time to time. These measures have been further relaxed since December 2022.

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, local governments adopted relevant pandemic prevention measures, which resulted in delays of resuming feed production in our feed plants and by our feed suppliers. Also, certain 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.* The impacts of the COVID-19 pandemic on our business include, (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. In particular, we recorded a gross loss for our poultry segment in 2020 due to the impact of the COVID-19 pandemic on our yellow-feathered broilers sub-segment. We had a gross loss for our yellow-feathered broilers sub-segment of RMB50.6 million for 2020. The COVID-19 pandemic resulted in the closure of wholesale markets and travel restrictions and accordingly a significant decline in consumer demand from households and commercial enterprises, an oversupply of our yellow-feathered broilers, and a decline in average market selling price of yellow-feathered broilers. Other than the above, the 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 and as at the Latest Practicable Date, our Directors confirm that the COVID-19 outbreak will not have any material adverse impact on our future 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

BUSINESS

(including livestock, poultry and feeds) across regions; (iii) we recorded an increase in revenue for 2021 and 2022; and (iv) we have established a system for prevention and control of the COVID-19 pandemic and adopted strict biosecurity measures for our farms and employees.

PROPERTIES

We occupy certain properties in connection with our business operation. Our properties are mainly used for non-property activities as defined under Rule 5.01(2) of the Listing Rules, which mainly include premises for our pig farms, yellow-feathered broiler hatcheries and breeder farms, feed mills, waste treatment facilities, offices and dormitories.

Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this document is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all of our Group’s interests in lands or buildings for the reason that as at 31 May 2023, none of the properties held or leased by us had a carrying amount of 15% or more of our consolidated total assets. Pursuant to Chapter 5 of the Listing Rules, this document is not required to include the valuations of our properties.

Owned Properties

Land use rights

As at the Latest Practicable Date, we have obtained land use right certificates for 20 parcels of lands with an aggregate site area of approximately 954,909 square metres, which are primarily used for feed mills and related ancillary facilities. None of our owned land use rights has been pledged.

Land use rights pending title certificates

As at the Latest Practicable Date, we had not yet obtained the land use rights title certificate for one parcel of land with an aggregate site area of approximately 8,937 square metres. This parcel of land was used for our dormitories and offices. As we were not using this parcel of land for any production and operation activities, no related income was generated. We purchased this parcel of land from the local People’s Government and the issuance of the land use rights title certificate is subject to a pre-condition of granting of land sales quotas by the government which the government authority who sold the land to us is responsible for arranging pursuant to the land purchase agreement. According to the land purchase agreement: (i) we have paid the first payment after signing the agreement. We may pay the remaining fees after we obtain the land use rights title certificate with the assistance of the government and (ii) the government agreed to coordinate with the relevant authorities of housing, planning and land to handle the construction procedures. We have been continuously monitoring the status of land sales quotas with the relevant government authority. As at the Latest Practicable Date,

BUSINESS

the relevant government authority did not have an expected timeline on granting of land sales quotas. As advised by our PRC Legal Adviser, according to applicable PRC laws and regulations, such non-compliance incident would expose us to administrative measures or penalties, including orders, fines, and/or cease to use such buildings, and we may be required to dismantle the buildings and other facilities on the land, restore the land conditions, or confiscate the buildings and other facilities on the land and order to pay for a fine ranging from RMB100 to RMB1,000 per square metre of the unauthorised land used. We have obtained a confirmation letter from the local People’s Government governing the department of natural resources, as the competent government authority (as advised by our PRC Legal Adviser) for this parcel of land, which confirmed that it is aware of the fact that there is no land use rights title certificate for this parcel of land and we will not receive any penalty in this regard before obtaining the land use rights title certificate. Accordingly, we do not expect such incident would result in any material adverse effect on our business.

Defects in land uses

During the Track Record Period, two parcels of the state-owned lands for which we had obtained land use right certificates were used by our subsidiaries not in accordance with the approved land use stated in the title certificates, of which one parcel was used for the construction of office and hatchery plants with a gross floor area of approximately 2,200 square metres, and the other parcel was used for the construction of farms with a gross floor area of approximately 15,575 square metres. These two parcels of lands contributed less than 0.1% of our total revenue for each of 2020, 2021, 2022 and the five months ended 31 May 2023. According to the Land Administration Law of the PRC, failure to use a state-owned land in accordance with the approved land use purposes stated in the title certificates expose us, as the land use right holders, to orders by the relevant natural resources authorities at the county level or above to surrender the land and be fined. We received confirmation letters from the relevant competent government authorities (as advised by our PRC Legal Adviser) confirming that the relevant subsidiaries were not subject to any administrative penalties by such government authorities during the Track Record Period.

Our Directors confirmed that, as at the Latest Practicable Date, we had not received any order to surrender the land or any administrative penalties imposed by the relevant authorities in connection with the use of these parcels of lands. However, should the relevant PRC regulatory authorities take enforcement actions against us, we would cease the operation of these two parcels of lands accordingly. We believe that we can relocate the operations of such hatchery plants and farms to family farms with an addition cost of approximately RMB2.5 million per year, and the impact of relocation on our revenue would be minimal as these two parcels of lands contributed less than 0.2% of our total revenue for each of 2020, 2021, 2022 and the five months ended 31 May 2023. As such, we do not expect such enforcement actions would result in any material adverse effect on our business or operations.

BUSINESS

Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against the losses resulting from all fines, penalties or other losses, if any, incurred by our Group as a result of or in connection with the aforementioned defects in land uses. In addition, in consideration of the relatively low percentage of lands with defects in land uses to lands being used by us, we do not expect such incidents would result in any material adverse effect on our business or operations.

Buildings

As at the Latest Practicable Date, we owned property ownership certificates in respect of eight buildings with a total gross floor area of approximately 42,126 square metres.

Buildings pending building ownership certificates

As at the Latest Practicable Date, we had not yet obtained building ownership certificates for buildings on seven parcels of land (inclusive of the parcel of land which we had not yet obtained the land use rights title certificate as detailed in “– Owned Properties – Land use rights – Land use rights pending title certificates” above). Those buildings are mainly used as feed mills and relevant ancillary facilities, dormitories and office buildings which are not revenue-generating in nature. As such, those buildings did not make any material revenue contribution to our Group during the Track Record Period.

The procedure of obtaining building ownership certificates is to (i) obtain the requisite approvals relating to planning, construction and other procedures, (ii) apply for the acceptance inspection and (iii) issue of building ownership certificates upon satisfactory inspections. As advised by our PRC Legal Adviser, the legal penalties depend on the type(s) of requisite approvals which are outstanding. According to applicable PRC laws and regulations, we estimate that these lands would expose us to administrative measures or penalties, including rectification, orders, a maximum amount of fines which is up to RMB8.2 million, suspension of operation, and/or cease to use such buildings (as applicable), and we may also be required to dismantle the buildings and its ancillary facilities in respect of which we have not yet completed the procedures in relation to construction planning with the relevant government authorities with a total gross floor area of approximately 94,593 square metres, or confiscate the illegal construction and income generated therefrom if such constructions produce an adverse effect on the implementation of urban planning but cannot be rectified or demolished. For legal consequences and status of rectification of the parcel of land which we had not yet obtained the land use rights title certificate, please refer to “– Owned Properties – Land use rights – Land use rights pending title certificates” above.

For properties on the remaining six parcels of land, we received confirmation letters for three of them from the relevant competent government authorities (as advised by our PRC Legal Adviser), confirming that we are permitted to continue to construct or use the buildings for the current uses and we will not receive any penalty in this regard. As at the Latest Practicable Date, we completed acceptance inspection for properties on two parcels of land, applied for the acceptance inspection for properties on one parcel of land and we were in the

BUSINESS

course of preparation for obtaining the requisite approvals relating to planning, construction and other procedures for the remaining properties (one of which has obtained confirmation letter from the relevant competent government authorities (as advised by our PRC Legal Adviser), confirming that there is no substantial impediment to complete the relevant procedures). Based on our communication with the relevant government authorities as at the Latest Practicable Date, our Directors expect that we will obtain the pending building ownership certificates for properties on these six parcels of land by the end of 2024. Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against the losses resulting from fines and penalties and other losses, if any, incurred by our Group as a result of or in connection with the aforementioned defects in titles as well as construction procedures of properties on such eight parcels of land. In addition, based on the above and as the properties on eight parcels of lands are mainly used as feed mills and relevant ancillary facilities which do not generate revenue to our Group, we do not expect such defects would result in any material adverse effect on our business or results of our operations.

Buildings on contracted lands

In addition, as at the Latest Practicable Date, we built and commenced production of a total of 114 pig and poultry farms and ancillary facilities on rural collective lands with a total site area of over 3.8 million square metres. As advised by our PRC Legal Adviser, as such farms belong to facility agricultural-use lands and are managed as agricultural-use lands, there is no need to go through approval procedures for construction land nor to obtain building ownership certificates, provided that the facility agricultural-use lands shall be filed with the township government by the rural collective economic organisation or the operator. As at the Latest Practicable Date, five of our self-constructed farms or their ancillary facilities had not yet made the filings for the facility agricultural-use lands, and the relevant subsidiaries have either submitted an application or commenced the preparation of the application for filing. As at the Latest Practicable Date, we had not been informed by the relevant government authority about the expected timeline. We failed to make the filings for these farms mainly because the relevant staff inadvertently overlooked on the requirements of filings for the facility agricultural-use lands at the time of construction or expansion of farms. These farms contributed less than 2.0% of our total revenue for each of 2020, 2021, 2022 and the five months ended 31 May 2023. According to applicable PRC laws and regulations, such non-compliance incident would expose us to administrative measures or penalties, including orders, fines, and/or cease to use such buildings, and we may be required to dismantle the buildings and other facilities on the land, restore the land conditions, or confiscate the buildings and other facilities on the land and order to pay for a fine ranging from RMB100 to RMB1,000 per square metre of the unauthorised land used. All of our relevant subsidiaries obtained confirmation letters from the relevant competent government authorities (as advised by our PRC Legal Adviser), confirming that the relevant subsidiaries were not subject to any administrative penalties during the Track Record Period. Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against the losses resulting from the disruption of business operation, all fines and penalties and other losses, if any, incurred by the Group as a result of or in connection with the aforementioned failure to make the filings for such facility agricultural-use lands. Based on

BUSINESS

the above and in consideration of the relatively low percentage of farms which had not yet made the filings, we do not expect such failure to make the filings for such facility agricultural-use lands would result in any material adverse effect on our business or results of our operations.

Leased Properties

Leased lands

As at the Latest Practicable Date, we leased rural collective-owned lands with an aggregate site area of over 30.2 million square metres. Such leased lands have been mainly used for farms and ancillary production facilities. Certain leased lands occupied by our farms are forest lands, for which we failed to obtain the requisite approvals or complete the filings under the relevant PRC laws and regulations. For further details, please refer to the section headed “– Legal Proceedings and Compliance – Compliance – Non-compliance – (v) Failure to obtain the approval or complete the filing for Occupation of forest lands by our farms”.

Leased farms

As at the Latest Practicable Date, we leased 51 farms with a total gross floor area of over 1.2 million square metres.

Other leased properties

Other leased properties represent leased properties which are not used for business operations. Such properties are mainly used for warehouses, staff dormitories, laboratories, quarantine facilities, office premises, etc. As at the Latest Practicable Date, among all the other leased properties, we leased 250 other properties with each exceeding 100 square metres.

As at the Latest Practicable Date, for 96 such properties leased by our Company or our subsidiaries, the lessors failed to provide the corresponding property ownership certificates or credentials entitling them to lease such properties. As advised by our PRC Legal Adviser, relevant lease contracts are subject to the risk of being deemed invalid by the relevant government authorities under PRC laws. The leased properties constructed without approval or permit by relevant competent authorities are subject to risk of demolition as ordered by the relevant government authorities.

In addition, as at the Latest Practicable Date, none of properties leased by us or our subsidiaries had registered with the relevant housing authorities. Pursuant to the provisions of the Administrative Measures for Commodity House Leasing (《商品房屋租賃管理辦法》), for lease agreements that are not registered with the relevant housing authorities, we may be subject to a maximum fine of RMB10,000 per unregistered lease agreement. Our PRC Legal Advisers advised us that our failure to register the lease agreements does not affect the validity

BUSINESS

of the lease agreements. During the Track Record Period and up to the Latest Practicable Date, we have not received any notice from the relevant housing authorities to rectify or any penalty in relation to our failure to register these leases.

As there are multiple alternatives to such leased properties in the relevant areas and these leased properties are not used for business operations, our Directors believe that such defects in our leased properties described above will not have a material adverse impact on our operation and financial position if we have to terminate the occupation of such leased properties.

To prevent any recurrence of such non-compliance incidents in relation to properties, including both owned and leased properties, we have established an implemented preventive measures to ensure our compliance:

- (i) each subsidiary is required to obtain valid documents proving the right to use the land before land use rights are acquired;
- (ii) each subsidiary is required to go through acceptance procedures according to the relevant contract and land use right certificate before developing or constructing a project on the land to ensure the compliance with relevant laws and regulations;
- (iii) for the commencement of usage of new buildings, building ownership certificates, filings for the facility agricultural-use lands or relevant documents and procedures as required by the relevant laws and regulations are monitored by a designed person and upon all legal requirements are fulfilled, an official approval is required prior to the commencement; and
- (iv) we have included our Group’s legal and regulatory compliance record into the performance appraisal indicators for our senior management and relevant staff.

LEGAL PROCEEDINGS AND COMPLIANCE

Legal Proceedings

We were from time to time involved in legal proceedings arising from the ordinary course of our business during the Track Record Period, but our Directors are of the view that none of them is material to our financial position or business operation. Our Directors confirmed that none of our Company, subsidiaries or Directors was a party to any pending or threatened litigation, arbitration or administrative proceeding that could have a material adverse effect on our financial position or results of operations as at the Latest Practicable Date.

BUSINESS

Compliance

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. 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. Our PRC Legal Adviser is 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, except for such non-compliance which would not, individually or in the aggregate, have a material impact on our business. We set forth details of certain historical non-compliance incidents during the Track Record Period:

Non-compliance Incidents

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
<p>(i) <i>Failure to obtain or renew requisite licenses in relation to our operation</i></p>	<p>Our Directors confirmed that three farms could not submit the renewal applications or complete the on-site inspection for the renewal applications on time due to the suspension of services of relevant government authorities under the outbreak of COVID-19, which was out of our control. Since we passed the on-site inspections and obtained the renewed certificates without further delay after the services of relevant government authorities resumed, our Directors consider that we would be capable to obtain the licence on time if there was no suspension of services of relevant government authorities due to the outbreak of COVID-19. The remaining incidents were mainly due to oversight and inexperience of the relevant staff.</p>	<p>According to the Animal Husbandry Law of the PRC, an entity engaged in the production and operation of breeding livestock and poultry or in the commercial production of new born livestock and poultry that fails to obtain a Certificate for Production and Operation of Breeding Livestock and Poultry may be subject to administrative penalties, including confiscation of the illegal income, fines of no less than RMB3,000 but not more than RMB30,000 if there is no illegal income or the income is below RMB30,000, fines of no less than one time but not more than three times of the illegal income if the income is over RMB30,000, and orders to cease the non-compliant activities.</p>	<p>We continuously communicated with the relevant government authorities to obtain or renew the Certificate for Production and Operation of Breeding Livestock and Poultry and the Certificate for Animal Epidemic Disease Prevention (collectively, the “Certificates”). As at the Latest Practicable Date, we obtained (i) the Certificate for Production and Operation of Breeding Livestock and Poultry for 22 farms, and (ii) the Certificate for Animal Epidemic Disease Prevention for three farms.</p>	<p>To prevent any recurrence of such non-compliance incidents in future, we have established and implemented preventive and remedial measures to ensure our compliance with regulations in relation to obtaining requisite licences for our operation. We have provided and plan to continue to provide training on applicable legal and regulatory requirements in relation to material licences to our senior management. We have established and implemented written policy and procedures, including:</p>
<p>For the above farms, three farms failed to obtain both the Certificate for Production and Operation of Breeding Livestock and Poultry and the Certificate for Animal Epidemic Disease Prevention. For these 27 non-compliant farms, one of them was a hatchery, one of them was a poultry breeding farm, five of them were boar studs which mainly boar semen were produced, while breeding pigs were raised in the remaining 20 farms.</p>				

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
<p>Subsequent to the Track Record Period, we were required to renew certain licenses due to the expiration or modification of the address stated in the licenses, and we applied for the renewals accordingly. As at the Latest Practicable Date, two of our farms (one farm for purebred pigs and piglets, and one farm for poultry breeding) had not completed the renewal of the Certificate for Production and Operation of Breeding Livestock and Poultry upon their expiration. As such, poultry and breeding pigs were raised in each of these two farms.</p>	<p>As at the Latest Practicable Date, taking into account of certificates subsequently obtained by us and the cessation of operation for two farms which the Certificate for Production and Operation of Breeding Livestock and Poultry was outstanding during the Track Record Period and the cessation of operation for a hatchery which the Certificate for Animal Epidemic Disease Prevention was outstanding during the Track Record Period, there were outstanding Certificate for Production and Operation of Breeding Livestock and Poultry for two farms.</p>	<p>As at the Latest Practicable Date, saved for three farms which we ceased the operations, we applied to the relevant government authorities for the two outstanding Certificates. As advised by our PRC Legal Adviser, there is no substantive legal obstacle for us to apply for the Certificates we did not obtain as at the Latest Practicable Date provided that we submit the application documents as required by the applicable PRC laws and regulations and the relevant government authorities as well as satisfy the application requirements. Based on our communication with the relevant government authorities as at the Latest Practicable Date, our Directors expects the outstanding Certificates will be obtained by the third quarter of 2023. Our Directors confirmed that the potential impact on our Group’s business operations and financial position if these two farms are required to cease operations would be immaterial given that:</p> <ul style="list-style-type: none"> (i) these two farms are relatively small farms which in aggregate contributed to less than 0.2% of our Group’s total revenue for the five months ended 31 May 2023, and (ii) our Group would be able to relocate to other compliant farms to continue with the production and mainly transportation costs would be incurred, which would not have a material impact on our revenue and profitability. 	<p>As at the Latest Practicable Date, we obtained confirmation letters issued by the relevant competent government authorities (as advised by our PRC Legal Adviser) confirming that none of them were subject to any administrative penalties due to violation of the laws, regulations or regulatory documents for failure to obtain the Certificates during the Track Record Period.</p>	<p>(i) for each subsidiary, requisite licenses are monitored by a designated person who will make regular report to the Company on the progress of applications and expiry situation for requisition licenses;</p> <p>(ii) our executive office will engage external lawyer and external advisor, as appropriate, to provide regular trainings to managers of subsidiaries;</p>

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
		<p>According to the Animal Epidemic Prevention Law, an entity operating an animal breeding farm, animal isolation place, animal slaughtering and processing establishment, as well as facilities for innocuous treatment of animals and animal products that fails to obtain a certificate for Animal Epidemic Prevention Conditions may be subject to administrative penalties, including orders to correct with fines of no less than RMB3,000 but not more than RMB30,000, orders to cease the relevant operation with fines of no less than RMB30,000 but no more than RMB100,000.</p>	<p>Our Directors confirmed that, as at the Latest Practicable Date, we had not received any administrative penalties imposed by the relevant authorities in connection with our failure to obtain or renew requisite licences.</p> <p>Our Directors are of the view that our Group would be able to achieve a similar level of historical financial results if such non-compliant farms were not engaged in such operations when the Certificates were outstanding during the Track Record Period, based on the following:</p> <p>(i) the revenue generated by the non-compliant farms during the period when the Certificates were outstanding contributed to an immaterial portion of our total revenue during the Track Record Period (approximately 0.9%, 1.2%, 0.7% and 0.3% of our total revenue for each of 2020, 2021, 2022 and the five months ended 31 May 2023, respectively);</p> <p>(ii) our Group would be able to relocate the pigs/poultry/eggs to other farms to continue with the production and mainly transportation costs would be incurred, which would not have a material impact on our revenue and profitability; and</p> <p>(iii) the non-compliant farms represent an immaterial portion of the total number of self-operated farms. For each of 2020, 2021, 2022 and the five months ended 31 May 2023, the number of revenue-generating non-compliant farms were 5, 18, 17 and 17, respectively. As at 31 May 2023, we had an aggregate of 181 self-operated farms (including nucleus breeding farms, boar studs and multiplying farms, self-operated pig farms, breeder farms and hatcheries).</p>	<p>(iii) we coordinate with each of the concerned departments to perform annual review on all existing licences to ensure the completeness, validity and safekeeping of the licenses and they will be responsible to conduct regular review of our business against the updates of relevant national policies, laws and regulations to ensure the continuous legal compliance of our Group ; and</p> <p>(iv) a license tracker template is adopted by each subsidiary which includes information such as the types and quantities of requisite licenses, the number of licenses obtained, and expiration date, to allow sufficient time for our subsidiaries to handle respective renewal before the expiry dates.</p>

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
			<p>In addition, Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against all fines, penalties and any other loss, if any, incurred by our Group as a result of or in connection with the aforementioned incidents.</p> <p>Based on the foregoing, our Directors are of the view that the incidents will not have any material adverse effect on our business or results of our operations.</p>	

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
<p>(ii) <i>Administrative fines relating to environmental protection</i></p> <p>During the Track Record Period and up to the Latest Practicable Date, we were imposed to 16 administrative fines with an aggregate amount of approximately RMB5.0 million (ranging from RMB5,600 to RMB590,000 individually) as a result of our failure to fully comply with relevant PRC environmental protection laws and regulations.</p> <p>Such incidents were mainly caused by discharge of wastewater, exhaust gas and solid waste that did not meet the national or local standards.</p>	<p>Such non-compliance was mainly because: (i) certain of our employees' lack of operational skills or mishandled certain equipment and operation; and (ii) certain subsidiaries' lack of sufficient trainings on environmental protection.</p>	<p>According to the Law of the PRC on the Prevention and Control of Air Pollution, the Law of the PRC on the Prevention and Control of Water Pollution, Regulations on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry, Law of the People's Republic of China on the Prevention and Control of Solid Waste Pollution, Environmental Impact Assessment Law of the PRC, Regulations on the Administration of Construction Project Environmental Protection and other relevant laws and regulations, certain farms of ours received administrative fines because they did not (i) take relevant measures in accordance with the above regulations; (ii) collect and discharge relevant pollutants in accordance with relevant standards; (iii) obtain environmental protection impact assessment and environmental protection administrative procedures before commencing construction; and (iv) obtain acceptance before commencing production.</p>	<p>We paid administrative fines in relation to such non-compliance relating to environmental protections.</p> <p>According to the confirmations we obtained from the relevant competent government authorities (as advised by our PRC Legal Adviser), such non-compliance incidents are not material. Given that we paid such administrative fines in full and the relevant government authorities have confirmed these incidents are not material, our Directors believe that such non-compliance incidents do not have any material adverse effect on our business or results of our operations.</p>	<p>We have implemented the following measures relating to environmental protection:</p> <p>(i) we will continue to strengthen our employees' awareness of environmental protection and improve their operational skills;</p> <p>(ii) we conduct regular trainings on the latest environmental laws and regulations of the PRC, as well as our internal policies on environmental protection;</p> <p>(iii) the safety and environmental department of the Company conducts spot inspections on regional companies farms, and issues inspection reports and lists of issues for rectification. Monitoring of the rectification progress will be done through phone and video calls, and on-site assistance and guidance will be provided if necessary;</p> <p>(iv) the management of the Company sets up a ledger to record administrative orders and/or administrative penalties received by our farms and track the rectification status; and</p> <p>(v) the management of the Company reviews the ledger from time to time and requires our subsidiaries to conduct continuous self-inspection and spot checks to ensure compliance with relevant PRC environmental protection laws and regulations.</p>

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
				<p>For more information on our environmental protection measures to ensure our compliance with environmental protection laws and regulations as well as to prevent the above-mentioned non-compliance from recurring, please refer to the section headed “ – Environmental and Social Matters – Environmental Protection”.</p>

BUSINESS

Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
<p>Non-compliance Incidents</p> <p>(iii) <i>Failure to make full contribution to the social insurance and housing provident fund</i></p> <p>During the Track Record Period, we failed to make full contribution to the social insurance and housing provident funds for our employees as required under PRC laws and regulations. The aggregate shortfall of social insurance and housing provident fund contributions amounted to RMB17.0 million, RMB27.0 million, RMB26.8 million and RMB8.0 million in 2020, 2021, 2022 and the five months ended 31 May 2023, respectively.</p>	<p>Pursuant to the Social Insurance Law, we may be required by relevant authorities to pay the outstanding social insurance within a prescribed period, and pay an overdue fee equivalent to 0.05% of the outstanding amount for each late payment day. If we fail to pay the outstanding social insurance within the prescribed period, we may be subject to a fine equivalent to one to three times of the outstanding social insurance amount.</p>	<p>We obtained confirmations from the competent local social insurance and housing provident fund management authorities (as advised by our PRC Legal Adviser) where the majority of our members of the Group (which have employees) are located, confirming none of them (representing the Company and 94% and 77% of the total number of its relevant subsidiaries in respect of social insurance and housing provident fund, respectively) was subject to any administrative penalties due to a violation of the laws, regulations or regulatory documents relating to social insurance and housing provident fund during the Track Record Period.</p> <p>We made provisions of RMB4.0 million, RMB15.0 million, RMB20.9 million and RMB6.3 million for the social insurance contribution shortfalls for 2020, 2021, 2022 and the five months ended 31 May 2023, respectively. We also made provisions of RMB8.0 million, RMB5.0 million, RMB5.9 million and RMB1.7 million for the housing provident fund contributions shortfalls for 2020, 2021, 2022 and the five months ended 31 May 2023.</p>	<p>To prevent any recurrence of such non-compliance incidents in future, we have established and implemented both preventive and remedial measures, including:</p> <ul style="list-style-type: none"> our human resources department inspected the social insurance and provident fund payment of the employees in the Group, and found out the reasons for the failure to pay in time, and made records and follow-up; our IT department established a systematic inquiry function for social insurance and provident fund contributions. Our Group properly prepares and maintains written records on payments for social insurance and housing provident fund contributions and has the records reviewed by designated personnel on a monthly basis. Such designated personnel include the Company's social insurance personnel, the manager of the finance department and the general manager; and
<p>Reason(s) for non-compliance</p> <p>Our failure to make full contributions was mainly because (i) the inconsistent standards for certain local authorities in enforcing applicable PRC laws and regulations; (ii) the lack of thorough awareness of applicable local laws and regulations of certain of our employees in charge of this matter; (iii) our failure to make timely payments upon arrival of new employees; (iv) certain employees are reluctant to afford their parts of social insurance and housing provident funds as they have contributed to other medical insurance programmes; and (v) certain employee information we have are incomplete or incorrect.</p>	<p>Pursuant to the Social Insurance Law, we may be required by relevant authorities to pay the outstanding social insurance within a prescribed period, and pay an overdue fee equivalent to 0.05% of the outstanding amount for each late payment day. If we fail to pay the outstanding social insurance within the prescribed period, we may be subject to a fine equivalent to one to three times of the outstanding social insurance amount.</p>	<p>We began to adjust the contribution base of social insurance and housing provident funds for our employees in an effort to fully comply with the relevant PRC laws and regulations gradually from December 2022. Despite our efforts, we were unable to make full contributions of social insurance and housing provident fund for all our employees as of the Latest Practicable Date because some employees did not cooperate and chose to not to contribute to such funds. We will continue to actively encourage the cooperation of such employees and make the relevant contributions once they agree to participate in the social insurance and housing provident funds programs.</p>	<p>we will continue to regularly communicate with the relevant local government authorities and, where necessary, consult PRC legal advisers, in respect of the applicable bases for calculation of the social insurance and housing provident fund contributions at the rates approved by relevant government authorities, and will update our relevant contribution policies in accordance with such consultations.</p>
<p>Reason(s) for non-compliance</p> <p>As confirmed by our Directors, as at the Latest Practicable Date, no administrative proceedings have been initiated or penalties imposed by the relevant regulatory authorities regarding our social insurance and housing provident fund contributions, and we have not received any instruction requiring us to pay the shortfalls. Furthermore, as at the Latest Practicable Date, we are not aware of any complaints lodged by our employees regarding social insurance and housing provident fund policies.</p>	<p>Pursuant to the Social Insurance Law, we may be required by relevant authorities to pay the outstanding social insurance within a prescribed period, and pay an overdue fee equivalent to 0.05% of the outstanding amount for each late payment day. If we fail to pay the outstanding social insurance within the prescribed period, we may be subject to a fine equivalent to one to three times of the outstanding social insurance amount.</p>	<p>We began to adjust the contribution base of social insurance and housing provident funds for our employees in an effort to fully comply with the relevant PRC laws and regulations gradually from December 2022. Despite our efforts, we were unable to make full contributions of social insurance and housing provident fund for all our employees as of the Latest Practicable Date because some employees did not cooperate and chose to not to contribute to such funds. We will continue to actively encourage the cooperation of such employees and make the relevant contributions once they agree to participate in the social insurance and housing provident funds programs.</p>	<p>we will continue to regularly communicate with the relevant local government authorities and, where necessary, consult PRC legal advisers, in respect of the applicable bases for calculation of the social insurance and housing provident fund contributions at the rates approved by relevant government authorities, and will update our relevant contribution policies in accordance with such consultations.</p>

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
		<p>Meanwhile, according to the emergency Notice of the General Office of the Ministry of Human Resources and Social Security on Implementation of the Spirit of the Executive Meeting of the State Council in Stabilising the Collection of Social Insurance Premiums (Ren She Ting Han [2018] No. 246) (《人力資源社會保障部辦公廳關於貫徹落實國務院常務會議精神切實做好穩定社保費徵收工作的緊急通知》(人社廳函[2018]246號)), the prevailing base and rate of social insurance contributions and other relevant collection policies in each place shall remain unchanged until the reform of social insurance collection authorities is completed. None of the local social insurance collection authorities is allowed to organise any settlement of the historical outstanding amounts by enterprises on a separate basis.</p>	<p>In addition, Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against all fines, penalties and any other losses, if any, incurred by our Group as a result of or in connection with the aforementioned incidents.</p>	
			<p>Based on the reasons above, our Directors are of the view that such non-compliance relating to social insurance and housing provident fund contributions will have no material adverse impact on our operation and financial position.</p>	

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
		<p>According to the Regulation on Housing Provident Fund, in the event that the employer makes overdue or inadequate contributions as at the due date of the housing provident fund, relevant housing provident administration centre may order such employer to make supplemental contributions within a prescribed period. If such employer fails to make such contributions within the prescribed period, all application may be made to the PRC court for enforcement.</p> <p>As at the Latest Practicable Date, we had not received any notice or request from the said PRC regulatory authorities ordering us to make retrospective payments or any differences of the payments for the social insurance fund and housing provident fund contributions. We were also not aware of any employee's accusation or request for payment of social insurance or housing provident fund contributions.</p>		

BUSINESS

Non-compliance Incidents	Reason(s) for non-compliance	Relevant laws and regulations, legal consequences and potential maximum penalty	Rectification measures and potential impact on Group	Preventive measures taken
<p>(iv) <i>Failure to obtain the approval or complete the filing for occupation of forest lands by our farms</i></p>	<p>As at the Latest Practicable Date, two of our farms occupied forest lands without obtaining relevant approvals or completion of filings for use of such forest lands.</p> <p>The said occupied forest lands had a total site area of approximately 150 mu (equivalent to approximately 100,000 square meter).</p>	<p>As advised by our PRC Legal Adviser, our occupation of forest lands for construction of farms without review and approval by the relevant authorities violated the Forest Law of the PRC, which exposes us to the legal risk of being required to restore forestry production conditions, and a fine not more than three times of the necessary cost needed for restoring forestry production conditions, thereby impacting our continual operation and use of such farms.</p>	<p>We obtained confirmation letters from the competent relevant government authorities (as advised by our PRC Legal Adviser), confirming that for the farm occupying forest lands of a site area of approximately 120 mu, the relevant subsidiary could continue with the use of forest lands before completing the filings and the authorities would not impose any administrative penalties on us in connection with such use. As at the Latest Practicable Date, we had submitted a report relating to the use of forest lands to the relevant government authority for review. As at the Latest Practicable Date, we had not been informed by the relevant government authority about the expected timeline. For the other farm occupying forest lands of a site area of approximately 30 mu, the relevant subsidiary was in a consultation with the relevant government authority on the classification of lands and the filing application can only be commenced after the decision of the relevant government authority. As at the Latest Practicable Date, we had not been informed by the relevant authorities about the expected timeline. These two farms contributed to less than 1.0% of the total revenue for each of 2020, 2021, 2022 and the five months ended 31 May 2023.</p>	<p>To prevent any recurrence of such non-compliance incidents in future, we have provided and plan to continue to provide training on applicable legal and regulatory requirements in relation occupation of forest lands to our senior management and relevant staff.</p> <p>Our legal affairs department will supervise the nature of land use before we lease or own a new farm.</p> <p>Meanwhile, we will review the relevant land certificates of the lessor according to our internal procedures before leasing a new farm, and will lease such farm if it is qualified; for our self-owned farms, we will conduct site selection on the principle of no occupation of forest lands. If it is inevitable to occupy a small amount of forest lands to the extent permissible by the laws and regulations and policies, we shall only commence construction upon performing relevant compliance procedures in advance.</p>
			<p>In addition, Mr. Wang Degen, our Controlling Shareholder, has undertaken to indemnify our Group against all fines, penalties and any other losses, if any, incurred by our Group as a result of or in connection with the aforementioned incidents.</p>	
			<p>Based on the foregoing and the fact that the forest lands occupied represent a small proportion of our farms, we do not expect such defects would result in any material adverse effect on our business or results of our operations.</p>	