
RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

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

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

Other businesses of our Controlling Shareholders

Sichuan Tequ

Mr. Wang Degen and his spouse collectively held the majority equity interest in Sichuan Tequ. During the Track Record Period, Tequ Husbandry, a subsidiary of Sichuan Tequ, and/or the subsidiaries of Tequ Husbandry entered into certain transactions with the Group, which are expected to continue after the [REDACTED]. For details, please refer to the section headed “Connected Transactions” in this document.

Sichuan Tequ is a holding company and is principally engaged in the business of feed production and sales and education investment. The Board considers that the Group does not compete with Sichuan Tequ and has no plan to incorporate it in the Group’s structure for the following reasons: (i) while the Group has set up feed mills in certain regions, all the feed produced by the Group has been used for internal consumption; (ii) and the Group has not engaged in the business of sale of feed and has no plan to expand its business to sale of feed; (iii) the Group is not the sole customer of Sichuan Tequ; and (iv) the Group has not engaged in education business.

Sichuan Zhenghu

As at the Latest Practicable Date, Mr. Wang Degen held 40% equity interest in Sichuan Zhenghu through Desheng Ronghe. During the Track Record Period, The Group purchased artificial intelligence equipment from Sichuan Zhenghu during the Track Record Period and expects to continue such transactions after the [REDACTED]. For details, please refer to the section headed “Connected Transactions” in this document.

Sichuan Zhenghu is a technology company specialising in the research and development of artificial intelligence farming across various fields in agriculture and animal husbandry such as feed processing, pig and poultry farming and slaughtering. The Board considers that the Group does not compete with Sichuan Zhenghu and has no plan to incorporate it in the Group’s structure for the following reasons: (i) the business of Sichuan Zhenghu does not overlap with the business of the Group; and (ii) the Group is not the sole customer of Sichuan Zhenghu.

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The Group expects that the amount paid to Zhenghu for purchase of artificial intelligence equipment will be less than RMB600,000 for each of 2023, 2024 and 2025. As Sichuan Zhenghu’s business is not crucial to the Group’s business and the purchase from Sichuan Zhenghu was and is expected to be insignificant, the Group believes that the synergy effect of acquiring Sichuan Zhenghu is minimal. Thus, Sichuan Zhenghu is not injected into the Group.

Other businesses

Apart from the businesses of the Group and those mentioned above, our Controlling Shareholders and their close associates have other interests in the following companies.

Name of company	Nature of interest of the Controlling Shareholders and their close associates	Principal business
Guizhou TequNew Agriculture Group Co. Ltd. (貴州特驅新農業集團有限公司)	Mr. Wang Degen directly holds 15% equity interest	Planting and sales of biofertilizers, landscape architecture, and engineering consulting
Huaxi Hope Investment Holding Co. Ltd. (華西希望投資控股有限公司)	Mr. Wang Degen is one of the directors	Project investments and provision of corporate management services
Chengdu Jinchengxiang Investment Co. Ltd. (成都錦城祥投資有限公司)	Mr. Wang Degen is one of the directors	Project investments and provision of corporate management services

Our Directors are of the view that as the principal activities of the above companies are independent of and separate from our business, they do not compete with the business of our Group.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors believe that we are capable of carrying on our business independently of Mr. Wang Degen and his close associates after the [REDACTED].

Management Independence

Our Company’s management and operational decisions are managed and implemented by our Board and senior management in a collective manner. Upon [REDACTED], our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. For details, please refer to the section headed “Directors, Supervisors and Senior Management” in this document.

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We believe that our Directors and members of the senior management are able to perform their roles in our Company in managing our business independently from Mr. Wang Degen for the following reasons:

- (i) the management and operation of the Group are the responsibility of the Directors and members of the senior management of the Company. Our executive Directors and senior management of the Group have an average of more than ten years of industry experience. Except for Mr. Wang Dehui, none of the executive Directors and members of the senior management of the Company is related to Mr. Wang Degen; and
- (ii) each of our Directors is aware of his/her fiduciary duties as a director, which require, among other things, that he/she acts for the benefit and in the best interests of our Company and he/she must not allow any conflict between his/her duties as a Director and his/her personal interests.

Operational Independence

The Company is able to make all decisions on, and to carry out, our own business operations independently. We make business decisions independently and hold all the relevant licences, intellectual properties, and qualifications required to carry on our current business. We have sufficient capital, equipment, facilities, technology and employees to operate the business independently from Mr. Wang Degen and his close associates. We consider that the Group is not dependent on Mr. Wang Degen and his close associates and is able to operate independently. Our Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to suppliers, dealers and customers. Our Group has established a set of internal control system to facilitate the effective operation of our business.

The transactions between the Group, Mr. Wang Degen and/or his close associates during the Track Record Period were determined on normal commercial terms after arm’s length negotiation. Save for the continuing connected transactions set out in the section headed “Connected Transactions” in this document, our Directors do not expect that there will be any other transactions between our Group and Mr. Wang Degen and/or his close associates upon or shortly after the [REDACTED]. In respect of our total revenue after the [REDACTED], we expect to be able to maintain the aggregate amount of the continuing connected transactions with Mr. Wang Degen and/or his close associates within the annual limit. Accordingly, such continuing connected transactions are not expected to affect our overall operational independence.

Financial Independence

We have an independent financial system and make financial decisions according to our Group’s own business needs. We have internal control and accounting systems and an independent finance department for discharging the treasury function.

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During the Track Record Period, Mr. Wang Degen and Desheng Ronghe provided certain guarantees over loans to the Group (collectively the “**Financial Assistance**”). Please refer to Note 26 to the Accountant’s Report as set out in Appendix I to this document for details. As at 31 May 2023, the interest bearing borrowings guaranteed by Mr. Wang Degen and Desheng Ronghe amounted to RMB4,267 million. Such Financial Assistance will be discharged before the [REDACTED]. No loans provided by, or granted to, our Controlling Shareholders or their respective associates will be outstanding as at the [REDACTED].

After the [REDACTED], we expect that our working capital will be funded by cash flows generated from operating activities, bank loans as well as the [REDACTED] from the [REDACTED].

Based on the above, our Directors are of the view that they and our senior management are capable of carrying on our business independently of, and do not place undue reliance, on our Controlling Shareholders and their respective close associates after the [REDACTED].

DISCLOSURE UNDER RULE 8.10 OF THE LISTING RULES

As at the Latest Practicable Date, apart from the Group’s business, none of our Controlling Shareholders were engaged or had interest in any business which, directly or indirectly, competes or is likely to compete with the Group’s business and which would require disclosure under Rule 8.10 of the Listing Rules. None of our Directors had an interest in any business which competes or is likely to compete, either directly or indirectly, with our business.

CORPORATE GOVERNANCE MEASURES

Our Directors recognise the importance of good corporate governance to protect the interests of our Shareholders. Our Directors believe that there are adequate corporate governance measures in place to manage existing and potential conflicts of interest. In order to further avoid potential conflicts of interest, we have implemented the following measures:

- (1) where a Board meeting is held for the matters in which a Director has a material interest, such Director shall abstain from voting on the relevant resolutions and shall not be counted in the quorum for the voting;
- (2) a Director with material interests shall make full disclosure in respect of matters that conflict or potentially conflict with our interest and absent himself/herself from the Board meetings on matters in which such Director or his/her close associates has a material interest;
- (3) our Board will consist of a balanced composition of executive and non-executive Directors, including not less than one-third of independent non-executive Directors, to ensure that our Board is able to effectively exercise independent judgment in its decision-making process and provide independent advice to our Shareholders. Our independent non-executive Directors, individually and collectively, possess the requisite knowledge and experience. They are committed to providing impartial and professional advice to protect the interests of our minority Shareholders. Details of our independent non-executive Directors are set out in the section headed “Directors, Supervisors and Senior Management” in this document;

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- (4) in the event that our independent non-executive Directors are required to review any conflict of interest between our Group and our Controlling Shareholders, our Controlling Shareholders shall provide the independent non-executive Directors with all necessary information and our Company shall disclose the decisions of the independent non-executive Directors either in its annual report or by way of announcements;
- (5) we have appointed Maxa Capital Limited as our Compliance Adviser, which will provide advice and guidance to us in respect of compliance with the applicable laws and the Listing Rules, including various requirements relating to Directors’ duties and corporate governance; and
- (6) we have established our audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Listing Rules and the Code on Corporate Governance and Corporate Governance Report in Appendix 14 of the Listing Rules. All of the members of our audit committee, including the chairman of the said committee, are non-executive Directors.

Based on the above, our Directors are satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders and/or Directors to protect minority Shareholders’ rights after the [REDACTED].