***You should carefully consider all of the information in this document, including the risks and uncertainties described below before making an* [REDACTED] *in our H Shares. You should pay particular attention to the fact that we conduct significant operations in China, the legal and regulatory environment of which differs in certain respects from that which prevails in other countries. Our business, financial condition, results of operations or prospects may be materially and adversely affected by any of these risks and the* [REDACTED] *of our H Shares may decline as a result. You may lose all or part of your* [REDACTED].**

We believe that there are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business and our industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the [**REDACTED**].

RISKS RELATING TO OUR BUSINESS AND OUR INDUSTRY

Our results of operations are substantially affected by cyclical fluctuations in the selling prices of pigs and poultry products, which affect our revenue, and by fluctuations in the purchase prices of feed and feed ingredients, which affect our costs.

Our results of operations are significantly affected by the selling prices of pigs and poultry products, which affect our revenue, and by the purchase prices of feed and feed ingredients, which are our primary raw materials and affect our costs. Our profit/(loss) for the year/period was a net profit of RMB3,608.4 million, a net loss of RMB3,172.7 million, a net profit of RMB909.8 million and a net loss of RMB1,548.6 million and a net loss of RMB2,184.5 million for 2020, 2021 and 2022, and for the five months ended 31 May 2022 and 2023, respectively. All of these prices are determined by constantly changing and volatile market supply and demand as well as other factors, over which we have limited or no control. These factors include:

- economic conditions;
- government regulations and actions, in particular the government's adoption of regulatory measures may affect pig price and environmental protection. For example, the growth in central frozen pork reserves driven by the PRC government would strengthen market confidence and increase the market demand of pigs, which would in turn stabilise the pig prices;
- competition;
- livestock diseases;
- weather conditions, including the impact of weather on water supply, and the supply and pricing of grains;
- competing demand for corn, for use in the manufacturing of ethanol and other alternative fuels; and
- transportation and storage costs.

Pig and poultry product prices typically fluctuate cyclically, reflecting changes in market demand and supply. These fluctuations can be significant, as shown in recent five years. In particular, from January 2023 to May 2023, the monthly average pig price declined from RMB15.4 per kilogram to RMB14.5 per kilogram. This was primarily attributable to the interplay of supply and demand factors, influenced by the cyclical nature of the pig industry and weaker demand post-Lunar New Year. Subsequently, as the pig supply gradually stabilises and market confidence is strengthened by the growing central frozen pork reserves, there is an anticipation of a rebound in pig prices during the second half of 2023. For details, please refer to the section headed "Industry Overview – Pig Cycle" in this document.

The central frozen pork reserves is a tool the government uses to stabilise pig prices. When the pig prices experience significant drop, whether due to oversupply or other market factors, the government will purchase frozen pork from the market, which increases demand and helps stabilise prices by improving confidence in the pig market. Conversely, during periods of high pig prices, the government can release reserves to counter inflationary pressures and help manage the supply and demand balance in order to avoid excessive price increases. The fluctuations in pig prices are primarily influenced by market supply and demand dynamics, and government intervention serves as a stabilising mechanism to ensure price stability and support the interests of both producers and consumers. Any significant release of the central frozen pork reserves would increase the market supply of pig products, which would in turn decrease the selling prices of pigs, and our business, results of operations and financial condition may then be adversely affected.

We may utilise financial derivative instruments in our operations to hedge our exposure to fluctuations in selling prices of pigs. However, there is no assurance that the pig futures can guarantee us the operational stability and predictability, nor fully protecting us from the fluctuations of price and supply of pigs. We hedge the pig prices when we consider market conditions are appropriate. While this hedging tool reduces our exposure to fluctuations in selling prices of pigs, the use of such financial instruments may ultimately limit our ability to benefit from favourable trends in pig prices.

Soybean meal and corn, which are our primary raw materials, have experienced volatility in selling prices due to various factors such as policies and changes in supply and demand of such commodities in the global markets. We may have difficulty passing the increases in our raw material costs on to customers in a timely manner or at all. Any inability to pass on to our customers all or part of any increased costs experienced by us from time to time, in a timely manner or at all, could have a material adverse impact on our results of operations.

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.

We take precautions to ensure that our pigs and yellow-feathered broilers are healthy and that our farms and other facilities operate in a sanitary manner. Nevertheless, we are subject to risks relating to our ability to maintain animal health and control diseases. An occurrence of swine diseases (such as African Swine Fever and PRRS), porcine circovirus, PED, pseudorabies, porcine parvovirus and porcine eperythrozoonosis), poultry diseases (such as foot-and-mouth disease and avian influenza) or any outbreak of other serious animal diseases or epidemics, might adversely impact our production and consumers' confidence in our production facilities. During the Track Record Period and up to the Latest Practicable Date, we did not suffer from any material loss resulted from such diseases.

African Swine Fever is a fatal disease for pigs and currently there is no vaccine available in the market. Pig farms dispose of infected pigs and result in direct loss under the impact of an outbreak. As African Swine Fever is highly contagious, once an outbreak occurs in one pig farm, all pigs would be disposed of in extreme cases. The 2018 outbreak of African Swine Fever in China caused the decrease of the stock volume of market hogs and breeding pigs. Due to outbreak of African Swine Fever intensified in the second half of 2018, the stock volume of sow and supply of hogs dropped sharply. Therefore, the price of hogs witnessed a rapid increase from 2018 to 2019, rising from RMB12.7 per kilogram to RMB21.9 per kilogram. The average price of hogs continued to rise, reaching RMB34.1 per kilogram in 2020. With the effective prevention and control of African Swine Fever, the output volume of pigs recovered in 2021 and 2022, resulting in lower pig prices. The State Council also issued the "Opinions on the Prevention and Control of African Swine Fever" 《非洲豬瘟防控工作的意見》) in 2019 to emphasize the necessity to strengthen the sharing of departmental information systems, implement "Internet+" supervision of all links in the prevention and control of African swine fever. We did not experience any material disruption of our pig farming operation as a result of African Swine Fever and other swine diseases. For details of the impact of African Swine Fever on us, please refer to the section headed "Business – Impact of Disease and Epidemic – Impact of African Swine Fever". Diseases affecting pigs can reduce the number of pigs produced, hamper the growth of pigs to finishing size, result in expensive medication and vaccination costs, require quarantine or disposal of infected pigs and, in extreme cases, cull large quantities of pigs and temporarily suspend our business operations in the affected facilities, any of which could adversely affect our production or our ability to sell our products. In addition, porcine epidemic diarrhoea is also a disease with high morbidity, high mortality and high infection rate, to which newborn piglets are most susceptible. Although we take biosecurity measures and vaccinate our pigs, we are still unable to fully prevent the occurrence of porcine epidemic diarrhoea.

Avian influenza, in particular H5N1 virus, H7N9 virus and H5N6 virus, is a type of disease which spreads through poultry and is capable of killing millions of poultry and may, in some circumstances, be transmitted to humans, causing symptoms such as fever, cough, sore throat, muscle aches and, in severe cases, breathing problems and pneumonia that may be fatal. H5N1 virus emerged in 1996 and was first identified in southern China, and human infections with H7N9 virus were first reported in the PRC in 2013. In 2014, the PRC reported its first human infection with H5N6 virus. Avian influenza outbreaks that had spread over the past two decades, particularly in 2004, 2005, 2016 and 2017, are considered a pandemic threat in Asian countries. In 2017, Guangzhou officials reported that more than 30 percent of live poultry markets were infected with Avian influenza. In addition, the PRC reported an outbreak of avian influenza caused by H5N1 virus in Hunan Province and H5N6 virus in Sichuan Province, respectively, in February 2020, and about 20,000 poultry from affected farms were culled at local poultry farms. The Chinese government has given high priority and taken measures to control and minimise the spread of Avian influenza, such as culling poultry, monitoring cases of Avian influenza, vaccinating and closing live markets. As confirmed by our Directors, there were no large-scale outbreaks of avian influenza infection detected in our farms, family farms and farming bases and the outbreaks of avian influenza did not cause any material adverse impact on our business operations and financial performance. However, outbreak of diseases in neighbouring areas of any of our production facilities could raise concerns of the public and our customers on the safety and quality of our products.

Adverse publicity concerning any disease or health issue could also cause customers to lose confidence in the safety and quality of pigs and poultry. In addition, outbreaks of zoonoses similar to avian influenza may kerb consumption and cause significant decrease in demand for related meat products. There can be no assurance that there will be no large-scale outbreaks of recurrence of outbreaks of animal diseases or zoonoses in the future. If we experience any outbreaks of animal diseases or zoonoses, our business, results of operations and financial condition may be adversely and materially affected.

Any perceived or actual food safety or health issues related to our raw materials, products or the food industry generally could adversely affect our reputation, our ability to sell our products and our financial performance, and subject us to liability claims and regulatory actions.

Market hogs and broilers are primarily purchased for meat production. We are subject to risks affecting the food industry generally, including risks posed by the following:

- food spoilage;
- food contamination;
- contamination of raw materials;
- consumer product liability claims;
- product tampering;
- product labelling errors;
- expenses and possible unavailability of product liability insurance; and
- potential costs and disruption of a product recall.

If our raw materials or our products are found to be spoiled, contaminated, tampered with, incorrectly labelled, or reported to be associated with any such incidents, we may be subject to product liability claims, adverse publicity and government scrutiny or investigations. Despite the measures we have in place to control the quality of our raw materials and products, there can be no assurance that contamination of our raw materials or products will not occur during the transportation, production, distribution and sales processes due to reasons unknown to us or out of our control. Any product contamination could also subject us to product liability claims, adverse publicity and government scrutiny, investigation or intervention, any of which could have a material and adverse impact on our reputation, business, financial condition, results of operations and prospects.

Any product liability claim made or threatened to be made against us in the future, regardless of its merits, could result in costly litigation and adverse publicity and put a strain on our administrative and financial resources. Such incidents could also affect the confidence of customers in our products, which could in turn adversely affect the sales of our products. Any of these events could have a material and adverse impact on our reputation, business, financial condition, results of operations and prospects.

Additionally, the pork industry has experienced significant issues related to food safety, such as the use of clenbuterol hydrochloride (clenbuterol) in pig production by certain industry participants. When clenbuterol is used as pig feeds in the pig industry, the meat can be leaner with a higher muscle-to-fat ratio but there are also health concerns such as increased heart rate, muscle tremors, headaches, nausea, fever, chills, anxiety and agitation, etc. Since 2006, it had been reported that consumers suffered from food poisoning after eating clenbuterol-contaminated pork. In September 2011, the China's Ministry of Agriculture announced the ban on clenbuterol and the food contamination situation in China improved thereafter. However, we cannot assure that illegal use of clenbuterol in pig production will not happen again. Any issues in relation to food safety may cause customers to lose confidence in the safety and quality of pork products generally, which could in turn adversely affect the sales of our pigs and pork products, and adversely affect our reputation, business, financial condition, results of operations and prospects.

The fair value of our biological assets may fluctuate significantly from period to period, causing our results of operations to be highly volatile.

Our biological assets include (i) commodity hogs (piglets, nursery market hogs and growers), (ii) commodity chickens (eggs, commodity chicks and broilers) and (iii) chicken breeders held for own use to produce commodity chicks which are classified as current assets, and (iv) breeding pigs held for own use to produce market hogs which are classified as our non-current assets. Biological assets are measured at fair value less costs of disposals. Gains or losses arising from initial recognition of biological assets at fair value less costs of disposal and from a change in fair value less costs of disposal of biological assets are included in profit or loss in the period in which it arises. The feeding costs and other related costs such as staff costs, depreciation and amortisation expenses and utilities cost incurred for raising gilts and studs and chicken breeders are capitalised until the gilts and studs and chicken breeders begin to mate or transfer to the group of sows and boars or mature chicken breeders. Such costs incurred for sows and boars are also capitalised while upon pregnancy and transferred to the piglets farrowed. Agricultural produce harvested from biological assets is measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories.

The fair values of our biological assets at each reporting date during the Track Record Period were determined by the Valuer and we intend to engage an independent professional valuer to determine the fair values of our biological assets going forward. In valuing our biological assets, the Valuer has relied on a number of major parameters and assumptions which may vary from time to time, such as quantity and body weight of biological assets and selling price of biological assets, as well as future trends in political, legal and economic conditions in China. Please refer to the section headed "Financial Information – Biological Assets and Valuation – Valuation Methodology" for details.

The fair value of our biological assets could be affected by factors including the accuracy of those parameters and assumptions, as well as the quality of our biological assets and changes in the pig and poultry farming industry. Selling prices for biological assets are highly volatile and susceptible to significant fluctuations from period to period. As a result of revaluations of our biological assets from period to period, our financial position and results of operations may change significantly from period to period. In addition, an increase or decrease in selling prices for biological assets will increase or reduce our revenue and gains or losses arising from changes in fair value less costs of disposal of biological assets, which makes our reported profit more volatile. During the Track Record Period, we recorded fluctuations for the changes in fair value of biological assets in our pig segment and our poultry segment. For further details, please refer to the section headed "Financial Information – Biological Assets and Valuation". We cannot assure that the fair value of our biological assets will not decrease in the future, which in turn will adversely affect our financial results.

Although we may recognise fair value gains from increases in the fair value of our biological assets, these changes will not represent changes in our cash position as long as the relevant assets continue to be held by us. Please refer to the section headed "Financial Information – Key Factors Affecting Our Results of Operations and Financial Condition – Changes in the Fair Value of Biological Assets" for details.

Our historical financial and operating results are not indicative of future performance, and we may not be able to achieve and sustain the historical level of revenue and profitability.

You should not rely on our historical results to predict our future financial performance. We realised significant growth from 2020 to 2022. Our revenue increased by 21.6% from RMB8,145.3 million for 2020 to RMB9,901.6 million for 2021 and further increased by 51.9% to RMB15,037.0 million for 2022. We also realised growth from the five months ended 31 May 2022 to the same period in 2023. Our revenue increased by 38.9% from RMB4,581.2 million for the five months ended 31 May 2022 to RMB6,362.2 million for the five months ended 31 May 2023. There is inherent risk in using such historical financial information of us to project or estimate our financial performance in the future, as they only reflect our past performance. There is no assurance that we will be able to maintain our historical growth in the future. Our revenue and profitability may vary from period to period in response to a variety of factors beyond our control. These factors can include general economic conditions, special events, increasing competition, government regulations and policies affecting our industry and/or our ability to control costs and operating expenses. Our financial and operating results may not meet the expectations of public market analysts or [**REDACTED**], which could cause the future price of our H Shares to decline.

We incurred losses from our operations in 2021 and five months ended 31 May 2023, which makes it difficult to evaluate our future prospects and results of operations.

We recorded a profit of RMB3,608.4 million and a loss of RMB3,172.7 million for 2020 and 2021, respectively, which was primarily because of a decrease in the fair value of biological assets recorded for 2021. We then recorded a net profit of RMB909.8 million for 2022. We also recorded a gross loss and a net loss of RMB382.9 million and RMB2,184.5 million for the five months ended 31 May 2023, respectively, while a gross loss and a net loss of RMB597.2 million and RMB1,548.6 million for the five months ended 31 May 2022, respectively, due to the relatively high average selling price of our market hogs for the five months ended 31 May 2023 as compared with the corresponding period in 2022. Please refer to the section headed "Financial Information – Period-to-Period Comparison of Results of Operations – 2021 as Compared to 2020", "Financial Information – Period-to-Period Comparison of Results of Operations – 2022 as Compared to 2021" and "Financial Information – Period-to-Period Comparison of Results of Operations – Five Months Ended 31 May 2023 as Compared to Five Months ended 31 May 2022" for more information. It would be difficult to evaluate our future prospects and results of operations. Accordingly, you should consider our future prospects in light of the risks and uncertainties primarily relating to our ability to:

- manage the potential impact of price fluctuations of our products and raw materials;
- manage large-scale hog production operations and maintain effective control over our operating costs and expenses;
- maintain and enhance the quality of our products;
- increase awareness of our brands, attract additional customers and enhance customer loyalty;
- respond to competitive market conditions and changes in our regulatory environment;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- implement, monitor and enhance our internal control system.

If we are unsuccessful in addressing any of these risks and uncertainties, our business, financial performance and results of operation may be materially and adversely affected.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all. Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

We currently fund our operations principally with proceeds from the sale of products and bank and other borrowings. Further, a majority of our bank borrowings consist of short-term bank loans, which puts pressure on our cash flows. As at 30 September 2023, being the most recent practicable date for liquidity disclosure in this document, we had outstanding indebtedness of RMB9,197.0 million, which comprised interest-bearing borrowings and lease liabilities. This indebtedness could have important consequences for our business and operations including, but not limited to:

- limiting or impairing our ability to obtain financing, refinance our indebtedness, obtain share capital or debt financing on commercially reasonable terms or at all, which could cause us to default and materially impair our liquidity;

- restricting or impeding our ability to obtain financing in capital markets at attractive rates and increasing the cost of future borrowings;

- reducing our flexibility to respond to changing business and economic conditions and increasing our vulnerability to downturns;

- requiring us to dedicate a substantial portion of our cash flow from operations to payments of principal and interest on our indebtedness, thereby reducing the availability of our cash flow for other purposes;

- placing us at a competitive disadvantage compared to our competitors that have lower leverage ratio or better access to capital resources; and

- limiting our ability to dispose of assets that secure our indebtedness or utilise the proceeds of such dispositions and, upon an event of default under any such secured indebtedness, allowing the lenders thereunder to foreclose upon our assets pledged as collateral.

If we fail to renew our existing bank borrowings or raise additional funding through future debt or equity offerings as needed, our ability to implement our business strategy may be impaired, which could adversely affect our growth, prospects and our results of operations. In addition, our ability to comply with financial covenants and conditions, make scheduled payments of principal and interest or refinance existing borrowings depends on our business performance, which is subject to economic, financial, competitive and other factors, including the other risks described in this document.

Furthermore, the terms of our indebtedness may contain affirmative and negative covenants, such as restriction on use of loans, restriction on external guarantee, requirement on certain financial ratios and continuing reporting obligations. Should market conditions deteriorate, or if our operating results were to be depressed, we may need to request amendments or waivers to the covenants and restrictions under our debt agreements. There can be no assurance that we will be able to obtain such relief should it be needed. A non-fulfilment of any of these covenants or restrictions might result in a default that would permit our lenders to declare all amounts outstanding thereunder to be due and payable, together with accrued and unpaid interest, trigger cross-default provisions under other debt agreements and, as applicable, cause the termination of commitments of relevant lenders to make further extensions of credit under our financing agreements or credit facilities. If we were unable to repay our indebtedness to our lenders in such an event, the lenders could, among other things, dispose of collateral, which could include substantially all of our assets. In addition, a small portion of our loan agreements also mandate that consecutive net loss and/or consecutive negative net operating cash flow shall not be recorded for a relevant period of two to three years. Given that we might record losses due to the cyclical fluctuation of the pig or poultry farming industry, there can be no assurance that we would not experience difficulties complying with the loan covenants conditional waivers and repaying the outstanding loan amounts as they come due. Our future ability to comply with financial covenants and other conditions, make scheduled payments of principal and interest or refinance existing borrowings depends on our business performance, which is subject to economic, financial, competitive and other factors, including the other risks described in this document. Any failure to comply with the covenants of our financing agreements or to obtain financing for our business could have a material adverse effect on our business, financial condition, results of operations and prospects.

We recorded net current liabilities as at 31 December 2021 and 31 May 2023, and we cannot assure you that we will not record net current liabilities, which might expose us to certain liquidity risks.

As at 31 December 2021 and 31 May 2023, we had net current liabilities of RMB258.2 million and RMB2,683.8 million, respectively. Please refer to the section headed "Financial Information – Current Assets and Current Liabilities" in this document for further details regarding our net current liabilities. There can be no assurance that we will not have net current liabilities in the future. Significant net current liabilities could constrain our operational flexibility and adversely affect our ability to expand our business. If we do not generate sufficient cash flow from our operations to meet our present and future financial needs, we may need to rely on external funding. If adequate external funds are not available on commercially reasonable terms, we may face liquidity issues and our business, financial condition and results of operations may be materially and adversely affected.

We may not be able to effectively manage our inventory levels.

Our inventories comprise raw materials we used for feed production, finished goods and spare parts and consumables. We adopt stringent inventory control and maintain low level of inventory. We periodically review our inventory levels for slow moving inventory, obsolescence or declines in market value. We manage our inventory levels principally based on the anticipated demand. Customer demand, however, can be affected by numerous uncertainties, including market conditions, the outbreak of diseases, regulatory approvals and other factors beyond our control. Balance of our inventories increased from RMB444.1 million as at 31 December 2020 to RMB570.1 million as at 31 December 2021, further to RMB707.2 million as at 31 December 2022 and subsequently decreased to RMB530.0 million as at 31 May 2023. If we fail to manage our inventory levels effectively, we may be subject to a higher risk of inventory obsolescence, a decline in the value of inventories, and potential inventory write-downs or write-offs. Procuring additional inventories may also require us to commit substantial working capital, which would prevent us from using this capital for other purposes. Any of the foregoing may materially and adversely affect our results of operations and financial condition.

We may need to make allowance for impairment of prepayments, deposits and other receivables.

Our prepayments, deposits and other receivables mainly consist of advances to contract farmers, deposits, loans and advances to local government, prepayments for purchase of inventories, prepaid expense and others. We recorded prepayments, deposits and other receivables amounted to RMB142.1 million, RMB235.3 million, RMB413.4 million and RMB424.8 million as of 31 December 2020, 2021 and 2022 and 31 May 2023, respectively.

There is no guarantee that related parties, suppliers and other third parties will perform their obligations in a timely manner, and we are subject to credit risk in relation to prepayments, deposits and other receivables. We make allowance for impairment of prepayments, deposits and other receivables when we determine the chances of recovering the relevant amounts due are remote. We conduct assessments on the recoverability of prepayments, deposits and other receivables based on, among others, our historical settlement records, our relationship with relevant counterparties, payment terms, economic trends and to a certain extent, the larger economic and regulatory environment, which involve the use of various judgments, assumptions and estimates by our management. As our management's estimates and related assumptions were made in accordance with information available to us at the time the allowance was determined, there is no assurance that our expectations or estimates will remain accurate for the future. If we are not able to recover the amount as scheduled, we may need to make allowance for impairment of prepayments, deposits and other receivables and our business, financial condition and results of operations may be materially and adversely affected.

We are exposed to fair value changes for financial instruments and valuation uncertainty due to the use of unobservable inputs that require judgement and assumptions which are inherently uncertain.

During the Track Record Period, we invested in wealth management products issued by commercial banks and financial institutions in China and unlisted equity investments, and the fair value of such unlisted financial products that are not traded in an active market is determined using valuation techniques, which require judgement and assumptions and involve the use of unobservable inputs, such as the expected rates of return. We use our judgement to make assumptions that are mainly based on the then prevailing market conditions at the end of each reporting period. For further details, see note 35(d)(i) to the Accountants' Report set out in Appendix I in this document. Changes in these assumptions and estimates could materially affect the fair value of these unlisted financial products. Factors beyond our control, including but not limited to, general economic conditions, changes in market interest rates and stability of the capital markets, can significantly influence and cause adverse changes to the estimates we use, and thereby affect the fair value. Our financial assets at fair value through profit or loss decreased from RMB655.2 million as of 31 December 2020 to RMB51.8 million as of 31 December 2021, increased to RMB352.7 million as of 31 December 2022 and increased to RMB393.7 million as of 31 May 2023. Please refer to the section headed "Financial Information – Discussion of Certain Key Statement of Financial Position Items – Financial Assets at Fair Value through Profit or Loss" for further details. The valuation techniques that we use may involve a significant degree of management judgement and are inherently uncertain, and may result in material adjustment, which in turn may materially and adversely affect our results of operations and financial conditions.

The fair value measurement of our derivative financial instruments is subject to uncertainties and risks and the fair value changes of such derivative financial instruments may materially and adversely affect our results of operations.

Our derivative financial instruments are primarily comprised of commodity futures contracts, insurance products linked to pig futures and options contracts. For details, please refer to the section headed "Financial Information – Discussion of Certain Key Statement of Financial Position Items – Derivative Financial Instruments". We began to engage in hedging transactions with derivative financial instruments in 2021. The change in fair value of our derivative financial instruments recorded a gain of RMB109.6 million, a loss of RMB54.0 million and a gain of RMB19.1 million for the years ended 31 December 2021 and 2022 and the five months ended 31 May 2023, respectively.

Any gain or loss arising from a change in fair value of our derivative financial instruments is recognised in the consolidated statements of profit or loss and other comprehensive income. Our derivative financial instruments may incur negative fair value change in the future, which may adversely affect our profitability. Our results may fluctuate due to increases or decreases in the appraised fair value of our derivative financial instruments. However, fair value gains do not change our overall cash position or our liquidity as long as we continue to hold such derivative financial instruments.

The amount of revaluation adjustments has been, and will continue to be, subject to market fluctuations. We cannot assure the changes in market conditions (if any) will create fair gains on our derivative financial instruments at the previous level or at any level at all, or that the fair value of our derivative financial will not decrease in the future, or that our derivative instruments will increase substantially or at all.

We may not be able to fulfil our obligations in respect of contract liabilities, which may have a material and adverse impact on our results of operations and financial condition.

Our contract liabilities amounted to RMB46.2 million, RMB35.3 million, RMB68.5 million, and RMB56.7 million as of 31 December 2020, 2021, 2022 and 31 May 2023, respectively. Our contract liabilities primarily arose from advances from customers who are third parties, while the underlying goods or services are yet to be provided. If we fail to fulfil our obligations under our contracts with customers, we may not be able to convert such contract liabilities into revenue, and our customers may also require us to refund the advances we have received, which may adversely affect our cash flow and liquidity condition. In addition, it may adversely affect our business, our relationship with such customers, which may also affect our reputation and results of operations in the future.

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.

We cooperate with third parties under our family farm models, under which we engage third parties for sow raising and fattening (No. 2 Family Farm model), piglet fattening (No. 1 Family Farm model and No. 2 Family Farm model) as well as broiler farming services (Poultry Farming Base Model and Poultry Family Farm model). For 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, revenue from the sale of pigs and poultries raised under the family farm models amounted to RMB7,347.4 million, RMB7,884.6 million, RMB12,884.9 million, RMB3,841.3 million and RMB5,434.6 million, representing 90.2%, 79.6%, 85.7%, 83.8% and 85.4% of our total revenue during the same periods, respectively. For details, please refer to the section headed "Business – Production – Contract Farming" in this document. We provide family farms with sows, piglets, chicks, feeds and veterinary medicine. We may not be able to monitor the performance of these family farms as directly and efficiently as with our own farms.

We cannot assure the quality of the pigs and broilers raised in our family farms. We may be liable for our family farms' default. There is no assurance that these third parties under our family farm models are able to maintain financial viability, or comply with relevant regulatory requirements and our internal policies in respect of quality control and environmental, social and governance aspects. In particular, 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, where applicable, and (ii) the Certificate for Animal Epidemic Disease Prevention (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, certain pig farm owners and broiler farm owners that cooperated with us did not possess all of the Required Licenses. For details, please refer to the section headed "Business – Production – Contract Farming – Requisite Licences and Permits in respect of Farm Owners" in this document. We cannot assure you that farm owners cooperated with us will not be subject to any order to cease operation in the future, nor can we assure you that we are able to find suitable replacements of farm owners in a timely manner, at acceptable terms or at all. These events may have an impact on our profitability, financial performance and reputation, as well as expose us to litigation or damages claims. In addition, we are exposed to fraud or other misconduct committed by family farm owners, which could subject us to financial losses, third party claims, regulatory investigations or reputational damages. Although we have implemented measures to detect and deter the misconduct of family farm owners, we cannot assure you that our measures are sufficient to prevent, or that we could properly manage the conduct of family farm owners. Any such conduct committed by family farm owners could have an adverse effect on our reputation, business, financial condition and results of operations.

In addition, most of our market hogs and most of our yellow–feathered broilers are raised by family farms. There can be no assurance that we will continue to be able to contract with family farms which meet our requirements and quality standards on favourable terms or at all. In the event that our family farms operation is disrupted for whatever reason, our business, financial condition, results of operations and prospects may be materially and adversely affected.

The COVID-19 outbreaks worldwide and measures intended to prevent its spread may have a material adverse impact on our business, results of operations and financial condition.

An outbreak of COVID-19 was first reported in December 2019 and expanded across the globe. COVID-19 has significantly affected many countries globally. The PRC government imposed necessary pandemic prevention measures to keep COVID-19 in check. Since December 2022, these measures have been revoked or replaced. However, we cannot predict when the COVID-19 outbreak and resurgences will become completely under control and we cannot guarantee that the COVID-19 outbreak and resurgences will not worsen. The ultimate impact of the COVID-19 pandemic remains uncertain and subject to frequent changes.

During the Track Record Period, the outbreak of COVID-19 impacted our business in many aspects, including our sales and supply chain. For details, please refer to the section headed "Business – Impact of Disease and Epidemic – Impact of the COVID-19 Outbreak" in this document. Any failure to take adequate steps to mitigate or pre-empt the likelihood or potential impact of such events, or to effectively respond to such events if they occur, could materially and adversely affect our business, financial condition and results of operations.

In addition, we have implemented a number of precautionary and safety protocols throughout our farms, our family farms and our production facilities. Please refer to the section headed "Business – Quality Control and Food Safety – Quality Control of Poultry Production – Biosecurity Measures" for details. We cannot guarantee that the precautionary and safety protocols implemented are adequate or effective to fully protect us against the potential risks relating to COVID-19 inherent in our business. In particular, due to the rapidly evolving global situation, the risk of further waves of infections, the range of corresponding responses taken by different countries, and the uncertainties surrounding vaccine efficacy, we cannot predict the duration or the ultimate impact of the COVID-19 pandemic. As a result, the duration and extent of the effect of COVID-19 on our business and results of operations is not determinable. If the COVID-19 pandemic persists or is not effectively and timely controlled, stricter pandemic prevention measures may be implemented, farm and production facility closures may be required, and we may experience lower production levels, additional direct costs and lost revenue. We cannot guarantee that we will have adequate and successful arrangements for transportation and raw materials supplies to sustain our production to meet customer demand if there is another wave of the COVID-19 pandemic. In addition, if our suppliers experience COVID-19 related closures or reductions in their capacity utilisation levels in the future, we may have difficulty sourcing the raw materials necessary to fulfil production requirements. Any of these factors, or outbreaks of other contagious diseases such as SARS, H5N1 avian influenza, human swine flu or another epidemic, could have a material adverse effect on our business, financial condition, results of operations and prospects.

Our business depends on the strength of our reputation and brands. If we fail to maintain and enhance our reputation and brands, consumers' recognition of and trust in us and our brands and products may be materially and adversely affected.

We rely on the strength of our reputation and brands in marketing and selling our products. We use "Lingnanhuang (嶺南黃®)", "Yupinfeng (御品鳳®)" and "Dexiang (德鄉®)" brands to sell our yellow-feathered broilers. Our reputation and brands could be harmed by product defects, ineffective customer service, product liability claims, consumer complaints, or negative publicity or media reports. In addition, we plan to establish and promote our brand in the foods segment. If the brand failed to be widely recognised by consumers as planned, the growth of our value in the future may be lower than expected.

Any claim against us, even if meritless or unsuccessful, could divert our management's attention and resources from other business, which may adversely affect our business and results of operations. Negative media coverage regarding the safety, quality or nutritional value of our products and the resulting negative publicity could materially and adversely affect consumers' recognition of and trust in us and our brands and products. In addition, adverse publicity about any regulatory or legal action against us could damage our reputation and brand image, undermine our customers' confidence in us and reduce demand for our products, even if the regulatory or legal action is unfounded or immaterial to our operations.

Furthermore, negative publicity relating to our products, raw materials, brands, operations, the food industry or products similar to ours may adversely affect consumers' perceptions of our products and result in decreased demand for our products. In particular, negative publicity relating to any one of our brands may be particularly harmful as we use only a few core brands to sell our products, and therefore face risks from brand concentration. Negative publicity concerning any perceived or actual health risks associated with our brands or products could also cause customers to lose confidence in the safety and quality of our products, which could adversely affect our reputation, business, financial condition, results of operations and prospects. We could also be adversely affected by perceived or actual health risks associated with similar products produced by other companies since these types of risks could cause consumers to lose confidence in the safety and quality of these types of products generally and consumers may therefore opt for other meat products that are perceived as safer.

We are subject to risks associated with managing future growth and expansion.

We tapped in the food processing business, which covers the slaughtering and processing of pigs and poultry, the production and sales of fresh pork and chicken meat and processed meat products. We did not generate any revenue from the food processing business during the Track Record Period. As at the Latest Practicable Date, we had certain projects in progress for expansion into the food processing business. Please refer to the section headed "Business – Our Business Model and Products – Expansion into Food Processing Business" for details. There is no assurance that our business strategies and plans of the food processing business can be implemented successfully. Any failure or delay in the implementation of any or all of these strategies and plans may have a material adverse effect on our profitability and prospects.

Our future growth may also depend on building our slaughtering and food processing business, expanding our pig and poultry farms, strengthening our research and development on pig and poultry breeding and establishing our intelligent breeding measurement platform and breeding evaluation platform. Our business plans set forth in "Business – Our Business Strategies" and "Future Plans and [**REDACTED**]" are based on assumptions of future events which may entail certain risks and are inherently subject to uncertainties. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects.

Specifically, our business expansion into slaughtering and food processing business requires investment and construction lead time. We will need to procure additional raw materials, construct slaughtering house, food processing facilities, warehouse and transportation infrastructure, and increase distribution and marketing channels to support our business expansion plan. We incur and expect to incur additional costs in relation to our expansion, and expect that there will continue to be a time lag before we are able to generate revenue from new slaughtering and food processing business. Due to the fixed costs associated with new slaughtering house and food processing facilities, this time lag will affect, and we expect to continue to affect, our results of operation, financial condition, net current liabilities position and cash flows.

In addition, we may require additional fund to realise our expansion plans and may have difficulty obtaining such financing. There is no assurance that we will be able to enhance our production capabilities in time or implement our future plan effectively.

Expansion into new geographic markets and new sales channels present operating and marketing challenges that are different from those we currently face in our existing markets and sales channels. Consumers in new markets and sales channels are likely to be unfamiliar with our brands and products and we may need to build or increase brand awareness in the relevant markets and sales channels by increasing investments in advertising and promotional activities. Additionally, our expansion plans and business growth could strain our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our personnel, systems, procedures and control measures will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects.

Our operations are subject to the risks associated with acquisitions and investments in joint ventures and associates.

In October 2020, we cooperated with Tönnies and established DT Food to expand into food processing business. For further information, please refer to the section headed "Business – Our Business Model and Products – Expansion into Food Processing Business – Cooperation with Tönnies." There can be no assurance that our investment in DT Food will bring the anticipated strategic benefits to us. We have relatively limited experience in operating the food processing business and we may not be able to successfully integrate DT Food into our existing business.

In addition, from time to time, we may review opportunities for strategic growth through acquisitions or through investment in joint ventures (including breeding enterprises overseas). These acquisitions and investments may involve large transactions or realignment of existing investments. These transactions present financial, managerial and operational challenges, including but not limited to:

- changes in our cost structure due to such acquisitions or investments;
- diversion of management attention from managing our existing business;
- complexities in integrating new businesses, operations, personnel, and financial and other systems;
- lack of operating experience in the new industry, geographical or product markets of the acquired business;
- increase of the operational risks of our overseas business, such as complying with the trade barriers and other protective measures of overseas countries, different regulatory framework and environment;
- failure to achieve our intended objectives, benefits or revenue-enhancing opportunities; and
- adverse effects on our results of operations due to the amortisation of and potential impairment provision for goodwill or other intangible assets associated with acquisitions, and losses sustained by acquired businesses after the date of acquisitions.

We may experience financial or other setbacks if any of the businesses that we have acquired or may acquire or any joint ventures we have established or may establish have problems or liabilities that we are not aware of or exceed our expectations. Failure to effectively manage our acquisitions or investment in joint ventures may adversely affect our growth prospects.

Further, we may not be able to make acquisitions or investments on favourable terms or within a desired time frame. Even if we were able to make acquisitions or investments successfully as desired, we cannot assure you that we will achieve an intended level of return on such acquisitions or investments. If we require debt financing in connection with such acquisitions and investments, we will incur additional financing costs. In addition, we may require additional equity financing in order to make such acquisitions and investments. If obtained, any such additional equity financing may result in dilution to the holdings of existing Shareholders. Any of these factors could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our operations are required to comply with various applicable laws and regulations. The costs associated with compliance with such regulations and requirements can be substantial. Our results of operations and future growth prospects may be adversely affected by future changes in government regulations.

We have to comply with various applicable laws and regulations for breeding, farming, slaughtering, processing, processed pork and chicken meat production and sale in China, including setting hygiene and safety standards for production, quality standards for meat products and environmental requirements on the treatment of dead pigs and chicken, sewage and wastes; and handling filings of facility agricultural-use land. We cannot assure that the competent authorities will not impose direct or indirect price control measures in our industry (such as government measures aiming to regulate pigs' or chickens' prices) in the future. In the heat of African Swine Fever, local authorities in certain regions implemented policies to regulate prices and guarantee supply. Our business and results of operations may be adversely affected as a result of direct or indirect price control measures in the pig or poultry farming industry.

In addition, we are required to obtain and maintain various licences, permits and filings in order to operate our business. These mainly include, among others, Certificate for Production and Operation of Breeding Livestock and Poultry (種畜禽生產經營許可證), Certificate for Animal Epidemic Disease Prevention (動物防疫條件合格證), and Feed Production Licence (飼料生產許可證). We are also required to obtain various government approvals and comply with hygiene and food safety standards in relation to our production processes, premises and products. Loss of or failure to obtain necessary permits, licences and filings could delay or prevent us from meeting current product demand, launching new products, building new facilities or acquiring new businesses and could adversely affect our operating results. During the Track Record Period and up to the Latest Practicable Date, we failed to obtain or renew certain licences in relation to our operation. We may face sanctions or other enforcement actions for our failure to obtain approvals, licenses, permits or certificates as might be necessary for our operations. We could be ordered by the relevant regulatory authorities to cease operation, or may be imposed fines or required to undertake corrective measures requiring capital expenditure or other remedial actions, which could materially and adversely affect our business, financial condition and results of operations. As at the Latest Practicable Date, we obtained some of them but there were certain outstanding in relation to the Certificate for Production and Operation of Breeding Livestock And Poultry for some of our farms. For details, please refer to the section headed "Business – Legal Proceedings and Compliance – Compliance – Non-compliance Incidents – (i) Failure to obtain or renew requisite licenses in relation to our operation".

If we are found not to be in compliance with applicable laws and regulations, particularly if it relates to or compromises food safety, we could be subject to administrative penalty and claimed for civil compensation, including fines, injunctions, recalls or asset seizures, as well as potential criminal sanctions, any of which could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, future material changes in regulations over our operations, including but not limited to regulations relating to licence, permit, public health, hygiene and food safety requirements, could result in increased operating costs or affect our ordinary operations, which could also have an adverse effect on our operations and our financial results.

Our non-compliance with relevant environmental protection laws and regulations could lead to the imposition of fines and penalties and harm our business. Our environmental-related costs may increase in order to fulfil various environmental requirements and standards.

Our business is subject to extensive and increasingly stringent environmental protection laws and regulations. As environmental protection is getting more attention around the world, China's environmental protection laws have also been continuously strengthened. These laws and regulations require us to adopt measures to effectively control and properly dispose of dead pigs and chicken, manure, waste gases, waste water, noise and other environmental waste materials. During the breeding, farming and slaughtering of pigs and chicken, we may produce sewage, solid waste, waste gas, noise and we are subject to the restrictions of environmental protection laws and regulations in relation to the discharge of such pollutants. We have incurred environmental costs to comply with environmental protection laws and regulations. We will continue to incur costs in order to comply with environmental protection laws and regulations. In addition, new environmental issues could arise and lead to unanticipated investigations, assessments or costs. There can be no assurance that the existing laws or regulations will not impose more requirements or stricter standards in relation to environmental protection, compliance with which may require us to incur significant costs and capital expenditures. If we fail to comply with all existing or future environmental protection laws or regulations in an adequate and effective manner, we may be subject to legal consequences, including administrative, civil and criminal penalties, liability for damages and negative publicity. If the breach is serious, regulatory authorities may suspend or close any operation for failing to comply with such laws or regulations. During the Track Record Period, we paid for 16 administrative fines with an aggregate amount of approximately RMB3.0 million as a result of our failure to fully comply with relevant PRC environmental protection laws and regulations. For further details, please refer to the section headed "Business – Legal Proceedings and Compliance – Compliance – Non-compliance Incidents – (ii) Administrative fines relating to environmental protection".

Pursuant to PRC laws and regulations, a construction unit shall not commence construction without completing the environmental impact assessment, and the facilities should have passed acceptance inspection before commencement of production. During the Track Record Period, we commenced production without completing the relevant environmental impact assessments and/or the acceptance inspections of environmental protection facilities for some of our farms. We have taken remedial measures necessary to obtain the requisite approvals and filings and follow the requisite requirements. However, we may not be able to obtain such approvals, permits and filings or follow the requisite requirements in a timely manner or at all. If we are determined not to be in compliance with applicable PRC laws and regulations, we may be required to rectify such non-compliance and subject to administrative penalties, including fines, orders to restore to its original condition or orders to stop construction, production or use, which could adversely affect our business and financial conditions.

With the global trend of low-carbon transition and the PRC development towards carbon neutrality, the PRC government may introduce new regulations and policies to implement stricter environmental protection standards, which may lead to an increase in our environmental protection costs and therefore materially and adversely affect our results of operations and financial condition. In addition, while there is currently no animal welfare laws in China that directly affects our operations, there has been rising concern over the treatment of animals in the society. Any future legislation and social expectation on animal treatment may lead to an increase in our operating costs and therefore materially and adversely affect our results of operations and financial condition. In response to the above and awareness on environmental, social and governance (the "**ESG**") matters, we will integrate risk factors pertaining to sustainability, including climate change, health and safety, business ethics and regulatory compliance, into our risk matrix to mitigate associated impacts and develop best practices in order to achieve long-term growth and sustainability of our business. For more information on risks related to the ESG matters, please also refer to the section headed "Business – Environment and Social Matters – ESG Governance" in this document. We cannot assure that we can effectively implement the ESG governance protocols, including to identify and mitigate our ESG-related risks effectively. If we fail to address the ESG compliance promptly, our business, operating results and financial condition could be materially and adversely affected.

Our non-compliances with social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties.

Under the Social Insurance Law of PRC (《中華人民共和國社會保險法》) and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance, and housing funds, and employers are required, together with their employees or separately, to pay the social insurance premiums and housing funds for their employees.

During the Track Record Period, we did not make full contributions to the social insurance and housing provident fund for our employees. We made provisions of RMB4.0 million, RMB15.0 million, RMB20.9 million and RMB6.3 million, respectively, for the social insurance payments shortfall for 2020, 2021, 2022 and the five months ended 31 May 2023, and provisions of RMB8.0 million, RMB5.0 million, RMB5.9 million and RMB1.7 million for the housing provident fund respectively, for the housing provident fund shortfall for the same periods. For further details, please refer to the section headed "Business – Legal Proceedings and Compliance – Compliance – Non-compliance Incidents – (iii) Failure to make full contribution to the social insurance and housing provident fund" in this document. As of the Latest Practicable Date, we have not received any notice from the relevant authorities demanding us to rectify such non-compliance issue. Nevertheless, if the relevant competent authorities demand us to make up the payment in the future, we will comply with the relevant requirements and make up the payment in time. We cannot assure you that we will not be subject to any order to rectify the non-compliances in the future, nor can we assure you that there are no, or will not be any, employee complaints regarding payment of the outstanding amount of the social insurance and housing provident fund contributions against us, or that we will not receive any claims in respect of the outstanding amount of the social insurance and housing provident fund contributions under applicable laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations promulgated by the PRC government authorities. Failure to fully comply with relevant laws and regulations, which may result in our being ordered to make rectifications, pay fines and late payment fees or other regulatory measures taken by the relevant PRC authorities, may have a material negative impact to our business, financial condition and results of operations.

We are subject to potential adverse effect in respect of our existing properties owned and leased

As at the Latest Practicable Date, we had not obtained filings for facility agricultural-use land for certain farm parcels of land, land use rights certificates and building ownership certificates for certain of our buildings, and the actual land use of certain state-owned lands which we had obtained land use rights certificates are inconsistent with their approved land use as specified in their title certificates. The aforementioned properties are mainly used for offices, dormitories and production facilities. For details, please refer to the section headed "Business – Properties". There is no assurance that we will not be subject to any administrative penalties for these non-compliances in the future, and if this were to happen, our business, results of operation and financial position may be adversely affected. In addition, several of our pig farms occupied forest land without obtaining relevant approvals or completing of filings for use of such forest lands. For details, please refer to the section headed "Business – Legal Proceedings and Compliance – Compliance – Non-compliance Incidents – (iv) Failure to obtain the approval or complete the filing for occupation of forest lands by our farms". We may be subject to fines and administrative penalties for these defects and we may need to demolish the relevant production facilities and relocate the relevant farms. This could have an adverse effect on our business and results of operations.

Some of our leased properties which are not used for business operation are subject to certain title defects and lack of registration. For details, please refer to the section headed "Business – Properties – Leased Properties." For some of such leased properties, the lessors may not be able to provide property title certificates or other documents evidencing the authorisation or consent from the property owners for subleasing. In such case, our rights in relation to such properties might not be entirely protected. Any claim or disputes related to the title of such leased properties may affect our ability to continue to lease such properties and may result in relocation. We cannot guarantee that the legality of our use and occupation of the relevant buildings will not be challenged by third party or the government authorities in the event that the actual use of our leased properties is inconsistent with the use registered on the land use right certificate or our leased properties are on allocated land, in which scenario the competent authorities may require the lessors to return the land and we may be forced to relocate such effected properties. If we have to find alternative properties, additional relocation costs will be incurred which may have an adverse effect on our business, financial condition and results of operations. Furthermore, as at the Latest Practicable Date, such leased properties have not been registered with the relevant PRC government authorities. Although non-registration of lease agreements will not affect the validity of such lease agreements, we may be subject to a fine ranging from RMB1,000 to RMB10,000 for each non-registered lease, if we fail to complete the registration within the prescribed time frame as required by the relevant PRC government authorities and may result in adverse effects on our results of operations, financial position or prospects.

We rely on our pig and poultry farms for our business operations. Any failure to secure renewal of the current leases of our pig and poultry farms on commercially acceptable terms or at all could adversely affect our growth prospects and business condition.

We (i) leased the collectively-owned rural land use right to build our own farms and (ii) leased farms directly from third-party facilities owners to operate our pig and poultry farms. Such leases generally have a term of 5-30 years. We cannot assure we can obtain renewal of the lease agreements upon expiry on at least the same terms or at all.

The rural land parcels we leased were obtained through contract and circulation. As provided by the Rural Land Contracting Law of the PRC (《中華人民共和國農村土地承包法》) and the Measures for the Administration of Circulation of Rural Land Contracted Management Right (《農村土地經營權流轉管理辦法》), the rural land contracted management right lawfully obtained by a contractor may be circulated by way of leasing (interchanging), shareholding or other methods in compliance with PRC laws and policies and the contractor may entrust the contract-letting party or intermediary organisation to circulate the rural land contracted management right. Pursuant to the Land Administration Law of the PRC, the collectively-owned rural land use right shall not be granted, transferred or leased for non-agricultural construction without the prior approval from the relevant PRC government authorities. For details, please see the section headed "Regulatory Overview – Laws and Regulations Relating to Land Use – Collectively Owned Land" in this document. We cannot assure you that we will not experience any material default, claims, disputes or challenges from the contractors, the collective economic organizations, or the relevant government authorities directed to our facilities in the future.

There is also no assurance that our existing leases will not be terminated early by the lessors before the expiry of the relevant term.

There can be no assurance that the above laws and regulations will not be altered or the land use will not be varied with the rapid economic growth in the surrounding areas, any of which would increase the default risk of our lease agreements, we will need to relocate, but may not be able to successfully find alternative sites to locate our pig or poultry farms on commercially reasonable terms, or at all. Our business operations and future growth may be adversely disrupted, and this could have a material adverse effect on our business and results of operations.

We procure certain feeds and feed ingredients from our external suppliers, some of which are overseas suppliers.

Feeds and feed ingredients are the main raw material we use in our operations, and a continuous and stable supply of feeds and feed ingredients that meet our standards is crucial to our operations. Most of the feed ingredients we purchased were from selected suppliers during the Track Record Period. We expect to continue to procure feeds and feed ingredients from external suppliers. We also procure other raw materials such as medicines and farm equipment from external suppliers. There can be no assurance that we will continue to be able to source feeds, feed ingredients and raw materials meeting our requirements at reasonable prices or terms or at all. In the event that our supply of feeds and feed ingredients is disrupted for whatever reason, our business, financial condition, results of operations and prospects may be materially and adversely affected.

When we procure feeds, feed ingredients and raw materials from overseas suppliers, the transaction amounts may be denominated in foreign currency, mainly US dollars and Euros, instead of Renminbi. Accordingly, we are exposed to foreign exchange rate risk. Please refer to the section headed "– Risks Relating to Conducting Business in the PRC – Fluctuation in the value of the Renminbi may result in foreign currency exchange losses" for further details.

Changes in our relationships with our major customers, or in the trade terms with these customers, may reduce our sales and profits.

Our sales to five largest customers accounted for 8.6%, 10.1%, 11.9% and 16.3% of our total revenue for 2020, 2021, 2022 and the five months ended 31 May 2023, respectively. We do not have long-term sales agreements or other contractual assurances as to future sales to these major customers. Our business could suffer significant setbacks in sales and operating income if our customers' business plans or markets change significantly or if we lose one or more of our large customers.

In the event that we provide concessions or trade terms that are more favourable to our large customers, our profit margins may be reduced. The loss of a significant customer or a material reduction in sales to, or adverse change to trade terms with, a significant customer could materially and adversely affect our product sales, financial condition, results of operations and prospects.

We sell pigs and poultry products to dealers, and we have limited control over our dealers.

We sell a significant amount of our pig and poultry products to third party dealers, which is in line with industry norm. As at 31 May 2023, we had a total of 523 dealers for our pigs, and a total of 3,143 dealers for our yellow-feathered chicks and broilers. During the Track Record Period, most of our market hogs and market piglets were sold to pig dealers and a majority of our top five customers during the Track Record Period were pig dealers. For our poultry products, for 2020, 2021, 2022 and the five months ended 31 May 2022 and 2023, our sales through dealers accounted for 78.9%, 70.8%, 54.2%, 52.9% and 57.2% of the total sales of our chicks, respectively; and 99.3%, 99.3%, 98.0%, 99.2% and 97.6% of the total sales of our yellow-feathered broilers, respectively. Any one of the following events could cause fluctuations or declines in our revenue and could have an adverse effect on our financial condition and results of operations:

- reduction, delay or cancellation of orders from one or more large dealers;
- the quality of customer service provided by dealers, which could harm our reputation or brand image;
- failure to renew sales contracts or dealership agreement and maintain relationships with our existing dealers; and
- our ability to expand existing dealership arrangements.

Our relationships with dealers for our pig and poultry products are characterised as seller and buyer relationships which do not grant us control over their operations or inventories. We may not be able to compete successfully against larger and better-funded sales and marketing campaigns of our competitors, especially if these competitors provide their dealers with more favourable arrangements. We cannot assure you that we will not lose any of our dealers to our competitors, which could cause us to lose some or all of our favourable arrangements with such dealers and may result in reductions in the coverage of our dealership network or decreases in our sales volume. Any significant disruption of our sales to our dealers, including as a result of the inability or unwillingness of these dealers to continue purchasing our products, or their failure to properly manage their business, could materially and adversely affect our business, results of operations, financial condition and cash flows.

Changes in the international trade environment, ongoing trade conflicts and geopolitical conflicts may affect our business and financial condition.

There have been changes in international trade policies and rising political tensions, which could reduce levels of trade, investments, technological exchanges and other economic activities between China and other countries, which would have an adverse effect on global economic conditions, the stability of global financial markets, and international trade policies. It could also adversely affect the financial and economic conditions in the jurisdictions in which we and our business partners operate, which in turns adversely affect our financial condition and results of operations.

Since May 2022, the ongoing conflict between Russia and Ukraine, both are among the world's major producers and net exporters of agricultural projects such as grain, has resulted in major economic sanctions against Russia, thereby resulting in restrictions on expert of certain agricultural products, including ingredients of feeds. As we did not directly source our feeds from Russia or Ukraine, we had not experienced any supply shortage as of the Latest Practicable Date. However, the rippling effect of the Russia-Ukraine conflict globally may lead to the increase in the price of our feeds, which we may import overseas. If the Russia-Ukraine conflict persists or escalates, it could further disrupt the supply chains and affect the raw materials that we need for our business, which in turn could adversely affect our business, financial condition and results of operations.

We procure raw materials, such as machinery equipment and machine accessories, from overseas suppliers and set up a joint venture with a Germany enterprise. We will continue with our business dealings with international enterprises and if we plan to expand our business internationally in the future, any unfavorable government policies on international trade or any restriction on Chinese companies may affect our on-going business relationship with international enterprises, consumer demand for our products and service, impact our competitive position, or prevent us from being able to conduct business in certain countries. In addition, our results of operations could be adversely affected if any such tensions or unfavorable government trade policies harm the Chinese economy or the global economy in general.

The preferential tax treatment, government grants and financial incentives that we currently enjoy may be altered or terminated, which could have a material adverse effect on our business, financial position, results of operations and prospects.

We enjoy preferential tax treatments. According to the EIT Law and the related implementation rules and the Circular of the Ministry of Finance and the State Tax Administration on Scope of Agricultural Products' Primary processing Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149) (《財政部、國家稅務總局關於發佈享受企業所得稅優惠政策的農產品初加工範圍(試行)的通知》(財稅 [2008]149號)), our subsidiaries that engage in animal-husbandry, for example, pig and poultry farming, are entitled to full income tax exemptions. In addition, according to the Interim Value-Added Tax Regulations of the People' Republic of China (《中華人民共和國增值稅暫行條例》) and the relevant regulations, our subsidiaries that sell self-produced agricultural products, such as live pigs, poultry and feed, are exempt from VAT on income derived from those sales. For more details, please refer to the sections headed "Financial Information – Principal Components of Consolidated Statements of Profit or Loss and Other Comprehensive Income – Taxation and Preferential Tax Treatment" and "Financial Information – Period-to-Period Comparison of Results of Operations – Income Tax."

Additionally, we enjoy a number of government grants in China, including financial subsidies in relation to the introduction of breeding technology, research on breeding pig, and pig farm construction. For 2020, 2021 and 2022 and the five months ended 31 May 2023, the total government grants we received amounted to RMB41.0 million, RMB51.6 million, RMB74.0 million and RMB29.4 million, respectively. Not all of the government grants received during the Track Record Period were recurring in nature (those (i) received multiple times in different years or periods during the Track Record Period under similar policies or (ii) reasonably likely to recur in the foreseeable future). For 2020, 2021 and 2022 and the five months ended 31 May 2023, the government grants we received which were non-recurring in nature amounted to approximately RMB3.8 million, RMB3.9 million, RMB5.9 million and RMB1.3 million, respectively. Government grants we received are uncertain and are subject to certain criteria and procedures stipulated by the local government. There can be no assurance that the preferential tax treatment, government grants and financial incentives that we enjoy will not be altered or terminated. Any alteration or termination of our current preferential tax treatments, government grants or financial incentives could have a material adverse effect on our business, financial condition, results of operations and prospects.

There is no assurance of whether or when we will pay dividends and payment of dividends is subject to restrictions under PRC law.

During the Track Record Period, we declared and paid certain dividends. For details, please refer to the section headed "Financial Information – Dividends" in this document. We cannot guarantee when, if and in what form or amount dividends will be paid following the [**REDACTED**]. The declaration of dividends is required to be proposed by our Board of Directors and is based on our business and financial performance, capital and regulatory requirements, general business conditions and other factors that our Board of Directors deem relevant.

In addition, under PRC law, dividends may be paid only out of distributable profit. Distributable profit is our profit as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. For details, please refer to the section headed "Financial Information – Critical Accounting Policies and Estimates – Revenue and Other Income Recognition – Dividends" in this document. As a result, we may not have sufficient profit or any distributable profit to enable us to make dividend distributions to our Shareholders, even in years in which we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years. We are also required to comply with the dividend distribution rules prescribed by the PRC regulatory authorities when determining our dividend pay-out ratios. The PRC regulatory authorities may further amend the dividend distribution rules for listed companies in the future, which could significantly affect the amount of capital available to support the development and growth of our business.

Loss of our core management and other key personnel may adversely affect our results of operation and business prospects.

Our future business performance and prospects depend significantly on our Directors and senior management as they are in charge of the overall planning, development and execution of our business and operations. Our executive Directors including Mr. Wang Dehui, Mr. Wang Degen, Mr. Yao Hailong, Mr. Hu Wei and Mr. Zeng Min, who form a core management team that develops our business strategies to drive our growth. If any of our Directors and/or any members of senior management were to terminate their services or employment with us, we may not be able to find suitable replacements in a timely manner, at acceptable cost or at all. In addition, competition for qualified personnel in China is intense and the availability of suitable candidates may be limited. Failure to attract and retain key personnel could materially and adversely affect our results of operations and business prospects.

Our performance depends on favourable labour relations with our employees, and any deterioration in labour relations, shortage of labour or material increase in wages may have an adverse effect on our results of operations.

Our business is labour intensive, and our success depends on our ability to hire, train, retain and motivate our employees. As at 31 May 2023, we had a total of 8,670 employees. We consider favourable labour relations as an important factor that can affect our performance, and any deterioration of our labour relations could cause labour disputes, which could result in disruptions to production and operations.

Over the last three decades, China has experienced rapid economic growth, with significant increases in labour costs. Our staff costs recognised in our cost of sales, selling expenses and administrative expenses were RMB589.4 million, RMB902.1 million, RMB981.3 million and RMB459.0 million for 2020, 2021, 2022 and the five months ended 31 May 2023, respectively. Average labour wages in China are expected to continue to increase. In addition, we may need to increase our total compensations to attract and retain experienced personnel required to achieve our business objectives. Any shortages in labour, any material increases in our staff costs or any deterioration in employee relations may have a material and adverse effect on our business, financial condition, results of operations and prospects.

We may be exposed to risks from our hedging activities in relation to the commodity prices of our raw materials.

In March 2021, with a view to hedging risks of price fluctuations of commodity raw materials including soybean meal, soybean oil, corn and wheat, we started to purchase financial derivative instruments. While these contracts generally reduce our exposure to changes in prices for commodity products, the use of such financial derivative instruments may ultimately limit our ability to benefit from favourable trends in commodity prices. The successful use of a hedging device depends on our ability to forecast correctly the direction and extent of market movements within a given time frame. To the extent selling prices remain stable or such prices fluctuate in a direction opposite to that anticipated, we may realise a loss on the hedging transaction that is not offset by a decrease in the price of the raw materials. In addition, if we fail to properly monitor and manage our hedging positions, we may be required to deposit and utilise additional amount that may adversely affect our cash and cash equivalent position. Although we have put in place certain risk control procedures aimed at reducing risks in relation to these hedging transactions, there can be no assurance that these procedures will be effective and adequate. There can be no assurance that we will not experience losses with respect to these hedging transactions in the future or that such losses will not have a material adverse effect on our business, financial condition, results of operations and prospects. For details, please refer to the sections headed "Financial Information – Discussion of Certain Key Statement of Financial Position Items – Derivative Financial Instruments" and "Financial Information – Discussion of Certain Key Statement of Financial Position Items – Investment Risk Management" in this document.

Our insurance coverage may not be sufficient to cover all of our potential losses.

We have purchased and maintained insurance policies that we believe are in line with the industry practice and as required by the relevant laws and regulations. For additional details of our insurance coverage, please refer to the section headed "Business – Insurance" in this document. However, we do not maintain insurance policies against product liability claims, disruptions to business operations, or third-party liability claims against claims for environmental liabilities. Any product liability claim to be made against us in the future could result in costly litigation. If there are any product liability claims, disruptions to business operations or third-party liability claims with respect to which we are not covered by insurance or in relation to which our insurance coverage is inadequate, our business, financial condition and results of operations could be materially and adversely affected.

We operate in a highly competitive industry and may face increased competition. New competitors who enter the market could have an adverse impact on our businesses and prospects.

We face intense competition in terms of safety and quality, brand recognition, costs, price and distribution. The pig industry in China is highly fragmented and the poultry farming industry in China is relatively concentrated. We face increasing competition from local, national and foreign producers. Competitors may develop products of a comparable or superior quality to ours, increase cost competitiveness by improving the operating model, or adapt more quickly than we do to evolving consumer preferences or market trends. In addition, developments in government regulation have driven consolidation in the Chinese pig and poultry farming industry, with smaller operating enterprises unable to bear the increasing costs of regulatory compliance such as environmental protection regulations. The consolidation among industry participants in China may produce stronger domestic competitors as well as competitors more specialised in particular segments and geographic markets. Furthermore, our competitors may form alliances to achieve scales of operations or sales networks that would make it more difficult for us to compete. To expand market share and enter into new markets, some of our competitors may use aggressive pricing strategies, greater incentives and subsidies for customers. We may not be able to compete effectively with our current or potential competitors, and our inability to compete successfully against competitors could result in loss of market share or reduced gross profit margins, either of which could adversely impact our results of operations.

We face risks relating to changes of consumer preferences and dietary habits.

According to the Organisation for Economic Co-operation Development and the Food and Agriculture Organization, the major categories of meat consumption in China include pork, poultry, beef, and mutton. In 2021, pork was the most consumed meat in China, while poultry is the second most commonly consumed meat. However, consumer tastes and preferences as well as dietary habits may change from time to time. Consumer demand for pork and poultry could change based on a number of possible factors, including dietary habits, concerns regarding the sustainability and animal welfare, economic factors and social trends. Given the common consciousness of healthy diet and the increasing vegan or vegetarian population in recent years, the healthy food market is growing and attracting more consumer spending in the PRC with rising demand and development on alternative to conventional meat such as plant-based meat and cultured meat. If consumer trends favour vegetarianism, veganism, low-meat diet or alternative proteins, the meat consumption in the PRC may decrease. There can be no assurance that our existing products will continue to be accepted by our customers or we will be able to anticipate and respond to any change in the consumer preferences in a timely manner. Our failure to anticipate, identify or react to these particular tastes or changes, the demand for our products may decrease, which may in turn adversely affect our business and financial condition, results of operations and prospects may be materially and adversely affected.

We face risks relating to fluctuations in the prices of substitute products.

Fluctuations in the selling prices of substitutes for our products, especially decreases in the prices of substitute protein products (such as beef, lamb and seafood) relative to pork and poultry, affect the prices of pork and poultry products. As a result of decreases in the prices of substitute protein products relative to pork and poultry or changes in consumer habits, consumers may purchase less pork and poultry. Even if we are able to adjust our selling prices in response to decreases in the prices of substitute products, our profit margin may experience contraction, which would in turn have a material and adverse impact on our business, financial condition, results of operations and prospects.

Additionally, pig and poultry industry has experienced problems related to food safety. For example, past outbreaks of avian influenza in various parts of the world reduced global demand for poultry and created temporary surpluses of poultry products. The surplus of poultry products placed downward pressure on poultry prices and also negatively affected meat prices including pork. These types of problems may cause consumers to lose confidence in the safety and quality of pork and poultry products generally and lead them to opt for other meat products that are perceived as safer. In the event that the demand for pork and poultry products is reduced, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights and technologies, which could adversely affect our business.

We believe that our current intellectual property rights including our software patent and trademarks provide protection to our business and are necessary for our operations. However, there can be no assurance that our intellectual property rights applications will be approved, our intellectual property rights will adequately protect our intellectual property, we will be able to detect breaches of our intellectual property rights, our intellectual property rights will not be challenged by third parties or found to be invalid or unenforceable, or our intellectual property rights will be effective in preventing third parties from utilising similar business models, processes or brand names to offer similar products. We may also be subject to disputes, claims or litigation involving our intellectual property rights or third-party intellectual property rights and there may be claims that we infringe third-party intellectual property rights. Any of these could disrupt our business and divert our management's attention from our operations. The costs associated with these types of disputes, claims or litigation may be substantial and could have a material adverse effect on our brand image, business, financial condition, results of operations and prospects.

Our operations may be disrupted by production difficulties due to mechanical failures, utility shortages or explosions, fires, acts of God or other calamities at or near our facilities.

We rely on machinery and equipment to achieve mass production of our products. Any mechanical failures or breakdowns could disrupt our production and cause us to incur additional costs to repair or replace the affected mechanical systems. There can be no assurance that we will not experience problems with our machinery and equipment or that we will be able to address any such problems or obtain replacements in a timely manner. Problems with key machinery and equipment in one or more of our production facilities may affect our ability to produce our products or cause us to incur significant expenses to repair or replace the affected machines or equipment. Any of these factors could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Furthermore, our production and operations depend on a continuous and sufficient supply of utilities, such as electricity, water and gas. If there are any shortages of electricity, water, gas or other utilities in regions where our production facilities are located, the local government may require our production facilities to be shut down. Any disruption in the supply of electricity, water or gas at our production facilities would affect our production, and could cause deterioration or loss of our products. This could adversely affect our ability to fulfil our sales orders and consequently may have an adverse effect on our business and operations.

In addition, explosions, fires, earthquakes, natural disasters or extreme weather, including droughts, floods, excessive cold or heat, typhoons or other storms could cause power outages, gas or water shortages, damage our production and processing facilities and warehouses or damage our transportation channels, any of which could significantly affect our operations. There can be no assurance that similar or more serious incidents will not occur in the future or that we will be fully insured or otherwise compensated for such incidents. Any failure to take adequate measures to mitigate the potential impact of unforeseeable incidents, or to effectively respond to such incidents if they occur, could adversely affect our business, financial condition and results of operations.

Malfunctions or security breaches of our information technology systems could disrupt our operations and negatively impact our business.

We use information technology systems to monitor our production process, increase efficiencies in our facilities and inventory management, and manage and analyse our operations and financial information. We also use information technology to process financial information for internal reporting purposes and to comply with regulatory, legal and tax requirements. In addition, we rely on information technology for electronic communications with our facilities, personnel, customers and suppliers. Our information technology system may face various threats including unauthorised disclosure of information, tampering of data, cyber attacks, power outages, system configuration errors and telecommunication malfunctions. Although we have implemented protection and back-up schemes for our information technology system, these may not be sufficient. Any serious system malfunction or system failure could negatively affect our operations, financial condition and reputation. Any unauthorised disclosure of information could compromise our trade secrets, confidential information and customer information, which could in turn adversely affect our results of operations, financial condition and reputation.

Personal injuries, damage to property or fatal accidents may occur in our production facilities.

We use machinery and equipment in our production processes such as heating machines and biogas generation equipment which are potentially dangerous and may cause industrial accidents and personal injuries to our employees. In addition, our employees may violate safety measures or other related rules and regulations, which may cause industrial accidents. During the Track Record Period, and up to the Latest Practicable Date, there were seven accidents at our farms, resulting in the death of seven of our employees. For details of our occupational health and safety production management system, please refer to the section headed "Business – Environment and Social Matters – Occupational health and safety" in this document.

Any significant accident could interrupt production and result in personal injuries, damages to properties, fatal accidents and legal and regulatory liabilities. In addition, potential industrial accidents leading to significant property loss or personal injury may subject us to claims and legal proceedings, and we may be liable for medical expenses and other payments to employees and their families as well as fines or penalties. As a result, our reputation, brand, business, results of operations and financial condition may be materially and adversely affected.

Our operations are subject to the general risks of litigation.

During the ordinary course of business, we may be involved in litigation or legal proceedings related to, among other things, product or other types of liability, labour disputes or sales contract disputes that could have a material and adverse effect on our financial condition. These actions could also expose us to negative publicity, which might adversely affect our brands, reputation and customer preference for our products. If we become involved in any litigation or other legal proceedings in the future, the outcome of the proceedings could be uncertain and could result in settlements or outcomes that adversely affect our financial condition. In addition, any litigation or legal proceedings could result in substantial legal expenses to us and distract significant time and attention of our management, diverting their attention from our business and operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in China's economic, political and social conditions, as well as regulatory policies, could affect our business and operations.

We are incorporated, and our operations and all of our assets are located, in the PRC. Accordingly, our financial condition and results of operations are subject to the economic, political and legal developments in China. The PRC government plays a significant role in regulating industry development and creates significant impact over China's economic growth through allocation of resources, regulating payment of foreign currency-denominated indebtedness, setting monetary policy and tax policies. Some of these measures may benefit the overall PRC economy, but may have a negative effect on us.

While China's economy has experienced significant growth in the past few decades, growth has been uneven across different regions and economic sectors. The growth rate of China's economy has gradually slowed down in recent years and the trend may continue. The economic conditions in China could affect our business and results of operation.

Policies regarding foreign currency conversion may impact our foreign exchange transactions, including dividend payment to holders of our H Shares.

All of our income is denominated in Renminbi. Currently, the conversion of Renminbi into foreign currency has to comply with the relevant laws and regulations, and conversion and remittance of foreign currencies are subject to the PRC foreign exchange regulations. A portion of our income must be converted into other currencies in order to meet our foreign currency debts. Under the current PRC foreign exchange regulatory system, foreign exchange transactions under the current account conducted by us, including the payment of dividends following the completion of the [**REDACTED**], do not require advance approval from the SAFE, but we are required to present written evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that have the requisite licences to carry out foreign exchange business. Foreign exchange transactions under the capital account conducted by us, however, must be approved or registered in advance by the SAFE.

The policies regarding foreign exchange transactions under the current account and the capital account may not necessarily continue in the future. In addition, these foreign exchange policies may restrict our ability to obtain sufficient foreign exchange, which could have an adverse effect on our foreign exchange transactions and the fulfilment of our other foreign exchange requirements. If there are changes in the policies regarding the payment of dividends in foreign currencies to shareholders or other changes in foreign exchange policies resulting in insufficient foreign exchange, our payment of dividends in foreign currencies may be affected.

Fluctuation in the value of the Renminbi may result in foreign currency exchange losses.

The value of the Renminbi against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in China's and international political and economic conditions and the fiscal and foreign exchange policies prescribed by the PRC government. The conversion of the Renminbi into foreign currencies in the PRC was based on fixed rates set by the People's Bank of China (the "**PBOC**") in 1994. After various policy changes, including the abolishment of the policy of pegging the value of the Renminbi to the U.S. dollar where Renminbi is permitted to fluctuate in a regulated band that is based on reference to a basket of currencies determined by the PBOC and the reformation of Renminbi exchange rate regime by enhancing the flexibility of the Renminbi exchange rate, the Renminbi was determined to be a freely useable currency with effect from 1 October 2016 by the Executive Board of the International Monetary Fund. With the development of foreign exchange market and progress towards interest rate liberalization and Renminbi internationalization, the Renminbi could appreciate or depreciate in value against the Hong Kong dollar or the U.S. dollar in the future.

Our business transactions with overseas parties may be denominated in foreign currencies and the [**REDACTED**] from the [**REDACTED**] will be received in Hong Kong dollars. As a result, any appreciation or depreciation of the Renminbi against the U.S. dollar, the Hong Kong dollar or any other foreign currencies may materially affect our results of operation or the value of our [**REDACTED**] from the [**REDACTED**]. In addition, there are limited instruments available for us to reduce our foreign currency risk exposure at reasonable costs. Any of these factors could materially and adversely affect our business, financial condition, results of operations and prospects, and could reduce the value of, and dividends payable on, our H Shares in foreign currency terms.

The PRC legal system is under the process of development and shareholders need to form a reasonable expectation regarding the legal protections available to them under the PRC legal system.

Our business and operations in China are governed by the PRC laws and regulations. The legal system in the PRC is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. The legal system in the PRC is under the process of development and the laws and regulations are subject to amendment from time to time. We cannot predict the effect of future legal developments in China, including the promulgation of new laws and changes in existing laws. As a result, shareholders need to form a reasonable expectation regarding the legal protections available to them under the PRC legal system. Furthermore, due to the limited volume of court judgments and the non-binding nature of prior court decisions on other cases, the outcome of dispute resolution may not be as predictable, which may affect the legal protection available to us. In addition, litigation may be protracted and result in substantial costs and diversion of resources and management attention. All of these uncertainties may limit the legal protections available to our investors and Shareholders.

You may experience difficulties in effecting service of legal process or enforcing foreign judgments against us, our Director, Supervisors and senior management.

We are incorporated under the laws of the PRC and all of our business and operations are located in the PRC. In addition, all of our Directors, Supervisors and officers reside in the PRC and substantially all of their assets are located in the PRC. As a result, it may be difficult, complicated and time-consuming for investors to effect service of process upon those persons residing in China.

On 14 July 2006, China and Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排) (the "**Arrangement**"). Pursuant to the Arrangement, a party with a final court judgement rendered by a Hong Kong court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of the judgement in China. Similarly, a party with a final judgement rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgement in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between the parties after the effective date of the arrangement in which a Hong Kong or PRC court is expressly designated as the court having sole jurisdiction for the dispute. Therefore, it may not be possible to enforce a judgement rendered by a Hong Kong court in China if the parties in dispute do not agree to enter into a choice of court agreement in writing. It may be difficult or impossible for investors to enforce a Hong Kong court judgement against our assets or our Directors or senior management in China.

Furthermore, although we will be subject to the Listing Rules and the Takeovers Code upon the [**REDACTED**], the holders of H Shares will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules. Moreover, the Takeovers Code do not have the force of law and provide only standards of commercial conduct considered acceptable for takeover and merger transactions and share repurchases in Hong Kong.

Dividends payable to investors and gains on the sales of H Shares by our investors may be subject to PRC income taxes.

Under applicable PRC tax laws, regulations and statutory documents, non-PRC resident individuals and enterprises are subject to different tax obligations with respect to dividends received from us or gains realised upon the sale or other disposition of our H Shares. For more information, please refer to the section headed "Appendix III – Taxation and Foreign Exchange".

PRC tax authorities determine whether and how individual income tax or enterprise income tax on gains derived by holders of our H Shares from their disposition of our H Shares may be collected in accordance to the applicable tax laws and regulations in the PRC. Non-PRC resident holders of our H Shares should be aware that they may be obligated to pay PRC tax on the dividends received from us and gains realised through sales or transfers by other means of the H Shares.

RISKS RELATING TO THE [REDACTED]

There has been no prior public trading market for our H Shares, an active trading market for our H Shares may not develop, and their trading price may fluctuate significantly.

Prior to the completion of the [**REDACTED**], no public trading market existed for our H Shares. The initial [**REDACTED**] to the public for our H Shares is determined after negotiations between us and the [**REDACTED**], and the [**REDACTED**] may differ significantly from the selling price for our H Shares following the [**REDACTED**]. There can be no assurance that an active trading market for our H Shares will develop following the [**REDACTED**] or, if it does develop, that it will be sustained or that the selling price for our H Shares will not decline below the initial [**REDACTED**].

The trading volume and selling price of our H Shares may be volatile, which could result in substantial losses for investors who purchase our H Shares in the [REDACTED].

The price and trading volume of our H Shares may be highly volatile and could fluctuate widely in response to factors beyond our control. Factor impacting the price and trading volume of our H Shares include, but are not limited to, actual or anticipated fluctuations in our revenue, earnings and cash flow, changes in our pricing policy as a result of competition, potential strategic alliances or acquisitions, the addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, fluctuations in the selling prices and demand for our products, public perception or negative news about our products, unexpected business disruptions resulting from natural disasters or power shortages, our inability to obtain or maintain regulatory approval for our operations, litigation, government investigation or other legal or regulatory proceeding, or political, economic, financial and social developments in China, Hong Kong and elsewhere in the world. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially adversely affect the selling price of our H Shares.

Since there will be an interval of several days between the [REDACTED] and the commencement date of trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before the [REDACTED] of our H Shares begins.

The [**REDACTED**] of our H Shares under the [**REDACTED**] will be determined on the [**REDACTED**]. However, [**REDACTED**] of our H Shares on the Stock Exchange will only commence after they are delivered, which is expected to be several business days after the [**REDACTED**]. During that period, [**REDACTED**] of our H Shares may not be able to sell or otherwise [**REDACTED**] our H Shares. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before [**REDACTED**] begins as a result of adverse market conditions or other unfavourable circumstances that may arise during the period between the [**REDACTED**] and the date on which the [**REDACTED**] of our H Shares begins.

As the [REDACTED] is higher than our net tangible book value per Share, you will experience immediate dilution and you may experience further dilution if we issue additional H Shares or equity-linked securities in the future.

The [**REDACTED**] is higher than the net tangible book value per share issued to existing holders of our Shares. Therefore, purchasers of [**REDACTED**] in the [**REDACTED**] will experience an immediate dilution in pro forma net tangible book value while the existing holders of our Shares, including our Controlling Shareholders, will receive an increase in net tangible book value per share of their shareholdings. In addition, if we issue additional Shares or equity-linked securities in the future, purchasers of our Shares may experience further dilution in the net tangible assets book value per Share as additional Shares are issued at a price lower than the net tangible assets book value per Share at the time of their issuance.

Future sales or perceived sales of substantial amount of our Shares in the public market and conversion of our Domestic Shares into H Shares could materially adversely affect the prevailing selling price of our H Shares and our ability to raise capital in the future.

Although the H Shares beneficially owned by our Controlling Shareholders are subject to certain [**REDACTED**] periods under the Listing Rules and further undertakings in favour of us, however there is no assurance that our Controlling Shareholders (whose interests may differ from those of other Shareholders) will not dispose of their Shares following the expiration of the [**REDACTED**] periods. We are currently applying for part of the Company's Domestic Shares to circulate on the Hong Kong Stock Exchange after the completion of the [**REDACTED**]. According to the Company Law, the Shares issued by the Company prior to the [**REDACTED**] (including a total of [**REDACTED**] H Shares to be converted from Domestic Shares held by eight Shareholders of the Company) are restricted from trading within one year from the [**REDACTED**]. Such restriction from trading will limit the number of H Shares to be circulated on the market, which will in turn adversely affect the liquidity of the H Shares during such restriction period. If our application for the circulation of our relevant Domestic Shares on the Hong Kong Stock Exchange after the completion of the [**REDACTED**] is successful, any future sales (after the expiration of the restrictions set out above) of Domestic Shares by relevant Shareholders in the public market may affect the market price of the Shares. Moreover, if we convert a substantial amount of domestic shares into H shares to be listed and traded in the future at the Stock Exchange of Hong Kong, it may further increase the supply of the H shares in the market, which may affect the market price of the H shares. Future sales or perceived sales of substantial amount of our Shares by us or our Shareholders in the public market and conversion of our Domestic Shares into H Shares, or the perception that such offerings, sales or conversion could occur, could materially adversely affect the prevailing selling price of our H Shares and our ability to raise capital in the future. In addition, our Shareholders would experience a dilution in their holdings upon the issuance of additional securities for any purpose. If additional funds were raised through our issuance of new equity interest other than on a pro-rata basis to existing Shareholders, the shareholding percentage of such Shareholders could be reduced and such new securities might confer rights and privileges that take priority over those conferred by the H Shares.

Our future financing may cause dilution of your shareholding or impose restrictions on our operations.

In order to raise capital and expand our business, we may consider offering and issuing additional Shares or other securities convertible into or exchangeable for our Shares in the future other than on a pro rata basis to our then existing Shareholders. As a result, the equity interest of those Shareholders may experience dilution in net asset value per Share. If additional funds are to be raised through debt financing, certain restrictions may be imposed on our business operations, which may further limit our ability or discretion to pay dividends, increase our risks in adverse economic conditions, adversely affect our cash flows or limit our flexibility in business development and strategic plans.

Our Company has been, and will continue to be, controlled by our Controlling Shareholders, whose interests may differ from those of other Shareholders.

As of the Latest Practicable Date, Mr. Wang Degen directly held approximately 3.29% and indirectly held 36.21% of the issued share capital of our Company, through Desheng Ronghe, which is wholly owned by Mr. Wang Degen. Immediately following the completion of the [**REDACTED**] and the Conversion of Domestic Shares into H Shares (without taking into consideration the Shares that may be issued pursuant to the exercise of the [**REDACTED**]), each of Mr. Wang Degen and Desheng Ronghe will own [**REDACTED**]% and [**REDACTED**]% of the issued Shares, respectively. Our Controlling Shareholders are able to control our operation and influence the selection of our senior management. Therefore, Mr. Wang Degen will have significant influence with respect to the following matters relating to:

- our business strategies and policies;
- amendments to our constitutional documents;
- the timing and amount of dividend payments;
- mergers or other business combinations;
- acquisitions or dispositions of assets; and
- issuance of any additional Shares or other equity securities.

However, the interests of our Controlling Shareholders may differ from the interests of other Shareholders, and may therefore take actions in the future that are not in the best interests of other Shareholders.

You should read the entire document carefully and should not rely on any information contained in press articles or other media in making [REDACTED] decisions with respect to our H Shares.

Prior to the publication of this document, there may have been press and media coverage regarding us and the [**REDACTED**], which may include certain information not contained in this document. We have not authorised the disclosure of any such information in the press or other media. We make no representation as to the appropriateness, accuracy, completeness or reliability of such information, and disclaim responsibility for such information. Accordingly, [**REDACTED**] are cautioned to make their [**REDACTED**] decisions with respect to our H Shares on the basis of the information contained in this document only and should not rely on any other information. By applying to [**REDACTED**] our H Shares in the [**REDACTED**], you will be deemed to have agreed that you will not rely on any information other than that contained in this document.

There can be no assurance of the accuracy or completeness of certain facts, forecasts and other statistics obtained from official government sources contained in this document.

Certain facts, forecasts and other statistics relating to China, its economic conditions and the industry in which we operate contained in this document have been derived from official government sources. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by us, the Joint Sponsors, the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], the [**REDACTED**], their respective directors and advisers or any other parties involved in the [**REDACTED**], and none of them make any representation as to the correctness, accuracy or completeness of such information. Collection methods of such information may be flawed or ineffective, or there may be discrepancies between published information and market practice, which may result in the statistics being inaccurate or not comparable to statistics produced for other economies. You should therefore not place undue reliance on such information. In addition, we cannot assure you that such information is stated or compiled on the same basis or with the same degree of accuracy as or consistent with similar statistics presented elsewhere, and such information may not be complete or up-to-date. In any event, you should consider carefully the importance placed on such information or statistics.

Forward-looking statements contained in this document are subject to risks and uncertainties.

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as "believe," "expect," "estimate," "predict," "aim," "intend," "will," "may," "plan," "consider," "anticipate," "seek," "should," "could," "would," "continue," and other similar expressions. You are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. In light of these and other uncertainties, the inclusion of forward-looking statements in this document should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. Subject to the requirements of the Listing Rules, we do not intend publicly to update or otherwise revise the forward-looking statements in this document, whether as a result of new information, future events or otherwise. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this document are qualified by reference to this cautionary statement.