

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into a number of agreements with our connected persons, details of which are set out below. Our Directors confirm that the following transactions will continue after the [REDACTED] and will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

OUR CONNECTED PERSONS

The table below sets out certain details about our connected persons who will have transactions with the Group upon [REDACTED] and the nature of their relationship with the Group.

Name of our connected person	Nature of the connected person’s relationship with the Group and details of our connected person
Tequ Husbandry	<p>Tequ Husbandry is owned as to 94.6% by Sichuan Tequ. Sichuan Tequ is owned as to 40.1% by Sichuan Puhua Agricultural Technology Development Limited (四川普華農業科技發展有限公司) (“Sichuan Puhua”), 10.9% by Desheng Ronghe, and 49% by Chengdu Huaxi Hope Group. Co., Ltd. (成都華西希望集團有限公司) (“Huaxi Hope”). Sichuan Puhua is owned as to 65.2% in aggregate by Mr. Wang Degen, his spouse, Ms. Zhang Qiang, and Chengdu Desheng Ronghe Enterprise Management Consulting Co., Ltd. (成都德盛榮和企業管理諮詢有限公司), which is in turn controlled by Wang Yizeng (王益增), son of Mr. Wang Degen and Ms. Zhang Qiang. Huaxi Hope is wholly owned by Mr. Chen Yuxin, one of our substantial shareholders, and his spouse.</p> <p>Thus, Tequ Husbandry is an associate of each of Mr. Wang Degen and Mr. Chen Yuxin.</p>
Guang’an Wanqian Group Co., Ltd. (廣安萬千集團有限公司) (“Guang’an Wanqian”), Chengdu Jiayuan International Hotel Co., Ltd. (成都家園國際酒店有限公司) (“Chengdu Jiayuan”) and Guigang Wanqian Feed Co., Ltd. (貴港市萬千飼料有限責任公司) (“Guigang Wanqian”)	<p>Each of these companies is ultimately owned by Mr. Chen Yuxin, our substantial shareholder, and his spouse, and thus each of these companies is an associate of Mr. Chen Yuxin.</p>
Sichuan Zhenghu Wisdom Technology Co., Ltd. (四川正狐智慧科技有限公司) (“Sichuan Zhenghu”)	<p>Sichuan Zhenghu is owned as to 40% by Desheng Ronghe and thus Sichuan Zhenghu is an associate of Desheng Ronghe.</p>

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FULLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into the following types of transactions with our connected persons during the Track Record Period which will continue after the [REDACTED], including:

- (1) Purchase of software from Sichuan Zhenghu;
- (2) Sale of pigs, chicken and eggs to Tequ Husbandry and/or its subsidiaries;
- (3) Sale of boar semen and eggs to Guigang Wanqian and Chengdu Jiayuan, respectively; and
- (4) Hotel accommodation and services provided by Chengdu Jiayuan.

As the above transactions will be conducted on normal commercial terms or better, and all the applicable percentage ratios are less than 0.1%, such transactions are fully exempt from the independent Shareholders’ approval, annual review and all disclosure requirements under Rule 14A.76(1) of the Listing Rules.

PARTIALLY EXEMPT CONTINUING CONNECTED TRANSACTIONS

Purchase of Feed

Reasons for entering into the transactions

During the Track Record Period and up to the Latest Practicable Date, we purchased feed from Guang’an Wanqian in Sichuan Province and Guigang Wanqian in Guangxi Zhuang Autonomous Region and expected to continue the transactions with them after the [REDACTED] for the following reasons: (i) while our Group has planned to gradually increase our feed production, we have not built our own feed mills in certain regions as we consider it would not be cost-effective to do so and thus we have relied on external suppliers in these regions to meet our production demands; (ii) feed mills operated by Guang’an Wanqian and Guigang Wanqian are close to our farms in the relevant regions, which enable us to reduce transportation costs arising from purchase of feed; and (iii) most of the family farms are located in rural areas where the number of feed suppliers in the same region that can meet the Group’s standard of production is limited. The feed purchased from Guang’an Wanqian were used to support the production of the Group’s family farm in Yuechi County in Sichuan Province, where the feed mill operated by Guang’an Wangqian is the only feed mill within reasonable distance. The feed purchased from Guigang Wanqian were used to support the production of the self-operated and family farms in Guangxi Province, which are close to feed mill operated by Guigang Wanqian. The purchase of feed has been and will be made by our Group from Guang’an Wanqian and Guigang Wanqian in the usual and ordinary course of our business.

In anticipation of the [REDACTED], our Company entered into the feed supply framework agreements (the “**Feed Supply Framework Agreements**”) with Guang’an Wanqian and Guigang Wanqian, respectively, on 13 and 3 September 2023. Pursuant to the Feed Supply Framework Agreements, Guang’an Wanqian and Guigang Wanqian will sell feed to our Group and the Group will purchase feed from them. Each of the Feed Supply Framework Agreements has a term commencing from the [REDACTED] to 31 December 2025.

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Pricing Policy and Annual Cap

The purchase price payable by our Group to Guang’an Wanqian and Guigang Wanqian under the Feed Supply Framework Agreements will be determined based on (i) arm’s length negotiations between each of Guang’an Wanqian and Guigang Wanqian and our Group and (ii) with reference to the market price for the same products that the Group purchases from Independent Third Parties in similar quantities in the open market. The aggregate annual cap for the transactions contemplated under the Feed Supply Framework Agreements will be as follows:

	2023		2024		2025	
	Annual Cap	Volume of feed	Annual Cap	Volume of feed	Annual Cap	Volume of feed
	(RMB, million)	(tonnes, thousand)	(RMB, million)	(tonnes, thousand)	(RMB, million)	(tonnes, thousand)
Guang’an Wanqian	103.6	28	103.6	28	103.6	28
Guigang Wanqian	81.4	22	81.4	22	81.4	22
Total	185.0	50	185.0	50	185.0	50

In setting the annual cap, our Directors have considered factors including the historical transaction amounts, our production plan and estimated demand for feed for production in the coming years. As illustrated below, during the Track Record Period, the Group’s feed consumption (including feed produced by the Group’s self-operated feed mills and feed purchased from external suppliers) increased along with the increase in the Group’s output volume of pigs and broilers.

	Feed consumption volume (tonnes)	Output volume of pigs (heads)	Output volume of broilers (birds)
2020	1.34 million (self-production: 0.64 million; external purchase: 0.70 million)	1.4 million	72.4 million
2021	2.09 million (self-production: 1.32 million; external purchase: 0.77 million)	3.7 million	75.8 million
2022	2.77 million (self-production: 1.74 million; external purchase: 1.03 million)	5.4 million	78.6 million
Five months ended 31 May 2023	1.33 million (self-production: 0.71 million; external purchase: 0.62 million)	2.9 million	34.6 million

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The Group expects that the output volume of pigs and broilers will continue to grow, which will lead to an increase in the Group’s demand for feed. For the expansion plan of production which will be funded by the [REDACTED] raised from the [REDACTED], please refer to the first bullet point in the section head “Future Plans and [REDACTED] – [REDACTED]”.

The annual cap is determined based on (i) an annual purchase of 50,000 tonnes of feeds for each of 2023, 2024 and 2025; and (ii) purchase price of RMB3,700 per tonne, which is the Group’s estimate of feed price based on prevailing price in early 2023. The volume of feed to be purchased from Guang’an for 2023 to 2025 is expected to be stable. The increase of purchase of feed from Guigang Wanqian for 2023 to 2025 as compared with the annual purchase in 2022 was mainly due to the Group’s plan to increase pig production in Guangxi Province, where Guigang Wanqian operates its feed factory. The feed purchase in Guangxi Province for 2023 to 2025 is expected to be approximately 150,000 tonnes, 170,000 tonnes and 220,000 tonnes, respectively.

The Group utilised approximately 2.8 million tonnes of feeds for production for 2022 and expected its needs for feed to be 3.73 million tonnes, 4.75 million tonnes and 5.62 million tonnes of feeds for 2023, 2024 and 2025, representing a year-on-year growth of approximately 35%, 27% and 18%, respectively.

Historical Transaction Amounts

The total price paid or payable by our Group for purchasing feed from Guang’an Wanqian and Guigang Wanqian for 2020, 2021, 2022 and the five months ended 31 May 2023 were as follows:

	2020		2021		2022		for the five months ended 31 May 2023	
	Amount	Volume of feed	Amount	Volume of feed	Amount	Volume of feed	Amount	Volume of feed
	(RMB, million)	(tonnes, thousand)	(RMB, million)	(tonnes, thousand)	(RMB, million)	(tonnes, thousand)	(RMB, million)	(tonnes, thousand)
Guang’an Wanqian	0	0	17.6	5.1	61.4	16.3	33.2	9.0
Guigang Wanqian	0	0	0	0	30.6	8.3	19.8	5.9
Total	0	0	17.6	5.1	92.0	24.6	53.0	14.9

The increase in the purchase of feed from Guang’an Wanqian and Guigang Wanqian from 2020 to 2022 was attributable to the following factors: (i) the Group expanded its production and as a consequence utilised a total of approximately 1.3 million tonnes, 2.1 million tonnes and 2.8 million tonnes of feed for 2020, 2021 and 2022 to support its increased production; (ii) the Group expanded its pig production in Guangxi Zhuang Autonomous Region, where the Group relied completely on external suppliers (including Guigang Wanqian) to meet its need for feed as the Group did not build any self-own feed factory in the region; (iii) the price offered by Guang’an Wanqian and Guigang Wanqian was more competitive than other

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suppliers in the same region (for instance, the average monthly price per tonne of feed offered by Guang’an Wanqian was RMB3,451 and RMB3,755 in 2021 and 2022, respectively, while the average monthly price offered by external suppliers was RMB3,528 and RMB3,814 in the corresponding years); (iv) certain purchase orders were switched to Guang’an Wanqian and Guigang Wanqian from other suppliers in the relevant regions as the feed provided by the other suppliers failed to meet the quality standard of the Group. The transaction amount for the five months ended 31 May 2023 is lower than the pro-rated annual cap for 2023, primarily because there is in general a lower consumer demand in the first half of a year following the Spring Festival, particularly for preserved and cured meat products. The transaction amount is expected to rebound considering the increased demand for pork and chicken during the holiday season in the second half of 2023, which results in the increase in purchase of feed by the Company to fatten piglets and raise chicks. Therefore, it is expected that transactions under the Feed Supply Framework Agreements will ramp up in the second half of 2023.

Listing Rules Implications

Such transactions are conducted on normal commercial terms in the usual and ordinary course of our business. Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the aggregate proposed annual caps of the Feed Supply Framework Agreements will be more than HK\$3 million but not exceed 5%, the transactions under the Feed Supply Framework Agreements are exempt from the circular (including independent financial advice) and Shareholders’ approval requirements but are subject to the reporting, annual review and announcement requirements under Chapter 14A of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Purchase of Feed

Reasons for entering into the transactions

Tequ Husbandry is a holding company of some feed companies, from which we had purchased feed during the Track Record Period and up to the Latest Practicable Date, and we expected to continue the transactions with Tequ Husbandry and purchase feed from Tequ Husbandry’s feed mills in Chongqing, Sichuan Province, Guangdong Province and Yunnan Province after the [REDACTED] for the following reasons: (i) while our Group has planned to gradually increase our feed production, we have not built our own feed mills in certain regions as we consider it would not be cost-effective to do so and thus we have relied on external suppliers in these regions to meet our production demands; (ii) feed mills operated by Tequ Husbandry’s subsidiaries are close to our farms in the relevant regions, which enable us to reduce transportation costs arising from purchase of feed; and (iii) most of the family farms are located in rural areas where the number of feed suppliers in the same region that can meet the Group’s standard of production is limited. The purchase of feed has been and will be made by our Group from Tequ Husbandry’s subsidiaries in the usual and ordinary course of our business.

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In anticipation of the [REDACTED], our Company entered into the feed supply framework agreement (the “**Tequ Feed Supply Framework Agreement**”) with Tequ Husbandry on 3 September 2023. Pursuant to the Tequ Feed Supply Framework Agreement, Tequ Husbandry and/or its subsidiaries will sell feed to our Group. The Tequ Feed Supply Framework Agreement has a term commencing from the [REDACTED] to 31 December 2025.

Pricing Policy and Annual Cap

The purchase price payable by our Group to Tequ Husbandry and/or its subsidiaries under the Tequ Feed Supply Framework Agreement will be determined (i) based on arm’s length negotiations between Tequ Husbandry or its subsidiaries and our Group, and (ii) with reference to the market price for the same products that the Group purchases from Independent Third Parties in similar quantities in the open market. The aggregate annual cap for the transactions contemplated under the Tequ Feed Supply Framework Agreement will be RMB573.5 million, RMB758.5 million and RMB869.5 million for 2023, 2024 and 2025, respectively.

In setting the annual cap, our Directors have considered factors including the historical transaction amounts, our production plan and estimated demand for feed for production in the coming years. As illustrated below, during the Track Record Period, the Group’s feed consumption (including feed produced by the Group’s self-operated feed mills and feed purchased from external suppliers) increased along with the increase in the Group’s output volume of pigs and broilers.

	Feed consumption volume (tonnes)	Output volume of pigs (heads)	Output volume of broilers (birds)
2020	1.34 million (self-production: 0.64 million; external purchase: 0.70 million)	1.4 million	72.4 million
2021	2.09 million (self-production: 1.32 million; external purchase: 0.77 million)	3.7 million	75.8 million
2022	2.77 million (self-production: 1.74 million; external purchase: 1.03 million)	5.4 million	78.6 million
<i>Five months ended 31 May 2023</i>	1.33 million (self- production: 0.71 million; external purchase: 0.62 million)	2.9 million	34.6 million

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The Group expects that the output volume of pigs and broilers will continue to grow, which will lead to an increase in the Group’s demand for feed. For the expansion plan of production which will be funded by the [REDACTED] raised from the [REDACTED], please refer to the first bullet point in the section head “Future Plans and [REDACTED] – [REDACTED]”.

The annual cap is determined based on (i) an annual purchase of 155,000 tonnes, 205,000 tonnes and 235,000 tonnes of feeds for 2023, 2024 and 2025, respectively, which is in line with the Group’s overall production need of a total of 3.73 million tonnes, 4.75 million tonnes and 5.62 million tonnes of feeds for 2023, 2024 and 2025; and (ii) purchase price of RMB3,700 per tonne, which is the Group’s estimate of feed price based on prevailing price in early 2023.

The Group utilised approximately 2.8 million tonnes of feed for production for 2022 and expected its needs for feed to be 3.73 million tonnes, 4.75 million tonnes and 5.62 million tonnes of feeds for 2023, 2024 and 2025, representing a year-on-year growth of approximately 35%, 27% and 18%, respectively. The year-on-year growth of the purchased amount or annual caps of the purchase from Tequ Husbandry for 2022 to 2025 was -8%, 32% and 15%, respectively. The increase in the annual caps is mainly attributable to the Group’s expansion plan.

Historical Transaction Amounts

The total price paid or payable by our Group for purchasing feed from Tequ Husbandry for 2020, 2021, 2022 and the five months ended 31 May 2023 were approximately RMB204 million, RMB360 million, RMB626 million and RMB200 million, respectively. The increase in the purchase of feed from Tequ Husbandry from 2020 to 2022 was attributable to the following factors: (i) the Group expanded its production and as a consequence utilised a total of approximately 1.3 million tonnes, 2.1 million tonnes and 2.8 million tonnes of feed for 2020, 2021 and 2022 to support its increased production; (ii) the price offered by Tequ Husbandry was more competitive than other suppliers in the same region (for instance, the average monthly price per tonne of feed offered by Chongqing Shengbo Feed Co., Ltd. (重慶生博飼料有限公司), a subsidiary of Tequ Husbandry was RMB3,613, while the price offered by other feed suppliers in the same region ranged from RMB3,714 to RMB3,853); (iii) certain purchase orders were switched to Tequ Husbandry from other suppliers in the relevant regions as the feed provided by the other suppliers failed to meet the quality standard of the Group. The transaction amount for the five months ended 31 May 2023 is lower than the pro-rated annual cap for 2023, primarily because there is in general a lower consumer demand in the first half of a year following the Spring Festival, particularly for preserved and cured meat products. The transaction amount is expected to rebound considering the increased demand for pork and chicken during the holiday season in the second half of 2023, which results in the increase in purchase of feed by the Company to fatten piglets and raise chicks. Therefore, it is expected that transactions under the Tequ Feed Supply Framework Agreement will ramp up in the second half of 2023.

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Such transactions are conducted on normal commercial terms in the usual and ordinary course of our business. Since the highest of all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) in respect of the proposed annual caps of the Tequ Feed Supply Framework Agreement will exceed 5%, the transactions under the Tequ Feed Supply Framework Agreement shall be subject to annual review, reporting, announcement, circular (including independent financial advice) and Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Waiver granted by the Stock Exchange

Pursuant to the Listing Rules, the transactions contemplated under (i) the Feed Supply Framework Agreements constitute our continuing connected transactions, which are exempted from independent Shareholders’ approval requirements but are subject to the reporting, annual review and announcement requirements under the Listing Rules; and (ii) the Tequ Feed Supply Framework Agreement constitute our continuing connected transactions, which are subject to reporting, annual review, announcement and independent Shareholders’ approval requirements under the Listing Rules. In connection with such partially-exempt continuing connected transactions and non-exempt continuing connected transactions, according to Rule 14A.105 of the Listing Rules, we have applied for, and the Stock Exchange [has granted], a waiver from strict compliance with the announcement and/or Shareholders’ approval requirements under Chapter 14A of the Listing Rules in respect of the continuing connected transactions disclosed in the paragraph “Partially Exempt Continuing Connected Transactions” and “Non-exempt Continuing Connected Transactions” in this section, subject to the conditions that (i) such partially-exempt continuing connected transactions and non-exempt continuing connected transactions will be carried out in compliance with the requirements of the Listing Rules, and we are required to comply with the relevant requirements under Chapter 14A of the Listing Rules in relation to continuing connected transactions; and (ii) the aggregate amount of the partially-exempt continuing connected transactions and non-exempt continuing connected transactions for the financial year will not exceed the relevant amount of each annual cap set out above. Apart from the granted waiver of announcement and/or Shareholders’ approval requirements, we will comply with all other applicable requirements under Chapter 14A of the Listing Rules. The independent non-executive Directors and auditors of the Company will review whether the above transactions under the continuing connected transactions are entered into in accordance with the major terms and pricing policy of the relevant agreements. The confirmation letters of the independent non-executive Directors and auditors will be disclosed on an annual basis according to the requirements under the Listing Rules.

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DIRECTORS’ CONFIRMATION

Our Directors (including the independent non-executive Directors) are of the view that the continuing connected transactions set out above have been entered into in the ordinary and usual course of our business, on normal commercial terms or better, are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and that the proposed annual caps in respect of the above partially exempt continuing connected transactions and non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

THE JOINT SPONSORS’ CONFIRMATION

Based on the relevant documents and information provided by the Company and reviewed by the Joint Sponsors, the Joint Sponsors are of the view that the above partially exempt continuing connected transactions and non-exempt continuing connected transactions for which a waiver has been sought have been entered into in the usual and ordinary course of our Group’s business, on normal commercial terms or better, are fair and reasonable and in the interest of our Company and our Shareholders as a whole, and the proposed annual caps in respect of the above partially exempt continuing connected transactions and non-exempt continuing connected transactions are fair and reasonable and in the interest of our Company and our Shareholders as a whole.