



## SOMERLEY CAPITAL LIMITED

20/F., China Building, 29 Queen's Road Central, Hong Kong

Telephone: 2869 9090 Fax: 2526 2032 E-Mail: [somerley@somerley.com.hk](mailto:somerley@somerley.com.hk)

9 September 2025

*To: the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **AMENDMENTS TO THE CONTINUING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the adoption of annual caps under the Supplemental Tequ Feed Supply Framework Agreement (the “**Transactions**”). Details of the Transactions are set out in the letter from the Board contained in the circular of the Company to the Shareholders dated 9 September 2025 (the “**Circular**”), of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in the Circular.

As at the Latest Practicable Date, Mr. Wang Degen directly and indirectly holds 36.77% equity interest in the Company and is thus a controlling shareholder of the Company. Tequ Husbandry is owned as to 99.5% by Sichuan Tequ. Sichuan Tequ is owned as to 40.1% by Sichuan Puhua, 10.9% by Dekon Holding, which is wholly-owned by Mr. Wang Degen, and 49.0% by Huaxi Hope. Sichuan Puhua is owned as to 65.2% in aggregate by Mr. Wang Degen, his spouse, Ms. Zhang Qiang (張強), and Chengdu Desheng Ronghe Enterprise Management Consulting Co., Ltd., which is in turn controlled by Mr. Wang Yizeng (王益增), son of Mr. Wang Degen and Ms. Zhang Qiang. Huaxi Hope is wholly-owned by Mr. Chen Yuxin, a substantial shareholder of the Company, and his spouse. Tequ Husbandry is an associate of each of Mr. Wang Degen and Mr. Chen Yuxin and therefore a connected person of the Company.

As one or more of the applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the annual caps for each of the years ending 31 December 2025 and 2026 under the Supplemental Tequ Feed Supply Framework Agreement exceeds 5%, the transactions thereunder are subject to the reporting, announcement, annual review, and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.



The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Pan Ying, Mr. Zhu Qing and Mr. Fung Che Wai, Anthony, has been established to advise the Independent Shareholders on the Transactions. We, Somerley Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, Tequ Husbandry or their respective associates, close associates or core connected persons and, accordingly, are considered eligible to give independent advice on the Transactions. In the last two years, there was no engagement between the Group and us. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Tequ Husbandry or their respective core associates, close associates or core connected persons.

In formulating our advice and recommendation, we have reviewed information on the Company, including but not limited to (i) the Tequ Feed Supply Framework Agreement; (ii) the Supplemental Tequ Feed Supply Framework Agreement; (iii) the listing document published by the Company in relation to its initial public offering dated 27 November 2023 (“**Prospectus**”); (iv) annual reports of the Company for the years ended 31 December 2023 (“**FY2023**”) (“**2023 AR**”) and 2024 (“**FY2024**”) (“**2024 AR**”), and interim report for the six months ended 30 June 2025; and (v) other information contained in the Circular.

In addition, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company (collectively, the “**Management**”) and have assumed that they are true, accurate and complete in all material aspects at the time they were made and will remain true, accurate and complete up to the date of the EGM. We have also sought and received confirmation from the Group that no material facts have been omitted from the information supplied by them and that their opinions expressed to us are not misleading in any material respect. We consider that the information we have received is sufficient for us to formulate our opinion and recommendation as set out in this letter and have no reason to believe that any material information has been omitted or withheld, nor to doubt the truth or accuracy of the information provided to us. We have not, however, conducted any independent investigation into the businesses and affairs of the Group, nor have we carried out any independent verification of the information supplied.



## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendation with regard to the adoption of annual caps under the Supplemental Tequ Feed Supply Framework Agreement, we have taken into consideration the following principal factors and reasons:

### 1. Information on the parties

#### *The Group*

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Hong Kong Stock Exchange on 6 December 2023. The Group is principally engaged in breeding and farming of pigs and yellow-feathered broilers in the PRC.

In FY2024, the Company generated revenue of approximately RMB22,463 million, representing an increase of around 39.0% as compared with approximately RMB16,155 million for FY2023 which was mainly attributable to the increase in revenue for the pig segment. In FY2024, the cost of sales was approximately RMB17,598 million, representing an increase of around 9.7% as compared with approximately RMB16,036 million for FY2023 and this was mainly corresponding to the increase in the sales volume of pigs during the year. In view of the aforesaid and despite of the increase in administrative expenses in FY2024 by around 23.0% to approximately RMB1,584 million, the Company reported a profit before biological assets fair value adjustments of approximately RMB3,297 million for FY2024, as compared with a loss before biological assets fair value adjustments of approximately RMB1,279 million in FY2023. Such turnaround was mainly due to an increase in sales price of pigs in FY2024 as compared to the previous year, as well as a significant decrease in the Company's production costs as compared to the previous year as a result of the continuous improvement in the management efficiency and production indicators, and the impact of the decrease in prices of feed and feed ingredients. Biological assets of the Group primarily consist of commodity hogs, commodity chickens, chicken breeders and breeding pigs. For the six months ended 30 June 2025, the Company generated revenue of approximately RMB11,695 million, representing an increase of around 24.3% as compared with approximately RMB9,407 million for the same period of 2024, which was mainly resulted from the increase in revenue for the pig segment primarily attributable to the advanced yet sustainable proprietary breeding system, comprehensive precision nutrition and feed formulation technology, continuous technological empowerment, efficient team management and consistent disease prevention and control efforts.

Results of the Group have been and are expected to be affected by changes in fair value of biological assets. Fair value of the Group's biological assets was approximately RMB6,461 million as of 31 December 2024 and approximately RMB4,923 million as of 31 December 2023, which resulted in a gain arising from the changes in fair value of biological assets of approximately RMB904 million in FY2024 as compared with a loss of approximately RMB714 million in FY2023. Fair value of the Group's biological assets was approximately RMB6,836 million as of 30



June 2025 and approximately RMB6,461 million as of 31 December 2024, which resulted in a gain arising from the changes in fair value of biological assets of approximately RMB87 million for the first half year of 2025 as compared to approximately RMB1,428 million for the first half of 2024.

As disclosed in the 2024AR, the Company had two national-level core pig breeding farms as of 31 December 2024.

### ***Tequ Husbandry***

Tequ Husbandry, established in PRC on 28 April 2016, is owned as to 99.5% by Sichuan Tequ Investment Group Limited (“**Sichuan Tequ**”). Sichuan Tequ is a company established in the PRC on 28 June 2005 with limited liability. Sichuan Tequ is 40.1% owned by Sichuan Puhua Agricultural Technology Development Limited, 10.9% by Dekon Holding, and 49% by Chengdu Huaxi Hope Group Co., Ltd. (“**Huaxi Hope**”). Sichuan Puhua is 65.2% owned by Mr. Wang Degen, his spouse, Ms. Zhang Qiang, and Chengdu Desheng Ronghe Enterprise Management Consulting Co., Ltd., controlled by Wang Yizeng. Huaxi Hope is wholly-owned by Mr. Chen, a substantial shareholder of the Company. Tequ Husbandry is principally engaged in the production and sale of feeds.

Based on the information provided in the Prospectus and the official website of Tequ Husbandry, Tequ Husbandry has over 70 subsidiaries across China and Southeast Asia. The feed sales of Tequ Husbandry have ranked the first in Sichuan province for 9 consecutive years since 2012 up to and including 2020.

## **2. Background, reasons and benefits of the Supplemental Tequ Feed Supply Framework Agreement**

### ***2.1. Background of the Supplemental Tequ Feed Supply Framework Agreement***

As disclosed in the letter from the Board of the Circular, references are made to the Prospectus and the 2024 AR, which disclosed, among others, the continuing connected transaction under the Tequ Feed Supply Framework Agreement. With the business development and growth of the Group and based on estimates of prevailing demand and operating conditions, the Company expects that the transaction amounts of the transactions under the Tequ Feed Supply Framework Agreement for the year ending 31 December 2025 will exceed the existing annual caps. Accordingly, on 15 August 2025 (after trading hours), the Company and Tequ Husbandry entered into the Supplemental Tequ Feed Supply Framework Agreement, pursuant to which the parties agreed to (i) an amendment of Original Annual Cap to RMB2,190 million for the year ending 31 December 2025 and (ii) the renewal of the term of Tequ Feed Supply Framework Agreement for up to the year ending 31 December 2026 in compliance with the Listing Rules.



## ***2.2. Reasons for and benefits of the Supplemental Tequ Feed Supply Framework Agreement***

As disclosed in the letter from the Board of the Circular, in order to satisfy the increased demand for the overall expansion of the Company's pig and poultry farming scale and with reference to the transaction amount for the seven months ended 31 July 2025, the Board envisages that the Original Annual Cap will not be sufficient to fulfil the additional demand for feed under the Tequ Feed Supply Framework Agreement for the year ending 31 December 2025. The key reasons for such amendments are set out below:

- ***Increased Overall Feed Demand***

The Company's production and operational performance has significantly exceeded expectations. The estimated output volume of hogs is expected to increase from approximately 8.78 million heads in 2024 to approximately 11.00 million heads in 2025. Accordingly, the total feed demand is projected to reach 5.34 million tons by the end of 2025, representing a year-on-year increase of 27.75%. Additionally, output volume of hogs in the second half of the year is projected to be higher than that in the first half considering the coming festivals and cold weathers, and output volume of poultry is expected to experience a slight increase compared to 2024. The Company's key farming regions will see further growth in output volume of hogs in the second half of 2025, leading to increased regional feed demand.

- ***More Favourable Pricing***

Based on the Company's analysis and prevailing market quotations, the total cost (including ex-factory prices and transportation fees) of feed purchased from Tequ Husbandry is no less favourable than the ones offered by comparable independent third-party feed suppliers whilst maintaining good quality feed standard. The Company has developed various feed formulations and asks for quotations of key ingredients from suppliers on a monthly basis before its monthly procurement of feed. These suppliers were carefully selected based on their creditability and market position. The quotations were obtained on an arm's length basis, and the process adhered to industry best practices to ensure fairness and competitiveness in pricing. The Company generally places purchase orders with suppliers who have the best overall performance in terms of ex-factory prices offered and transportation costs. Take the major feed product (DK03) as an example, the prices offered by Tequ husbandry are not less favourable than the one offered by comparable independent third-party feed suppliers with the largest preferential margin of 4.93%.



- *Insufficient Capacity of Self-operated Feed Mills*

While the Company's self-operated feed mills are currently operating at full capacity, expanding production scale through additional self-built feed mills is not economically viable at this stage. Therefore, the Company considers it more cost-effective to engage qualified external suppliers to meet the growing feed demand.

- *Assured Biosecurity Controls by Connected Parties*

Compared to independent third-party suppliers, Tequ Husbandry is better positioned to comply with the Company's stringent biosecurity requirements. They have committed to refraining from using animal-derived ingredients in feed production, and their processes are more controllable, thereby safeguarding the biosecurity of the Company's biological assets. Specifically, Tequ Husbandry has implemented reforms in its feed technology in alignment with the Company's business development needs from January to April 2025. Such reform enhanced its biosecurity standards, which mitigate the biosecurity risk for the feed supply.

- *Geographical Proximity and Cost Efficiency*

The operations of Tequ Husbandry overlap with the Company's core farming regions in a relatively high degree, especially the locations of majority of the Company's newly contracted farmers this year in Sichuan Province. The majority of the Company's farms are located in the Southwest region of China, where most of the feed mills of Tequ Husbandry are also situated in. More than 50% of the farms are located within a 100-kilometre radius from the feed mills of Tequ Husbandry. Furthermore, the number of independent third-party suppliers within this 100-kilometre distance is relatively limited. Both Tequ Husbandry and the independent third-party suppliers utilize third-party logistics services for transportation. The pricing structure for transportation costs is largely consistent between both parties. As such, this geographical alignment between the Company and Tequ Husbandry contributes to reduced transportation cost. Furthermore, Tequ Husbandry is able to tailor its raw material procurement in accordance with the Company's specific needs and forecasts, thereby enhancing the Group's ability to mitigate the impact of raw material price fluctuations on overall production costs.

- *Assured Feed Quality and Cost Competitiveness*

Based on the Company's internal assessment of the biosecurity performance of externally sourced feed, the feed supplied by Tequ Husbandry achieved consistently better results compared to other suppliers in the same region in terms of quality, biosecurity, and procurement costs.



In view of the above, we have reviewed and noted from the annual reports that the Company's business, in particular the pig segment, has grown continuously since FY2022 and the first half of FY2025. According to the Prospectus and annual reports of the Company, in particular, the total number of pigs (head) sold increased from 3,727,584 heads in FY2021 to 5,432,431 heads in FY2022, and further to 7,083,619 heads in FY2023 and 8,779,141 heads in FY2024, representing a simple average annual growth of approximately 33.36%. According to the Group's production plan for 2024 to 2026, the Company's output volume of hogs is expected to continue to grow, including in the Company's core breeding regions such as Sichuan province. As advised by the Management, the output volume of hogs of the Group in Sichuan province reached approximately 3.2 million heads and approximately 3.7 million heads, which accounted for around 45% and around 42% of the total sales volume of pigs of the Company, for the two years ended 31 December 2023 and 2024 respectively. Thus, as the Group's key farming region, Sichuan province will remain the focus for the Group's further expansion plan. According to the Company, output volume of hogs of the Group in Sichuan province will reach approximately 4.5 million heads for the year ending 31 December 2025 according to the Group's latest expansion plan.

We have enquired and are confirmed by the Company that as at 31 December 2024, it had 15 self-operated feed mills nationwide which had a total annual production of approximately 275 tonnes in 2024, representing around 65.32% of the total annual feed demand of the Group for FY2024. In particular, among the 15 self-operated feed mills, 2 of them are located in Sichuan province and in FY2024, the feed production from the Group's self-operated feed mills can only satisfy around 37% of the total feed demand of the Group for its farms in Sichuan province. As such and in anticipation of the production increase as discussed in the paragraph above, it is considered crucial for the Company to secure feeds from external suppliers for meeting its production needs.

As confirmed by the Company, Tequ Husbandry has been one of the major suppliers of feeds for the Group for over 5 years. Given the substantial period of business relationship with the Group, Tequ Husbandry has a good understanding on the quality standard of feeds the Group needs and has been willing to make extra efforts on tailoring raw material procurement in accordance with the Company's requests. Whilst the Company conducts proprietary inspection protocols by a way of biosecurity assessment sheet on a monthly basis to evaluate feed quality parameters from suppliers and based on our review of various samples of biosecurity assessment sheet of distinct feed types sourced from Tequ Husbandry and independent third-party suppliers respectively, we noted from the sample scoresheets that feeds procured from Tequ Husbandry have consistently achieved higher quality benchmarks (in terms of, including but not limited to, safety, quality and production procedures) than those supplied by other independent third-party suppliers.



We have enquired and are confirmed by the Company that in Sichuan province, Tequ Husbandry's various feed suppliers locate within 150 km from the Group's farms, as compared with the other independent suppliers which are usually over 150 km away from the Group's key farms in the region. Furthermore, more than 50% of the farms are located within a 100km radius from the feed mills of Tequ Husbandry, while the number of independent third-party suppliers within this 100km distance are relatively limited. While the transportation feed are handled by independent logistic companies and the charges are in general positively correlated with transportation distance, as a result, the Company has been benefited from overall transportation cost savings in feed procurements from nearby Tequ Husbandry's feed suppliers. Given the Group's key area of business is in the Sichuan province and Tequ Husbandry's proven recognition in the feed market especially in Sichuan province, the operations of Tequ Husbandry's are considered aligned with the Company's farming regions, ensuring lower transportation costs and lower biosafety risks.

In view of all the above and in particular, the entering into the Supplemental Tequ Feed Supply Framework Agreement will not make the Group becoming obligated to enter into any transactions with Tequ Husbandry, but will only allow, among other things, Tequ Husbandry to be one of the available choice(s) for the Group's selection, we concur with the view of the Directors that the entering into of the Supplemental Tequ Feed Supply Framework Agreement is beneficial to the Group.

**3. Principal terms of the Tequ Feed Supply Framework Agreement (as amended by the Supplemental Tequ Feed Supply Framework Agreement)**

***Date***

15 August 2025

***Parties***

- (a) the Company (as purchaser); and
- (b) Tequ Husbandry (as feed provider)

The Supplemental Tequ Feed Supply Framework Agreement will, subject to compliance with the respective independent shareholders' approval requirements by the Company, be valid for a term from the Effective Date to 31 December 2026. Save for the revision of the existing annual caps and term of agreement, all other terms and conditions (including the pricing policy) under the Tequ Feed Supply Framework Agreements remain unchanged.





The purchase price payable by the Group to Tequ Husbandry under the Tequ Feed Supply Framework Agreement has been determined (i) based on arm's length negotiations between Tequ Husbandry 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 Company has developed its own core feed formulations, which are periodically adjusted to meet production requirements. Regarding pricing, the Company adopts a competitive and transparent approach and solicit price quotations from at least three feed suppliers each month, (the "**Monthly Market Quotes**") requesting their prices for the core feed ingredients before its monthly procurement of feed. These quotations are carefully compared to ensure that the Company is obtaining the most competitive prices in the market. Furthermore, the Company also actively monitors the commodity trading prices of key raw materials, specifically corn and soybean meal, two of the most critical ingredients in the feed formulation. By referencing these commodity prices, the Company selects suppliers who offer the best combination of price and feed quality, ensuring optimal cost-effectiveness.

Further details of the terms of the 2025 Tequ Feed Supply Framework Agreement are set out in the section headed "(1) Supplemental Tequ Feed Supply Framework Agreement" in the letter from the Board in the Circular.

We have reviewed the existing Tequ Feed Supply Framework Agreement and the Supplemental Tequ Feed Supply Framework Agreement. We noted that save for the revision of the existing annual caps and term of agreement as well as the inclusion of 2026 annual cap, all other terms and conditions (including the pricing policy) under the Tequ Feed Supply Framework Agreements remain unchanged.

We have discussed with the Management and noted that the Group has adhered and will continue to adhere to a series of internal control measures to ensure the terms, including the pricing policy, in relation to Supplemental Tequ Feed Supply Framework Agreement will be determined based on arm's length negotiations between Tequ Husbandry, its subsidiaries or its controlled entities and the Group, and 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.

In this regard, we have requested the Company to provide us with, among other things, a total of thirty sample feed purchase agreements with comparatively larger contract amount entered into between the Company and Tequ Husbandry and other thirty sample feed purchase contracts entered into between the Company and the independent third-party suppliers respectively around the same period, for the period between 1 January 2023 up to August 2025 (the "**Sample Feed Transaction Records**"). We have also obtained the corresponding Monthly Market Quotes for each of the Sample Feed Transaction Records with Tequ Husbandry and we observed that, the unit price as stated in the Sample Feed Transaction Records with Tequ Husbandry were all in line with or better than the Monthly Market Quotes. Based on the Sample Feed Transaction Records, we also noted that key terms of the agreements, including but not limited to the unit prices and payment terms offered by Tequ Husbandry, were



all in line with or better than those offered by the independent third-party suppliers and in particular, based on the Sample Feed Transaction Records and the transportation costs associated with the respective contracts as provided by the Company, we noted that the total cost (including ex-factory prices and transportation fees) for the Group for purchasing from Tequ Husbandry have been no less favourable than those purchases from the independent third-party suppliers, and that the total cost (including ex-factory prices and transportation fees) difference was up to 4.93%.

Attention is also drawn to the fact that the Group is not obligated to enter into underlying purchase agreements with Tequ Husbandry unless terms offered to the Group are no less favourable than the terms offered by independent third-party suppliers and the selection of Tequ Husbandry suppliers must comply with the internal policies set by the Group.

Having considered all the above, we concur that the pricing basis of the Supplemental Tequ Feed Supply Framework Agreement is on normal commercial terms and fair and reasonable.

#### 4. The proposed annual caps

##### *Historical transaction amounts*

The table below sets out the historical transaction amounts, existing annual cap under the Tequ Feed Supply Framework Agreement paid by the Group to Tequ Husbandry for the purchase of feeds and utilisation rate of the existing annual cap under the Tequ Feed Supply Framework Agreement:

	Year ended 31 December 2023 <i>RMB in million</i>	Tequ Husbandry Year ended 31 December 2024 <i>RMB in million</i>	Seven months ended 31 July 2025 <i>RMB in million</i>
Historical transaction amounts	482.7	745.2	775.4
Existing annual cap	573.5	758.5	869.5
Utilisation rate	84.2%	98.2%	89.2%

As at the Latest Practicable Date, the existing 2025 annual cap under the existing Tequ Feed Supply Framework Agreement has not been exceeded, but the transaction amounts paid by the Group for feed purchasing in the seven months ended 31 July 2025 under the existing Tequ Feed Supply Framework Agreement has already reached around 89.2% of the existing 2025 annual cap.



### ***Determining of annual caps***

Details of the annual caps pursuant to the Supplemental Tequ Feed Supply Framework Agreement are as follows:

	For the year ending 31 December 2025		For the year ending 31 December 2026
	Existing annual cap	Revised annual cap	annual cap
	RMB in million	RMB in million	RMB in million
Tequ Husbandry	869.5	2,190.0 <sup>(1)</sup>	3,000.0

*Note:*

- (1) Such revised annual cap is calculated with the incurred transaction amount under the Tequ Feed Supply Framework Agreement for the seven months ended 31 July 2025 of RMB775.4 million and the expected transaction amount to be incurred under the Supplemental Tequ Feed Supply Framework Agreement for the year ended 31 December 2025 of RMB2,190.0 million.

### ***Basis for determining the annual caps***

As disclosed in the letter from the Board of the Circular, the proposed annual caps are determined based on the future development strategy and business plan of the Company with reference to (i) the historical transaction amounts paid by the Group for feed purchasing in the past two financial years and the seven months ended 31 July 2025 (as of 31 July 2025, the transaction amount under the Tequ Feed Supply Framework Agreement has already reached around 89.2% of the existing 2025 annual cap); (ii) the expected utilisation rate of the existing annual cap for the year ending 31 December 2025, which will be over 200% of the Original Annual Cap based on the current estimation; and (iii) the anticipated continuous increase in demand for feed to be provided to the Group, taking into account reasons set out above. As for the 2026 annual cap, based on historical year-on-year growth rate of number of market pigs and poultry of slightly more than 30%, the Group expects its total feed demand and expected procurement amount with Tequ Husbandry for 2026 will both increase in line with the projected business growth.

We noted that the historical transaction amount between the Group and Tequ Husbandry for the purchase of feeds for the two years ended 31 December 2023 and 2024, and seven months ended 31 July 2025 were approximately RMB482.7 million, RMB745.2 million and RMB775.4 million, representing approximately 84.2%, 98.24% and 89.2% of the existing annual caps, for FY2023, FY2024 and FY2025 respectively and according to the Company, the existing annual cap for FY2025 under the Tequ Feed Supply Framework Agreement will not be sufficient to fulfil the additional demand for feed of the Company.



As shown in the table above, the 2025 revised annual cap represented a growth of approximately 152% to the existing 2025 annual cap and approximately 194% growth to the 2024 historical transaction amounts. The 2026 annual cap represents a growth of approximately 37% to the 2025 revised cap.

*The revised 2025 annual cap*

We have inquired the Management and understand that in formulating the annual caps, the Company determined and assumed the feed demand primarily based on the expected sales volume of pigs as the Company expects that over 90% of the total purchases of feeds from Tequ Husbandry in 2025 and 2026 will be mainly used for its pig production and the remaining will be mainly for its broiler production. Further, the 2025 revised annual cap is mainly estimated on the assumption that a total feed volume of 730,000 tonnes costing RMB3,000 per tonne would be purchased from Tequ Husbandry in FY2025, and such purchase volume is estimated primarily with reference to: (i) the continuation of the existing requirements of feed procurement from Tequ Husbandry in the volume of approximately 251,388 tonnes during FY2024; (ii) the latest expansion plan of farms and farmers of the Company for the second half of 2025, which is expected to require an additional approximately 408,000 tonnes of feed; and (iii) potential shift of procurement of up to approximately 200,000 tonnes from other suppliers to Tequ Husbandry due to several safety issues of feeds procured from independent third-party suppliers identified by the Group in FY2024. The Group expects that the transaction amount in 2025 under the Supplemental Tequ Feed Supply Framework Agreement will account for not more than 14% and 15% of the total feed procurement amount of the Company for 2025 and 2026 respectively.

In view of the above, we understand from the Management that according to the Company's expansion plan and as compared to FY2024, the estimated output volume of hogs from the Company's farms in Sichuan province will increase by more than 1.2 million heads in 2025, which based on the industry benchmark on feed consumption per pig, roughly equivalent to an expected corresponding increase in feed demand of around 408,000 tonnes in 2025. Regarding the additional feed demand of around 408,000 tonnes, we understand that the amount is primarily with referenced to the committed and expected production amount with newly contracted farmers and the average feed consumption per head. Such new contracts were entered into by the Company with farmers mainly in the first seven months of 2025 which in aggregate have a total indicated output volume of hogs within 2025 of over 1 million heads. In this regard, we obtained and reviewed certain relevant agreements between the newly contracted farmers and the Company (the "**New Contract Farming Agreements**") and noted that specific output volume of hogs to be provided by new farmers have been agreed and stated in the respective New Contract Farming Agreements.

Meanwhile, we are also given to understand that since end of 2024, the Company has identified several biosafety and quality issues in feed procurement from various independent third party suppliers in Sichuan province. Given such circumstances and in order to ensure stable and timely feed supply, the Company may need to shift feed procurement up to the volume of approximately 200,000 tonnes which have been



originally sourced from those third-party suppliers with higher biosafety risks, to Tequ Husbandry as and when the terms and price offered by Tequ Husbandry would be no less favourable to the Group than those offered by independent third parties. In this regard, we obtained and reviewed internal announcements in relation to the incidences of biosafety risks of the various independent third-party suppliers. We have also enquired the Company and noted that total procurement feed volume from the aforesaid third-party suppliers with higher biosafety risks were approximately 200,000 tonnes in 2024 and approximately 100,000 tonnes in the first half of 2025, which form the basis for the estimation of approximately 200,000 tonnes of feed procurement to be shifted to Tequ Husbandry for 2025. Given the close proximity of Tequ Husbandry's suppliers and their feed quality as discussed above and the need of the Group to secure a readily available feed supply, we consider it not unreasonable to include the abovementioned additional procurement volume in determining of the revised 2025 annual cap.

In forming the revised 2025 annual cap, we noted that the Company assumes a unit price of RMB3,000 per tonne of feed in calculating the 2025 revised annual cap. We have discussed with the Management and understand that such unit price is assumed with reference to the historical average and prevailing unit price of feed. We have obtained the historical purchase costs of pig feeds of the Group since January 2023 and up to July 2025 and noted that, purchase unit price of feeds fluctuated between approximately RMB2,820 and RMB3,940 per tonne during such period, with an average purchase unit price of approximately RMB3,224 per tonne. The feed purchase unit price of the Group has also demonstrated a gradual upward trend from RMB2,820 per tonne in January 2025 to the latest unit price of RMB2,980 per tonne in July 2025. As such, we consider the assumed unit price of RMB3,000 per tonne, which is principally based on the historical average and prevailing market unit price of feed, for calculating the annual caps to be not unreasonable.

In summary, given that the revised 2025 annual cap is determined mainly based on (i) the revised total feed purchase volume estimated with reference to feed demand based on actual new contracts entered into with farmers in 2025 and the Group's possible additional needs on feed from Tequ Husbandry due to the biosecurity issues of certain other existing third-party suppliers; and (ii) the assumed unit price per tonne of feed which is in line with the historical average and prevailing market price as discussed in details above, we consider the revised 2025 annual cap to be fair and reasonable.

#### *The 2026 annual cap*

For the 2026 annual cap, as disclosed in the letter from the Board to the Circular, the expected feed to be procured from Tequ Husbandry in 2026 will be approximately 1,000,000 tonnes. We understand from the Company that such amount and the corresponding annual cap is determined based on (i) the expected sales volume of the pigs with increment by more than 30% in volume comparing with that of the revised 2025 annual cap and the Company expects that over 90% of the total purchases of feeds from Tequ Husbandry in 2026 will also be mainly used for pig production and the



remaining will primarily be for broiler production purpose; and (ii) the assumed unit price per tonne of feed of RMB3,000 which is in line with the historical average and prevailing market price and considered prudent given the uptrend since January 2025 as discussed in details above. The 2026 annual cap represents a growth of around 37% comparing with the revised annual cap for 2025. In this regard, we note that the Group has reported consistent increase in total number of pigs sold between 2021 and 2024 with the historical average annual growth rate of around 33.36%. On such basis, we consider the embedded growth rate of around 37% in formulating the 2026 annual cap not unreasonable.

## **5. Internal Control Procedures**

As disclosed in the letter from the Board to the Circular, the Company has adopted the following internal control and corporate governance measures to closely monitor connected transactions and ensure future compliance with the Listing Rules:

- (i) the Company has adopted and implemented a management system on connected transactions and the Board and various internal departments of the Company are responsible for the control and daily management in respect of the continuing connected transactions;
- (ii) the Board and various internal departments of the Company are jointly responsible for evaluating the terms of the continuing connected transactions, in particular, the fairness of the pricing policies and annual caps (if applicable) under each transaction;
- (iii) the Board and various internal departments of the Company are regularly monitoring the connected transactions and will regularly review the pricing policies to ensure the connected transactions to be performed in accordance with the relevant agreements;
- (iv) the Company has engaged external independent auditor which will, and the independent non-executive Directors also will, conduct annual review on the continuing connected transactions to ensure that the transactions contemplated thereunder have been conducted pursuant to the requirements of the Listing Rules and have fulfilled the relevant disclosure requirements; and
- (v) the Company will continue to comply with the relevant requirements under Chapter 14A of the Listing Rules for the continuing connected transactions, and comply with the conditions prescribed under the waiver submitted to the Stock Exchange in connection with the continuing connected transactions in this regard.

We have reviewed the internal control procedures above together with the pricing policies as set out in the section headed “3. Principal terms of the Tequ Feed Supply Framework Agreement (as amended by the Supplemental Tequ Feed Supply Framework Agreement)” above and in the letter from the Board in the Circular, which include but not limited to, the overall assessment on suppliers’ quality and safety, comparisons with purchase prices offered by independent third parties by obtaining the Monthly Market



Quotes with also the reference to the historical commodity price trend of corn and soybean, prior to entering into transactions with Tequ Husbandry, we consider the Group to have effective internal control procedures and pricing policies demonstrating the Group's practices of getting access to market information and having regular assessment on the terms of the Transactions, so as to make sure that terms offered by Tequ Husbandry will be no less favourable (so far as the Group is concerned) than those prevailing in the market for similar transactions.

## **OPINION AND RECOMMENDATION**

Having considered the principal factors and reasons set out above and given the Supplemental Tequ Feed Supply Framework Agreement is conducted in the ordinary and usual course of business of the Group and are in the interests of the Company and the Shareholders, and the terms of the Supplemental Tequ Feed Supply Framework Agreement are on normal commercial terms, we are of the view that the adoption of annual caps under the Supplemental Tequ Feed Supply Framework Agreement to be fair and reasonable so far as the Company and the Independent Shareholders are concerned. Accordingly, we advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the adoption of annual caps under the Supplemental Tequ Feed Supply Framework Agreement.

Yours faithfully,  
for and on behalf of  
**SOMERLEY CAPITAL LIMITED**

**Lyan Tam**  
*Director*

*Ms. Lyan Tam is a licensed person registered with the Securities and Futures Commission and as a responsible officer of Somerley to carry out Type 6 (advising on corporate finance) regulated activities under the SFO and has over 21 years of experience in corporate finance industry.*