

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



凤祥食品

SHANDONG FENGXIANG CO., LTD.

山東鳳祥股份有限公司

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 9977)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

HIGHLIGHTS

Key Operating Data

	Six months ended		
	30 June		
	2023	2022	Change (%)
White-feathered broilers bred (unit: million birds)	77.7	72.2	+7.7
White-feathered broilers processed (unit: million kg)	159.0	161.7	-1.7
Sales volume:			
Raw chicken meat products (unit: million kg)	106.4	121.0	-12.1
Processed chicken meat products (unit: million kg)	60.8	54.7	+11.1
Chicken breeds (unit: million birds)	14.2	19.1	-26.0

Key Financial Data	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	2,436,545	2,443,273
Gross profit	282,227	222,336
Profit/(loss) before biological assets fair value adjustments	71,792	(60,920)
Net profit/(loss)	82,095	(70,937)
Net profit/(loss) attributable to the shareholders of the parent company	82,095	(70,937)
Basic earning/(loss) per share (<i>in RMB</i>)	0.06	(0.05)

FINANCIAL INFORMATION

The board of directors (the “**Board**”) of Shandong Fengxiang Co., Ltd. (the “**Company**” or “**Fengxiang**” and its subsidiaries, collectively the “**Group**”) hereby announces the unaudited condensed consolidated results and financial position of the Group for the six months ended 30 June 2023 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2022 as follows. Unless otherwise specified, financial data of the Company is presented in Renminbi (“**RMB**”).

The following financial information is a summary of the unaudited condensed consolidated financial statements for the six months ended 30 June 2023 of the Group prepared under China Accounting Standards for Business Enterprises (“**CASBE**”) and relevant regulations issued by the Ministry of Finance of the People’s Republic of China (the “**PRC**”), which have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

**CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND
COMPREHENSIVE INCOME**

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Total operating revenue	3	2,436,545	2,443,273
Less: Operating costs		2,154,318	2,220,937
Taxes and charges		17,320	18,903
Selling expenses		84,768	173,016
Administrative expenses		52,892	48,133
Research and development expenses		13,142	15,471
Finance costs	4	41,667	23,551
Add: Other gains	5	4,821	953
Investment loss		(1,940)	(1,462)
Including: Loss on investments in associates and joint ventures		(1,938)	(1,462)
Gain/(loss) from changes in fair value (Credit impairment loss)/Reversal of impairment loss	6	10,303	(10,017)
Reversal of asset impairment loss		(95)	63
Reversal of asset impairment loss (Loss)/proceeds on disposal of assets		171	—
		(2,417)	198
Operating profit/(loss)		83,281	(67,003)
Add: Non-operating income		592	554
Less: Non-operating expenses		147	305
Total profit/(loss)		83,726	(66,754)
Less: Income tax expenses	7	1,631	4,184
Net profit/(loss)		82,095	(70,937)
Breakdown by continuity of operations			
Net profit/(loss) from continuing operations		82,095	(70,937)
Breakdown by attributable interests			
Net profit/(loss) attributable to shareholders of the parent company		82,095	(70,937)
Loss attributable to minority interests		—	—
Net other comprehensive loss after tax		(126)	(550)

	<i>Note</i>	Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Net other comprehensive loss attributable to shareholders of the parent company after tax		(126)	(550)
Other comprehensive loss that can be reclassified into profit or loss		(126)	(550)
Exchange differences on translation of foreign currency financial statements		(126)	(550)
Total comprehensive income/(loss)		81,969	(71,487)
Total comprehensive income/(loss) attributable to the shareholders of the parent company		81,969	(71,487)
Earning/(loss) per share			
Basic earning/(loss) per share (in RMB)	9	0.06	(0.05)
Diluted earning/(loss) per share (in RMB)	9	0.06	(0.05)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

As at 30 June 2023

		As at 30 June 2023	As at 31 December 2022
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Current assets			
Monetary funds		370,043	332,156
Trade receivables	<i>10</i>	239,331	194,977
Prepayments		28,833	46,041
Other receivables		10,008	14,832
Inventories	<i>11</i>	779,720	897,447
Other current assets		64,347	75,108
		<hr/> 1,492,281	<hr/> 1,560,561
Total current assets			
Non-current assets			
Long-term equity investments		57,903	59,841
Fixed assets		3,038,577	3,055,597
Construction in progress	<i>12</i>	3,918	996
Productive biological assets	<i>13</i>	252,642	255,692
Right-of-use assets		195,939	201,487
Intangible assets		88,656	89,421
Deferred income tax assets		156	166
Other non-current assets		7,937	4,573
		<hr/> 3,645,728	<hr/> 3,667,773
Total non-current assets			
		<hr/> 5,138,009	<hr/> 5,228,334
Total assets			

		As at 30 June 2023	As at 31 December 2022
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Current liabilities			
Short-term borrowings	16	802,142	1,124,614
Bills payables	14	—	70,000
Trade payables	15	387,928	454,943
Contract liabilities		30,778	46,449
Payroll payables		63,346	80,137
Taxes payables		9,332	10,035
Other payables	16	519,804	228,507
Non-current liabilities due within 1 year	16	269,415	120,413
Other current liabilities		<u>2,003</u>	<u>2,497</u>
Total current liabilities		<u>2,084,748</u>	<u>2,137,594</u>
Non-current liabilities			
Long-term borrowings	16	126,790	252,148
Lease liabilities		201,651	199,666
Long-term payables		6,962	6,071
Estimated liabilities		65	124
Deferred income		19,881	20,756
Other non-current liabilities		<u>—</u>	<u>—</u>
Total non-current liabilities		<u>355,349</u>	<u>478,765</u>
Total liabilities		<u>2,440,097</u>	<u>2,616,359</u>
Owners' equity			
Share capital	17	1,400,000	1,400,000
Capital reserve		632,671	628,702
Less: treasury shares		27,686	27,685
Other comprehensive loss		(800)	(674)
Surplus reserve		155,378	155,378
Undistributed profits		538,349	456,254
Total equity attributable to shareholders of the parent company		<u>2,697,912</u>	<u>2,611,975</u>
Total owners' equity		<u>2,697,912</u>	<u>2,611,975</u>
Total liabilities and owners' equity		<u><u>5,138,009</u></u>	<u><u>5,228,334</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises — Basic Standard issued by the Ministry of Finance of the PRC and respective specific accounting standards, application guidelines for accounting standards for business enterprises, interpretation for accounting standards for business enterprises, and other relevant regulations (hereinafter collectively referred to as the “**Accounting Standards for Business Enterprises**”). In addition, the financial statements also comply with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and the applicable disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

2. CONTINUOUS OPERATIONS

The Company recorded a net profit of RMB82.095 million from January to June 2023. As at 30 June 2023, the balance of Fengxiang’s unrestricted monetary funds was RMB175.3086 million, the balance of short-term borrowings was RMB802.1414 million, and the balance of long-term borrowings and long-term payables due within one year was RMB260.9775 million, which indicated the existence of material uncertainties that may give rise to significant doubts about Fengxiang’s ability to continue as a going concern.

The Company’s management intends to take relevant measures to improve its liquidity and expects to be able to obtain sufficient funds to support the Company’s operational needs for the foreseeable next 12 months.

The Company intends to take the following measures to improve the Company’s ability to continue as a going concern:

- (1) the controlling shareholder of the Company will continue to provide borrowings for the Company for its operational needs. According to the announcement of the Company dated 29 January 2023, the controlling shareholder and the Company entered into the loan framework agreement with a term from January 2023 to January 2024;
- (2) the Company is actively negotiating with financial institutions to obtain new loans at a reasonable cost. Currently, certain financial institutions have indicated their intentions to grant new loans to the Company and the

Company's loan renewals are normal. Given the Company's good credit history and the influence of its controlling shareholder, the Directors are confident that new loans can be obtained at a reasonable cost;

- (3) the Company will continue to focus on its main businesses and fully release production capacity to achieve business growth; continuously research and develop new products and expand them to its overseas customers and accelerate channels' building; further deepen channel penetration of major customers and increase the Company's share of supply in major customers, speed up inventory turnover while continuing to adopt cost reduction and efficiency enhancement measures to increase operating cash flows; and
- (4) the Company will further improve its capability to cope with financial risks, optimise its debt structure, reduce short-term liabilities and increase long-term liabilities to minimise the pressure of short-term debt repayment.

The management of the Company is of the opinion that the Group will be able to obtain sufficient working capital to ensure that the Group will be able to continue as a going concern for a period of 12 months after 30 June 2023 through the above measures. Accordingly, the Company considers it appropriate to adopt the going concern basis in preparing the financial statements of the Company.

Notwithstanding the above, there are still significant uncertainties as to whether the management of the Group will be able to implement the above plans and measures. The Group's ability to continue as a going concern will depend on:

- (1) obtaining credit facilities from financial institutions to secure new borrowings;
- (2) successfully maintaining continuing and normal business relationships with the Group's existing lenders so that the relevant lenders will not take actions to exercise their contractual rights to demand immediate repayment of such borrowings;
- (3) the gradual release of the Company's production capacity, continuous stable development of the businesses of its overseas customers and major customers, normal inventory turnover and timely recovery of accounts receivable.

If the Group does not achieve the expected results of these plans and measures, it may not be able to continue as a going concern, and adjustments will have to be made to reduce the carrying value of the Group's assets to their recoverable amounts, to accrue for any further liabilities that may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue from contracts with customers is recognised upon goods transferred at a point in time. For management purposes, the Group is organised into business units based on their products and has four reportable operating segments as follows:

- (a) production and sale of processed chicken meat products
- (b) production and sale of raw chicken meat products
- (c) production and sale of chicken breeds
- (d) others comprising the sale of by-products, packing materials and miscellaneous products

The management of the Company monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment assets and liabilities are not disclosed in the unaudited condensed consolidated financial statements as they are not regularly provided to the management for the purposes of resource allocation and performance assessment.

Operating revenue/operating costs

	Six months ended 30 June			
	2023		2022	
	RMB'000		RMB'000	
	(Unaudited)		(Unaudited)	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Main business	2,426,582	2,151,749	2,436,185	2,219,424
Other businesses	9,963	2,569	7,088	1,514
Total	<u>2,436,545</u>	<u>2,154,318</u>	<u>2,443,273</u>	<u>2,220,937</u>

Revenue by products

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Processed chicken meat products	1,229,476	1,141,297
Raw chicken meat products	1,085,063	1,204,620
Chicken breeds	37,408	24,287
Others	84,598	<u>73,069</u>
Total	<u>2,436,545</u>	<u>2,443,273</u>

Geographic information

Revenue from external customers

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China	1,798,740	1,718,124
Japan	175,731	169,628
Malaysia	78,011	242,243
Europe	327,895	274,694
Other countries or regions	56,168	<u>38,584</u>
Total	<u>2,436,545</u>	<u>2,443,273</u>

The revenue information above is based on the location of the customers.

4. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	48,613	47,788
Including: Interest expenses on lease liabilities	6,073	5,511
Interest income	(2,734)	(18,705)
Exchange losses	(3,956)	(7,467)
Handling fees and others	(256)	1,935
	<u> </u>	<u> </u>
Total	<u>41,667</u>	<u>23,551</u>

5. OTHER GAINS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants (<i>Note</i>)	4,674	785
Handling fee for withholding individual income tax	147	168
	<u> </u>	<u> </u>
Total	<u>4,821</u>	<u>953</u>

Note: Government grants include various subsidies received by the Group from relevant government bodies in connection with certain financial subsidies to support the Group's businesses. There are no unfulfilled conditions or contingencies relating to these grants.

6. GAIN/(LOSS) ON CHANGES IN FAIR VALUE

	For the six months ended	
	30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Gain/(loss) on changes in fair value of productive biological assets and consumptive biological assets	<u>10,303</u>	<u>(10,017)</u>
Total	<u><u>10,303</u></u>	<u><u>(10,017)</u></u>

The Company's gain/(loss) on changes in fair value consists of: (i) gain/(loss) arising from initial recognition of agricultural products at fair value less sales costs upon receipt; (ii) gain/(loss) arising from changes in fair value of productive biological assets less sales costs.

The Company has engaged an independent professional appraiser to assess the fair value of the biological assets as at the balance sheet date.

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current income tax expenses	1,622	4,175
Deferred income tax expenses	<u>9</u>	<u>9</u>
Total	<u><u>1,631</u></u>	<u><u>4,184</u></u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the six months ended 30 June 2023 (2022: 25%) except for the followings:

- (i) According to the Implementation Regulation of the EIT Law and the exemptions regulation set out in the *Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation)* (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from certain subsidiaries in Mainland China engaging in primary processing for agricultural products is exempted from EIT during the period.
- (ii) Pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from the Company engaging in projects of animal-husbandry and poultry feeding is exempted from EIT during the period.

8. DIVIDENDS

No dividend was paid, declared or proposed to owners of the parent for the six months ended 30 June 2023 (2022: Nil), nor has any dividend been paid, declared or proposed since the end of the Reporting Period.

9. EARNING/(LOSS) PER SHARE

(a) Basic earning/(loss) per share

Basic earning/(loss) per share are calculated by dividing the consolidated net profit/(loss) attributable to ordinary shareholders of the parent company by the weighted average number of outstanding ordinary shares of the Company:

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Consolidated net profit/(loss) attributable to ordinary shareholders of the parent company (<i>RMB'000</i>)	82,095	(70,937)
Weighted average number of outstanding ordinary shares of the Company	1,378,079,500	1,397,452,084
Basic earning/(loss) per share (<i>in RMB</i>)	0.06	(0.05)
Including: Basic earning/(loss) per share from continuing operations (<i>in RMB</i>)	0.06	(0.05)

(b) Diluted earning/(loss) per share

Diluted earning/(loss) per share are calculated by dividing the consolidated net profit attributable to ordinary shareholders of the parent company (diluted) by the weighted average number of outstanding ordinary shares of the Company (diluted):

	For the six months ended	
	30 June	
	2023	2022
	(Unaudited)	(Unaudited)
Consolidated net profit/(loss) attributable to ordinary shareholders of the parent company (diluted) (<i>RMB'000</i>)	82,095	(70,937)
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,399,017,500	1,397,452,084
Diluted earning/(loss) per share (<i>in RMB</i>)	0.06	(0.05)
Including: Diluted earning/(loss) per share from continuing operations (<i>in RMB</i>)	0.06	(0.05)

10. TRADE RECEIVABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade receivables	245,957	201,047
Loss allowance	<u>6,626</u>	<u>6,069</u>
Total	<u><u>239,331</u></u>	<u><u>194,977</u></u>

The Group's trading terms with its customers are mainly on cash and credit. The credit period is generally 30 to 60 days. The Group seeks to maintain strict control over its outstanding trade receivables and overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customers. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the balance of trade receivables based on the invoice date and net of provision is as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 1 month	239,103	192,640
1 to 3 months	1,409	2,782
3 months to 1 year	2,863	3,098
Over 1 year	<u>2,582</u>	<u>2,526</u>
Total	<u><u>245,957</u></u>	<u><u>201,047</u></u>

The movement in the impairment provision/loss allowance of trade receivables is as follows:

	Changes in bad debt of trade receivables RMB'000 (Unaudited)
Balance at the end of last year	6,069
Provision	828
Recovered or reversed	(271)
Balance at the end of the period	<u>6,626</u>

11. INVENTORIES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Raw materials	127,175	172,431
Turnover materials	33,233	37,009
Consumptive biological assets (<i>Note</i>)	211,519	190,022
Goods in transit	19,399	11,006
Finished goods	392,159	490,915
Less: Provision for the decline in value of inventory	<u>(3,766)</u>	<u>(3,937)</u>
Total	<u>779,720</u>	<u>897,447</u>

Note: Consumptive biological assets of the Company refer to broilers, chicks and hatchable eggs held by the Company. Consumptive biological assets are measured at fair value at the end of the period.

12. CONSTRUCTION IN PROGRESS

Item	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Construction in progress	<u>3,918</u>	<u>996</u>
Total	<u><u>3,918</u></u>	<u><u>996</u></u>

During the Reporting Period, the Company built five new broiler cage conversion farms with battery caged systems.

13. PRODUCTIVE BIOLOGICAL ASSETS

Productive biological assets using the fair value measurement model

Items	Livestock breeding industry RMB'000 (Unaudited)
Balance at the end of last year	<u>255,692</u>
External procurement	27,951
Self-breeding	75,710
Disposal	(104,361)
Changes in fair value	<u>(2,350)</u>
Balance at the end of the period	<u><u>252,642</u></u>

Notes:

1. Self-breeding costs for breeders mainly include the costs of animal feed, labour costs, depreciation and amortisation expenses, apportionment of public expenses, etc.

2. Gains or losses from changes in fair value consist of two components: gains from the initial recognition of agricultural products at fair value less sales costs upon harvest and gains from changes in fair value less sales costs of productive biological assets. The Company engaged an independent professional appraiser to assess the fair value of the biological assets as at the balance sheet date.

The Company's productive biological assets using the fair value measurement model are breeders used for the production of hatchable eggs. Breeders include breeders at the breeding and production and egg production stages.

The number of breeders owned by the Company as at the reporting date is as follows:

Type	Balance at the end of the period (thousand birds)
Breeders	<u>2,092</u>
Total	<u><u>2,092</u></u>

Generally, the fledglings of purchased parent breeder chicks are bred on the Company's breeding farms. The breeding stage and the production stage are approximately the 25th week after birth. Egg production starts from the 25th week to the 65th week. After the 65th week, breeders will be sold.

The Company is mainly subject to the following operational risks in respect of the productive biological assets:

(1) *Regulatory and environmental risks*

The Company is obliged to comply with the laws and regulations in effect at the place of breeding. The Company has already formulated environmental policies and procedures aimed to comply with the local environmental and other laws. The management has conducted regular review to identify the environmental risks and ensure that those regulations formulated shall sufficiently manage such risks.

(2) *Climate, disease and other natural risks*

The Company's biological assets are subject to the risks of damage from climate change, disease and other natural factors. The Company has already implemented extensive procedures to monitor and mitigate such risks, including regular review, disease control, investigation and insurance.

14. BILLS PAYABLES

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Domestic letter of credit	<u>—</u>	<u>70,000</u>
Total	<u><u>—</u></u>	<u><u>70,000</u></u>

An aged analysis calculated based on the invoice date of the Group as at the end of the Reporting Period is as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 1 month	—	—
1 to 3 months	—	—
3 months to 1 year	—	70,000
Over 1 year	<u>—</u>	<u>—</u>
Total	<u><u>—</u></u>	<u><u>70,000</u></u>

15. TRADE PAYABLES

Trade payable is non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and set out in the supplier contracts.

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Trade payable	<u>387,928</u>	<u>454,943</u>
Total	<u><u>387,928</u></u>	<u><u>454,943</u></u>

An aged analysis of the Group's trade payable as at the end of the Reporting Period, based on the invoice date, is as follows:

	As at 30 June 2023 RMB'000 (Unaudited)	As at 31 December 2022 RMB'000 (Audited)
Within 1 month	232,740	238,690
1 to 3 months	150,350	197,471
3 months to 1 year	1,942	17,120
Over 1 year	<u>2,896</u>	<u>1,662</u>
Total	<u><u>387,928</u></u>	<u><u>454,943</u></u>

16. BORROWINGS

Loans from financial institutions

	As at 30 June 2023 <i>RMB'000</i> (Unaudited)	As at 31 December 2022 <i>RMB'000</i> (Audited)
Bank loans, secured and guaranteed	1,079,647	1,427,929
Other financial institution loans, secured and guaranteed	<u>110,262</u>	<u>61,205</u>
Total	<u>1,189,909</u>	<u>1,489,134</u>
By maturity date:		
Bank loans, secured and guaranteed		
Within 1 year	952,857	1,175,781
1–2 years	50,716	150,716
2–5 years	76,074	101,432
Other financial institution loans, secured and guaranteed		
Within 1 year	110,262	61,205
1–2 years	—	—
2–5 years	—	—
Effective annual interest rate:		
Bank loans, secured and guaranteed	3.80–6.14%	3.70%–6.50%
Other financial institution loans, secured and guaranteed	5.39%–5.65%	5.60%–5.65%

Loans from Falcon Holding LP (“Controlling Shareholder”)

	As at 30 June 2023 RMB’000 (Unaudited)	As at 31 December 2022 RMB’000 (Audited)
Loans from Controlling Shareholder, secured and guaranteed	87,962	—
Loans from Controlling Shareholder, unsecured and unguaranteed	<u>234,211</u>	<u>—</u>
Total	<u><u>322,173</u></u>	<u><u>—</u></u>
By maturity date:		
Loans from Controlling Shareholder, secured		
Within 1 year	87,962	—
1-2 years	—	—
2-5 years	—	—
Loans from Controlling Shareholder, unsecured and unguaranteed		
Within 1 year	234,211	—
1-2 years	—	—
2-5 years	—	—

17. SHARE CAPITAL

	As at 30 June 2023 RMB’000 (Unaudited)	As at 31 December 2022 RMB’000 (Audited)
Registered, issued and fully paid:		
1,400,000,000 shares of RMB1.00 each	<u><u>1,400,000</u></u>	<u><u>1,400,000</u></u>

** Figures shown in certain tables are subject to rounding adjustments and may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis also contain certain amounts and percentage figures that have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them and all monetary amounts shown are approximate amounts only.

COMPANY PROFILE

Introduction

The Company is the largest white-feathered broiler meat exporter and the leading retail enterprise of chicken meat food in China, which was established as a joint stock limited liability company in the PRC on 17 December 2010 and listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 July 2020 (stock code: 9977).

The Group is principally based in Shandong in the PRC and produces and sells processed chicken meat products and raw chicken meat products mainly from white-feathered broilers. The main products include (i) processed chicken meat products; (ii) raw chicken meat products; (iii) chicken breeds; and (iv) others. Apart from its leading domestic market position in the PRC, the Group has an established and growing export business supplying a wide range of premium quality chicken meat products to overseas customers in Japan, Malaysia, Europe, the Middle East, Korea, Mongolia and Singapore. The Group’s white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals.

The Group adopts an integrated “*poultry to plate*” model which enables it to control every stage of the poultry lifecycle, allowing the Group to effectively manage quality and cost throughout the process starting from the breeding of broilers to the distribution and sale of chicken meat products.

Business Segments

Processed Chicken Meat Products

The Group markets its processed chicken meat products under “鳳祥食品 (Fovo Foods)” (“**Fovo Foods**”), “優形 (iShape)” (“**iShape**”) and “五更爐 (Wu Genglu)” (“**Wu Genglu**”) brands. Processed chicken meat products comprise cooked, semi-cooked and seasoned chicken meat products. Depending on the processing methods, these processed products are required to be chilled or frozen. The raw chicken meat the Group uses in its processed chicken meat production is either supplied by itself or procured from independent third party suppliers. The cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products, which are fully cooked and sterilised (end consumers will need to reheat the frozen cooked chicken meat products before consumption according to the instructions provided on the packaging). The semi-cooked chicken meat products are processed, chilled or frozen and boxed (end consumers will need to further process (including steaming, grilling, roasting or frying) such semi-cooked chicken meat products before consumption according to the instructions provided on the packaging). The seasoned chicken meat products include raw chicken meat flavoured with certain ingredients or spices. The Group also offers ready-to-cook pre-prepared meal solutions, including Chinese dishes. For the six months ended 30 June 2023, the sales volume of processed chicken meat products increased by 11.1% to 60.8 million kilogram (“**kg**”) (six months ended 30 June 2022: 54.7 million kg). For the six months ended 30 June 2023, the revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 7.7% to RMB1,229.5 million (six months ended 30 June 2022: RMB1,141.3 million), representing 50.5% of the Group’s total revenue.

Raw Chicken Meat Products

The Group offers raw white-feathered chicken meat products, which include whole frozen chickens and chicken portions, such as chicken wing tips, chicken breast, chicken drumsticks, chicken drumettes, bone-in chicken thighs, boneless chicken fillets, chicken head, chicken feet and chicken legs. The Group’s broilers are then cut into portions according to its internal or customers’ requirements, which will be chilled or frozen depending on the product’s nature. For the six months ended 30 June 2023, the sales volume of raw chicken meat products decreased by 12.1% to 106.4 million kg (six months ended 30 June 2022: 121.0 million kg). For the six months ended 30 June 2023, the revenue from external sale of raw chicken meat products decreased by 9.9% to RMB1,085.1 million (six months ended 30 June 2022: RMB1,204.6 million), representing 44.5% of the Group’s total revenue.

Chicken Breeds

The Group sells some of its chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of the Group's chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. The Group sells chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties. For the six months ended 30 June 2023, the sales volume of chicken breeds decreased by 26.0% to 14.2 million birds (six months ended 30 June 2022: 19.1 million birds). For the six months ended 30 June 2023, the revenue from external sale of chicken breeds grew by 54.0% to RMB37.4 million (six months ended 30 June 2022: RMB24.3 million), representing 1.5% of the Group's total revenue.

Other Products

The Group sells other products, including the sale of broilers that cannot satisfy the Group's quality requirements and excess broiler eggs that exceed the Group's internal needs, by-products (such as chicken feathers, chicken blood and unused chicken organs), packing materials and other miscellaneous products. Revenue from the external sale of other products grew by 15.8% to RMB84.6 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB73.1 million), representing 3.5% of the Group's total revenue.

BUSINESS REVIEW

In the first half of 2023, opportunities and challenges coexisted as China's economy gradually recovered. Although the industry prosperity of white-feathered broiler recorded a period-on-period growth, the related consumption performance slightly declined in the second quarter. As a result, the Group is still facing multiple challenges. During the Reporting Period, benefiting from the support of Pacific Alliance Group (“PAG”) and at the same time, relying on the refined management of the Group's management and all employees, and fully unleashing the advantages of synergistic development of the Group's multi-channel penetration, the Group achieved sales revenue of RMB2,436.5 million, which remained stable as compared to that of the corresponding period in the last year. The Group also recorded a net profit of RMB82.1 million, while it was loss-making in the corresponding period in 2022. During the Reporting Period, the Group's cash flow position improved evidently.

During the Reporting Period, benefiting from the strategic measures of further deepening its channels penetration and paying close attention to the stability and efficiency of supply, the major customer business improved rapidly and generated sales revenue of RMB375.7 million, representing a period-on-period growth of 25.8%. The new centralised procurement business achieved revenue of RMB511.2 million, representing a period-on-period growth of 23.1%. In the first half of 2022, the global supply chain underwent structural adjustment and the Group's new export business grew exponentially. In the first half of 2023, the global supply chain showed signs of stability and the new export business recorded revenue of RMB637.8 million, representing a period-on-period decrease of 12.0% yet an increase of 70.9% as compared to that of the first half of 2021. The new retail business recorded revenue of RMB231.3 million, representing a period-on-period decrease of 32.5%.

Business Highlights

1. *New Centralised Procurement Business Continued its Growth Momentum*

During the Reporting Period, the new centralised procurement business achieved sales revenue of RMB511.2 million (six months ended 30 June 2022: RMB415.4 million), representing a period-on-period increase of 23.1% and accounting for 21.0% (same period: 17.0%) of the overall business.

During the Reporting Period, in the face of a drop in pork prices which led to lower average retail price of chicken meat, the Group adopted the quick follow up with customer demand strategy, upgraded the production capacity of the existing production lines, released and enhanced the utilisation rate of the plant capacity of processed products since the second quarter and continued to promote the low-cost strategy by combining the strengths of production, sales, research and quality with marketing-led approach, which enabled the Group to accumulate multiple strengths

in quality assurance, overall manpower efficiency and processing fees per ton, etc., forming core competitiveness for sustainable development. The Group achieved continuous growth in the new centralised procurement business through focusing on the development of major single products, exploring new channels and new customers actively, continuing to penetrate major customers, enhancing the conversion of raw products to processed products and promoting the research and development of new products, as well as continuing to promote the diversity and rapid iteration of products to satisfy our customers and the market.

The No.1 Central Document for 2023 has proposed to nurture and develop the prepared dish industry for the first time, making prepared dish a new business model and industry that promotes the high-quality development of rural industries. Prepared dish has a trillion-dollar market with immense potential for growth. Poultry meat is a key ingredient for prepared dishes, thus poultry prepared dishes may become a new growth point for enterprise development. The Group has years of experience in the development of prepared dishes for domestic and overseas B-end institutions and C-end consumers and systematically makes planning from the supply end to the demand end. Based on the sufficiency and stability of raw materials, the Group internally focuses on the conversion of rich raw materials to enhance its value, while aligns the research on external product demand with internal resources to enhance the conversion rate of products, making products, channels and market demand highly compatible. In addition, the Group focuses on the development of major customers and continues to upgrade its production lines and optimise its products to meet the production and processing requirements for four major categories of prepared dishes, including ready-to-cook, ready-to-eat, ready-to-heat and ready-to-deliver dishes.

During the Reporting Period, the major customer business under the new centralised procurement business achieved revenue of RMB375.7 million (six months ended 30 June 2022: RMB298.6 million), representing a period-on-period increase of 25.8%, which was a record high since its listing.

The major customer business supplies chicken meat products to international Western-style fast food chains in Mainland China for the Group.

During the Reporting Period, the Group further deepened its channel penetration to achieve in-depth collaboration with major customers in various industry lines and developed long-term effective communication mechanism with major customers, which increased customers' loyalty. Moreover, the Group followed the pace of major customers and laid out new markets, achieving incremental growth in the volume and revenue of the major customer business.

2. *The Market Position of New Export Business Was Further Consolidated*

During the Reporting Period, the sales revenue from the new export business of the Group amounted to RMB637.8 million (six months ended 30 June 2022: RMB725.1 million), representing a year-on-year decrease of 12.0%, and the business accounted for 26.2% of the business (same period: 29.7%).

In the first half of 2023, due to the impact of international situations such as the slowdown of consumption in Europe and Japan and the Ukraine situation, the quantity and value of chicken meat exported from China both decreased to different degrees year-on-year. However, the Group has continuously become the largest export supplier in the white-feathered chicken industry in China and its share of national exports has been increasing year-on-year based on its domestically-leading and international quality standards, channel resources, industry experience and brand reputation.

During the Reporting Period, the Group continued to develop overseas markets and recorded significant growth in Europe, the Middle East, South Korea and Mongolia, with more diversified and boutique channels. In the European market, the Group further explored the market potential of its existing customer products, precisely opened up channels for Chinese restaurants, takeaways and forming products and explored collaboration opportunities with large-scale and leading enterprises in various channels through independent R&D and co-development with its partners, thus further consolidating the Group's market share in Europe. In the Middle East, South Korea and Mongolia markets, the Group launched precise marketing according to its market positioning tapping into channels and customer resources that are highly compatible with the Group's business.

3. *New Retail Business Remained as a Leader*

The new retail business achieved sales revenue of RMB231.3 million (six months ended 30 June 2022: RMB342.8 million), representing a year-on-year decrease of 32.5% and accounting for 9.5% (same period: 14.0%) of the overall business.

Among which, the share of "iShape" in the new retail business increased from 54.5% for the same period to 58.3%, continuing to play a major role as the Company's customer-end products.

In order to build a high-end brand image in consumers' minds, with a focus on improving the efficiency of investment and cash flow, the Company reduced marketing activities like price reduction sales and corresponding marketing expenses. In the first half of 2023, the Company focused on vigorously developing customers in the new centralised procurement channel, to match the needs of customers in the catering industry after the pandemic. Therefore, the Company has correspondingly reduced the production volume of new retail channel products. During the Reporting Period, the Group further focused on the young group to promote product penetration by orderly launching campus marketing campaigns, including a series of events such as Zhengzhou University Alliance Music Festival. Meanwhile, iShape successfully maintained prices of its products through methods including launching new upgraded products. iShape has begun to gradually become a high-end brand in the minds of consumers.

As a result, the brand of iShape has successfully expanded its market share. Taking the data from “Business Consultant” of Tmall as an example, iShape's market share in Tmall increased by 2.4 points year-on-year during the Reporting Period, outperforming the platform industry sales index by 9.9 points. In terms of offline markets, products under the “iShape” series have covered nearly 60,000 network points (網點) across 142 cities, among which the majority are quality convenience stores and boutique key accounts.

Development measures: Constantly improving refined management and efficiency in all aspects. Keep deepening pipeline deployment and increasing their corresponding market share.

1. *Development Goal:*

We will adjust to market demands, be committed to upgrading the industry of chicken meat products and achieve sustainable, steady and balanced quality growth.

We will continue to maintain balanced development across multiple channels and expand production lines. We aim to maintain our industry leadership in new export business and enhance profitability and international influence. We will increase major customers' loyalty and actively understand customers' needs actively. We will enhance product quality, launch new products and increase the Company's share of supply in major customers.

We will continue to enhance the quality of breeding and drive the growth in breeding capacity steadily, and ensure the healthy enhancement of supply chain management capabilities.

2. *Development initiatives: adhering to the two principles of “continuing”, further enhancing the Group’s operating efficiency and effectiveness to realise steady and sustainable high quality growth.*

2023 is the first year of the Group’s partnership with PAG. The Group will leverage on the experience and resources of PAG to explore more business and development opportunities, opening a new chapter for the development of the Group. The Group will adhere to the two principles of continuing, further improve the operating efficiency and effectiveness, to realise steady and sustainable high quality growth and create a leading chicken meat brand of China.

(1) *“Continue to promote the refinement of management and continue to enhance the efficiency of all aspects”:*

At the breeding end, we continue to promote refined management in all aspects to further enhance the production performance of breeder hatching and reduce the cost of chicks; in commercial breeding process, we further improve the efficiency of broiler rearing, survival rate and the feed conversion ratio; in the procurement and feed production process, we continue to optimise feed formulations to further reduce the impact on chicken meat costs arising from the fluctuation of raw materials.

At the processing end, we continue to improve the yield of chicken meat by streamlining processes and optimising equipment. In addition, we have improved production technology to enhance the comprehensive utilisation rate of raw materials, optimised raw material allocation to increase the turnover rate of direct raw material supply, and reduced processing costs through energy management in our factories.

At the R&D end, we proactively understand customer needs, and continue to introduce new products to increase our market share.

At the operation end, through the integration of the upper and lower operations, we facilitate the allocation and optimisation of orders, warehousing and logistics to further reduce warehousing and distribution costs and maximise the value of product output.

At the sales end, we continue to advance the construction of various channels, follow the pace of our customers, and layout new markets for important customers, so as to realise the increase of business volume and revenue of various channels. In the meantime, we continue to increase the proportion of processed chicken meat products and continue to boost the Group’s sales revenue.

At the same time, the Group will make use of information technology and digital means in effectively tracking and analysing the indicators in the process of production and operation through the big data management system, so as to provide effective assistance for the implementation of refined management.

- (2) *“Continue to deepen channel penetration and expand market share in various channels”*:

For new centralised procurement business, we continue to strengthen our comprehensive business capabilities and business scale for major customers and use it as a starting point to continue to expand the centralised procurement business facing the food and beverage industry and the convenience store system, and provide food and beverage, retail and group customers with quality centralised procurement products.

For new export business, we continue to optimise the products, services and channels of the export business, and reinforce the Company’s leading position in the export business, and continue to upgrade its services, develop markets and broaden channels so as to provide the most outstanding service and achieve diversification of channels.

For new retail business, we continue to develop the business through online and offline collaboration and directly provide consumers with quality products including “iShape” and “Fovo Foods” through channels such as online e-commerce, offline convenience stores and boutique supermarkets.

Through the implementation of the strategy of two principles of continuing, the Group realised the mutual promotion between the domestic market and the international market. Great synergy is created among the new retail business, the new centralised procurement business and the new export business. With the quality and standard for serving global top food and beverage giants for years, the Group provides hundreds of millions of families and individual consumers with quality products and services, creating a leading brand of chicken meat products.

FINANCIAL REVIEW

Overall performance

In the first half of 2023, the Group experienced a decrease of 0.3% in revenue as compared to that of the first half of 2022. There was an increase of 26.9% in gross profit and the Group recorded a net profit of RMB82 million while it was loss-making in the corresponding period in 2022. The basic earning per share was RMB0.06 for the first half of 2023. Set out below is the detailed information on the fluctuations in the Company's results for the six months ended 30 June 2023.

Items	Six months ended 30 June		Change (%)
	2023 RMB'000 (unaudited)	2022 RMB'000 (unaudited)	
Total operating revenue	2,436,545	2,443,273	-0.3
Operating costs	2,154,318	2,220,937	-3.0
Selling expenses	84,768	173,016	-51.0
Administrative expenses	52,892	48,133	+9.9
R&D expenses	13,142	15,471	-15.1
Finance costs	41,667	23,551	+76.9
Other gains	4,821	953	+405.7
Profit/(loss) before biological assets fair value adjustments	71,792	(60,920)	—
Total profit/(loss)	83,726	(66,754)	—
Net profit/(loss)	82,095	(70,937)	—
Gross profit	282,227	222,336	+26.9
Gross profit margin	11.6%	9.1%	+27.3
Net profit margin	3.4%	(2.9%)	—

Operating costs

The Group's operating costs decreased by 3.0% to RMB2,154 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB2,221 million), mainly because the Group made continuous efforts to improve its production efficiency by implementing refined management and enhancing its breeding and processing capabilities.

Administrative expenses

The Group's administrative expenses increased by 9.9% to RMB52.9 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB48.1 million), mainly due to an increase in fees paid to intermediaries such as professional advisers.

Selling expenses

The Group's selling expenses dropped by 51.0% to RMB84.8 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB173.0 million), mainly due to implementation of a prudent development strategy, which improved the efficiency of investment in the new retail business, leading to a significant decrease in selling and marketing expenses.

R&D expenses

The Group's R&D expenses decreased by 15.1% to RMB13.1 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB15.5 million), mainly due to the Group's active optimisation in the structure of product R&D and the integration of R&D projects.

Finance costs

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	RMB'000
	(Unaudited)	(Unaudited)
Interest expenses	48,613	47,788
Including: Interest expenses for lease liabilities	6,073	5,511
Interest income	(2,734)	(18,705)
Exchange losses	(3,956)	(7,467)
Handling fees and others	(256)	1,935
	<hr/>	<hr/>
Total	<u>41,667</u>	<u>23,551</u>

The Group's finance costs increased by 76.9% to RMB41.7 million for the six months ended 30 June 2023 (six months ended 30 June 2022: RMB23.6 million), mainly due to a period-on-period decrease of RMB16.0 million in the Group's interest income, representing a decrease of 85.4% period-on-period; and the volatility of foreign exchange market, which resulted in a decrease of RMB3.5 million in the Group's exchange income, representing a decrease of 47.0% period-on-period.

Analysis on Capital Resources

Liquidity and Capital Resources

The Group has funded its operations principally with cash generated from its operations, borrowings and shareholders' capital contributions. The Group's primary uses of cash for the six months ended 30 June 2023 were for capital expenditures for working capital purposes.

Capital Structure

As at 30 June 2023, the registered capital of the Company was RMB1,400,000,000 and the total number of issued shares of the Company was 1,400,000,000 shares, comprising 1,045,000,000 domestic shares and 355,000,000 H shares with a nominal value of RMB1.0 each.

As at 30 June 2023, the total borrowings of the Group amounted to RMB1,512.0 million, representing an increase of 1.5% as compared to that of 31 December 2022, mainly due to (i) the utilisation of part of the Group's own funds for the cage-feeding conversion project; and (ii) borrowings from the controlling shareholder was increased to enhance the Group's risk resistance capability.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total equity and a debt-to-asset ratio, which is total debt divided by total asset. The gearing ratio and debt-to-asset ratio as at 30 June 2023 were 56.0% (31 December 2022: 57.0%) and 47.5% (31 December 2022: 50.0%), respectively.

Contingent Liabilities and Pledge of Assets

The Group's borrowings from financial institutions as at 30 June 2023 were secured by (i) mortgages of the Group's lands situated in the PRC with an aggregate net carrying values of RMB61.9 million (31 December 2022: RMB74.3 million); and (ii) a pledge of the Group's bank deposits of RMB194.7 million (31 December 2022: RMB187.7 million); and (iii) pledge of certain of the Group's property, plant and equipment with the aggregate net carrying amount of RMB1,508.7 million (31 December 2022: RMB1,948.5 million).

As at 30 June 2023, the borrowings from controlling shareholder was utilized to pledge inventories amounted to RMB111.2 million.

As at 30 June 2023, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2023, the Group had 7,040 employees who were directly employed by the Group, of which 7,037 employees were employed in the PRC and three employees were located in Japan. The remuneration packages for the employees include salary, bonuses and allowances. As required by the PRC regulations, the Group (i) participates in social insurance schemes operated by the relevant local government authorities, and (ii) maintains mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. The Group also provides continuing education and training programmes to its employees to improve their skills and develop their potential. The Company also adopted two share award schemes on 24 June 2020 and 10 December 2021, respectively, and any full-time or part-time employees of the Group (including any Director) are eligible participants under the said schemes.

BUSINESS OUTLOOK

1. Challenges and risks

- (1) domestic consumer markets fall short of expectations and there is volatility risk in product prices;
- (2) costs of animal feed, such as corn and soybean meal remained high.

2. Opportunities and potential development

- (1) leveraging on the experience and resources of PAG, the Group will explore more business and development opportunities;
- (2) the favourable inclination of the national policy towards prepared dishes is conducive to the early deployed enterprises to capture the market share quickly; and
- (3) global Western-style fast food and chains are recovering rapidly and gaining market share.

3. High-quality growth strategies at current stage

- (1) refine management to further enhance management efficiency, thereby reducing costs and increasing efficiency;
- (2) deepening of its channel penetration to increase customer's stickiness, realise in-depth cooperation with important customers in various industrial lines, and further increase the market share in important customers;

- (3) continue to attract outstanding talents to join us, and further stabilise and optimise our operation, management team through continuous innovation intelligently and step-by-step implementation of medium- and long-term incentives;
- (4) continue to promote syndicated loans to realise optimisation of the Group's debt structure, thereby enhancing the resilience to risk;
- (5) further enhance the Group's breeding capacity.

OTHER EVENTS

Interim Dividend

The Board did not recommend the declaration or payment of an interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

Proposed Initial Public Offering of A Shares

On 29 January 2021, the Board resolved and approved to commence the relevant preparation related to the proposed initial public offering of A shares of the Company. The Company has engaged Huatai United Securities Co., Ltd as the pre-listing tutoring institution and submitted the registration application for pre-listing tutoring with the Shandong Supervisory Commission (山東證監局) of the China Securities Regulatory Commission (中國證券監督管理委員會) on 29 January 2021. As at the date of this announcement, the Company is in the stage of under pre-listing tutoring procedure and has not commenced filing the application for the proposed initial public offering of A shares.

MGO

On 5 May 2022, an application for judicial restructuring (the “**Judicial Restructuring**”) was filed against Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司) (“**Xiangguang Copper**”), a subsidiary of GMK Holdings Group Co., Ltd. (“**GMK Holdings**”), with the Liaocheng Intermediate People's Court, Shandong Province in the PRC by a creditor on the ground that Xiangguang Copper is unable to repay the debts falling due. The People's Court of Yanggu County, Shandong Province in the PRC as appointed to hear the case, subsequently accepted the application of Judicial Restructuring of 19 companies, including GMK Holdings, Shandong Fengxiang (Group) Co., Ltd. and Shandong Fengxiang Investment Co., Ltd. (collectively, the “**Former Controlling Shareholders**”) and Xiangguang Copper (but, for the avoidance of doubt, does not include the Company).

On 16 September 2022, the administrator of Xiangguang Copper issued an auction announcement on the Alibaba Judicial Auction Network Platform, proposing the sale of the Former Controlling Shareholder's domestic shares in the Company through an auction process.

On 16 October 2022, Falcon Holding LP (the "**Falcon**" or "**Offeror**") won an auction at the aggregate bid price of RMB1,372,279,100 (equivalent to HK\$1,502,336,359) for the sale shares, being 992,854,500 domestic shares in the Company (the "**Sale Share(s)**"), which represents a consideration of RMB1.3822 per Sale Share (equivalent to HK\$1.5132 per Sale Share) (the "**Acquisition**"). On 20 December 2022, the Acquisition was completed and the Offeror became the new controlling shareholder of the Company.

The Offeror was required to make unconditional mandatory general offers in cash for all the issued domestic shares and H shares of the Company not already owned or agreed to be acquired by the Offeror and its concert parties in accordance with the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong (the "**Takeovers Code**"). The Offeror also proposed to delist the Company from the Stock Exchange and accordingly the Company had agreed to convene the 2023 Shareholders' Meetings (see definition below) for the purpose of independent shareholders to consider and vote on the delisting resolution (the "**Delisting Resolution**") (among other business).

On 28 December 2022, the Offeror and the Company jointly despatched the composite document (the "**Composite Document**") comprising (including without limitation) the offer document from the Offeror, the response document from the Board, details of the Offers and the Delisting Resolution (including the expected timetable and terms of the Offers), a letter of recommendation from the independent board committee of the Board to the independent shareholders in relation to the Offers, a letter of advice from the independent financial adviser in relation to the Offers and the forms of acceptance to the shareholders in accordance with the requirements of the Takeovers Code.

On 18 January 2023, as the Delisting Resolution was not approved at the 2023 first extraordinary general meeting and the 2023 first H shareholders class meeting (collectively the "**2023 Shareholders' Meetings**") of the Company held on that date, the Delisting Resolution was not implemented and lapsed.

The Offers were closed at 4:00 p.m. on 1 February 2023. The Offeror and the parties acting in concert with it were interested in a total of 1,210,640,005 Shares (representing approximately 86.47% of the issued Shares), comprising 992,854,500 domestic shares (representing approximately 95.01% of the issued domestic shares) and 217,785,505 H shares (representing approximately 61.35% of the issued H shares).

For details, please refer to the joint announcements of the Company and the Offeror dated 28 October 2022, 17 November 2022, 20 December 2022, 28 December 2022, 13 January 2023, 18 January 2023 and 1 February 2023; and the Composite Document.

Public Float and Suspension of Trading in the H shares of the Company

As the Delisting Resolution was not approved and the public float of the Company fell below 25% following the close of the Offers, the minimum public float requirement as set out in Rule 8.08(1)(a) of the Listing Rules is not satisfied. The directors of Falcon Holding GP Limited (being the general partner of the Offeror), for and on behalf of the Offeror, undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which may include issuance of new Shares by the Company or placing down part of the interest that the Offeror or its parties acting in concert with it hold in the Company following the close of the Offers, to ensure the minimum percentage of the shares as required under Rule 8.08(1)(a) of the Listing Rules to the public. To restore the public float by placing down, the Offeror may either directly dispose of, transfer, or engage a placing agent for placing of, the shares held by the Offeror or its concert parties. In addition, the Directors jointly and severally undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

Pursuant to Note 1 to Rule 8.08(1)(b) of the Listing Rules, at the request of the Company, trading in the H shares has been suspended from 9:00 a.m. on 2 February 2023 since the percentage of public float fell below 15% following the close of the Offers. For details, please refer to the joint announcement of the Company and the Offeror dated 1 February 2023.

The Company has applied for and the Stock Exchange granted a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 1 February 2023 to 31 August 2023.

Proposed Issue of H Shares under Specific Mandate

On 3 May 2023, the Board resolved to allot and issue not more than 300,000,000 new H shares to investors who would constitute the public shareholders of the Company at an issue price of not lower than HK\$1.5132 per H share (the “**H Shares Issue**”). The H Shares Issue will be made under the specific mandate (the “**Specific Mandate**”) as granted by the Shareholders at the annual general meeting, the 2023 second H shareholders class meeting and the 2023 first domestic shareholders class meeting of the Company, all held on 19 May 2023 by way of non-public issue through subscription or placing in one or more tranches within a period of 12 months since the date of the resolution in relation to the Specific Mandate being approved by the shareholders. Assuming the maximum of 300,000,000 new H shares are allotted and issued by the Company under the Specific Mandate, such new H shares represent

approximately 84.51% and 21.43% of the total number of H shares in issue and the total number of Shares in issue as at the date of this announcement, respectively, and approximately, 45.80% and 17.65% of the enlarged total number of H shares in issue and the enlarged total number of Shares in issue after the issue of the H shares, respectively.

On 18 May 2023, the Company appointed CMB International Capital Limited (“**CMBI**”) as its sole overall coordinator, sole syndicate capital market intermediary and sole placing agent for the H Shares Issue. As at the date of this announcement, the Company and CMBI have not entered into any placing agreement in relation to the H Shares Issue.

For details, please refer to the first supplemental circular of the Company dated 5 May 2023 and the announcements of the Company dated 3 May 2023, 5 May 2023, 18 May 2023, 19 May 2023 and 1 August 2023.

Change of Directors

The fourth session of the Board expired upon the conclusion of the 2023 Shareholders’ Meetings held on 18 January 2023 and all Directors of the fourth session of the Board retired from their positions as Directors at that time. On 18 January 2023, the appointments of Directors of the fifth session of the Board namely, Mr. Xiao Dongsheng and Mr. Shi Lei as executive Directors, Mr. Qiu Zhongwei, Mr. Lu Wei, Mr. Zhu Lingjie and Ms. Zhou Ruijia as non-executive Directors and Ms. Wang Anyi, Ms. Zhao Yinglin and Mr. Chung Wai Man as independent non-executive Directors were approved by the shareholders at the 2023 Shareholders’ Meetings. Mr. Zhu Lingjie was elected and appointed as the chairperson of the Board.

Change of Supervisors

The fourth session of the board of supervisors (the “**Board of Supervisors**”) expired upon the conclusion of the 2023 Shareholders’ Meetings held on 18 January 2023, and all supervisors of the fourth session of the Board of the Company (the “**Supervisor(s)**”) retired from their positions as Supervisors at that time. On 18 January 2023, the appointments of the Supervisors of the fifth session of the Board of Supervisors, namely, Ms. Gao Jin and Mr. Zhu Kaijie as shareholders representative Supervisors were approved by the shareholders at the General Meeting. On the same date, Mr. Ma Xianwen was elected as an employees representative Supervisor at the employees representative meeting of the Company. Ms. Gao Jin was elected and appointed as the chairperson of the Board of Supervisors.

Amendments to the Articles of Association

Due to the change in the controlling shareholder of the Company, the enterprise type of the Company has changed from “other limited company (listed)” to “company limited by shares (foreign investment, listed)”. As a result, the scope of business of the Company as set out in the articles of association of the Company (the “**Articles of Association**”) shall be amended according to the PRC regulatory requirements and the Board was duly authorised by the shareholders, to make revisions to wordings pursuant to further review by the company registration authority. The resolution in relation to the amendments was approved by the shareholders at the extraordinary general meeting of the Company on 28 February 2023.

On 17 February 2023, the State Council of the PRC (the “**State Council**”) issued the Decision of the State Council to Repeal Certain Administrative Regulations and Documents (《國務院關於廢止部分行政法規和文件的決定》) (the “**Decision**”), which includes the repeal of Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) issued by the State Council on 4 August 1994. On the same date, the China Securities Regulatory Commission (the “**CSRC**”) issued the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Trial Measures**”) and relevant guidelines, which includes the repeal of the Notice on the Implementation of the Mandatory Provisions for Companies Listing Overseas (《關於執行〈到境外上市公司章程必備條款〉的通知》). The Decision and the Trial Measures have been effective since 31 March 2023 (the “**PRC Regulation Changes**”). From the effective date of the Decision and the Trial Measures, PRC issuers shall formulate their articles of association with reference to the Guidelines on Articles of Association of Listed Companies (《上市公司章程指引》) instead of the Mandatory Provisions for Companies Listing Overseas (《到境外上市公司章程必備條款》) (the “**Mandatory Provisions**”). In view of the above PRC Regulation Changes, the Stock Exchange also released a consultation paper “Rule Amendments Following Mainland China Regulation Updates and Other Proposed Rule Amendments Relating to PRC Issuers” on 24 February 2023, stipulating the consequential amendments to the Listing Rules. In particular, the Stock Exchange proposes to (a) remove the class meeting and related requirements for the issue of new shares by PRC issuers; (b) repeal Appendix 13D to the Listing Rules, which requires PRC issuers’ articles of association to include the Mandatory Provisions and other ancillary requirements; (c) amend the Listing Rules in Chapters 9 and 19A to reflect the CSRC record filing regime; (d) remove the arbitration clause for disputes involving H shareholders as required under the Mandatory Provisions; and (e) modify the other Listing Rules that address issues arising from domestic shares and H shares being treated as different classes.

Accordingly, the Company is required to amend its Articles of Association to comply with the requirements of the Listing Rules and the applicable laws and regulations of the PRC (the “**Articles Amendments**”). In view of the Articles Amendments, the Board also proposes to amend the rules of procedure for the general meeting of shareholders, the rules of procedure of the Board and the rules of procedure of the board of supervisors (“**Procedural Rules Amendments**”).

The resolutions in relation to the Articles Amendments and the Procedural Rules Amendments were approved by the shareholders at the annual general meeting, the 2023 second H shareholders class meeting and 2023 first domestic shareholders class meeting of the Company and took effect on 1 August 2023.

Save as disclosed above, during the Reporting Period and up to the date of this announcement, there had been no material change to the Articles of Association. The Articles of Association is available on the websites of the Company and the Stock Exchange.

Continuing Connected Transactions

On 28 January 2023, the Company and Falcon entered into the loan framework agreement (the “**Loan Framework Agreement**”), pursuant to which Falcon will provide a revolving loan facility to the Group for a term of one year commencing from 28 January 2023 and ending on 27 January 2024. The proposed annual caps, being the maximum daily balance of the loans (including interests accrued) for the transactions contemplated under the Loan Framework Agreement for the year ended 31 December 2023 and 2024 is USD13,591,000 and USD13,591,000 (the annual cap for the year ending 31 December 2024 is set up to 27 January 2024, being the end date of the term of the Loan Framework Agreement), respectively. At the time of the transaction, Falcon is the controlling shareholder of the Company directly holding over 70% interest in the Company’s total issued share capital. Accordingly, Falcon is a connected person of the Company and as a result, the transactions contemplated under the Loan Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules. For details, please refer to the announcement of the Company dated 29 January 2023.

Save as disclosed above, the Group had not entered into any connected transaction during the Reporting Period and up to the date of this announcement, which is required to be disclosed under Chapter 14A of the Listing Rules.

Resignation of Joint Company Secretary

As the Stock Exchange confirmed that Mr. Shi Lei is qualified to act as the company secretary under the requirement of Rule 3.28 of the Listing Rules on 14 July 2023, Mr. Shi Lei thereby did not need a qualified joint company secretary to assist him in the performance of his duties as a company secretary. Ms. Yu Wing Sze, the other joint company secretary of the Company, resigned from her position as the joint company secretary on 15 August 2023. After the resignation of Ms. Yu Wing Sze, Mr. Shi Lei will become the sole company secretary of the Company. For details, please refer to the announcement of the Company dated 15 August 2023.

Deposits with GMK Finance

The Company was notified by GMK Holdings that its subsidiaries had overdue debts in March 2022. Among such subsidiaries, GMK Finance Co., Ltd. (“**GMK Finance**”) was involved in overdue repayment disputes, pursuant to which the creditor filed a civil complaint against GMK Finance (the “**Debt Dispute**”). GMK Holdings, by itself and through its subsidiaries, provided guarantees for some of the loans obtained by the Group from banks, and provided deposits, loan facilities (including term loans and entrusted loans) and bill financing services to the Group. The deposits with GMK Finance have been unavailable for withdrawal and utilisation by the Group for daily operation since November 2022, and there was an overdue payment for deposit interests from GMK Finance to the Group. As such, the Group made a full impairment of the deposits with GMK Finance for the year ended 31 December 2022 and as at 31 December 2022.

GMK Finance is a financial institution licensed by the Shandong Office of China Banking and Insurance Regulatory Commission (“**CBIRC**”) (CBIRC has been replaced by the National Administration of Financial Regulation (the “**NAFR**”) in March 2023), and subject to the direct supervision of such regulatory authority. Recently, the Company was informed that a company has submitted to the NAFR an application of the bankruptcy liquidation of GMK Finance and the NAFR has principally approved the commencement of bankruptcy proceedings of GMK Finance. As such, the Company shall comply with the regulations of the Enterprise Bankruptcy Law of the PRC in relation to the recovery of the deposits with GMK Finance upon the liquidation proceedings of GMK Finance initiated by the court becomes materialised.

The Company is seeking legal advice regarding the next steps and shall continue to observe the development of GMK Finance and its regulatory actions (if any), and take into account any legal actions where appropriate. The Board will continue to monitor the situation, and make further announcement on any material updates as and when appropriate.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2023, the Company has complied with all the applicable code provisions of the Corporate Governance Code (“**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Company will continue to review and monitor its corporate governance practice to ensure compliance with the CG Code.

Directors’ and Supervisors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as a code of conduct for securities transactions by the Directors and Supervisors of the Company. The Company has made specific enquiries with each Director and Supervisor and each of them confirmed that he or she had complied with all required standards under the Model Code during the six months ended 30 June 2023.

Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2023.

Significant Investments, Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures for the six months ended 30 June 2023.

Subsequent Event

Save as disclosed in this announcement, the Board is not aware of any significant event affecting the Group occurred since the end of Reporting Period.

Review of Interim Results

The Audit Committee comprises two independent non-executive Directors, namely, Mr. Chung Wai Man and Ms. Wang Anyi and a non-executive Director, namely, Mr. Lu Wei. Mr. Chung Wai Man serves as the chairman of the Audit Committee, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2023 and is of the view that the interim results of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Report

The interim report of the Company for the six months ended 30 June 2023 will be published on the websites of the Company (www.fengxiang.com) and the Stock Exchange (www.hkexnews.hk), respectively and despatched to the shareholders of the Company in due course.

By order of the Board
Shandong Fengxiang Co., Ltd.
Zhu Lingjie
Chairman

Shandong, the PRC, 15 August 2023

As at the date of this announcement, the Board comprises Mr. Xiao Dongsheng and Mr. Shi Lei as executive Directors; Mr. Qiu Zhongwei, Mr. Lu Wei, Mr. Zhu Lingjie and Ms. Zhou Rujia as non-executive Directors; and Ms. Wang Anyi, Ms. Zhao Yinglin and Mr. Chung Wai Man as independent non-executive Directors.

Forward-looking Statement: The above discussion and analysis contains certain forward-looking statements that reflect the Group's current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by the Group in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that the Group believes are appropriate under the circumstances. However, whether the actual outcome and developments will meet the Group's expectations and predictions depends on a number of risks and uncertainties over which the Group does not have control.