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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 2022**

HIGHLIGHTS

Key Operating Data

	Six months ended		
	30 June		
	2022	2021	Change (%)
White-feathered broilers bred (<i>unit: million birds</i>)	72.2	66.3	+8.8
White-feathered broilers processed (<i>unit: million kg</i>)	161.7	133.9	+20.8
Sales volume:			
Raw chicken meat products (<i>unit: million kg</i>)	121.0	84.5	+43.2
Processed chicken meat products (<i>unit: million kg</i>)	54.7	48.9	+11.9
Chicken breeds (<i>unit: million birds</i>)	19.1	13.3	+44.3

Key Financial Data

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited) (As restated)
Revenue	2,443,273	1,969,445
Gross profit	222,336	179,140
Loss before biological assets fair value adjustments	(60,920)	(47,375)
Net loss	(70,937)	(57,602)
Net loss attributable to the shareholders of the parent company	(70,937)	(61,655)
Basic loss per share (<i>in RMB</i>)	(0.05)	(0.04)

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 2022 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2021 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 2022 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 2022

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
			(As restated)
Total operating revenue	3	2,443,273	1,969,445
Less: Operating costs		2,220,937	1,790,305
Taxes and charges		18,903	14,119
Selling expenses		173,016	162,772
Administrative expenses		48,133	50,195
Research and development expenses		15,471	12,500
Finance costs	4	23,551	13,397
Add: Other gains	5	953	3,231
Investment (losses) income		(1,462)	20,308
Including: Losses on investments in associates and joint ventures		(1,462)	(738)
Losses from the changes in fair value	6	(10,017)	(10,227)
Credit impairment loss		63	(358)
Asset impairment loss		—	—
Proceeds on disposal of assets		198	—
Operating loss		(67,003)	(60,887)
Add: non-operating income		554	1,863
Less: non-operating expenses		305	36
Total loss		(66,754)	(59,060)
Less: income tax (expenses)/credit	7	4,184	(1,458)
Net loss		(70,937)	(57,602)
Breakdown by continuity of operations			
Net loss from continuing operations		(70,937)	(57,602)
Breakdown by attributable interests			
Net loss attributable to shareholders of the parent company		(70,937)	(61,655)
Loss attributable to minority interests		—	(653)
Net other comprehensive expenses after tax		(550)	(240)

		Six months ended 30 June	
		2022	2021
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
			(As restated)
Net other comprehensive expenses attributable to shareholders of the parent company after tax		(550)	(240)
Other comprehensive expenses that cannot be reclassified into profit or loss		—	—
Other comprehensive expenses that can be reclassified into profit or loss		(550)	(240)
Exchange differences on translation of foreign currency financial statements		(550)	(240)
Net other comprehensive income attributable to minority interests after tax		—	—
Total comprehensive expenses		(71,487)	(62,548)
Total comprehensive expenses attributable to the shareholders of the parent company		(71,487)	(61,894)
Total comprehensive expenses attributable to minority interests		—	(653)
Loss per share			
Basic loss per share (RMB per share)	9	(0.05)	(0.04)
Diluted loss per share (RMB per share)	9	(0.05)	(0.04)

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

As at 30 June 2022

	<i>Note</i>	As at 30 June 2022 <i>RMB'000</i> (Unaudited)	As at 31 December 2021 <i>RMB'000</i> (Audited)
Current assets			
Monetary funds		1,156,368	1,854,774
Trade receivables	<i>10</i>	253,819	260,285
Prepayments		95,350	84,922
Other receivables		14,194	13,776
Inventories	<i>11</i>	759,365	1,018,047
Other current assets		77,068	99,165
Total current assets		2,356,164	3,330,969
Non-current assets			
Long-term equity investments		61,608	63,070
Fixed assets		3,115,957	2,961,615
Construction in progress	<i>12</i>	21,118	35,293
Productive biological assets	<i>13</i>	181,002	204,484
Right-of-use assets		187,160	194,630
Intangible assets		90,488	91,837
Deferred income tax assets		175	184
Other non-current assets		5,046	48,970
Total non-current assets		3,662,554	3,600,083
Total assets		6,018,718	6,931,052

	<i>Note</i>	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Current liabilities			
Short-term borrowings	16	1,148,793	1,731,044
Bills payable	14	—	46,607
Trade payable	15	476,238	448,844
Contract liabilities		30,641	34,352
Payroll payable		58,503	67,838
Taxes payable		12,256	9,674
Other payables		323,641	236,504
Non-current liabilities due within one year		133,715	132,598
Other current liabilities		6,008	3,003
Total current liabilities		2,189,794	2,710,464
Non-current liabilities			
Long-term borrowings	16	277,522	475,112
Lease liabilities		189,729	196,897
Long-term payables		31,549	125,991
Estimated liabilities		159	155
Deferred income		22,097	22,822
Other non-current liabilities		4	—
Total non-current liabilities		521,059	820,976
Total liabilities		2,710,853	3,531,440
Owners' equity			
Share capital	17	1,400,000	1,400,000
Capital reserve		627,678	621,754
Less: treasury shares		28,732	2,548
Other comprehensive expenses		(804)	(254)
Surplus reserve		155,378	155,378
Undistributed profits		1,154,345	1,225,282
Total equity attributable to shareholders of the parent company		3,307,865	3,399,612
Minority interests		—	—
Total owners' equity		3,307,865	3,399,612
Total liabilities and owners' equity		6,018,718	6,931,052

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2022

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

An application for judicial restructuring (the “**Judicial Restructuring**”) was filed against GMK Holdings Group Co., Ltd. (“**GMK Holdings**”), the controlling shareholder of the Company, and its subsidiaries with the court by a creditor in May 2022 due to debt disputes, after which, GMK Holdings, Shandong Fengxiang (Group) Co., Ltd. and Shandong Fengxiang Investment Co., Ltd. which hold approximately 70.92% of the total share capital of the Company in aggregate were all within the scope of the Judicial Restructuring. The Judicial Restructuring may lead to a change of the controlling shareholder of the Company. GMK Holdings, by itself and through its subsidiaries, provides guarantees for some of the loans obtained by the Group from banks, and there is a risk that such bank borrowings would be called for early repayment due to the Judicial Restructuring. As at 30 June 2022, the Group’s unrestricted monetary funds were RMB973.7 million in total, of which the funds deposited with GMK Finance Co., Ltd. (“**GMK Finance**”), which is also controlled by GMK Holdings, was RMB805.9 million.

There is a risk that the bank borrowings of RMB851.9 million guaranteed by GMK Holdings and its subsidiaries would be called for early repayment and the Group has not been able to estimate the recoverability of the funds placed with GMK Finance yet. These circumstances indicate the existence of material uncertainties that may give rise to significant doubts about the Company’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 operating 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 Company has been actively communicating with the relevant lenders in relation to the status of the Company's business, operations, financial position and cash position which remain normal and stable, and that the Company has sufficient financial resources to support the repayment of the loan in accordance with the original repayment schedule. The directors of the Company (the "**Director(s)**") are confident that they can persuade the relevant lenders not to exercise the rights to require the Company to repay the loan immediately before the original contractual repayment date. As at the date hereof, the lenders showed a supportive attitude towards the Company, and some of the loans have been renewed;
- (2) the Company is actively negotiating with certain financial institutions to obtain new loans at a reasonable cost. The financial institutions have indicated intentions to grant new loans to the Company. Given the Company's good credit history over the past years and its ability to provide sufficient collateral with other assets, 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, fully release production capacity to achieve business growth, increase sales revenue, speed up inventory turnover and accelerate the recovery of trade receivable, while continuing to adopt cost reduction and efficiency enhancement measures to increase operating cash flows;
- (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; and
- (5) the Company will support its controlling shareholders in actively attracting strategic investors and strive to properly address the current debt risks as soon as possible.

The Directors have reviewed the cash flow projections of the Group prepared by the management covering a period of not less than 12 months from 30 June 2022. 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 2022 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 Company will be able to implement the above plans and measures. The Group's ability to continue as a going concern will depend on:

- (1) successfully maintaining ongoing and normal business relationships with the Group's existing lenders so that the relevant lenders will not take action to exercise their contractual rights to demand immediate repayment of such borrowings;
- (2) successful acquisition of new sources of financing when required;
- (3) the sustainable and stable development of the Group's business; and
- (4) the smooth transition of the Judicial Restructuring in relation to controlling shareholders.

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 unaudited condensed 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			
	2022		2021	
	RMB'000		RMB'000	
	(Unaudited)		(Unaudited)	
	Operating	Operating	Operating	Operating
	revenue	costs	revenue	costs
				(As restated)
Main business	2,436,185	2,219,424	1,947,979	1,780,211
Other businesses	7,088	1,514	21,466	10,093
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>2,443,273</u>	<u>2,220,937</u>	<u>1,969,445</u>	<u>1,790,305</u>

Revenue by products

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Processed chicken meat products	1,141,297	1,046,836
Raw chicken meat products	1,204,620	810,978
Chicken breeds	24,287	42,769
Others	73,069	68,862
	<hr/>	<hr/>
Total	<u>2,443,273</u>	<u>1,969,445</u>

Geographic information

Revenue from external customers

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China	1,718,124	1,596,320
Japan	169,628	149,204
Malaysia	242,243	101,875
Europe	274,694	86,309
Other countries or regions	38,584	35,737
	<hr/>	<hr/>
Total	<u>2,443,273</u>	<u>1,969,445</u>

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

4. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	47,788	30,180
Including: Interest expenses on lease liabilities	5,511	7,283
Interest income	(18,705)	(17,035)
Exchange losses	(7,467)	(448)
Handling fees and others	1,935	700
	<hr/>	<hr/>
Total	<u>23,551</u>	<u>13,397</u>

5. OTHER GAINS

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Government grants (<i>Note</i>)	785	3,231
Handling fee for withholding individual income tax	168	—
	<u> </u>	<u> </u>
Total	<u>953</u>	<u>3,231</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. LOSS ON CHANGES IN FAIR VALUE

	For the six months ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
		(As restated)
Loss on changes in fair value of productive biological assets and consumptive biological assets	<u>(10,017)</u>	<u>(10,227)</u>
	<u> </u>	<u> </u>
Total	<u>(10,017)</u>	<u>(10,227)</u>

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

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax — Mainland China (Charge)/credit for the period	4,175	(230)
Deferred tax	9	(1,228)
Total	<u>4,184</u>	<u>(1,458)</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 2022 (2021: 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 2022 (2021: Nil), nor has any dividend been paid, declared or proposed since the end of the Reporting Period.

9. LOSS PER SHARE

(a) Basic loss per share

Basic loss per share are calculated by dividing the consolidated net 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	
	2022	2021
	(Unaudited)	(Unaudited) (As restated)
Consolidated net loss attributable to ordinary shareholders of the parent company (<i>RMB'000</i>)	(70,937)	(57,602)
Weighted average number of outstanding ordinary shares of the Company	1,397,452,084	1,398,770,000
Basic loss per share (<i>in RMB</i>)	(0.05)	(0.04)
Including: Basic loss per share from continuing operations (<i>in RMB</i>)	(0.05)	(0.04)
Basic loss per share from discontinued operations (<i>in RMB</i>)	—	—

(b) Diluted loss per share

Diluted loss per share are calculated by dividing the consolidated net loss 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	
	2022	2021
	(Unaudited)	(Unaudited) (As restated)
Consolidated net loss attributable to ordinary shareholders of the parent company (diluted) (<i>RMB'000</i>)	(70,937)	(57,602)
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,397,452,084	1,398,770,000
Diluted loss per share (<i>in RMB</i>)	(0.05)	(0.04)
Including: Diluted loss per share from continuing operations (<i>in RMB</i>)	(0.05)	(0.04)
Diluted loss per share from discontinued operations (<i>in RMB</i>)	—	—

The Company did not have any potentially dilutive shares throughout the period. Accordingly, the diluted loss per share are the same as the basic loss per share.

10. TRADE RECEIVABLES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade receivables	257,978	264,398
Loss allowance	(4,159)	(4,113)
	<hr/>	<hr/>
Total	<u>253,819</u>	<u>260,285</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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Within 1 month	250,563	259,262
1 to 3 months	3,041	2,335
3 months to 1 year	1,577	4
Over 1 year	2,797	2,797
	<hr/>	<hr/>
Total	<u>257,978</u>	<u>264,398</u>

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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
At the beginning of the period	4,113	3,250
Loss allowance recognised	46	863
At the end of the period	<u>4,159</u>	<u>4,113</u>

11. INVENTORIES

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Raw materials	127,863	208,655
Turnover materials	35,793	40,973
Consumptive biological assets (<i>note</i>)	203,007	194,005
Goods in transit	7,828	19,628
Finished goods	384,874	546,190
Materials in transit	—	8,597
Total	<u>759,365</u>	<u>1,018,047</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

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Intelligent integrated projects	20,859	33,553
Other projects	259	1,740
Total	<u>21,118</u>	<u>35,293</u>

During the Reporting Period, the Company built eleven new broiler farms with battery caged systems and one broiler farm with battery caged systems under construction.

13. PRODUCTIVE BIOLOGICAL ASSETS

Productive biological assets using the fair value measurement model

Items	Livestock breeding industry RMB'000 (Unaudited)	Total RMB'000 (Unaudited) (As restated)
Balance at the end of last year	204,484	204,484
External procurement	13,248	13,248
Self-breeding	64,007	64,007
Disposal	(86,704)	(86,704)
Changes in fair value	(14,033)	(14,033)
Balance at the end of the period	<u>181,002</u>	<u>181,002</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	1,775
Total	<u>1,775</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.

14. BILLS PAYABLE

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank acceptance notes	<u>0</u>	<u>46,607</u>
Total	<u><u>0</u></u>	<u><u>46,607</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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Within 1 month	0	43,939
Over than 1 month but within 1 year	0	2,668
Over 1 year	<u>—</u>	<u>—</u>
Total	<u><u>0</u></u>	<u><u>46,607</u></u>

15. TRADE PAYABLE

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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Trade payable	<u>476,238</u>	<u>448,844</u>
Total	<u><u>476,238</u></u>	<u><u>448,844</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 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Within 1 month	302,942	369,774
1 to 3 months	109,358	49,150
3 months to 1 year	61,322	21,463
Over 1 year	<u>2,616</u>	<u>8,457</u>
Total	<u><u>476,238</u></u>	<u><u>448,844</u></u>

16. BORROWINGS

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 RMB'000 (Audited)
Bank loans, secured and guaranteed	1,477,015	2,250,585
Other financial institution loans, secured and guaranteed	<u>111,055</u>	<u>210,284</u>
Total	<u><u>1,588,070</u></u>	<u><u>2,460,869</u></u>
By maturity date:		
Bank loans, secured and guaranteed		
Within one year	1,199,493	1,775,473
1–2 years	100,000	43,778
2–5 years	177,522	431,334
Other financial institution loans, secured and guaranteed		
Within one year	79,506	84,293
1–2 years	25,478	66,470
2–5 years	6,071	59,521
Effective annual interest rate:		
Bank loans, secured and guaranteed	3.80%-5.90%	2.40%-5.90%
Other financial institution loans, secured and guaranteed	5.60%-5.65%	4.75%-6.60%

17. SHARE CAPITAL

	As at 30 June 2022 RMB'000 (Unaudited)	As at 31 December 2021 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>

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, the European Union, the Middle East, the United Kingdom, 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 cuisine. For the six months ended 30 June 2022, the sales volume of processed chicken meat products increased by 11.9% to 54.7 million kilogram (“**kg**”) (six months ended 30 June 2021: 48.9 million kg). For the six months ended 30 June 2022, the revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 9.0% to RMB1,141.3 million (six months ended 30 June 2021: RMB1,046.8 million), representing 46.7% 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 wings, 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 2022, the sales volume of raw chicken meat products increased by 43.2% to 121.0 million kg (six months ended 30 June 2021: 84.5 million kg). For the six months ended 30 June 2022, the revenue from external sale of raw chicken meat products increased by 48.5% to RMB1,204.6 million (six months ended 30 June 2021: RMB811.0 million), representing 49.3% 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 2022, the sales volume of chicken breeds increased by 44.3% to 19.1 million birds (six months ended 30 June 2021: 13.3 million birds). For the six months ended 30 June 2022, the revenue from external sale of chicken breeds dropped by 43.2% to RMB24.3 million (six months ended 30 June 2021: RMB42.8 million), representing 1.0% 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 6.1% to RMB73.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB68.9 million), representing 3.0% of the Group's total revenue.

BUSINESS REVIEW

During the six months ended 30 June 2022, accompanied by the continuous impact of the coronavirus pandemic (“COVID-19”), the entire consumable business industry has been under tremendous growth pressure. In spite of these, the Group bucked the trend with each main business segment showing strong development resilience and synergy, and continued to maintain a relatively large growth trend.

During the Reporting Period, the Group achieved sales revenue of RMB2,443.3 million, representing a period-on-period growth of 24.1%. In particular, revenue from the raw chicken meat products business achieved RMB1,204.6 million, representing a period-on-period growth of 48.5%; revenue from the processed chicken meat products business achieved RMB1,141.3 million, representing a period-on-period growth of 9.0%; revenue from chicken breeds and other non-main businesses achieved RMB97.4 million, the proportion of which in the total revenue has further decreased. The proportion of revenue from processed chicken meat products was 46.7%, and the proportion of revenue still led the industry, which showed reasonable proportions in the product structure and was in line with the Company’s development strategy and phase goals.

During the Reporting Period, benefiting from the structural changes in the global chicken supply chain and favorable exchange rates, the new export business played a cornerstone role and recorded a further increase in its market share with a sales revenue of RMB725.1 million, representing a period-on-period growth of 94.3%; the new retail business achieved a sales revenue of RMB342.8 million, representing a period-on-period decrease of 26.0%; the new centralised procurement business achieved a sales revenue of RMB415.4 million, representing a period-on-period decrease of 3.1%. Under the impact of the COVID-19 pandemic, the sales revenue of iShape products was RMB186.7 million, representing a period-on-period decrease of 21.5%.

Product Innovation: Expanding “Low-calorie Food” and Enriching the “iShape Planet”

1. Enriching flavours and specifications of its main product — salad chicken breast, and expanding the product category at the same time

In recent years, iShape has not only expanded the flavours of its main products by adding new “Key Opinion Leader” flavours such as oolong and cinnamon, but also greatly enriched the category matrix by launching, among other things, extra mini and tender “Xiao Q Chicken Breast”, meaty protein bar, chicken breast sausage mixed with cuttlefish sauce, daily “YouYou” chicken breast breakfast that is more suitable for children, and “Buzha π ” healthy fried chicken nuggets subverting traditional fried chicken.

2. *Launching chicken breast oat fried rice and introducing vegetable protein, which became very popular in the staple food section*

During the Reporting Period, iShape and a top global food enterprise jointly developed and launched the chicken breast oat fried rice, using eight kinds of raw materials including eggs, chicken breast, oatmeal and vegetables.

On the basis of low calories and nutrition, the chicken breast oat fried rice still focuses on the convenience of consumption. The stand-up pouch design saves the process of unpacking and defrosting, allows direct microwaving and is ready for consumption in three and a half minutes.

Under the influence of the COVID-19 pandemic, the food-to-home delivery business has developed rapidly. In particular, pre-made dishes with low-calorie and low-fat attributes are especially popular among youngsters, and the chicken breast oat fried rice came into being, which has received a lot of compliments during the market promotion period, and is becoming another fast-growing category under iShape.

3. *Launching chicken breast luncheon meat, chicken breast sausage, chicken breast meatballs and chicken breast chips to broaden normal-temperature products and snack food*

During the Reporting Period, iShape has launched a variety of normal-temperature chicken breast products: chicken breast luncheon meat, low-fat chicken breast sausage, low-fat chicken breast meatballs and “Gancuiburen” chicken breast chips.

In recent years, with the pace of upgraded consumption, the development of the snack food industry has entered a fast lane, and it has become one of the most promising and dynamic industries in the future fast-moving consumer goods market. The above products are more casual compared with other popular salad chicken breast products under iShape, which also provide low-calorie, delicious and unburdened iShape with complementary products that are suitable for more consumption scenarios.

On one hand, the new low-calorie products with leisure attributes enrich the product forms of iShape, which can better meet the different needs of consumers in terms of product attributes and tastes; on the other hand, the two characteristics of “eating right out of the bag” and “normal-temperature” are also more in line with the dietary habit of “Generation Z” (those born in 1995–2009).

“Buzha π ” of iShape challenges traditional fried chicken through non-fried “black technology”; chicken breast oat fried rice reduces the calories of staple food by 40%; chicken breast chips revolutionarily reduce the fat content to a quarter of that of traditional potato chips; chicken breast luncheon meat reduces the fat and calories content of traditional luncheon meat by 85% and 50%, respectively. During the Reporting Period, a series of new products continued to reflect the consistent health proposition of “low fat” and “low-calorie” of iShape and took into account the balance of health and deliciousness to meet the needs of the new generation of consumers.

With the extension from low temperature to normal temperature and the expansion from meal replacement to leisure food, iShape has embraced the dietary trend through rapid iteration of products as well as its continuous improvement in the ability to meet consumers’ demand, and has taken another step forward in laying out the strategic path of “full-scene” unburdened food solutions.

Brand Promotion: Signed up Li Xian and Won a Number of Honors

1. The clear proposition of “for low-calorie chicken breast, choose iShape”

During the Reporting Period, the Company signed up Li Xian, a talented actor born in the 1990s, as the brand spokesperson of iShape. With his sincere, tasteful and sports-loving personal image, the Company has further enriched its brand image and continued to strengthen the three-dimensional cognitive resonance with young consumers.

At the same time, iShape upgraded its brand proposition to “for low-calorie chicken breast, choose iShape”, in order to further strengthen its low-calorie and unburdened brand gene.

AIMan’s data shows that in the evaluation of the effect of new endorsements, the brand spokesperson of iShape has a popularity index of 90.11 for his contribution to iShape. During the “Women’s Day” promotion on 8 March 2022, sales of iShape increased by 11% against the trend. With the influence of Li Xian in the new ecological consumer group, iShape accelerated its penetration into Generation Z.

2. *Won Ali's "Annual Customer Relation Management — Gold Award"*

During the Reporting Period, Ali announced the evaluation results of the annual customer relation management of the m awards for the digital operation category. iShape won the gold award in this fierce competition.

The evaluation focuses on the indicators from four dimensions, including “customers”, “products”, “content”, and “innovation marketing”, and iShape had outstanding performance in respect of the evaluation results. Through precise insight and demand discovery of consumer demand, leverage with the shaping of product differentiation, product matrix restructuring, as well as matching of consumption scenes, iShape demonstrated to the industry its ability to satisfy the demands of segmented consumer groups, and the new consumer brand can realise quality brand growth.

3. *Contracted with Guoan for further development in Beijing and facilitate Chinese Super League*

During the Reporting Period, iShape and Beijing Guoan Football Club jointly announced that iShape will act as the official supplier of Beijing Guoan Football Club to facilitate the commencement of the 2022 Chinese Super League season.

iShape will develop regionally limited flavour and regional exclusive benefits to better serve consumers in Beijing. Apart from the opening of various “iShape and Guoan Brand Pop-up Stores”, iShape will also set up a “second scene” to gather fans to watch games together during the league season, allowing fans who are not able to attend the games in person to feel the passion of the games. As for the online channels, iShape will inspire a nostalgic feeling among fans in Beijing with contents more welcomed by fans. Research and development of new products tailored for the taste of citizens in Beijing have been put on the agenda, and iShape will facilitate market development in Beijing from three perspectives. This is also the first time for a domestic light meal brand to kick off “regional marketing”.

According to the survey data, over 70% of domestic brands choose Beijing as their base to promote products across the country. As Beijing was one of the first to be listed as the cultivation and development of international consumption cities, its enormous “siphon” effect on global consumption power will be further activated.

4. *Ranked Championship for All Channels in 618 campaign for three Years in a row*

During the Reporting Period, iShape won the sales championship again for all channels in the segmented industry.

In addition to the sales momentum brought by the sales of over 180 million packets of ready-to-eat salad chicken breast, the new product series initially launched was also quite eye-catching, among which, low-fat chicken breast sausage, chicken breast oat fried rice, and chicken breast luncheon meat became three rising stars in the iShape Tmall flagship shop.

Besides, the Gross Merchandise Volume (GMV) of Tik Tok's official flagship shop increased by 22.59% compared with that of Goddess Festival (女王節). iShape has maintained as the "Top 1 Ready-to-Eat Chicken Breast Brand" since it entered the social e-commerce market in 2021. In August 2021, iShape cooperated with Tik Tok, the short video giant, to take the lead in the new business category of the social e-commerce market. During the "818 Tik Tok Trendy Products Festival" (818抖音新好物節), iShape not only gained over 10 billion times of exposures on the Tik Tok platform, but achieved a turnover of over RMB15 million, which ranked top in the chicken breast product category.

So far, iShape has achieved full coverage in Tmall, JD.com, and social e-commerce for the online market. As for the offline market, iShape completed the coverage in over 50,000 mainstream supermarkets and convenience stores. Through the restructuring of the multi-format sales matrix and after experiencing the deployment of offline layout and blowout of online market, iShape initiated the establishment of the three-dimensional channel barrier integrating "offline supermarkets + traditional e-commerce platform + emerging e-commerce platform". In the "618" campaign, iShape held both online and offline markets and maintained its leading position of "Championship for All Channels".

Three Driving Forces: Equipped with Respective Highlights for Collaborative Improvement

1. New export business achieved double growth, stabilising the overall situation

During the Reporting Period, the new export business achieved sales revenue of RMB725.1 million, representing a period-on-period increase of 94.3%, which drove the constant health development of the Company's business and stabilised the overall business. The three most important regions showed outstanding performance, with the market in Malaysia increased by 137.8%, the market in the European Union increased by 218.3%, and the market in Japan increased by 13.7%, which were mainly attributed to:

- (1) the extensive efforts in the export business for more than 30 years had established a sound quality and brand image and developed a solid customer relationship. When facing external pressure, worldwide customers are willing to provide strong support to the Group with practical actions and placed their orders;
- (2) with the impact brought by the COVID-19 pandemic, the global supply chain for the white-feathered broilers experienced structural adjustments, bringing new growth opportunities for white-feathered broiler meat exporters led by the Group; and
- (3) during the Reporting Period, the decrease in sea freight rates and the changes in exchange rate were beneficial to the export-oriented enterprises.

2. New retail bear the pressure and lead the development

During the Reporting Period, the new retail business achieved sales revenue of RMB342.8 million, representing a period-on-period decrease of 26.0%, which bore extraordinary growth pressure under the severe impact of the COVID-19 pandemic, while its sales revenue still managed to lead the whole industry. Among which, the iShape brand achieved online sales revenue of RMB111.1 million, representing a period-on-period decrease of 22.2%, and achieved offline sales revenue of RMB75.7 million, representing a period-on-period decrease of 20.6%, which were mainly attributed to:

- (1) the Group slowed down its market promotion and the pace of expansion to stabilise its main products and businesses;
- (2) the research and development, launch, testing and promotion of new products to further expand its product portfolio; and

- (3) During the Reporting Period, the COVID-19 pandemic brought enormous difficulty to normal business operations in major markets such as Shanghai and Beijing.

3. *The performance of the new centralised procurement is stable, with a slight decline*

During the Reporting Period, the new centralised procurement business achieved sales revenue of RMB415.4 million, representing a period-on-period decrease of 3.1%. In the first half of the year, the catering income of the PRC decreased by 7.7% compared with the corresponding period; the sales revenue from the two major domestic customer channels slightly decreased by 3% compared with the corresponding period, outperforming the same industry and the market.

- (1) due to the COVID-19 pandemic in Shanghai, Beijing, Shenyang and other regions, the stores of Yum! and McDonald's have banned dine-ins at different times. The Group's Yum! and McDonald's channels adhere to the goal of "low stock and quick delivery". In the first half of the year, the revenue amounted to RMB298.6 million, representing a slight decrease of 2.0% as compared to that of the corresponding period in 2021;
- (2) small and medium-sized catering channels are mainly connected to convenience stores and chain restaurants in first- and second-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, which are affected by the COVID-19 pandemic for a longer period and at a wider range. By adjusting the sales strategy and regional layout, our strategy focused on stabilising the customer base, strengthening our services, guaranteeing profits and promoting new products. In the first half of the year, the sales revenue amounted to RMB116.8 million, representing a slight decrease of 5.7% as compared to that of the corresponding period in 2021;
- (3) we continued to promote the low-cost strategy under the coordination of production, sales, research and quality, and made continuous improvements in the enhancement of management efficiency and energy control. Manufacturing costs per ton in the first half of the year were further reduced by 6.3% as compared to that of 2021. Through equipment replacement, process improvement, job optimisation and consolidation, the hourly processing efficiency in the first half of the year was further increased by 16% as compared to that of the corresponding period in 2021.

FINANCIAL REVIEW

Overall performance

In the first half of 2022, the Group experienced an increase of 24.1% in revenue as compared to that of the first half of 2021. There was an increase of 24.1% in gross profit and an increase of 23.2% in net loss as compared to the corresponding period in 2021. The basic loss per share was RMB(0.05) for the first half of 2022. Set out below is the detailed information on the fluctuations in the Company's results for the six months ended 30 June 2022.

Items	Six months ended 30 June		Change (%)
	2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited) (As restated)	
Total operating revenue	2,443,273	1,969,445	+24.1
Operating costs	2,220,937	1,790,305	+24.1
Selling expenses	173,016	162,772	+6.3
Administrative expenses	48,133	50,195	-4.1
R&D expenses	15,471	12,500	+23.8
Finance costs	23,551	13,397	+75.8
Other gains	953	3,231	-70.5
Loss before biological assets fair value adjustments	(60,920)	(47,375)	+28.6
Total loss	(66,754)	(59,060)	+13.0
Net loss	(70,937)	(57,602)	+23.2
Gross profit	222,336	179,140	+24.1
Gross profit margin	9.1%	9.1%	0
Net profit margin	(2.9%)	(2.9%)	0

Operating costs

The Group's operating costs increased by 24.1% to RMB2,221 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB1,790 million), mainly due to (i) an 8.8% increase in the number of white-feathered broilers reared by the Company; and (ii) rising costs of animal feeds due to the period-on-period increase of 3.5% and 18.4% in corn and soybean meal prices, respectively.

Administrative expenses

The Group's administrative expenses dropped by 4.1% to RMB48.1 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB50.2 million), mainly due to the Group's constant optimisation in its internal management that enhances the management efficiency.

Selling expenses

The Group's selling expenses increased by 6.3% to RMB173.0 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB162.8 million), mainly due to the increase in sales volume of processed chicken meat products and raw chicken meat products of the Group.

R&D expenses

The Group's R&D expenses increased by 23.8% to RMB15.5 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB12.5 million), mainly due to increased investment in R&D with the establishment of a multi-level new product R&D system.

Finance costs

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	47,788	30,180
Including: Interest expenses for lease liabilities	5,511	7,283
Interest income	(18,705)	(17,035)
Exchange losses	(7,467)	(448)
Handling fees and others	1,935	700
	<hr/>	<hr/>
Total	23,551	13,397

The Group's finance costs increased by 75.8% to RMB23.6 million for the six months ended 30 June 2022 (six months ended 30 June 2021: RMB13.4 million), mainly due to (i) the increase of interests and handling fees of finance leases by RMB2.8 million from the same period last year; and (ii) the capitalisation of some interest on bank borrowings for project construction of the Group from the same period last year, with a significant period-on-period decrease for the current period.

Closing Figures of the Interim Reporting Period in 2021

- (i) The Group restated the closing figures of the interim reporting period in 2021, mainly because the Group prepared the interim financial report for 2022 with the adoption of fair value measurement instead of the costs method measurement for the biological assets as previously adopted in the preparation of the interim financial report for 2021. In order to provide the readers with comparable and reliable financial information, the measurement of the figures in the interim financial report for 2021 was changed to the use of fair value measurement and a loss of change in fair value measurement of RMB10.227 million was recorded. The 2022 interim report has continued the measurement model of biological assets for 2020 and 2021, and in view of the material fluctuations in the market price of biological assets during the Reporting Period, the management of the Company believes that the use of fair value measurement can better reflect the accuracy of biological assets measurement.
- (ii) According to the relevant regulations on the Accounting Standards for Business Enterprises No. 14 — Revenue (the “**New Revenue Standard**”) issued by the Ministry of Finance of the PRC, the transportation costs incurred for the fulfilment of customer sales contracts were presented in the operating costs. Accordingly, the Group has implemented the New Revenue Standard during the Reporting Period. In order to improve the comparability between the reporting items, the transportation costs for the 2021 interim period were reclassified and the financial figures in the interim financial report for 2021 were retrospectively adjusted as follows:

	Operating costs <i>(RMB'000)</i>	Selling expenses <i>(RMB'000)</i>	Gross profit <i>(RMB'000)</i>
Before adjustment	1,744,762	208,315	224,683
Adjustment amount	45,543	(45,543)	(45,543)
After adjustment	1,790,305	162,772	179,140

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 2022 were for capital expenditures for working capital purposes.

Capital Structure

As at 30 June 2022, 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 2022, the total borrowings of the Group amounted to RMB1,585.7 million, representing a decrease of 35.5% as compared to that of 31 December 2021. The decrease was mainly because (i) the Group repaid part of its bank borrowings as at 30 June 2022; (ii) certain bank borrowings are subject to approval and has not been released yet. The above decrease in total borrowings had no impact on the Group's daily operations.

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 2022 were 48.0% (31 December 2021: 72.4%) and 45.0% (31 December 2021: 51.0%), respectively.

Contingent Liabilities and Pledge of Assets

The Group's bank borrowings as at 30 June 2022 were secured by (i) mortgages of the Group's lands situated in the PRC with an aggregate net carrying values of RMB63.6 million (31 December 2021: RMB50.0 million); (ii) a pledge of the Group's bank deposits of RMB161.3 million (31 December 2021: RMB347.9 million); (iii) pledge of certain of the Group's property, plant and equipment with the aggregate net carrying amount of RMB1,886.9 million (31 December 2021: RMB420.0 million).

As at 30 June 2022, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2022, the Group had 7,293 employees who were directly employed by the Group, of which 7,289 employees were employed in the PRC and four 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) continuous high costs of animal feed, such as corn and soybean meal; and
- (2) continuous impact of the COVID-19 pandemic.

2. Opportunities and potential development:

- (1) benefitting from rebounding pork prices, the industry is expected to bottom out;
- (2) with stability and improvement of breeding performance, the advantage of the supply chain will be further utilised;
- (3) Three Driving Forces will continue to move forward at a high speed, especially the export business will maintain high growth, creating more flexible potential development opportunities for the other two innovative businesses; and
- (4) a brand-new chicken meat food with healthy, delicious, low-fat and low-calorie features ushered in the best development opportunities in the post-pandemic era. A series of new iShape products launched this year have completed the market test and entered the stage of vigorous promotion and sales.

3. Long-term growth strategies:

- (1) continue to increase the Company's operational decision-making level, and effectively safeguard the interests of all investors;

- (2) continue to attract high-quality talents to join the Group, and further stabilise and optimise the operation and management team through the continuous innovation of the mechanism and the step-by-step implementation of middle- and long-term incentive plans; and
- (3) continue to implement the “123” development strategy, adjust the stage plans in a timely manner and concentrate resources to achieve the expected goals with the middle- and long-term goals remaining unchanged.

OTHER EVENTS

Interim Dividend

The Board did not recommend the declaration or payment of an interim dividend for the six months ended 30 June 2022 (for the six months ended 30 June 2021: 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 of the Company.

Change in Use of Proceeds

On 7 June 2022, the Company has unutilised net proceeds from the offer of shares of the Company (“**Unutilised Net Proceeds**”) of approximately RMB122.0 million, which was expected to be invested in the expansion of the Group’s breeding and production capacities of white-feathered broilers as disclosed in the prospectus of the Company dated 30 June 2020. Having monitored and assessed the current market condition and business operations, it will be less urgent for the Group to expand its breeding and production capacities of white-feathered broilers during the current economic downturn. The Board had resolved to change the use of the Unutilised Net Proceeds to repay existing borrowings that will fall due shortly, replenish the cash flow of the Group, and drive the sales of the existing businesses with sufficient working capital, which is more beneficial to meet the Group’s operation needs and allows the Group to deploy its financial resources in a more effective way. As at the date of this announcement, the Company has Unutilised Net Proceeds of approximately RMB78.7 million. For details, please refer to the Company’s announcement dated 7 June 2022.

Change of Directors

On 30 March 2022, Mr. Wang Jinsheng tendered his resignation from his position as an executive Director, and Mr. Ow Weng Cheong tendered his resignation from his position as a non-executive Director.

On 30 March 2022, Ms. Zhou Jinying and Mr. Shi Lei were proposed to be appointed as executive Directors of the Company and were elected at the annual general meeting of the Company held on 31 May 2022.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2022, 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 2022.

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 2022.

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 2022.

Connected Transactions

The Group had not entered into any connected transaction during the six months ended 30 June 2022 and up to the date of this announcement, which is required to be disclosed under Chapter 14A of the Listing Rules.

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 three independent non-executive Directors, namely, Mr. Guo Tianyong, Ms. Zhao Yinglin and Mr. Chung Wai Man. 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 2022 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 2022 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.
Liu Zhiguang
Chairman

Shandong, the PRC, 15 August 2022

As at the date of this announcement, the Board comprises Mr. Liu Zhiguang, Mr. Xiao Dongsheng, Ms. Zhou Jinying and Mr. Shi Lei as executive Directors; Mr. Liu Xuejing and Mr. Zhang Chuanli as non-executive Directors; and Mr. Guo Tianyong, 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.