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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 2021**

HIGHLIGHTS

Key Operating Data

	Six months ended		Change (%)
	2021	2020	
White-feathered broilers bred (unit: million birds)	66.3	55.8	+18.9
White-feathered broilers processed (unit: million kg)	133.9	124.0	+8.0
Sales volume:			
Raw chicken meat products (unit: million kg)	84.5	85.9	-1.6
Processed chicken meat products (unit: million kg)	48.9	37.8	+29.2
Chicken breeds (unit: million birds)	13.3	21.1	-37.3

Key Financial Data

	Six months ended 30 June	
	2021	2020 (As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue	1,969,445	1,902,759
Gross profit	224,683	384,139
Net profit/(loss)	(47,375)	161,000
Net profit/(loss) attributable to the shareholders of the parent company	(46,722)	161,376
Basic (loss) earnings per share (<i>in RMB cents</i>)	(0.03)	0.15

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 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2020 as follows. Unless otherwise specified, financial data of the Company is presented in Renminbi (“**RMB**”).

As approved by the shareholders of the Company (the “**Shareholders**”) at the annual general meeting of the Company dated 28 May 2021 (“**2020 AGM**”), the Company changed its basis for preparation of the overseas financial statements from the International Financial Reporting Standards (“**IFRSs**”) to China Accounting Standards for Business Enterprises (“**CASBE**”) and the comparative figures in the consolidated financial statements are also restated. The following financial information is a summary of the unaudited condensed consolidated financial statements for the six months ended 30 June 2021 of the Group prepared under CASBE, 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 2021

	Note	Six months ended 30 June	
		2021	2020 (As restated)
		RMB'000 (Unaudited)	RMB'000 (Unaudited)
Total operating revenue	3	1,969,445	1,902,759
Less: Operating costs		1,744,762	1,518,620
Taxes and charges		14,119	12,240
Selling expenses		208,315	121,057
Administrative expenses		50,195	43,239
Research and development expenses		12,500	9,770
Finance costs	4	13,397	29,400
Add: Other gains	5	3,231	1,582
Investment income		20,308	(1)
Income on investments in associates and joint ventures		(738)	—
Credit impairment loss		(358)	(133)
Asset impairment loss		—	—
Proceeds on disposal of assets		0	—
Operating profit/(loss)		(50,661)	169,881
Add: non-operating income		1,863	955
Less: non-operating expenses		36	8,897
Total profits/(loss)		(48,833)	161,940
Less: income tax (expenses)/credit	6	(1,458)	940
Net profit/(loss)		(47,375)	161,000
Breakdown by continuity of operations		—	—
Net profit (loss) from continuing operations		(47,375)	161,000
Breakdown by attributable interests		—	—
Net profit (loss) attributable to shareholders of the parent company		(46,722)	161,376
Loss attributable to minority interests		(653)	(375)
Net other comprehensive income after tax		(240)	279

	Six months ended 30 June	
	2021	2020
<i>Note</i>	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net other comprehensive income attributable to shareholders of the parent company after tax	(240)	279
Other comprehensive income that cannot be reclassified into profit or loss	—	—
Changes arising from remeasurement of defined benefit plan	—	—
Other comprehensive income that cannot be reclassified into profit or loss under the equity method	—	—
Change in fair value of investment in other equity instruments	—	—
Change in fair value of corporate credit risks	—	—
Other comprehensive income that can be reclassified into profit or loss	(240)	279
Other comprehensive income to be reclassified into profit or loss under the equity method	—	—
Change in fair value of other debt investments	—	—
Amount of financial assets to be reclassified into other comprehensive income	—	—
Credit impairment provision for other debt investments	—	—
Cash flow hedging reserve	—	—
Exchange differences on translation of foreign currency financial statements	(240)	279
Others	—	—
Net other comprehensive income attributable to minority interests after tax	—	—
Total comprehensive income	(47,615)	161,279
Total comprehensive income attributable to the shareholders of the parent company	(46,962)	161,655
Total comprehensive income attributable to minority interests	(653)	(375)
Earnings per share		
Basic (loss) earnings per share (RMB per Share)	(0.03)	0.15
Diluted (loss) earnings per share (RMB per Share)	(0.03)	0.15
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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

As at 30 June 2021

		As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Current assets			
Monetary funds		1,910,676	1,556,134
Financial assets held for trading		72	—
Trade receivables	9	179,148	192,572
Prepayments		35,476	57,924
Other receivables		10,608	7,824
Financial assets held under resale agreements		—	—
Inventories	10	787,616	726,003
Contract assets		—	—
Assets held for sale		—	—
Non-current assets due within one year		—	—
Other current assets		69,014	65,051
Total current assets		2,992,610	2,605,508
Non-current assets			
Long-term equity investments		64,089	64,827
Fixed assets		2,500,571	2,004,898
Construction in progress	11	170,726	301,021
Productive biological assets		133,065	101,225
Right-of-use assets		424,195	427,113
Intangible assets		93,588	91,320
Long-term deferred expenses		0	411
Deferred income tax assets		1,431	203
Other non-current assets		28,057	156,212
Total non-current assets		3,415,722	3,147,229
Total assets		6,408,332	5,752,737

		As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>Note</i>	RMB'000 (Unaudited)	RMB'000 (Audited)
Current liabilities			
Short-term borrowings	13	1,613,462	1,487,000
Bills payable	12	73,418	—
Trade payable		439,324	348,931
Contract liabilities		32,429	37,830
Payroll payable		59,249	73,494
Taxes payable		7,311	7,212
Other payables		165,546	126,902
Non-current liabilities due within one year		103,144	68,275
Other current liabilities		2,343	2,456
Total current liabilities		2,496,226	2,152,100
Non-current liabilities			
Long-term borrowings	13	438,411	—
Lease liabilities		265,054	310,286
Long-term payables		—	—
Long-term payroll payables		—	—
Estimated liabilities		165	184
Deferred income		11,476	7,108
Total non-current liabilities		715,106	317,578
Total liabilities		3,211,332	2,469,678
Owners' equity			
Share capital	14	1,400,000	1,400,000
Capital reserve		663,282	663,335
Less: treasury shares		2,548	3,822
Other comprehensive income		(18)	222
Surplus reserve		135,407	135,407
Undistributed profits		1,000,877	1,089,599
Total equity attributable to shareholders of the parent company		3,197,000	3,284,741
Minority interests		—	(1,682)
Total owners' equity		3,197,000	3,283,059
Total liabilities and owners' equity		6,408,332	5,752,737

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

The unaudited interim financial statements of the Group have been prepared on a going concern basis based on the actual transactions and events in accordance with the Accounting Standards for Business Enterprises and relevant regulations issued by the Ministry of Finance of the People's Republic of China (the “**PRC**”) (collectively, the “**PRC Accounting Standards**”), the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Companies Ordinance**”), and is in compliance with the accounting policies and accounting estimates applicable to the Group.

The interim results have been reviewed by the Audit Committee.

2. ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. Unless otherwise stated, the financial statements are presented in RMB and all amounts are rounded to the nearest thousand (RMB'000).

The Group used to apply the applicable International Financial Reporting Standards (“**IFRSs**”) issued by the International Accounting Standards Board (“**IASB**”) and the requirements of the Companies Ordinance in its preparation of its financial statements. According to the “Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong” published by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in December 2010, with effect from this financial year, the Group has decided to prepare its financial statements in accordance with the PRC Accounting Standards. The adoption of the PRC Accounting Standards has been applied retrospectively. The balance sheet as at 31 December 2020 and the income statement, statement of cash flows and statement of changes in equity for the period from January to June 2020 for comparative purposes are also converted to the presentation and disclosure in accordance with the format of the enterprise financial

statements as stipulated in the PRC Accounting Standards. As the PRC Accounting Standards and IFRSs converge, the material differences between the PRC Accounting Standards adopted in the financial statements in 2021 and IFRSs adopted in the financial statements disclosed as at 31 December 2020 are mainly due to differences in the measurement model of productive biological assets.

In 2020, the Company performed valuation for all productive biological assets in accordance with IFRSs. As such valuation is not a statutory valuation, the revaluation surpluses resulting from the valuation is only reflected in the statements prepared under IFRSs, but not reflected in the statements prepared under the PRC Accounting Standards. Productive biological assets are not depreciated in accordance with IFRSs, but are depreciated according to the PRC Accounting Standards and the productive biological assets will be depreciated year by year.

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 sale of by-products, packing materials and miscellaneous products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources 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			
	2021		2020	
	<i>RMB'000</i>		<i>RMB'000</i>	
	(Unaudited)		(As restated)	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Main business	1,947,979	1,734,668	1,864,925	1,489,780
Other businesses	21,466	10,093	37,834	28,840
Total	<u>1,969,445</u>	<u>1,744,762</u>	<u>1,902,759</u>	<u>1,518,620</u>

Revenue by products

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(As restated)
	(Unaudited)	(Unaudited)
Processed chicken meat products	1,046,836	822,036
Raw chicken meat products	810,978	963,549
Chicken breeds	42,769	60,313
Others	68,862	56,861
Total	<u>1,969,445</u>	<u>1,902,759</u>

Geographic information

Revenue from external customers

	Six months ended 30 June	
	2021	2020
		(As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China	1,596,320	1,452,074
Japan	149,204	205,940
Malaysia	101,875	98,043
Europe	86,309	109,516
Other countries or regions	35,737	37,186
Total	<u>1,969,445</u>	<u>1,902,759</u>

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

4. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
		(As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	30,180	38,574
Including: Interest expenses on lease liabilities	7,283	5,966
Less: (Interest income)	(17,035)	(4,906)
Exchange (gains)	(448)	(5,100)
Fees for financial institutions	700	832
Total	<u>13,397</u>	<u>29,400</u>

5. OTHER GAINS

	Six months ended 30 June	
	2021	2020
		(As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants (<i>Note</i>)	<u>3,231</u>	<u>1,582</u>
Total	<u><u>3,231</u></u>	<u><u>1,582</u></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. INCOME TAX (EXPENSES)/CREDIT

	Six months ended 30 June	
	2021	2020
		(As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current tax — Mainland China (Charge)/credit for the period	(230)	940
Deferred tax	<u>(1,228)</u>	<u>—</u>
Total	<u><u>(1,458)</u></u>	<u><u>940</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 2021 (2020: 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.

7. DIVIDENDS

A first final dividend of RMB0.03 per ordinary share, amounting to RMB42,000,000 for the year ended 31 December 2020 was approved at the 2020 AGM held on 28 May 2021. Such dividends were already paid.

Save as disclosed above, no dividend was paid, declared or proposed to owners of the parent for the six months ended 30 June 2021 (2020: Nil), nor has any dividend been paid, declared or proposed since the end of the Reporting Period.

8. EARNINGS PER SHARE

The basic earnings/(loss) per share for the six months ended 30 June 2020 and 2021 are calculated based on the profit/(loss) attributable to the owners of the Company during the period of RMB161.4 million and RMB(46.7) million (unaudited), respectively, and the weighted average number of ordinary shares, with the earnings (loss) per share of RMB0.15 and RMB(0.03).

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

9. TRADE RECEIVABLES

	As at 30 June 2021	As at 31 December 2020 (As restated)
	RMB'000 (Unaudited)	RMB'000 (Audited)
Trade receivables	188,577	203,314
Less: loss allowance	9,429	10,742
	<u>179,148</u>	<u>192,572</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 customer. 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 2021	As at 31 December 2020 (As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Less than 1 year	188,577	202,670
1 to 2 years	0	644
2 to 3 years	0	0
Over 3 years	0	0
	<hr/>	<hr/>
Total	<u>188,577</u>	<u>203,314</u>

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

	As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
At the beginning of the period	10,742	14,059
Loss allowance recognised	1,313	3,317
	<hr/>	<hr/>
At the end of the period	<u>9,429</u>	<u>10,742</u>

10. INVENTORIES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 (As restated) <i>RMB'000</i> (Audited)
Raw materials	169,306	124,632
Turnover materials	36,469	35,233
Work-in-progress (the stock of broilers)	133,945	120,323
Goods in transit	7,208	9,567
Finished goods	436,869	423,751
Materials in transit	3,819	12,497
	<hr/>	<hr/>
Total	<u>787,616</u>	<u>726,003</u>

11. CONSTRUCTION IN PROGRESS

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 (As restated) <i>RMB'000</i> (Audited)
Intelligent integrated projects	170,273	282,224
Other projects	453	18,797
	<hr/>	<hr/>
Total	<u>170,726</u>	<u>301,021</u>

During the Reporting Period, the Company proactively promoted the expansion of production capacity. On 27 August 2021, the Company (i) built seven new broiler farms with battery caged systems, one new broiler cage conversion farm with battery caged systems and four broiler farms with battery caged systems under construction; (ii) built two new breeder farms; (iii) added one feedmill with production capacity of 400,000 tonnes per annum and commenced operation; (iv) added a fully automatic slaughtering plant with an annual capacity of 80 million broilers and commenced operations; and (v) added a hatchery with an annual capacity of 50 million chicken breeds and commenced operations.

12. BILLS PAYABLE

	As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Bank acceptance notes	3,418	0
Domestic letter of credit	70,000	0
Total	<u>73,148</u>	<u>0</u>

An aged analysis of the balance of the bills payable is as follows:

	As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Within 1 month	3,418	0
Over than 1 month but within 1 year	70,000	0
Over 1 year	0	0
Total	<u>73,148</u>	<u>0</u>

The bank acceptance notes of the Group are payable within one month, and domestic letters of credit are payable within one year.

13. BORROWINGS

	As at 30 June 2021	As at 31 December 2020 (As restated)
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Amount of borrowings		
Pledged borrowings	267,000	407,000
Mortgaged borrowings	653,790	300,000
Guaranteed borrowings	419,000	289,000
Credit borrowings	727,462	491,000
Total	<u>2,067,252</u>	<u>1,487,000</u>

Borrowing rate per annum	Six months ended 30 June	
	2021	2020 (As restated)
Pledged borrowings	3.85%–4.35%	3.85%–4.36%
Mortgaged borrowings	3.80%–5.39%	3.00%–3.00%
Guaranteed borrowings	3.45%–5.22%	3.20%–5.10%
Credit borrowings	3.08%–5.10%	2.95%–5.80%

Term of borrowings	As at	As at
	30 June 2021	31 December 2020
	RMB'000	RMB'000
Short-term borrowings	1,613,462	1,487,000
Long-term borrowings due within one year	15,379	0
Long-term borrowings	<u>438,411</u>	<u>0</u>

14. SHARE CAPITAL

Registered, issued and fully paid:	As at	As at
	30 June 2021	31 December 2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
1,400,000,000 shares of RMB1.00 each	<u>1,400,000</u>	<u>1,400,000</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis also contains 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 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. The Group also produced a small portion of chicken meat products from Sichuan Mountain Black-Bone Chicken bred in Sichuan in the PRC, in which part of the production facilities were based. Such business operations ceased on 28 May 2021 through disposal of its 90% equity interests of Xingwen Tianyang Jishi Food Development Co., Ltd.* (興文天養極食食品發展有限公司) (“**Xingwen Tianyang**”) and Xingwen Tianyang ceased to be a subsidiary of the Company. 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, 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.

* for identification purpose only

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 in the PRC and overseas. 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 2021, the sales volume of processed chicken meat products was 48.9 million kilogram (“**kg**”) (six months ended 30 June 2020: 37.8 million kg). Revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 27.3% to RMB1,046.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB822.0 million), representing 53.2% 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 nature. For the six months ended 30 June 2021, the sales volume of raw chicken meat products decreased by 1.6% to 84.5 million kg (six months ended 30 June 2020: 85.9 million kg). Revenue from external sale of raw chicken meat products dropped by 15.8% to RMB811.0 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB963.5 million), representing 41.2% 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 2021, the sales volume of chicken breeds was 13.3 million birds (six months ended 30 June 2020: 21.1 million birds). Revenue from external sale of chicken breeds dropped by 29.1% to RMB42.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB60.3 million), representing 2.2% of the Group's total revenue.

Other Products

The Group sells other products, including 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 feather, chicken blood and unused chicken organs), black-bone chicken meat products (such business operation ceased on 28 May 2021), packing materials and other miscellaneous products. Revenue from external sale of other products grew by 21.1% to RMB68.9 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB56.9 million), representing 3.5% of the Group's total revenue.

BUSINESS REVIEW

During the six months ended 30 June 2021, Fengxiang strived to adjust its product structure, upgrade its research and development (“**R&D**”) system, improved its logistics services and focus its resources on downstream development. The new retail business, the processed food business and the branded products business had all realised significant achievements. It has been another milestone for the development, transformation and upgrade process of Fengxiang in recent years.

During the Reporting Period, the Company achieved sales revenue of RMB1,969.4 million, representing a period-on-period growth of 3.5%. In particular, under the principle of “from raw to cooked”, the ratio of raw to cooked products was further optimised. Revenue from raw chicken meat products achieved RMB811.0 million, accounting for 41.2% (six months ended 30 June 2020: 50.6%) of the Group’s total revenue. Revenue from processed chicken meat products amounted to RMB1,046.8 million, accounting for 53.2% (six months ended 30 June 2020: 43.2%) of the Group’s total revenue. Revenue from chicken breeds and other non-core businesses amounted to RMB111.6 million, accounting for 5.7% (six months ended 30 June 2020: 6.2%) of the Group’s total revenue.

In particular, the new retail business continued to expand and achieved sales revenue of RMB463.1 million, representing a period-on-period growth of 24.1%, and accounting for 23.5% (six months ended 30 June 2020: 19.6%) of the Group’s total revenue.

iShape series products continued to maintain its rapid development, achieving sales revenue of RMB238.0 million, which already outperformed its full year sales revenue in 2020 (year ended 31 December 2020: RMB230.9 million) with a period-on-period growth of 195.0%.

Acceleration in Development of iShape and Continuous Increase in the Retail Weighting

1. *Major Channels: Three Driving Forces, Steady Revenue, A Spike in Retail Business, Continuous Increase in Centralised Procurement Business and Pressure on Exports*

During the Reporting Period, the Company achieved sales revenue of RMB1,969.4 million, representing a period-on-period increase of 3.5%. In particular:

(1) *New Retail Business*

Revenue from new retail business, representing the business-to-consumer (“B2C”) business of the Group providing Fovo Foods and iShape products through online e-commerce services, offline convenience stores and boutique supermarkets, amounted to RMB463.1 million, representing a period-on-period increase of 24.1%, which reflects the trend of continuous rapid growth.

- (a) online revenue amounted to RMB239.9 million, representing a period-on-period decrease of 7.8%. Based on the initiative to adjust the Group’s product structure at the retail end, the proportion of sales of fresh food products has further decreased and the cooked food and branded processed products have realised qualitative changes from quantitative changes, with iShape series products reaching an online sales revenue of RMB142.7 million, representing a period-on-period increase of 247.4%, and accounting for 59.5% of the Group’s total revenue for online retail business; and
- (b) offline revenue amounted to RMB223.2 million, representing a period-on-period increase of 97.7%, which highlighted the value of such sales channel.

(2) *New Centralised Procurement Business*

Revenue from the new centralised procurement business was RMB428.6 million, representing a period-on-period increase of 14.1%, which demonstrated the effectiveness of model innovation.

(3) *Export Business*

Revenue from new export business was RMB373.1 million, representing a period-on-period decrease of 17.2%. Due to the impact of the coronavirus pandemic (COVID-19) (“COVID-19”) along with the pressure on the supply of breeding, major overseas markets witnessed declines in revenue to varying degrees, while the Malaysian market managed to achieve a growth in revenue of 3.9%.

2. Major Products: Focusing on and Highlighting the Core Businesses, Proportion of Processed Food Products Reaching New High

The Group mainly offers processed chicken meat products, raw white-feathered chicken meat products and chicken breeds.

During the Reporting Period, the sale of chicken meat products as the Group's core business achieved sales revenue of RMB1,857.8 million, representing a period-on-period increase of 4.0% and accounting for 94.3% (six months ended 30 June 2020: 93.8%) of the Group's total revenue. In particular:

(1) Increase in Proportion of Processed Food Products

The proportion of revenue generated from processed chicken meat products increased to 53.2% (six months ended 30 June 2020: 43.2%).

(2) Decline in Proportion of Raw Chicken Meat Products

The proportion of raw chicken meat products continuously declined, mainly due to:

- (a) the Company continued to focus its strategy on downstream market, prioritised the pursuit of rapid expansion of its new retail business and increase in the proportion of processed chicken meat products, in optimising the “raw-to-cooked” ratio; and
- (b) the supply shortage and capacity constraints at the upstream breeding end of the Company during the Reporting Period.

3. Major Brands: Acceleration in the Development of iShape, Optimisation of Fovo Foods, and Steady Development of Wu Genglu

(1) iShape Series

During the Reporting Period, the Company focused its resources on the development of iShape. The sales revenue of the iShape series products amounted to RMB238.0 million, representing a period-on-period increase of 195.0%, which has already outperformed its full year sales revenue in 2020 (year ended 31 December 2020: RMB230.9 million). In particular, the growth rate of sales on online and offline platforms were 247.4% and 140.7%, respectively, with the revenue ratio of 6:4. The proportion of retail revenue of chicken breast single products, which is the main product under the iShape series, increased to 46.7% (six months ended 30 June 2020: 18.7%), representing a period-on-period increase of 209.1%. The proportion of protein bars single products increased to 4.3% (six months ended 30 June 2020: 2.9%), representing a period-on-period increase of 86.8%.

(2) Fovo Food Series

Fovo Food series achieved sales revenue of RMB200.5 million, representing a period-on-period decrease of 25.8%, mainly due to the proactive control of the market scale of raw chicken meat and processed standard products, while strengthening the investment resources in quality single products. Among which, low-temperature ready-to-eat chicken thigh products and salted-egg flavored chicken products witnessed a period-on-period growth of 485.9% and 22.0%, respectively. The new products of chicken patty squares also quickly gained market recognition.

(3) Wu Genglu Series

The sales revenue of the Wu Genglu brand series amounted to RMB22.7 million, representing a period-on-period increase of 3.5%.

4. Pressure on Profitability: Volatile Breeding Business, Rising Costs of Animal Feeds, Shortage in Supply, Relatively High Costs of External Meat Procurement, Relatively Low Meat Prices and Continuous Impact of the COVID-19

During the Reporting Period, the Company recognised a loss of RMB47.4 million as compared to the consolidated net profit of approximately RMB161.0 million for the six months ended 30 June 2020 (restated figures in accordance with CASBE). The main reasons for pressure on profitability were:

- (1) the increased costs of animal feed ingredients due to the period-on-period increase in the price of raw materials such as corn and soybean meal;
- (2) the decrease in the average selling price of raw chicken meat products;

- (3) a slight decrease in the production volume of broilers due to the use of chicken breeds from moulting breeders and an increase in the procurement amount of raw chicken meat which led to an increase in costs;
- (4) the increase in selling and marketing expenses as a result of the increase in resources invested by the Group in its new retail business; and
- (5) continuous impact of COVID-19, resulting in varying degrees of decline in key overseas markets.

Strategic Path: Upgrading the Industry in the Region through iShape

1. Three-year Development Goal:

We are committed to upgrading the industry of traditional chicken meat products and achieving quality growth with higher gross profit and brand premiums.

We strive to achieve a comprehensive coverage and satisfaction in terms of consumer needs for iShape products, secure our leading advantage in the market share and customer loyalty, boost the new retail business of the Group and continue to create higher market value.

We also aim to achieve the expected target of capacity expansion (self-rearing scale of 180–200 million birds), steadily improve the quality of breeding, adapt to and meet the basic needs of key clients from major business end and iShape Food Technology Co., Ltd. (優形食品科技有限公司) (formerly known as Fengxiang Food Co., Ltd. (鳳祥食品有限公司)), and ensure the healthy improvement of supply chain management capabilities.

We will continue to develop and integrate market-based meat procurement and original equipment manufacturer (“OEM”) system to accomplish stable development of new centralised procurement channel business.

2. Strategic Path: Adhering to the “123” Strategy, Focusing on Downstream Channel Expansion and Building a Leading Chicken Meat Products Brand

We are one of the leading retailers and exporters of chicken meat products in the PRC. Over the past few years, the Company was determined to transform and upgrade by implementing the “123” development strategy — “One Foundation, Two Major Markets and Three Driving Forces” and the Company continued increasing the proportion of processed food products, expanding the retail business and building itself as China’s leading chicken brand.

(1) *“One Foundation”*

We strengthened the Group’s advantage in its vertically integrated business model across the entire industry value chain and the industry ecological chain, and continued strict management on the quality of raw material supply, so as to ensure food quality and safety, offered consumers with quality-assured products and laid a solid foundation for product quality;

(2) *“Two Major Markets”*

To simultaneously develop the domestic market and the international market, ensure “same production line, same standard, same quality” for domestic sales and export sales, and facilitate the mutual circulation of the domestic and international markets;

(3) *“Three Driving Forces”*

- (a) to coordinate online and offline resources to focus on the development of new retail business, providing branded products such as iShape and Fovo Foods directly to consumers through online e-commerce services, offline convenience stores and boutique supermarkets;
- (b) to develop the new centralised procurement business. New centralised procurement, in relation to the food and beverage industry, refers to the provision of group purchasing or procurement of high quality products to leading enterprises of the catering industry and the convenience store system business, by leveraging its years of experience in serving KFC and McDonald’s, and in line with the trend of the upgrading of procurement standards; and
- (c) to construct the new export business through product optimisation and multiple channels. New export refers to the upgrading of the long-term leading position in the Group’s overseas export business, through accumulation of its export experience for over 20 years, to deliver supreme services and to achieve diversified channels through upgrading services, developing markets and expanding channels.

Through implementation of the new strategy, the domestic market and the international market supplement and boost each other, and 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 catering giants for years, the Group is committed to providing hundreds of millions of families and individual consumers with high-quality products and services, creating China’s leading chicken meat product brand.

3. *Strategic Upgrade of iShape*

(1) *Current Industry Status of iShape*

We are the pioneer and leader of ready-to-eat chicken breast products and is the most prominent brand of high end ready-to-eat chicken breast products. The Company ranked first in sales and market share on online and offline sales platform such as Tmall, JD.com and Tik Tok.

(2) *Positioning of iShape*

Expand from high-end chicken breast products to “low burden” meat products. We have been building iShape with the focus on “health needs”, to gradually transform from rational brand philosophy of “high nutrition” and “high function” to emotional brand philosophy of “low physical burden”, “low psychological burden”, etc. In our relentless pursuit of professionalism and fashion, we continue to subdivide user groups in meeting and maximising the satisfaction of consumers’ diversified needs.

(3) *Current Status of iShape Products*

During the Reporting Period, we achieved sales revenue of RMB238.0 million, which has already outperformed the full year revenue of iShape in 2020, representing a period-on-period growth of 195.0% and a surge from 21.6% to 51.4% of the Group’s total revenue for new retail business. In particular, the chicken breast (whole) products took the lead, representing a period-on-period growth of 209.1% and an increase from 18.7% to 46.7% of the Group’s total revenue for new retail business. The chicken breast protein bar products recorded a period-on-period growth of 86.8%, representing an increase in the Group’s total revenue for new retail business from 2.9% to 4.3%.

“High-End Chicken Breast, Choose iShape” has been recognised by more office lady users in the city, successfully getting hold of the minds and hearts of the core target consumers.

(4) *Products Matrix Upgrade for iShape*

(a) Trends and Opportunities

- (i) the acceleration of urbanisation has resulted in rising consumption awareness and level among the general public. Chicken meat products, as the representative of healthy meat products with lower calorie, lower fat and higher protein, have become increasingly popular, demonstrating revolutionary changes of the national nutritional diet structure;
- (ii) due to the rapid development of mobile internet technology and transportation network, the new retail model featuring e-commerce as the leader and offline contact function are refreshing the business pattern in the past and the consumer goods industry is also undergoing a new round of golden era of development; and
- (iii) along with the growth of the younger generation, their emphasis on health, recognition of brands, desire for a new lifestyle and the needs for all-rounded consumption have become the core driver for growth and development of quality consumer goods and excellent brands.

(b) Thought and Choice

- (i) iShape has already established its own “professional” and “delicious” product style, as well as “healthy” and “young” brand attributes, which have made it a leader in the field of ready-to-eat chicken breast segment, with considerable brand recognition and pioneer advantage; and
- (ii) focusing on the all-rounded consumption needs of our target customers, iShape products set foot on its chicken breast ingredients, targeting healthy meat products, commencing speedy development of new products and gradually expanding into new areas. At present, iShape products have already made achievements in the areas of meal replacement and meal supplement. In addition, it has also launched its own snack and instant food products and will target children’s needs by launching the daily “YouYou” series of products in the second half of 2021.

(c) Current Product Matrix of iShape

Category	Product (Existing)
Meal Replacement and Supplement Series	iShape Pro chicken breast Salad chicken breast Chicken breast protein bar Xiao Q chicken breast Jia'ge chicken drumstick (加個雞腿)
Instant Food Series	Coming soon (敬請期待)
Snack Series	Yikou Buren sausage (一口不忍腸) Chicken patty squares (雞肉小方) Coming soon (敬請期待)
Children Series	Chicken nuggets Meat and egg buns

4. Organisational Reform and Core Function Upgrade:

(1) Independent Operation of the New Retail Business from the Group

- (a) established iShape Food Technology Co., Ltd. (優形食品科技有限公司) with the introduction of new retail business and professional team;
- (b) ensured stable operation of business-end business, and invested substantial resources into the new retail business;
- (c) on the premise of stabilising the front-end integrated breeding and production capacity, actively deploy external meat source procurement strategic cooperation system to ensure the supply chain management capacity; and
- (d) continued to increase brand building and marketing efforts to ensure the brand of iShape remains sustainable, healthy and value-added.

(2) *Introduced Core R&D team with Cross-Responsibility System*

(a) Basic Research and Application Development

We focused on our target consumer's insights and demand realisation, continued to strengthen the speed and efficiency of product application and development; at the same time, based on the demand for continuous growth of brand value, we upgraded to open up and leverage domestic and foreign quality resources, established internal and external joint creation mechanism, developed core technologies, kept abreast with the meat products and healthy food industry through active deployment and penetration.

(b) Product Manager and Project Manager

We upgraded from the previous single-track responsibility system of a product manager to cross-responsibility system of both the product manager and project manager, and implemented the operation model of Integrated Product Development (“IPD”) (integrating the R&D system, milestone key point management) product whole process management and formed a horizontal project team to ensure rapid product iteration and maintain the new fashion image.

(c) Differentiation and Experience

We upgraded from the previous R&D system that focused only on product quality to that which emphasises on market demand, consumer research and insight. With the ultimate consumer experience as the objective of our product development, we developed new products with strong product strengthen featuring a unique concept and core technology. In the whole process of R&D, we simultaneously pursued the overall improvement of product and service quality, and constantly explored better differentiation and experience.

(3) *Upgraded the Logistics System and Implemented Cost Reduction and Efficiency Improvement*

(a) the logistics procurement center was set up at the end of 2020 to undertake the management functions of the headquarters;

(b) upgrading the warehousing and distribution model by adopting integrating use of warehouse, and distribution separation arrangements for B2B and B2C consumers. The Group also commenced strategic cooperation with leading logistic providers to improve logistics efficiency;

- (c) during the Reporting Period, warehousing demand grew by 10.0%, transportation volume grew by 13.5%, and customers sales volume grew by 49.5%; the average price per unit of new retail online delivery master contracts decreased by 56.3% compared with that of the same period in 2020;
 - (d) during the Reporting Period, we completed the information system construction and OEM supplier foundation deployment.
- (4) *Upgraded the Marketing System with a Focus on Membership Operation and Accelerated New Procurement and Improved Quality of Repeated Procurement:*
- (a) during the Reporting Period, a professional membership operation team was established to actively upgrade the operational system of the membership service regarding joint creation of brands, whole process experience and whole network services;
 - (b) during the Reporting Period, we continued to add and optimise offline convenience stores and develop new quality supermarkets, covering 121 cities in all provinces and regions in the PRC, with more than 35,000 stores;
 - (c) during the Reporting Period, we continued to enhance marketing and promotion efforts of our Tmall and JD.com flagship stores, and launched a campaign regarding the Tik Tok marketing system in February this year;
 - (d) during the Reporting Period, according to the 180 day repurchase rate of the iShape flagship store, our members exceeded 50.0% and non-members reached approximately 22.0%;
 - (e) in the 2021 “618” marketing campaign, iShape was selected as one of the TOP 100 cases in Tmall 618, with a period-on-period growth of 246.6% in Tmall flagship store and 56.2% in JD.com self-operated store. iShape also took two of the top five places (ranked 2nd and 5th) in the Tik Tok 618 livestream salesperson ranking for fresh food category. In June, the monthly sales of Tik Tok platform exceeded RMB17 million. iShape was also selected as the only Chief Treasure Brand for the Taobao Festival of Creation (淘寶造物節) and the Chief Partner Brand for Tik Tok’s first e-commerce festival.

(5) *Production Efficiency Upgrade and Cost Control*

(a) Enhancement in Production Efficiency

During the Reporting Period, the Company's non-automated slaughterhouse efficiency improved by 10% compared with the same period last year. The fully automated slaughterhouse also commenced production from trial operation during the Reporting Period, and it is expected that the efficiency of slaughterhouse will be significantly improved this year.

(b) Cost Reduction and Efficiency Improvement in the Processed Production Line

During the Reporting Period, the production efficiency of the processed food in the first half of the year improved by 13%, and the output of the processed food increased by 28% compared with the same period last year. In terms of cost control, the manufacturing cost of the processed products of the Company decreased obviously compared to the same period last year.

(c) Increase in Production Capacity of iShape

In the second half of this year, the Company will carry out renovation and production line expansion for the production lines of the three workshops for iShape. It is expected that the production capacity will expand to an output value of RMB1 billion, which will consolidate the foundation for the strategy of iShape products in the next three years.

All the iShape products are controlled under the Company's high standard and quality requirements, and we control the product quality from the source. In the future, the Company will pass our control standard, management experiences and process control accumulated over the past 30 years to the OEM factories we cooperated with to further ensure the consistent standard, quality and taste of each pack of products offered to the consumers.

FINANCIAL REVIEW

Overall performance

In the first half of 2021, the Group experienced an increase of 3.5% in revenue as compared to that of the first half of 2020. There was a decrease of 41.5% in gross profit, 130.2% in profit for the period and 129.0% in profit attributable to the owners of the Company as compared to the corresponding period in 2020. The basic loss per share was RMB(0.03) for the first half of 2021. Set out below is further information on the fluctuations in the Company's results for the six months ended 30 June 2021.

Items	Six months ended 30 June		Change (%)
	2021 RMB'000 (unaudited)	2020 (As restated) RMB'000 (unaudited)	
Total operating revenue	1,969,445	1,902,759	+3.5
Operating costs	1,744,762	1,518,620	+14.9
Selling expenses	208,315	121,057	+72.1
Administrative expenses	50,195	43,239	+16.1
R&D expenses	12,500	9,770	+27.9
Finance costs	13,397	29,400	-54.4
Other gains	3,231	1,582	+104.2
Total profit (loss)	(48,833)	161,940	-130.2
Net profit (loss)	(47,375)	161,000	-129.4
Gross profit	224,683	384,139	-41.5
Gross profit margin	11.4%	20.2%	-43.5
Net profit margin	(2.4)%	8.5%	-128.4

Operating costs

The Group's operating costs increased by 14.9% to RMB1,744.8 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB1,518.6 million), mainly due to (i) a 18.9% increase in the sales of white-feathered broilers reared by the Company; (ii) rising costs of animal feeds due to the period-on-period increase in corn and soybean meal prices; (iii) a 29.2% increase in the sales of processed chicken meat products.

Administrative expenses

The Group's administrative expenses increased by 16.1% to RMB50.2 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB43.2 million), mainly due to more engagement with the service suppliers related to the listing which resulted in an increase in service fees.

Selling expenses

The Group's selling expenses increased by 72.1% to RMB208.3 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB121.1 million), mainly due to the increase in resources invested by the Group in its new retail business.

R&D expenses

The Group's R&D expenses increased by 27.9% to RMB12.5 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB9.8 million), mainly due to increased investment in R&D with the establishment of a multi-level new product R&D system, and introduction of experienced R&D personnel.

Finance costs

	Six months ended 30 June	
	2021	2020
		(As restated)
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	30,180	38,574
Including: Interest expenses for lease liabilities	7,283	5,966
Less: (Interest income)	(17,035)	(4,906)
Exchange (gains)	(448)	(5,100)
Fees for financial institutions	700	832
	<hr/>	<hr/>
Total	<u>13,397</u>	<u>29,400</u>

The Group's finance costs decreased by 54.4% to RMB13.4 million for the six months ended 30 June 2021 (six months ended 30 June 2020: RMB29.4 million), mainly due to: (i) the average interest rate of 3.97% of the loans obtained by the Group from financial institutions (excluding interest expenses on lease liabilities), representing a period-on-period decrease of 0.8%; (ii) capitalisation of some interest on bank borrowings for project construction; and (iii) idle fund raising and cash management for partial cash with a more favorable deposit rate, resulting in an increase in interest income.

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 2021 were for working capital purposes and capital expenditures for expansion and improvement of production equipment and facilities.

The Group had received financial assistance from GMK Finance Co., Ltd. (新鳳祥財務有限公司) (“**GMK Finance**”), whereby the Group pledges commercial bills received by the Group in the ordinary course of business to GMK Finance for discounting in return for cash loans extended to the Group. The discounting of the commercial bills provides the Group a way to factor and to obtain cash from the commercial bills that it receives in its ordinary course of trading, which in turn allows the Group to increase its cash flows in advance.

Capital Structure

As at 30 June 2021, 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 2021, the total borrowings of the Group amounted to RMB2,067.3 million, representing an increase of 39.0% as compared to that of 31 December 2020. The increase was mainly attributable to: (i) the grant of a two-year term loan of RMB300.0 million by state-owned commercial banks at a relatively low interest rate ranging from 3.85% to 3.95% for the purpose of financing its daily operations, benefiting from the financial support policies promulgated by the PRC government; (ii) the grant of a 5.5-year project loan of RMB500.0 million by commercial banks to expand the whole broiler industrial chain of breeding, slaughtering and processing capacity; and (iii) the Group's borrowings were renewed normally upon expiration during the six months ended 30 June 2021. The abovementioned new medium and long-term borrowings have improved the Company's capital structure, effectively strengthened the Company's capability against uncertain risks in the market, and provided sufficient capital reserves for the normal operation and rapid development of the Group.

Contingent Liabilities and Pledge of Assets

The Group's bank borrowings as at 30 June 2021 were secured by (i) mortgages of the Group's lands situated in the PRC with aggregate net carrying values of RMB50.0 million (31 December 2020: RMB26.0 million); (ii) pledge of the Group's bank deposits of RMB347.9 million (31 December 2020: RMB266.1 million); (iii) pledge of certain of the Group's property, plant and equipment with aggregate net carrying amount of RMB420.0 million (31 December 2020: RMB277.0 million); (iv) pledge of certain inventories of the related company with aggregate net carrying amount of RMB534.9 million (31 December 2020: RMB535.0 million) ; and (v) guarantee from a related party for loans up to RMB49.0 million (31 December 2020: RMB49.0 million).

As at 30 June 2021, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2021, the Group had 7,597 employees who were directly employed by the Group, of which 7,591 employees were employed in the PRC and 6 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 a share award scheme, and any full-time or part-time employees of the Group (including any director of the Company (the “**Directors**”)) are eligible participants under the said scheme. In June 2020, the Company granted awards to certain selected participants to recognise their contribution and to provide them with incentives to retain them for the continual operation and development of the Group. The scheme became effective on 16 July 2020.

BUSINESS OUTLOOK

1. Challenges and risks:

- (1) continuous increase in animal feed costs such as corn, soybean meal, etc;
- (2) chicken prices remaining at a low price;
- (3) more industry giants and further intensified competition.

2. Opportunities and potential development:

- (1) increasingly rapid growth regarding the health food market with chicken breast as the main ingredient;
- (2) further improvement in the efficiency of convenience stores, Tmall and other advantageous channels, and a rapid rise in new e-commerce platforms such as Tik Tok, Kuaishou, etc;
- (3) further accumulation of strength and rapid amplification of energy of the iShape brand value.

3. Long-term growth strategy:

- (1) officially launch the employee stock ownership plans and the core incentive plans to attract and retain talent, and set up a new partnership mechanism for breeding and retail ends;
- (2) to centralise our resources and focus on and highlight our core business, offering white-feathered chicken meat product;
- (3) shape the effectiveness for marketing and R&D, build a multi-level R&D and promotional system for new products according to user needs, and continue to ensure an increase in the market share of single chicken breast meat market, while continuously implementing a quality single product programme by: launching, testing, and reserving;
- (4) improve the operation and service capabilities, realise joint creation of brands and products, strengthen the advantage of knowing the minds and hearts among consumers, and continue to pursue the leading position of the mid-to-high-end products;
- (5) strengthen rapid organisational change and learning capability, and continue to promote the rapid evolution of our enterprise with digital marketing approach; and
- (6) deeply enrich and improve the strategic partnership system, and optimise and enhance the peripheral ecosystem of our enterprise.

OTHER EVENTS

Interim Dividend

The Board did not recommend the declaration or payment of an interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

Proposed Initial Public Offering of A Shares

On 29 January 2021, the Board has 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.

Adoption of CASBE

Since the date on which the H shares of the Company became listed on the Stock Exchange, the Company has been preparing its financial statements under both CASBE and IFRSs. In order to facilitate the application process of the proposed issue of the A shares of the Company, and to align the financial information disclosure of the Company in both markets, the Board considered and approved a resolution on 19 April 2021 in relation to the change of its basis for preparation of the overseas financial statements from IFRSs to CASBE, which was approved by the Shareholders at the 2020 AGM on the proposed amendments to the articles of association of the Company (the “**Articles of Association**”).

Amendments to the Articles of Association of the Company

In view of the adoption of CASBE, the Company proposed to amend the relevant articles of the Articles of Association in relation to the preparation of the financial statements of the Company which shall be in accordance with CASBE and the requirements of applicable laws and regulations (“**Proposed Amendments to the Articles of Association**”). A resolution in relation to the Proposed Amendments to the Articles of Association was considered and approved by the Shareholders at the 2020 AGM.

Save as disclosed above, during the six months ended 30 June 2021 and up to the date of this interim results 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.

Change of Overseas Auditors

In view of the above change to the standards in the preparation of the Company's overseas financial statements, the Board also proposed to change the Company's overseas auditor from BDO Limited to BDO China, which was approved by the Shareholders at the 2020 AGM.

Change of Shareholders Representative Supervisor

On 31 March 2021, Mr. Kong Xiangwei (“**Mr. Kong**”) tendered his resignation from his position as a shareholders representative supervisor of the Company (the “**Supervisor**”) and the chairman of the board of Supervisors (the “**Board of Supervisors**”). On the same date, Mr. Zhang Jun was proposed to be appointed as the shareholders representative Supervisor and the chairman of the Board of Supervisors and was elected at the 2020 AGM held on 28 May 2021.

Change of Directors

On 19 April 2021, Mr. Ow Weng Cheong, an executive Director, has been re-designated as a non-executive Director and ceased to be the vice general manager of the Company.

On 19 April 2021, Mr. Zhang Ye tendered his resignation from his position as an independent non-executive Director and a member of the Audit Committee and the nomination committee of the Company.

On 19 April 2021, Ms. Zhao Yinglin was proposed to be appointed as an independent non-executive Director, a member of the Audit Committee and the nomination committee of the Company and was elected at the 2020 AGM held on 28 May 2021.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2021, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). The Company will continue to review and monitor its corporate governance practice to ensure the compliance of 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 2021.

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 2021.

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 2021.

Connected Transactions

On 28 May 2021, Shandong Fengxiang Industrial Co., Ltd. (山東鳳祥實業有限公司) (“**Fengxiang Industrial**”), a wholly-owned subsidiary of the Company (as the purchaser) and Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司) (“**Xiangguang Copper**”), an associate of GMK Holdings Group Co., Ltd. (新鳳祥控股集團有限責任公司) (“**GMK Holdings**”), a controlling shareholder of the Company and a connected person of the Company (as the vendor) entered into the asset transfer agreement, pursuant to which Fengxiang Industrial agreed to acquire machineries and equipment which are associated with and currently used by Yanggu Sewage Water Treatment Plant (陽穀縣第二污水處理廠) from Xiangguang Copper at a consideration of RMB23,125,900 (equivalent to approximately HK\$27,288,600). The Company has complied with the disclosure requirement applicable under Chapter 14A of the Listing Rules, details of which are set out in the Company’s announcement dated 28 May 2021.

Save as disclosed above, the Group had not entered into any connected transaction during the six months ended 30 June 2021 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 2021 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 2021 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, 27 August 2021

As at the date of this announcement, the Board comprises Mr. Liu Zhiguang, Mr. Xiao Dongsheng and Mr. Wang Jinsheng as the executive Directors; Mr. Liu Xuejing, Mr. Zhang Chuanli and Mr. Ow Weng Cheong 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.