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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

HIGHLIGHTS

Key Operating Data

	For the year ended		
	31 December		
	2023	2022	Change (%)
White-feathered broilers bred (unit: million birds)	172.5	154.8	+11.4
White-feathered broilers processed (unit: million kg)	370.1	355.9	+4.0
Sales volume:			
Raw chicken meat products (unit: million kg)	241.3	251.5	-4.1
Processed chicken meat products (unit: million kg)	129.1	114.0	+13.2
Chicken breeds (unit: million birds)	34.2	32.1	+6.8

Key Financial Data

	For the year ended	
	31 December	
	2023	2022
	RMB'000	RMB'000
		(Restated)
Revenue	5,134,413	5,085,790
Gross profit	591,464	583,497
Net profit/(loss)	160,319	(768,993)
Net profit/(loss) attributable to the shareholders of the parent company	160,319	(768,993)
Adjusted net profit ⁽¹⁾	160,319	39,242
Basic earning/(loss) per share (<i>in RMB cents</i>)	10.8	(55.4)

Notes:

1. *Net profit after deducting monetary fund receivables bad debt loss arising from the recognition of an one-off and non-recurring impairment loss on the deposits due from GMK Finance in 2022.*
2. *For details of these restated figures, please see “Financial Review — Changes in significant accounting policies”.*

FINANCIAL INFORMATION

The board of directors (the “**Board of Directors**”) of Shandong Fengxiang Co., Ltd. (the “**Company**” or “**Fengxiang**” and its subsidiaries, collectively the “**Group**”) hereby announces the audited consolidated results and financial position of the Group for the year ended 31 December 2023 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2022 as follows. Unless otherwise specified, financial data of the Company are presented in Renminbi (“**RMB**”).

The following financial information is a summary of the audited consolidated financial statements for the year ended 31 December 2023 of the Group prepared under China Accounting Standards for Business Enterprises (“**CASBE**”) and relevant regulations issued by the Ministry of Finance of the People’s Republic of China (the “**PRC**” or “**China**”), which have been reviewed by the audit committee of the Board of Directors (the “**Audit Committee**”).

The following financial statements, notes and discussion and analysis 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.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Note	For the year ended	
		2023	2022
		RMB'000	RMB'000
			(Restated)
Total operating revenue	3	5,134,413	5,085,790
Less: Operating costs		4,542,949	4,502,293
Taxes and charges		35,835	39,155
Selling expenses		156,268	329,206
Administrative expenses		100,604	108,499
Research and development expenses		22,708	31,944
Finance costs	4	102,981	49,105
Add: Other gains	5	6,698	9,676
Investment loss		(5,232)	(11,141)
Including loss on investments			
in associates and joint ventures		(5,231)	(3,230)
Gain on changes in			
fair value	6	2,869	21,694
Credit impairment loss	7	(5,426)	(810,859)
Asset impairment loss		(2,191)	(3,937)
Gain on disposal of assets		249	761
Operating profit/(loss)		170,035	(768,217)
Add: non-operating income		1,365	948
Less: non-operating expenses		7,455	988
Total profit/(loss)		163,945	(768,257)
Less: income tax expenses	8	3,626	736
Net profit/(loss)		160,319	(768,993)
Net other comprehensive loss after tax		(49)	(419)
Total comprehensive income/(loss)		160,270	(769,413)
Total comprehensive income/(loss)			
shareholders of the parent company		160,270	(769,413)
Earning/(loss) per share	10		
Basic earning/(loss) per share			
(RMB per Share)		0.11	(0.55)
Diluted earning/(loss) per share			
(RMB per Share)		0.11	(0.55)

CONSOLIDATED BALANCE SHEET

As at 31 December 2023

		As at 31 December 2023	As at 31 December 2022 (Restated)
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current assets			
Monetary funds		198,503	332,156
Transactional financial assets		293	—
Trade receivable	11	272,666	194,977
Prepayments		29,073	46,041
Other receivables		11,204	14,832
Inventories	12	947,344	897,447
Other current assets		<u>60,495</u>	<u>75,108</u>
Total current assets		<u>1,519,578</u>	<u>1,560,561</u>
Non-current assets			
Long-term equity investments		54,610	59,841
Fixed assets		2,955,067	3,055,597
Construction in progress	13	6,311	996
Productive biological assets	14	221,016	255,692
Right-of-use assets		184,733	201,487
Intangible assets		87,323	89,421
Long-term deferred expenses		16,597	—
Deferred income tax assets		2,397	1,952
Other non-current assets		<u>9,434</u>	<u>4,573</u>
Total non-current assets		<u>3,537,488</u>	<u>3,669,559</u>
Total assets		<u>5,057,066</u>	<u>5,230,120</u>

		As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i> (Restated)
Current liabilities			
Short-term borrowings	17	280,373	1,124,614
Bills payable	15	—	70,000
Trade payable	16	380,727	454,943
Contract liabilities		41,852	46,449
Payroll payable		76,483	80,137
Taxes payable		9,470	10,035
Other payable	17	311,886	228,507
Non-current liabilities due within one year	17	165,860	120,413
Other current liabilities	17	<u>225,515</u>	<u>2,497</u>
Total current liabilities		<u>1,492,166</u>	<u>2,137,594</u>
Non-current liabilities			
Long-term borrowings	17	319,970	252,148
Lease liabilities		187,780	199,666
Long-term payable		6,011	6,071
Estimated liabilities		40	124
Deferred income		19,006	20,756
Deferred income tax liabilities		<u>197</u>	<u>215</u>
Total non-current liabilities		<u>533,004</u>	<u>478,980</u>
Total liabilities		<u>2,025,170</u>	<u>2,616,574</u>

		As at	As at
		31 December	31 December
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
			(Restated)
Owners' equity			
Share capital	18	1,582,618	1,400,000
Capital reserve		697,795	628,702
Less: treasury shares		21,315	27,685
Other comprehensive loss		(723)	(674)
Surplus reserves		155,378	155,378
Undistributed profits		618,143	457,825
		<u>3,031,896</u>	<u>2,613,546</u>
Total equity attributable to owners of the parent company		<u>3,031,896</u>	<u>2,613,546</u>
Total owners' equity		<u>3,031,896</u>	<u>2,613,546</u>
Total liabilities and owners' equity		<u>5,057,066</u>	<u>5,230,120</u>

NOTES

For the year ended 31 December 2023

1. BASIS OF PREPARATION

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

2. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Implementation of the provisions of the Accounting Standards for Business Enterprises Interpretation No. 16 (Cai Kuai [2022] No. 31, hereinafter referred to as “**Interpretation No. 16**”), which stipulates “the accounting treatment of deferred income tax related to assets and liabilities arising from a single transaction is not applicable to the initial recognition exemption”.

On 30 November 2022, the Ministry of Finance of the PRC promulgated the Interpretation No. 16, among which, the requirement of “accounting treatment of deferred income tax related to assets and liabilities arising from a single transaction is not applicable to the initial recognition exemption” has been implemented from 1 January 2023.

Interpretation No. 16 stipulates that for a single transaction that is not a business combination and does not affect accounting profit or taxable income (or deductible losses) at the time of the transaction, and where the initial recognition of assets and liabilities results in taxable temporary differences and deductible temporary differences of equal amounts (including a single transaction in which the lessee initially recognises lease liabilities and includes the right-of-use assets at the beginning of the lease term, and a single transaction which recognises estimated liabilities and includes the cost of the related assets due to the existence of abandoning obligations for fixed assets etc.), the exemption from the initial recognition of deferred income tax liabilities and deferred income tax assets shall not apply, and the enterprise shall, at the time of the transaction, recognise the

corresponding deferred income tax liabilities and deferred income tax assets in accordance with the relevant provisions of the Accounting Standards for Business Enterprises No. 18 — Income Tax.

The enterprise shall make adjustments in accordance with the provisions for single transactions that occur between the beginning of the earliest period in which the financial statements are presented with Interpretation No. 16 being implemented for the first time, to the date of implementation, and for lease liabilities and right-of-use assets recognised for single transactions due to the application of this provision at the beginning of the earliest period in which the financial statements are presented, as well as the estimated liabilities related to the abandoning obligations and the corresponding assets recognised, resulting in taxable temporary differences and deductible temporary differences.

3. REVENUE AND SEGMENT INFORMATION

The Group's revenue from customer contracts is recognised at a point in time after the goods have been transferred. For management purposes, the Group divides its business units by products and has the following four reportable operating segments:

- (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; and
- (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 on 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

	For the year ended 31 December			
	2023		2022	
	Revenue <i>RMB'000</i>	Costs <i>RMB'000</i>	Revenue <i>RMB'000</i>	Costs <i>RMB'000</i>
Principal business	5,112,430	4,537,183	5,071,896	4,499,675
Other business	<u>21,983</u>	<u>5,766</u>	<u>13,894</u>	<u>2,618</u>
Total	<u>5,134,413</u>	<u>4,542,949</u>	<u>5,085,790</u>	<u>4,502,293</u>

As at the end of the Reporting Period, the transaction price corresponding to performance obligations that have been contracted but not yet performed or not yet completed was RMB41,852,000, which is expected to be recognised as revenue in 2024.

Revenue by products

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Raw chicken meat	2,284,084	2,500,559
Processed chicken meat	2,613,650	2,371,087
Chicken breeds	61,015	53,619
Others	<u>175,664</u>	<u>160,525</u>
Total	<u>5,134,413</u>	<u>5,085,790</u>

Revenue by geographical location of customers

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	3,738,375	3,726,469
Japan	412,575	387,353
Malaysia	177,507	329,914
Europe	691,772	558,309
Other countries or regions	<u>114,184</u>	<u>83,745</u>
Total	<u>5,134,413</u>	<u>5,085,790</u>

4. FINANCE COSTS

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	91,164	74,095
Including: Interest expenses on lease liabilities	11,222	11,502
Less: Interest income	6,171	23,448
Exchange gain/(loss)	13,023	(14,181)
Handling fee	1,060	1,424
Discount acceptance notes	<u>3,905</u>	<u>11,215</u>
Total	<u><u>102,981</u></u>	<u><u>49,105</u></u>

5. OTHER GAINS

	For the year ended 31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	6,503	9,323
Handling fee for withholding individual income tax	148	228
Gains from debt restructuring	—	125
VAT directly exempted	<u>47</u>	<u>—</u>
Total	<u><u>6,698</u></u>	<u><u>9,676</u></u>

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

6. GAIN ON CHANGES IN FAIR VALUE

	For the year ended	
	31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Transactional financial assets	293	—
Including: Gain from changes in fair value of derivative financial instruments	293	—
Gain on changes in fair value of productive biological assets and consumptive biological assets	<u>2,576</u>	<u>21,694</u>
Total	<u><u>2,869</u></u>	<u><u>21,694</u></u>

The Company's gain on changes in fair value of biological assets consists of: (i) gain arising from initial recognition of consumptive biological assets at fair value less sales costs upon harvest; and (ii) gain arising from changes in fair value of productive biological assets less sales costs.

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

7. CREDIT IMPAIRMENT LOSS

	For the year ended	
	31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts receivables bad debt loss	(6,090)	(1,956)
Other receivables bad debt loss	664	(668)
Monetary fund receivables bad debt loss	<u>—</u>	<u>(808,235)</u>
Total	<u><u>(5,426)</u></u>	<u><u>(810,859)</u></u>

The monetary fund receivables bad debt loss is due to the full provision for the loss of the funds deposited with GMK Finance Co., Ltd. (“**GMK Finance**”) made in 2022.

8. INCOME TAX EXPENSES

	For the year ended	
	31 December	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
Current income tax expenses	4,089	753
Deferred income tax expenses	<u>(463)</u>	<u>(17)</u>
Total	<u>3,626</u>	<u>736</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Regulation on the Implementation of the Enterprise Income Tax Law of the People's Republic of China (the "Implementation Regulation of the EIT Law"), the tax rate of the PRC subsidiaries is 25% for the year ended 31 December 2023 except for the followings: (i) according to the Implementation Regulation of the EIT Law and the exemptions regulation set out in the Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (Trial) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from subsidiaries in Mainland China engaging in primary processing of agricultural products is exempted from enterprise income tax for the year ended 31 December 2023; and (ii) pursuant to relevant 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 enterprise income tax for the year ended 31 December 2023.

9. DIVIDENDS

No dividend was paid, declared or proposed to owners of the parent company during the year ended 31 December 2023, nor has any dividend been proposed since the end of the Reporting Period (2022: nil).

10. EARNING/(LOSS) PER SHARE

(a) Basic earning/(loss) per share

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

	For the year ended	
	31 December	
	2023	2022
		(Restated)
Consolidated net profit/(loss) attributable to ordinary shareholders of the parent company (<i>RMB'000</i>)	160,319	(768,993)
Weighted average number of outstanding ordinary shares of the Company	1,488,380,527	1,387,956,000
Basic earning/(loss) per share (<i>RMB</i>)	0.11	(0.55)
Including: Basic earning/(loss) per share from continuing operations (<i>RMB</i>)	0.11	(0.55)
Basic earning/(loss) per share from discontinued operations (<i>RMB</i>)		

Changes in the weighted average number of outstanding ordinary shares of the Company in the current period were mainly due to the changes from the issue of new shares.

(b) Diluted earning/(loss) per share

Diluted earning/(loss) per share are calculated by dividing the consolidated net profit/(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 year ended	
	31 December	
	2023	2022
		(Restated)
Consolidated net profit/(loss) attributable to ordinary shareholders of the parent company (diluted) (<i>RMB'000</i>)	160,319	(768,993)
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,501,881,527	1,399,017,500
Diluted earning/(loss) per share (<i>RMB</i>)	0.11	(0.55)
Including: Diluted earning/(loss) per share from continuing operations (<i>RMB</i>)	0.11	(0.55)
Diluted earning/(loss) per share from discontinued operations (<i>RMB</i>)		

11. TRADE RECEIVABLE

	As at	As at
	31 December	31 December
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivable	284,825	201,047
Less: bad debt provision	<u>(12,159)</u>	<u>(6,069)</u>
Total	<u>272,666</u>	<u>194,977</u>

The Group's tradings 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 receivables, and overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by customers. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivable is non-interest-bearing.

An aged analysis of the balance of trade receivable as at the end of the Reporting Period, based on the invoice date and net of provision, is as follows:

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Within 1 month	239,508	192,640
1 to 3 months	29,305	2,782
3 months to 1 year	29	3,098
Over 1 year	<u>15,983</u>	<u>2,526</u>
Total	<u><u>284,825</u></u>	<u><u>201,047</u></u>

The movement in bad debt provision for trade receivable is as below:

	<i>RMB'000</i>
As at 31 December 2022	6,069
Provision	7,375
Recovery or reversal	(336)
Resold or written off	<u>(949)</u>
As at 31 December 2023	<u><u>12,159</u></u>

During the year, bad debt provision of RMB7,375,000 was made, and bad debt provision of RMB1,285,000 was written off, recovered or reversed.

The individually impaired trade receivable relates to a customer who no longer has transactions with the Group and only a portion of the trade receivable is expected to be recovered.

12. INVENTORIES

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Raw materials	130,404	172,431
Turnover materials	32,814	37,009
Consumptive biological assets	239,087	190,022
Finished goods	4,818	11,006
Inventory goods	545,233	490,915
Less: Provision for the decline in value of inventory	<u>(5,012)</u>	<u>(3,937)</u>
Total	<u><u>947,344</u></u>	<u><u>897,447</u></u>

The Group's consumptive biological assets refer to broilers, chicks and hatchable eggs held by the Company. Consumptive biological assets are measured at fair value at the end of the year.

13. CONSTRUCTION IN PROGRESS

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Construction in progress	<u>6,311</u>	<u>996</u>
Total	<u><u>6,311</u></u>	<u><u>996</u></u>

During the Reporting Period, the Company had 5 new broiler farms with battery caged systems.

14. PRODUCTIVE BIOLOGICAL ASSETS

Productive biological assets using the fair value measurement model

Items	Livestock breeding industry <i>RMB'000</i>
Balance at the end of last year	255,692
External procurement	62,697
Self-breeding	146,649
Disposal	(205,347)
Changes in fair value	(38,675)
Balance at the end of the period	221,016

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 consumptive biological assets 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 uses the fair value measurement model for its productive biological assets, breeders used for the production of hatchable eggs, including 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 <i>(thousand birds)</i>
Breeders	<u>1,975</u>
Total	<u><u>1,975</u></u>

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

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

(1) *Regulatory and environmental risks*

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

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

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

15. BILLS PAYABLE

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Letter of credit	<u>—</u>	<u>70,000</u>
Total	<u><u>—</u></u>	<u><u>70,000</u></u>

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

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Within 1 month	—	—
1 to 3 months	—	—
3 months to 1 year	<u>—</u>	<u>70,000</u>
Total	<u><u>—</u></u>	<u><u>70,000</u></u>

16. 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 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Trade payable	<u>380,727</u>	<u>454,943</u>
Total	<u><u>380,727</u></u>	<u><u>454,943</u></u>

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

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Within 1 month	249,293	238,690
1 to 3 months	123,718	197,471
3 months to 1 year	5,123	17,120
Over 1 year	<u>2,593</u>	<u>1,662</u>
Total	<u><u>380,727</u></u>	<u><u>454,943</u></u>

17. BORROWINGS

	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000
Bank loans, secured and guaranteed	761,033	1,427,929
Other financial institution loans, secured and guaranteed	223,012	61,205
Total	984,045	1,489,134
By maturity date:		
Bank loans, secured and guaranteed		
Within 1 year	441,063	1,175,781
1–2 years	160,020	150,716
2–5 years	159,950	101,432
Other financial institution loans, secured and guaranteed		
Within 1 year	223,012	61,205
1–2 years	—	—
2–5 years	—	—
Effective annual interest rate:		
Bank loans, secured and guaranteed	3.80%–6.14%	3.70%–6.50%
Other financial institution loans, secured and guaranteed	5.39%–8.89%	5.60%–5.65%

Loan from Falcon Holding LP (Controlling Shareholder)

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Loan from controlling shareholder, secured and guaranteed	92,075	—
Loan from controlling shareholder, unsecured and unguaranteed	<u>99,158</u>	<u>—</u>
Total	<u><u>191,233</u></u>	<u><u>—</u></u>
By maturity date:		
Loan from controlling shareholder, secured and guaranteed		
Within 1 year	92,075	—
1–2 years	—	—
2–5 years	<u>—</u>	<u>—</u>
Loan from controlling shareholder, unsecured and unguaranteed		
Within 1 year	99,158	—
1–2 years	—	—
2–5 years	<u>—</u>	<u>—</u>

18. SHARE CAPITAL

	As at 31 December 2023 <i>RMB'000</i>	As at 31 December 2022 <i>RMB'000</i>
Registered, issued and fully paid 1,582,618,000 shares of RMB1.00 each	<u><u>1,582,618</u></u>	<u><u>1,400,000</u></u>

On 11 September 2023, the Company allotted and issued 182,618,000 new H shares to two subscribers, and the registered, issued and fully paid share capital of the Company increased to 1,582,618,000 shares.

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

I. Qualified opinion

The auditors of the Company (the “**Auditor**”) has audited the financial statements of the Company, which comprise the consolidated and the parent company’s balance sheets as at 31 December 2023, the consolidated and the parent company’s income statements, the consolidated and the parent company’s cash flow statements, the consolidated and the parent company’s statements of changes in owners’ equity for the year 2023, and the related notes to the financial statements.

The Auditor is of the view that, except for the possible impact of matters described in the section “Basis of qualified opinion”, the accompanying financial statements give a fair view of the consolidated and the parent company’s financial position as at 31 December 2023 and of the consolidated and the parent company’s operating results and cash flows for the year 2023 of the Company in accordance with CASBE in all material respects.

II. Basis of qualified opinion

As at 31 December 2021, the bank deposit balance in the consolidated balance sheet of the Company included funds amounting to RMB1,041,438,100 deposited with GMK Finance, which was controlled by GMK Holdings Group Co., Ltd. (“**GMK Holdings**”), the former controlling shareholder of the Company. GMK Holdings and its subsidiaries had overdue debts. GMK Finance was involved in overdue repayment disputes and litigation. The management of the Company did not provide sufficient supporting evidence regarding the possible impact of the matter on the above deposits and the reasons for not providing for impairment. The Auditor therefore expressed a qualified opinion on the financial statements of the Company for the year 2021. As at 31 December 2022, a full provision of impairment was made for the funds of RMB808,234,800 deposited with GMK Finance and included in credit impairment loss for the year 2022. The management of the Company did not provide sufficient information on whether it was necessary to make a provision for impairment for the funds deposited in GMK Finance as at the end of 2021. Therefore, the Auditor was unable to obtain sufficient and appropriate audit evidence on whether the credit impairment loss of RMB808,234,800 of such deposits should be fully recognised in 2022, and to assess whether any adjustments to the financial statements of the Company were necessary. The Auditor therefore expressed a qualified opinion on the financial statements of the Company for the year 2022. As affected by the above situation, such matter may impact the comparability of current and corresponding figures from the Company’s income statement in 2023.

The Auditor performed an audit in accordance with the Chinese Auditing Standards for Certified Public Accountants. The “Auditor’s Responsibility for Auditing Financial Statements” section of the audit report further explains its responsibilities under these standards. In accordance with the Code of Ethics for Chinese Certified Public Accountants, the Auditor is independent of the Company and has fulfilled other responsibilities in terms of professional ethics. The Auditor believes that the audit evidence the Auditor has obtained is sufficient and appropriate to provide a basis for the qualified opinion.

III. Other information

The management of the Company is responsible for the other information which comprises all the information in the 2023 annual report of the Company but does not include the financial statements and auditor’s report thereon.

The Auditor’s opinion on the financial statements does not cover other information, nor does the Auditor express any form of assurance conclusion on other information.

In connection with the Auditor’s audit of the financial statements, the Auditor’s responsibility is to read these information mentioned above when it is accessible. During the process, the Auditor considers whether there is material inconsistency or there is material misstatement between the other information and the financial statements or the information the Auditor obtained during the audit.

If, based on the work the Auditor performed, the Auditor concludes that there is a material misstatement of the other information, the Auditor is required to report that fact. As described in the “Basis of qualified opinion” section above, the Auditor was unable to obtain sufficient and appropriate audit evidence on whether the credit impairment loss of the deposits of RMB808,234,800 of such deposits should be fully recognised in 2022. Accordingly, the Auditor was unable to ascertain whether other information relating to this matter was materially misstated.

THE BOARD OF DIRECTORS' AND THE AUDIT COMMITTEE'S VIEW AND THE PLAN TO ADDRESS THE OPINION

I. Qualified opinion in 2023

As set out above, the Auditor has expressed a qualified opinion in the independent auditors' report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2023. The Board of Directors would like to provide the following additional information:

In July 2023, the Company was informed that a company submitted to the National Administration of Financial Regulation (國家金融監督管理總局) (“NAFR”) an application of the bankruptcy liquidation of GMK Finance and the NAFR has principally approved the commencement of bankruptcy proceedings of GMK Finance. The deposits with GMK Finance have been unavailable for withdrawal and utilisation by the Group for daily operation since November 2022. In addition, there was an overdue payment for deposit interests from GMK Finance to the Group.

II. Basis of qualified opinion

As the Group is not able to estimate the recoverable amounts of deposits and related accrued interests in GMK Finance for the years ended 31 December 2021 and 31 December 2022, the Auditor has not been provided with sufficient and appropriate audit evidence regarding the possible impact of the abovementioned matter, and they were unable to make a judgment as to whether adjustments to the related disclosures in the consolidated financial statements are necessary. The Auditor's audit opinion on the consolidated financial statements for the year ended 31 December 2022 was qualified accordingly. As affected by the above situation, such matter may impact the comparability of current and corresponding figures from the Company's income statement in 2023.

III. Removal of audit qualification

As at the date of this annual results announcement, the bankruptcy liquidation of GMK Finance has commenced, and the first creditors' meeting in relation to the bankruptcy liquidation proposal was held on 15 March 2024. The voting of the bankruptcy liquidation proposal will be closed on 29 March 2024. Since the Auditor expressed an audit qualification on the 2022 financial figures of the Group, this has had a carryforward impact on the Company's annual results for the year ended 31 December 2023 as the 2022 financial figures formed the basis for the corresponding figures (including the opening balance figures) presented in the consolidated financial statements for the year ended 31 December 2023. As the Auditor did not express a qualified opinion on the 2023 financial figures of the Group, this would not have carryforward impact on the consolidated financial statements for the year ending 31 December 2024 (the "**2024 Financial Statements**") and the audit qualification will be removed in the 2024 Financial Statements.

IV. The Audit Committee's view

During the audit process, the Audit Committee reviewed the management's position above and agreed with such position addressing the issues.

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

Introduction

The Company is one of the largest white-feathered broiler meat exporters and the leading retail enterprises 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, the PRC and produces and sells processed chicken meat products and raw chicken meat products mainly from white-feathered broilers. The main products include (i) processed chicken meat products; (ii) raw chicken meat products; (iii) chicken breeds; and (iv) others. Apart from its leading domestic market position in the PRC, the Group has an established and growing export business supplying a wide range of premium quality chicken meat products to overseas customers in Japan, Malaysia, Europe, the Middle East, Korea, Mongolia and Singapore.

The Group's white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals. The Group adopts an integrated “*poultry to plate*” model which enables it to control every stage of the poultry lifecycle, allowing the Group to effectively manage quality and cost throughout the process starting from the breeding of broilers to the distribution and sale of chicken meat products.

Business Segments

Processed Chicken Meat Products

The Group markets its processed chicken meat products under “鳳祥食品 (Fovo Foods)” (“**Fovo Foods**”), “優形 (iShape)” (“**iShape**”) and “五更爐 (Wu Genglu)” 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 year ended 31 December 2023, the sales volume of processed chicken meat products increased by 13.2% to 129.1 million kilogram (“**kg**”) (31 December 2022: 114.0 million kg). For the year ended 31 December 2023, the revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 10.2% to RMB2,613.7 million (31 December 2022: RMB2,371.1 million), representing 50.9% 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 year ended 31 December 2023, the sales volume of raw chicken meat products decreased by 4.1% to 241.3 million kg (31 December 2022: 251.5 million kg). For the year ended 31 December 2023, the revenue

from external sale of raw chicken meat products decreased by 8.7% to RMB2,284.1 million (31 December 2022: RMB2,500.6 million), representing 44.5% of the Group's total revenue.

Chicken Breeds

The Group sells some of its chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of the Group's chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. The Group sells chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties. For the year ended 31 December 2023, the sales volume of chicken breeds increased by 6.8% to 34.2 million birds (31 December 2022: 32.1 million birds). For the year ended 31 December 2023, the revenue from external sale of chicken breeds grew by 13.8% to RMB61.0 million (31 December 2022: RMB53.6 million), representing 1.2% 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 9.4% to RMB175.7 million for the year ended 31 December 2023 (31 December 2022: RMB160.5 million), representing 3.4% of the Group's total revenue.

BUSINESS REVIEW

In 2023, the white-feathered broiler industry was in a transitional stage of cycle transition and frequent fluctuations. Affected by the difficulties in introducing breeds in the early stage, the prices of white-feathered chicken meat remained on the rise as last year during the first quarter, whereas the prices started to fall since the second quarter with the slow recovery of the consumer goods market and the lingering low levels of pork prices, showing a trend from up to down for the year. On the raw material side, even though the prices of feed materials were in a downward trend, the average price for the whole year remained in the mid-to-high range of historical average prices, resulting in higher breeding cost.

Under the dual upstream and downstream pressures, Fengxiang had, by focusing on the major strategic initiatives for 2023 and making full use of its advantages in the integrated industry-chain and value-chain business model and in multi-channel penetration, strengthened the loyalty of major customers, prioritised the refined management of each section, and continued increasing its efforts to reduce costs and

improve efficiency, which enabled relatively remarkable improvements in its overall operation and management and significantly reinforced the driving force for synergistic development.

During the year, the Group achieved a slight increase in sales revenue of RMB5,134.4 million (2022: RMB5,085.8 million) and net profit of RMB160.3 million (2022: net loss of RMB769.0 million).

During the Reporting Period, the Group achieved the above results mainly because of:

- (1) the Group's advantages of multi-channel penetration, including the continuous growth in revenue from the export business and the major customer business;
- (2) the Group's refined management enhancement by its management personnel and all employees, contributing to higher production efficiency and lower costs; and
- (3) the Group's exploration of multi-channel financing, resulting in notable improvement in cash flow position.

(I) Business Highlights

1. *Export Business Continued to Lead*

In 2023, sales revenue of the export business further rose to RMB1,396.0 million (2022: RMB1,359.3 million), representing a year-on-year increase of 2.7%, and its share of the overall business increased to 27.2% (same period: 26.7%).

During the course of providing products and services to international customers for nearly 30 years, the Group has accumulated domestically-leading and international quality standard, channel resources, industry experience and brand reputation and has continuously become the largest exporter in the white-feathered chicken industry in China, driving and supporting the continuous growth of the Group's overall business in adversity.

During the Reporting Period, against the background of complicated international situations including weak consumption in Europe and Japan, the Ukraine crisis, the Israeli-Palestinian conflict and the Red Sea conflict, the Group had grasped the opportunity to engage in overseas business, strengthened interactions with overseas customers, further explored the market potential of existing products, and opened up opportunities for cooperation with leading enterprises from various channels through self-developed research and development (“**R&D**”) and co-development with partners, resulting in the diversification and refinement of channels. During the Reporting Period, the Group achieved a year-on-year increase in its sales

revenue from Europe, and successfully opened up new markets in the Middle East, further stabilising the leading position of its export business in the markets.

2. *Centralised Procurement Business Continued to Grow*

The centralised procurement business achieved overall sales revenue of RMB1,136.2 million (2022: RMB926.2 million), representing a year-on-year increase of 22.7%, and its share of the overall business achieved 22.1% (same period: 18.2%).

During the Reporting Period, the Group had upgraded the production capacity from its existing production lines and increased its efforts in outsourcing raw materials, which allowed its deep-processed product plants to release and enhance capacity utilisation rate. Meanwhile, the Group had strengthened its operations, reduced manufacturing costs and consumption of auxiliary materials and increased the overall yield rate; leveraged R&D and production to fully empower sales and focused on creating major single products. Through a series of refined operational means, the comprehensive competitiveness of the centralised procurement business channel has continuously enhanced.

The major customer business is the supply of chicken meat products by the Group to international Western-style fast food stations in Mainland China and is a key component of our centralised procurement business.

In 2023, the major customer business achieved sales revenue of RMB848.8 million (2022: RMB684.2 million), representing a year-on-year increase of 24.1%.

In 2023, the Group implemented a strategy of full collaboration with major customers, to deeply integrate into the supply chain system of major customers and efficiently synergise with them in the chains of R&D, quality control and information sharing. While optimising the efficiency of mature products, we seized incremental opportunities by driving the iteration of new products of major customers with its R&D advantages, promoted the supply of all types of products, followed major customers' steps in opening shops to gain a foothold in new markets, and achieve rapid growth in both sales volume and revenue.

3. Retail Business

The retail business achieved sales revenue of RMB428.3 million (2022: RMB625.9 million), representing a year-on-year decrease of 31.6%, and its share of the overall business was 8.3% (same period: 12.3%).

Among which, iShape accounted for 51.7% of the retail business and continued to play a key role in the Group's customer-end products.

In order to increase the potential of sustainable development of customer-end products, the Group optimised its marketing activities and related expenses in 2023. As a result, revenue of products under iShape decreased, but the quality and sustainability of its development increased significantly. Meanwhile, iShape maintained its leading position in the market.

During the Reporting Period, there was once again a surge in the sales volume of the core single products of iShape. Among them, iShape low-fat chicken breast meatballs achieved doubled growth, and iShape tender MIX chicken breast meat increased by 161% year on year; the performance of ordinary temperature chicken breast products is particularly outstanding, with a year-on-year increase of up to 411%. In major promotional events such as "618" and "Double 11", iShape continued to be the industry's omni-channel sales champion.

On the basis of the rapid growth of celebrity products, iShape accelerated its pace of expansion during the Reporting Period. Not only did it actively expand the track in leisure snacks, but it also ventured into the non-chicken protein field for the first time, continuously launching new products that are popular in the market, such as Alaska Crab Meat Sticks, Hand-Torn Chicken Breast Jerky, Slice of Chicken Breast Jerky, Crispy Chicken Breast Jerky, Light Lunch Meat Slices, Fried Chicken Legs with Sauce, Fried Chicken with Sauce, Thick-cut Crispy Meat, and Roasted Chicken Wing Roots.

At present, iShape series products have covered over 60,000 sales stores and have built the most complete and three-dimensional sales system in the industry, forming a channel moat with multiple links to consumers. iShape has received honours such as the Best Partner Award and the Annual Quality Service Award from well-known chain companies such as Lawson.

(II) Observation of Current Trends

1. *From Incremental Economy to Stock Economy, Consumer Goods Industry entered a New Era of High-Quality Development*

Against the backdrop of China's macroeconomic expansion from leveraged growth to a stock economy, the consumer goods industry has experienced a dividend period of growth propelled by a dual drive of volume (quantity, from nothing to something) and price (quality, from something to something premium) and has transitioned to a stage of pursuing high-quality development which corresponds to the development stages of such industry, the market share of outstanding industry leaders will exhibit a steady growth trend.

For white-feathered broiler industry, the advantage in stability of an excellent whole industry chain company is even more prominent. Meanwhile, brand value will facilitate more efficient sales in an enterprise, bring profit to partners, and earn consumers' recognition.

2. *Catering Chain Integration Rate continues to Rise, and Quality Supply Chain Companies usher in Growth Opportunities*

According to the data of the National Bureau of Statistics, the revenue of national catering industry exceeded RMB5.2 trillion in 2023, representing a year-on-year increase of 20.4%, with scale of catering market further expanded, and enhanced chain integration of catering brands at the same time. Chain operation is a necessary path for catering brands to become bigger and stronger. China's catering chain integration rate is still at an initial stage with relatively large room for improvement as compared with chain integration rate in established foreign markets. Presently, unlike the United States with a catering chain integration rate of 54% and Japan with a catering chain integration rate of 49%, the catering chain integration rate of China is less than 20%. As China's economic recovery speeds up, China's catering chain integration rate will continue to accelerate and quality supply chain companies will usher in growth opportunities in the future.

(III) Development Initiatives

1. *Development Goals*

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

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

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

We will continue to accelerate the construction of talent pool, increase organisational vitality, accumulate organisational core competencies, and create an organisational culture that dares to meet the unknown and challenges.

2. *Continue to Promote the Refinement of Management and Enhance the Efficiency of All Aspects; Continue to Deepen Channel Penetration and Expand Market Share; Continue to Accelerate the Construction of Talent Pool and Increase Organisational Vitality*

In 2024, the Group will adhere to three principles of “continuance”, further enhance the Group's operating efficiency and effectiveness, to realise steady and sustainable high quality growth and create a leading chicken meat brand of China.

(1) *“Continue to Promote the Refinement of Management and Enhance the Efficiency in All Aspects”*

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

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

At the R&D end, we proactively understand customer needs, and will continue to introduce new products, optimise the efficiency of existing products and increase customer share.

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

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

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

(2) *“Continue to Deepen Channel Penetration and Expand Market Share”*

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

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

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

(3) *“Continue to Accelerate the Construction of Talent Pool and Increase Organisational Vitality”*

Talent is the primary resource for enterprise development, and competition among enterprises is ultimately a competition for talent. In order to achieve the goal of high-quality development, enterprises need to be supported by a quality talent team. Therefore, in the face of a domestic market filled with complexities and uncertainties and an international environment full of changes and conflicts, the Group will take practical and effective measures to continue to accelerate the construction of talent pool, increase organisational vitality, and create an organisational culture that dares to meet the unknown and challenges.

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

FINANCIAL REVIEW

Overall performance

For the year ended 31 December 2023, the Group experienced a slight increase in revenue as compared to that of 2022. The Group turned loss into gain and recorded a net profit of RMB160.3 million in 2023. The Company's net profit increased by 308.5% year-on-year, without taking into account the monetary fund receivables bad debt loss arising from such an impairment loss in 2022. There was an increase of 1.4% in gross profit as compared to that of 2022. The basic earning per share was RMB11 cents in 2023. Set out below is the detailed information on the fluctuations in the Company's results for the year ended 31 December 2023.

Items	For the year ended 31 December		
	2023 <i>RMB'000</i>	2022 <i>RMB'000</i> (Restated)	Change (%)
Total operating revenue	5,134,413	5,085,790	+1.0
Operating costs	4,542,949	4,502,293	+0.9
Selling expenses	156,268	329,206	-52.5
Administrative expenses	100,604	108,499	-7.3
R&D expenses	22,708	31,944	-28.9
Finance costs	102,981	49,105	+109.7
Other gains	6,698	9,676	-30.8
Gain on changes in fair value	2,869	21,694	-86.8
Total profit/(loss)	163,945	(768,257)	N/A
Net profit/(loss)	160,319	(768,993)	N/A
Adjusted net profit ⁽¹⁾	160,319	39,242	+308.5
Gross profit	591,464	583,497	+1.4
Gross profit margin	11.5%	11.5%	—
Net profit/(loss) margin	3.1%	(15.1)%	N/A

Note 1: Net profit after deducting monetary fund receivables bad debt loss arising from the recognition of an one-off and non-recurring impairment loss on the deposits due from GMK Finance in 2022.

Revenue by products

	For the year ended 31 December		
	2023	2022	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
Raw chicken meat products	2,284,084	2,500,559	-8.7
Processed chicken meat products	2,613,650	2,371,087	+10.2
Chicken breeds	61,015	53,619	+13.8
Others	<u>175,664</u>	<u>160,525</u>	<u>+9.4</u>
Total	<u>5,134,413</u>	<u>5,085,790</u>	<u>+1.0</u>

During the Reporting Period, the Group's sales revenue increased due to the increase in chicken meat products sold and exported by the Group to Europe, Japan and other countries.

Sales volume and average selling price by products

	For the year ended 31 December		
	2023	2022	Change
			(%)
Raw chicken meat products			
Sales volume (<i>per kg</i>)	241,290,399	251,535,459	-4.1
Average selling price (<i>RMB per kg</i>)	9.47	9.94	-4.8
Processed chicken meat products			
Sales volume (<i>per kg</i>)	129,121,387	114,020,427	+13.2
Average selling price (<i>RMB per kg</i>)	20.24	20.80	-2.7
Chicken breeds			
Sales volume (<i>per bird</i>)	34,244,511	32,067,474	+6.8
Average selling price (<i>RMB per bird</i>)	1.78	1.67	+6.6

During the Reporting Period, the Group's number of white-feathered broilers being slaughtered experienced a year-on-year increase of 11.3%, and the production and sales volume of processed chicken meat products both experienced corresponding growth. The growth of breeding, processing and sales are related.

Revenue by geographic territory and products

	For the year ended 31 December		
	2023	2022	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
Mainland China	3,738,375	3,726,469	+0.3
Japan	412,575	387,353	+6.5
Malaysia	177,507	329,914	-46.2
Europe	691,772	558,309	+23.9
Other countries	114,184	83,745	+36.3
Total	<u>5,134,413</u>	<u>5,085,790</u>	<u>+1.0</u>

During the Reporting Period, the Company's revenue growth in the Mainland China market was driven by an increase in sales volume of processed chicken meat products. Also, in light of the competitiveness of the Group's products and the re-structuring of the international landscape, growth was achieved in sales revenue from Japan, Europe and other markets.

B2B and B2C sales revenue

The Group's B2B sales are mainly direct sales or distribution of products to domestic and international customers, primarily food service or industrial customers, fast food restaurants, and food retailers. B2C sales are primarily through online and offline platforms to the end consumers.

	For the year ended 31 December		
	2023	2022	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
B2B	4,706,065	4,459,921	+5.5
B2C	428,348	625,869	-31.6
Including: Online	146,856	266,356	-44.9
Offline	281,492	359,513	-21.7
Total	<u>5,134,413</u>	<u>5,085,790</u>	<u>+1.0</u>

During the Reporting Period, the Group further expanded its B2B customer base and achieved growth in sales volume. Revenue from the B2B business increased by 5.5% and accounted for 91.7% (2022: 87.7%) of the total revenue, representing an increase of 4.0%. As the Company strategically prioritised the supply of chicken meat to B2B business in 2023, which led to a reduction in the supply of chicken meat to B2C

business and a decline in its production volume, sales volume of the products under the iShape and Fovo Foods series declined, resulting in a decrease of 31.6% in revenue from the B2C business. Revenue from the B2C business reached 8.3% (2022: 12.3%) of the total revenue, representing a decrease of 4.0%.

Operating costs

During the Reporting Period, the Group's operating costs increased by 0.9% to RMB4,542.9 million (2022: RMB4,502.3 million), mainly due to an increase of 11.4% in the rearing volume of white-feathered broilers by the Company.

Administrative expenses

During the Reporting Period, the Group's administrative expenses decreased by 7.3% to RMB100.6 million (2022: RMB108.5 million), mainly due to the Group's continuous efforts to refine its management.

Selling expenses

During the Reporting Period, the Group's selling expenses decreased by 52.5% to RMB156.3 million (2022: RMB329.2 million), mainly due to the decrease of sales and marketing expenses of the Group.

R&D expenses

During the Reporting Period, the Group's R&D expenses decreased by 28.9% to RMB22.7 million (2022: RMB31.9 million), mainly due to the Company's integration of R&D projects and optimisation of product structure.

Finance costs

During the Reporting Period, the Group's finance costs increased by 109.7% to RMB103.0 million (2022: RMB49.1 million), which was mainly due to (i) the increase in borrowing rates; and (ii) the decrease in interest income.

Total profit/(loss)

During the Reporting Period, the Group recorded a net profit of RMB163.9 million (2022: net loss of RMB768.3 million), which was mainly due to (i) the significant decrease in credit impairment loss; and (ii) the decrease in the Group's various expenses.

Changes in significant accounting policies

On 30 November 2022, the Ministry of Finance of the PRC issued the Interpretation No. 16, which stipulates “accounting for the deferred income tax related to assets and liabilities arising from a single transaction is not applicable to the initial recognition exemption”, and has been implemented from 1 January 2023. The Company implemented the provision since 1 January 2023, with major impact as follows:

Accounting item affected	Impact on the balance as at 1 January 2022	
	<i>RMB'000</i>	
Deferred income tax assets		1,725
Deferred income tax liabilities		189
Undistributed profits		1,536
	As at/ For the year ended 31 December 2023	As at/ For the year ended 31 December 2022
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred income tax assets	2,250	1,786
Deferred income tax liabilities	197	215
Undistributed profits	2,053	1,571
Income tax expenses	(482)	(35)
Net profit attributable to the shareholders of the Company	482	35

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 in 2023 were for working capital purposes and capital expenditures for expansion and improvement of production equipment and facilities.

Capital structure

As at 31 December 2023, the registered capital of the Company was RMB1,582,618,000 and the total number of issued shares of the Company (the “Shares”) was 1,582,618,000 Shares, comprising 1,045,000,000 domestic Shares and 537,618,000 H Shares with a nominal value of RMB1.0 each. During the Reporting Period, the Group allotted and issued 182,618,000 new H Shares.

As at 31 December 2023, the total borrowings of the Group amounted to RMB1,175.3 million, representing a decrease of 21.1% as compared to that as at 31 December 2022. The decrease was mainly attributable to: (i) the repayment of certain long-term borrowings that has fallen due; (ii) the decrease of pledged borrowings; and (iii) less borrowing needs as a result of the Company’s improved profitability.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total equity, and balance sheet ratio, which is total borrowings divided by total assets. The gearing ratio and balance sheet ratio as at 31 December 2023 was 38.7% (31 December 2022: 57.0%) and 40.0% (31 December 2022: 50.0%), respectively.

Contingent liabilities and pledge of assets

The Group’s bank borrowings as at 31 December 2023 were secured by (i) mortgages of the Group’s lands situated in the PRC with aggregate net carrying amount of RMB62.4 million (31 December 2022: RMB74.3 million); (ii) pledge of the Group’s bank deposits of RMB8.6 million (31 December 2022: RMB187.7 million); (iii) pledge of certain of the Group’s property, plant and equipment with aggregate net carrying amount of RMB886.10 million (31 December 2022: RMB1,948.5 million); and (iv) pledge of the Group’s inventories with aggregate net carrying amount of RMB241.4 million (31 December 2022: RMB0 million).

As at 31 December 2023, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2023, the Group had 6,808 employees who were directly employed by the Group, of which 6,800 employees were employed in the PRC and eight 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 three share

award schemes on 24 June 2020, 10 December 2021 and 29 August 2023, 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) the stability of global broiler supply is challenged by the Avian Flu;
- (2) reduction of excessive capacity of pork is slow, affecting recovery of chicken prices.

2. Opportunities and space

- (1) the shift in international macro-policies and the expansion of domestic macro-policies will open up space for the recovery of consumer goods market;
- (2) with declining raw material costs and recovery of demand, the industry may enter into a new round of upturns;
- (3) shortage of overseas-introduced breeds in the early stage drives up the prices of commercial white-feathered broilers;
- (4) the national catering industry continues to recover and the size of the catering market continues to expand.

3. Quality growth strategies at current stage

- (1) refine management to further enhance management efficiency, thereby intensively reducing costs and increasing efficiency;
- (2) deepen channel penetration to increase customer's loyalty, realise in-depth cooperation with major customers in various industrial lines, and further increase market share in major customers;
- (3) continue to attract outstanding talents to join us, and further stabilise and optimise our operation and management team through continuous innovation in mechanisms and step-by-step implementation of medium-and long-term incentives;
- (4) continue to optimise the Group's debt structure, thereby reducing finance costs;
- (5) further enhance the Group's breeding capacity.

OTHER EVENTS

Annual General Meeting

The Company is intended to hold its annual general meeting for the year 2023 on Thursday, 23 May 2024. The notice of annual general meeting will be issued to the shareholders of the Company (the “**Shareholders**”) and published on the respective websites of the Stock Exchange and the Company in due course.

Final Dividend

The Board of Directors has resolved not to declare any final dividend for the year ended 31 December 2023 (2022: nil).

Proposed Initial Public Offering of A Shares

On 29 January 2021, the Board of Directors 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 annual results announcement, the Company is under pre-listing tutoring procedure and has not commenced filing the application for the proposed initial public offering of A shares.

MGO

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

The administrator of Xiangguang Copper subsequently issued an announcement, proposing the sale of domestic Shares held by the Former Controlling Shareholders in the Company through an auction process and Falcon Holding LP (the “**Falcon**” or “**Offeror**”) won the auction at the aggregate bid price of RMB1,372,279,100 (equivalent to HK\$1,502,336,359) for 992,854,500 domestic Shares (the “**Sale**”).

Share(s)”), representing a consideration of RMB1.3822 per Sale Share (equivalent to HK\$1.5132 per Sale Share). On 20 December 2022, the above acquisition was completed and the Offeror became the new controlling shareholder of the Company.

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

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

On 18 January 2023, the Delisting Resolution was not approved at the 2023 first extraordinary general meeting and the 2023 first H Shareholders class meeting of the Company held on that date, and the Delisting Resolution was not implemented and lapsed.

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

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

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

As the Delisting Resolution was not approved and the public float of the Company fell below 25% following the close of the Offers, the minimum public float requirement as set out in Rule 8.08(1)(a) of the Listing Rules is not satisfied. The directors of Falcon

Holding GP Limited (being the general partner of the Offeror), for and on behalf of the Offeror, undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which may include issuance of new Shares by the Company or placing down part of the interest that the Offeror or its parties acting in concert with it hold in the Company following the close of the Offers, to ensure the minimum percentage of the Shares as required under Rule 8.08(1)(a) of the Listing Rules are held by the public. To restore the public float by placing down, the Offeror may either directly dispose of, transfer, or engage a placing agent for placing of, the Shares held by the Offeror or its concert parties. In addition, the Directors jointly and severally undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

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

The Company applied for, and the Stock Exchange granted, a waiver from strict compliance with the requirements under Rule 8.08(1)(a) of the Listing Rules for a period from 1 February 2023 to 31 August 2023 with an extension to 31 December 2023 (the “**Waiver**”). The Company further applied to the Stock Exchange for an extension of Waiver for the period commencing from 1 January 2024 to 30 April 2024 (the “**Extended Waiver Period**”). On 6 February 2024, the Stock Exchange granted an extension of the Waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for the Extended Waiver Period.

As at the date of this annual results announcement, 395,110,395 H Shares, representing approximately 24.97% of the issued Shares, are held by the public (within the meaning of the Listing Rules), which is below 25% of the total issued share capital of the Company held by the public as prescribed by Rule 8.08(1)(a) of the Listing Rules.

Proposed Issue of H Shares under Specific Mandate

As mentioned above, the minimum public float requirement of 25% of the Shares as set out in Rule 8.08(1)(a) of the Listing Rules is not satisfied as at the date of the close of Offers. Both the directors of Falcon Holding GP Limited (being the general partner of the Offeror), for and on behalf of the Offeror, and the Directors, have undertaken to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which included issue of the new H Shares by the Company, to ensure the minimum percentage of the Shares as required under Rule 8.08(1)(a) of the Listing Rules are held by the public.

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

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

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

On 26 August 2023, the Company entered into two subscription agreements with Platinum Peony B 2023 RSC Limited and Chelt Trading Limited, respectively, and completed the allotment and issue of an aggregate of 182,618,000 new H Shares (the “**Subscription Shares**”) to the above two subscribers on 11 September 2023, both at the subscription price of HK\$1.5132 per H Share (the “**Subscription**”). The aggregate nominal value of the Subscription Shares was RMB182,618,000. The gross proceeds from the Subscription were approximately HK\$276 million. The net proceeds (after deducting relevant costs and expenses, commission and levies) from the Subscription were approximately HK\$272 million, representing a net price of HK\$1.4894 per Subscription Share. 70% of the net proceeds from the Subscription after deduction of expenses was used to improve the Company’s liquidity position by way of repaying short-term borrowings of the Group, which amounted to approximately RMB1.1 billion as at 31 December 2022. 30% of the net proceeds from the Subscription after deduction of expenses was to replenish the working capital of the Company, which should mainly covered the operation costs and expenses of the Company, such as costs of animal feeds, costs of accessory food for the development of processed chicken meat products, and environmental-related costs. As at the date of this annual results announcement, all the net proceeds raised have been utilised as intended and there was no unutilised proceeds. For details, please refer to the Company’s announcements dated 27 August 2023 and 11 September 2023.

Selling Down by the Controlling Shareholder

In order to assist the Company in restoring its public float in compliance with the relevant requirement under the Listing Rules, on 15 September 2023, Falcon completed a sale of 47,478,000 H Shares to JinYi Capital Multi-Strategy Fund SPC Ltd. (“**JinYi Capital**”), an independent third party, representing approximately 3% of the total number of issued Shares at the material time. JinYi Capital is a segregated portfolio company incorporated in the Cayman Islands, principally involved in market investment in leading industrial enterprises. Zhejiang Agricultural Development Industry Investment Co., Ltd.* (浙江農發產業投資有限公司) participated in the capital contribution of the H Shares purchased by JinYi Capital, which is the sole industrial investment platform of Zhejiang Rural Development Group Company Limited* (浙江省農村發展集團有限公司), a province-owned enterprise of Zhejiang Province, the only functional state-owned enterprise in Zhejiang Province focusing on food and agriculture and a national leading enterprise in agriculture.

On 3 October 2023, Falcon further completed a sale of 33,042,000 H Shares to Shenzhen Capital Value Partners Greater Bay Area Opportunity Limited Partnership Fund (“**Shenzhen Capital Value Partners GBA Fund**”), an independent third party, representing approximately 2.09% of the total number of issued Shares at the material time. Shenzhen Capital Value Partners GBA Fund is a limited partnership fund incorporated in Hong Kong that principally invests in portfolio entities whose main business is in the Greater China. Its general partner, Shenzhen Capital Investment Partners Limited and its co-investment manager, Shenzhen Capital (International) Asset Management Company Limited, are both wholly-owned subsidiaries of Shum Yip Investment & Development Company Limited, which in turn is held by Shenzhen Capital Holdings Co., Ltd. and ultimately owned by the State-owned Assets Supervision and Administration Commission of the Shenzhen Municipal People’s Government. Value Partners Private Equity Limited, a wholly-owned subsidiary of Value Partners Group Limited (a company listed on the Stock Exchange, stock code: 00806), acts as another co-investment manager of Shenzhen Capital Value Partners GBA Fund.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of JinYi Capital and Shenzhen Capital Value Partners GBA Fund is not a core connected person (as defined under the Listing Rules) of the Company, and is a member of the public (within the meaning of Rule 8.24 of the Listing Rules). For details, please refer to the announcements of the Company dated 20 September 2023 and 6 October 2023.

Loan Agreement with Covenant relating to Specific Performance of the Controlling Shareholder

On 2 November 2023, the Company, as the borrower, and syndicate members, as the lender (the “**Lender**”), entered into a working capital syndicate loan agreement (the “**Loan Agreement**”) in relation to the provision of a working capital loan facility by the Lender to the Company in an aggregate maximum principal amount of RMB960 million, for a loan granting period commencing from the date of signing of the Loan Agreement to 31 May 2024. The loan will be used to repay loans and for the Company’s daily working capital.

Pursuant to the Loan Agreement, the Company undertakes that, (i) no change of control of the controlling Shareholder shall occur during the term of the loan (change of control refers to the existing controller’s loss of control in the Company and their direct and indirect consolidated shareholdings being less than 50% through share transfers, bond market transactions, capital increases and share enlargements, mergers and acquisitions and concerted party agreements); or (ii) no external pledge of the equity of the Company held by the controlling Shareholder shall be made, except where it has been considered and approved by the syndicate loan agent.

If violation of the relevant undertakings under the Loan Agreement occurs and leads to an event of default, the syndicate loan agent may cease the drawing of all or part of the loan funds that has been requested in a drawdown notice but not yet been drawn; cancel all or part of the total commitments; declare that all or part of the loan balance, together with all accrued interest, expenses and other amounts under the Loan Agreement be immediately due and payable in advance. For details, please refer to the announcement of the Company dated 2 November 2023.

Change of Directors

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

Change of Supervisors

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

Amendments to the Articles of Association

Due to the change in the controlling Shareholder, the enterprise type of the Company has changed from “other limited company (listed)” to “company limited by shares (foreign investment, listed)”. As a result, the scope of business of the Company as set out in the articles of association of the Company (the “**Articles of Association**”) was amended according to the PRC regulatory requirements. The resolution in relation to the amendments was approved by the Shareholders at the 2023 second extraordinary general meeting of the Company held on 28 February 2023.

On 17 February 2023, the State Council of the PRC (the “**State Council**”) issued the Decision of the State Council to Repeal Certain Administrative Regulations and Documents (《國務院關於廢止部分行政法規和文件的決定》) (the “**Decision**”), which includes the repeal of Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (《國務院關於股份有限公司境外募集股份及上市的特別規定》) issued by the State Council on 4 August 1994. On the same date, the China Securities Regulatory Commission (the “**CSRC**”) issued the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies (《境內企業境外發行證券和上市管理試行辦法》) (the “**Trial Measures**”) and relevant guidelines, which includes the repeal of the Notice on the Implementation of the Mandatory Provisions for Companies Listing Overseas (《關於執行〈到境外上市公司章程必備條款〉的通知》). The Decision and the Trial Measures have been effective since 31 March 2023 (the “**PRC Regulation Changes**”). From the effective date of the Decision and the Trial Measures, PRC issuers shall formulate their articles of association with reference to the Guidelines on Articles of Association of Listed Companies (《上市公司章程指引》) instead of the Mandatory Provisions for Companies Listing Overseas (《到境外上市公司章程必備條款》) (the “**Mandatory Provisions**”). In view of the above PRC Regulation Changes, the Stock Exchange also amended the Listing Rules and other provisions relating to PRC issuers according to the regulation updates in Mainland China and the amendments to the Listing Rules became effective on 1 August 2023. Such amendments include: (a) remove the class meeting and related

requirements for the issue of new shares by PRC issuers; (b) repeal Appendix 13D to the Listing Rules, which requires PRC issuers' articles of association to include the Mandatory Provisions and other ancillary requirements; (c) amend the Listing Rules in Chapters 9 and 19A to reflect the CSRC record filing regime; (d) remove the arbitration clause for disputes involving H shareholders as required under the Mandatory Provisions; and (e) modify the other Listing Rules that address issues arising from domestic shares and H shares being treated as different classes.

Accordingly, the Company amended the Articles of Association to comply with the requirements of the Listing Rules and the applicable laws and regulations of the PRC (the “**Articles Amendments**”). In view of the Articles Amendments, the Board of Directors also amended the rules of procedure for the general meeting of Shareholders, the rules of procedure of the Board of Directors and the rules of procedure of the Board of Supervisors (the “**Procedural Rules Amendments**”). The resolutions in relation to the Articles Amendments and the Procedural Rules Amendments were approved by the Shareholders at the 2023 annual general meeting and class meetings of the Company held on 19 May 2023 and took effect on 1 August 2023.

Further, according to the consultation conclusions on the “Proposals to Expand the Paperless Listing Regime and Other Rule Amendments” published in June 2023 by the Stock Exchange, the amendments to the Listing Rules came into effect on 31 December 2023 such that, among other things, subject to compliance with all applicable laws and regulations, a listed issuer must (i) send or otherwise make available the relevant corporate communication (as defined in the Listing Rules) to the relevant holders of its securities by electronic means, or (ii) publish the relevant corporate communication on its own website and the website of the Stock Exchange. The Company amended the Articles of Association to reflect the latest requirements of the Listing Rules and such resolutions were approved by the Shareholders at the 2023 third extraordinary general meeting of the Company on 22 December 2023.

Save as disclosed above, during the Reporting Period and up to the date of this annual 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.

Continuing Connected Transaction

On 28 January 2023, the Company and Falcon entered into the loan framework agreement (the “**Loan Framework Agreement**”), pursuant to which Falcon will provide a revolving loan facility to the Group for a term of one year commencing from 28 January 2023 and ending on 27 January 2024. The proposed annual caps, being the maximum daily balance of the loans (including interests accrued) for the transactions contemplated under the Loan Framework Agreement for the years ended/ending 31 December 2023 and 2024 is USD13,591,000 and USD13,591,000 (the annual cap for

the year ending 31 December 2024 is set up to 27 January 2024, being the end date of the term of the Loan Framework Agreement), respectively. As the Loan Framework Agreement and its annual caps expired on 27 January 2024 and after considering the future needs of the Group within the PRC, the Company and Falcon entered into the new loan framework agreement (the “**New Loan Framework Agreement**”), pursuant to which Falcon will provide a revolving loan facility to the Group for a term of one year commencing from 28 January 2024 and ending on 27 January 2025. The proposed annual caps, being the maximum daily balance of the loans (including interests accrued) for the transactions contemplated under the New Loan Framework Agreement for the years ending 31 December 2024 and 31 December 2025 is USD13,591,000 and USD15,000,000 (the annual cap for the year ending 31 December 2025 is set up to 27 January 2025, being the end date of the term of the New Loan Framework Agreement), respectively. Falcon is the controlling Shareholder directly holding over 70% interest in the Company’s total issued share capital. Accordingly, Falcon is a connected person of the Company and as a result, the transactions contemplated under the Loan Framework Agreement and the New Loan Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules. For details, please refer to the Company’s announcements dated 29 January 2023 and 26 January 2024.

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

Resignation of Joint Company Secretary

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

Deposits with GMK Finance

The Company was notified by GMK Holdings that its subsidiaries had overdue debts in March 2022. Among such subsidiaries, GMK Finance was involved in overdue repayment disputes, pursuant to which the creditor filed a civil complaint against GMK Finance. GMK Holdings, by itself and through its subsidiaries, provided guarantees for some of the loans obtained by the Group from banks, and provided deposits, loan facilities (including term loans and entrusted loans) and bill financing services to the

Group. The deposits with GMK Finance were unavailable for withdrawal and utilisation by the Group for daily operation since November 2022, and there was an overdue payment for deposit interests from GMK Finance to the Group. As such, the Group made a full impairment of the deposits with GMK Finance for the year ended 31 December 2022 and as at 31 December 2022.

GMK Finance is a financial institution licensed by the Shandong Office of China Banking and Insurance Regulatory Commission (the “**CBIRC**”) (the CBIRC has been replaced by the NAFR in March 2023), and subject to the direct supervision of such regulatory authority. A company submitted to the NAFR an application of the bankruptcy liquidation of GMK Finance and such application was accepted by Yanggu County People’s Court, Shandong Province (山東省陽穀縣人民法院) and an administrator (the “**Administrator**”) has been appointed by the court according to the Enterprise Bankruptcy Law of the People’s Republic of China (《中華人民共和國企業破產法》). As at the date of this annual results announcement, the Group has declared to the Administrator its creditor’s rights. The first creditors’ meeting in relation to the bankruptcy liquidation proposal was held on 15 March 2024 at Yanggu County People’s Court (陽穀縣人民法院). The voting of the bankruptcy liquidation proposal will be closed on 29 March 2024 and the voting results will be announced by the Administrator via the National Enterprise Bankruptcy Information Disclosure Platform* (全國企業破產重整案件信息網) (<http://pccz.court.gov.cn/pcajxxw/index/xxwsy>). For details, please refer the Company’s announcement dated 15 March 2024.

The Board of Directors will continue to monitor the situation, and make further announcement on any material updates as and when appropriate.

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

Save as disclosed in this annual results announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures for the year ended 31 December 2023.

Subsequent Event

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

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

During the Reporting Period, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix C1 to 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 C3 to the Listing Rules as a code of conduct regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiries with each Director and each Supervisor, and they confirmed that they had complied with all required standards under the Model Code during the Reporting Period.

Purchase, Sale or Redemption of Listed Securities

During the Reporting Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

Review of Annual Results

The Company has established the Audit Committee in compliance with Rule 3.21 of the Listing Rules with written terms of reference in accordance with code provision D.3.3 of the CG Code. The Audit Committee comprises two independent non-executive Directors, namely, Mr. Chung Wai Man and Ms. Wang Anyi and a non-executive Director, namely, Mr. Lu Wei.

The Audit Committee is chaired by Mr. Chung Wai Man. The Audit Committee has reviewed together with the management and the Board of Directors the accounting principles and policies adopted by the Company, the audited annual results and the audited consolidated financial statements of the Company for the year ended 31 December 2023. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2023 to the Board of Directors for approval.

Auditor’s Scope of Work for the Annual Results Announcement

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in the preliminary announcement have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated

financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with CASBE and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.fengxiang.com) and the Stock Exchange (www.hkexnews.com.hk), respectively, and the annual report containing all the information required by the Listing Rules will be issued to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Shandong, PRC, 28 March 2024

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

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.*

* *For identification purpose only*