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凤祥食品

SHANDONG FENGXIANG CO., LTD.

山東鳳祥股份有限公司

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

(Stock Code: 9977)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2024**

HIGHLIGHTS

Key Operating Data

	Six months ended		
	2024	2023	Change (%)
White-feathered broilers bred (unit: million birds)	85.1	77.7	+9.5
White-feathered broilers processed (unit: million kg)	192.1	159.0	+20.8
Sales volume:			
Raw chicken meat products (unit: million kg)	131.5	106.4	+23.6
Processed chicken meat products (unit: million kg)	73.0	60.8	+20.1
Chicken breeds (unit: million birds)	4.0	14.2	-71.7

Key Financial Data	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue	2,654,039	2,436,545
Gross profit	237,414	282,227
Profit before biological assets fair value adjustments	59,511	71,792
Net profit	60,094	82,095
Net profit attributable to the shareholders of the parent company	60,094	82,095
Basic earning per share (<i>in RMB</i>)	0.04	0.06

FINANCIAL INFORMATION

The board of directors (the “**Board**”) of Shandong Fengxiang Co., Ltd. (the “**Company**” or “**Fengxiang**” and its subsidiaries, collectively the “**Group**”) hereby announces the unaudited condensed consolidated results and financial position of the Group for the six months ended 30 June 2024 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2023 as follows. Unless otherwise specified, financial data of the Company is presented in Renminbi (“**RMB**”).

The following financial information is a summary of the unaudited condensed consolidated financial statements for the six months ended 30 June 2024 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 (the “**Audit Committee**”).

In this interim results announcement, unless otherwise specified, losses are presented with “-” or “()”.

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

For the six months ended 30 June 2024

	<i>Note</i>	Six months ended 30 June	
		2024	2023
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Total operating revenue	3	2,654,039	2,436,545
Less: Operating costs		2,416,625	2,154,318
Taxes and charges		18,259	17,320
Selling expenses		79,017	84,768
Administrative expenses		61,942	52,892
Research and development expenses		12,314	13,142
Finance costs	4	32,356	41,667
Add: Other gains	5	1,463	4,821
Investment loss		(3,139)	(1,940)
Including loss on investments in associates and joint ventures		(2,743)	(1,938)
Gain from changes in fair value	6	(1,419)	10,303
Credit impairment loss		(858)	(95)
(Asset impairment loss)/reversal of asset impairment loss		(5,580)	171
Gain on disposal of assets		11	(2,417)
Operating profit		24,004	83,281
Add: Non-operating income		101	592
Less: Non-operating expenses		3,155	147
Total profit		20,950	83,726
Less: Income tax expenses	7	(39,144)	1,631
Net profit		60,094	82,095
Breakdown by continuity of operations			
Net profit from continuing operations		60,094	82,095
Breakdown by attributable interests			
Net profit attributable to shareholders of the parent company		60,094	82,095
Net other comprehensive loss after tax		(359)	(126)

		Six months ended 30 June	
		2024	2023
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Net other comprehensive loss attributable to shareholders of the parent company after tax		(359)	(126)
Other comprehensive loss that can be reclassified into profit or loss		(359)	(126)
Exchange differences on translation of foreign currency financial statements		(359)	(126)
Total comprehensive income		59,735	81,969
Total comprehensive income attributable to the shareholders of the parent company		59,735	81,969
Earning per share			
Basic earning per share (in RMB)	9	0.04	0.06
Diluted earning per share (in RMB)	9	0.04	0.06

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

As at 30 June 2024

	<i>Note</i>	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Current assets			
Monetary funds		304,009	198,503
Transactional financial assets		—	293
Trade receivables	<i>10</i>	306,826	272,666
Prepayments		32,927	29,073
Other receivables		1,838	11,204
Inventories	<i>11</i>	841,988	947,344
Other current assets		44,001	60,495
Total current assets		<u>1,531,589</u>	<u>1,519,578</u>
Non-current assets			
Long-term equity investments		51,867	54,610
Fixed assets		2,889,176	2,955,067
Construction in progress	<i>12</i>	12,573	6,311
Productive biological assets	<i>13</i>	199,492	221,016
Right-of-use assets		181,167	184,733
Intangible assets		85,989	87,323
Long-term deferred expenses		13,717	16,597
Deferred income tax assets	<i>14</i>	81,148	2,397
Other non-current assets		30,734	9,434
Total non-current assets		<u>3,545,863</u>	<u>3,537,488</u>
Total assets		<u>5,077,452</u>	<u>5,057,066</u>

		As at 30 June 2024	As at 31 December 2023
	<i>Note</i>	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Audited)
Current liabilities			
Short-term borrowings	16	621,687	280,373
Transactional financial liabilities		1,709	—
Trade payables	15	379,639	380,727
Contract liabilities		16,937	41,852
Payroll payables		64,353	76,483
Taxes payables		13,069	9,470
Other payables		149,143	311,886
Non-current liabilities due within 1 year	16	179,812	165,860
Other current liabilities	16	<u>29,616</u>	<u>225,515</u>
Total current liabilities		<u>1,455,965</u>	<u>1,492,166</u>
Non-current liabilities			
Long-term borrowings	16	289,950	319,970
Lease liabilities		191,467	187,780
Long-term payables	16	33,498	6,011
Estimated liabilities		141	40
Deferred income		18,131	19,006
Deferred income tax liabilities	14	<u>158</u>	<u>197</u>
Total non-current liabilities		<u>533,345</u>	<u>533,004</u>
Total liabilities		<u>1,989,310</u>	<u>2,025,170</u>
Owners' equity			
Share capital	17	1,582,618	1,582,618
Capital reserve		688,620	697,795
Less: treasury shares		15,630	21,315
Other comprehensive loss		(1,081)	(723)
Surplus reserve		155,378	155,378
Undistributed profits		<u>678,237</u>	<u>618,143</u>
Total equity attributable to shareholders of the parent company		<u>3,088,142</u>	<u>3,031,896</u>
Total owners' equity		<u>3,088,142</u>	<u>3,031,896</u>
Total liabilities and owners' equity		<u>5,077,452</u>	<u>5,057,066</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2024

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 Chinese 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. GOING CONCERN

The financial statements are prepared on a going concern basis.

3. REVENUE AND SEGMENT INFORMATION

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

- (a) production and sale of processed chicken meat products;
- (b) production and sale of raw chicken meat products;
- (c) production and sale of chicken breeds; 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 about resource allocation and performance assessment.

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

Operating revenue/operating costs

	Six months ended 30 June			
	2024		2023	
	RMB'000		RMB'000	
	(Unaudited)		(Unaudited)	
	Operating revenue	Operating costs	Operating revenue	Operating costs
Main business	2,641,316	2,412,495	2,426,582	2,151,749
Other businesses	12,723	4,130	9,963	2,569
Total	<u>2,654,039</u>	<u>2,416,625</u>	<u>2,436,545</u>	<u>2,154,318</u>

Revenue by products

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Processed chicken meat products	1,416,599	1,229,476
Raw chicken meat products	1,153,084	1,085,063
Chicken breeds	9,748	37,408
Others	74,608	84,598
Total	<u>2,654,039</u>	<u>2,436,545</u>

Geographic information

Revenue from external customers

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Mainland China	1,888,286	1,798,740
Japan	178,427	175,731
Malaysia	126,874	78,011
Europe	389,082	327,895
Other countries or regions	71,370	56,168
Total	<u>2,654,039</u>	<u>2,436,545</u>

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

4. FINANCE COSTS

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	32,969	48,613
Including: Interest expenses on lease liabilities	5,681	6,073
Interest income	(2,095)	(2,734)
Exchange losses	(7,733)	(3,956)
Handling fees and others	<u>9,215</u>	<u>(256)</u>
Total	<u><u>32,356</u></u>	<u><u>41,667</u></u>

5. OTHER GAINS

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Government grants (<i>Note</i>)	1,264	4,674
Handling fee for withholding individual income tax	<u>199</u>	<u>147</u>
Total	<u><u>1,463</u></u>	<u><u>4,821</u></u>

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

6. GAIN FROM CHANGES IN FAIR VALUE

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Changes in fair value of biological assets (<i>Note</i>)	583	10,303
Changes in fair value of derivative financial instruments	<u>(2,002)</u>	<u>—</u>
Total	<u>(1,419)</u>	<u>10,303</u>

Note: The Company's changes in fair value of biological assets consists of: (i) gain arising from initial recognition of agricultural products 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 has engaged an independent professional appraiser to assess the fair value of the biological assets as at the balance sheet date.

7. INCOME TAX EXPENSES

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax expenses	39,646	1,622
Deferred income tax expenses (<i>Note</i>)	<u>(78,790)</u>	<u>9</u>
Total	<u>(39,144)</u>	<u>1,631</u>

Note: Deductible temporary differences that give rise to deferred income tax expenses for the current period mainly include provision for asset impairment and deferred income.

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “**EIT Law**”) and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the six months ended 30 June 2024 (2023: 25%) except for the followings:

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

8. DIVIDENDS

No dividend was paid, declared or proposed to owners of the parent for the six months ended 30 June 2024 (2023: Nil), nor has any dividend been paid, declared or proposed since the end of the Reporting Period.

9. EARNING PER SHARE

(a) Basic earning per share

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

	For the six months ended	
	30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Consolidated net profit attributable to ordinary shareholders of the parent company (<i>RMB'000</i>)	60,094	82,095
Weighted average number of outstanding ordinary shares of the Company	1,567,239,443	1,378,079,500
Basic earning per share (<i>in RMB</i>)	0.04	0.06
Including: Basic earning per share from continuing operations (<i>in RMB</i>)	0.04	0.06

(b) Diluted earning per share

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

	For the six months ended	
	30 June	
	2024	2023
	(Unaudited)	(Unaudited)
Consolidated net profit attributable to ordinary shareholders of the parent company (diluted) (<i>RMB'000</i>)	60,094	82,095
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,571,834,275	1,399,017,500
Diluted earning per share (<i>in RMB</i>)	0.04	0.06
Including: Diluted earning per share from continuing operations (<i>in RMB</i>)	0.04	0.06

10. TRADE RECEIVABLES

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Trade receivables	320,453	284,825
Loss allowance	<u>(13,627)</u>	<u>(12,159)</u>
Total	<u>306,826</u>	<u>272,666</u>

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

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

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Within 1 month	297,048	239,508
1 to 3 months	3,386	29,305
3 months to 1 year	1,282	29
Over 1 year	<u>18,737</u>	<u>15,983</u>
Total	<u>320,453</u>	<u>284,825</u>

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

	Changes in bad debt of trade receivables RMB'000 (Unaudited)
Balance at the end of last year	12,159
Provision	7,607
Recovered or reversed	<u>(6,139)</u>
Balance at the end of the period	<u><u>13,627</u></u>

11. INVENTORIES

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Raw materials	174,304	130,404
Turnover materials	35,070	32,814
Consumptive biological assets (<i>Note</i>)	235,133	239,087
Goods in transit	11,689	4,818
Inventory goods	391,223	545,233
Provision for the decline in value of inventory	<u>(5,431)</u>	<u>(5,012)</u>
Total	<u><u>841,988</u></u>	<u><u>947,344</u></u>

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

12. CONSTRUCTION IN PROGRESS

Item	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Construction in progress	<u>12,573</u>	<u>6,311</u>
Total	<u><u>12,573</u></u>	<u><u>6,311</u></u>

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

13. PRODUCTIVE BIOLOGICAL ASSETS

Productive biological assets using the fair value measurement model

Items	Livestock breeding industry RMB'000 (Unaudited)
Balance at the end of last year	<u>221,016</u>
External procurement	32,834
Self-breeding	66,125
Disposal	(105,565)
Changes in fair value	<u>(14,918)</u>
Balance at the end of the period	<u><u>199,492</u></u>

Notes:

- Self-breeding costs for breeders mainly include the costs of animal feed, labour costs, depreciation and amortisation expenses, apportionment of public expenses, etc.*
- Changes in fair value consist of two components: gain from the initial recognition of agricultural products at fair value less sales costs upon harvest and gain from changes in fair value less sales costs of productive biological assets. The Company engaged an independent professional appraiser to assess the fair value of the biological assets as at the balance sheet date.*

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

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

Type	Balance at the end of the period (thousand birds)
Breeders	<u>2,083</u>
Total	<u><u>2,083</u></u>

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

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

(1) *Regulatory and environmental risks*

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

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

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

14. DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES

Deferred income tax assets not subject to offset

Item	As at 30 June 2024 RMB'000 (Unaudited)		As at 31 December 2023 RMB'000 (Audited)	
	Deductible temporary differences	Deferred income tax assets	Deductible temporary differences	Deferred income tax assets
Provision for asset impairment	313,859	78,465	—	—
Lease liabilities	190,003	47,501	192,843	48,211
Deferred income	<u>552</u>	<u>137</u>	<u>589</u>	<u>147</u>
Total	<u>504,414</u>	<u>126,103</u>	<u>193,432</u>	<u>48,358</u>

Deferred income tax liabilities not subject to offset

Item	As at 30 June 2024 RMB'000 (Unaudited)		As at 31 December 2023 RMB'000 (Audited)	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Right-of-use assets	<u>180,455</u>	<u>45,114</u>	<u>184,632</u>	<u>46,158</u>
Total	<u>180,455</u>	<u>45,114</u>	<u>184,632</u>	<u>46,158</u>

Deferred income tax assets or liabilities presented in net amount after offsetting

Item	As at 30 June 2024 RMB'000 (Unaudited)		As at 31 December 2023 RMB'000 (Audited)	
	Amount of offsetting between deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting	Amount of offsetting between deferred income tax assets and liabilities	Balance of deferred income tax assets or liabilities after offsetting
Deferred income tax assets	44,955	81,148	45,961	2,397
Deferred income tax liabilities	44,955	158	45,961	197

Deferred income tax expenses represents the amount of change in deferred income tax assets after offsetting (the amount as at the end of period less the amount as at the beginning of period), less the amount of change in deferred income tax liabilities after offsetting (the amount as at the end of period less the amount as at the beginning of period).

15. TRADE PAYABLES

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

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Trade payable	<u>379,639</u>	<u>380,727</u>
Total	<u><u>379,639</u></u>	<u><u>380,727</u></u>

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

	As at 30 June 2024 RMB'000 (Unaudited)	As at 31 December 2023 RMB'000 (Audited)
Within 1 month	249,814	249,293
1 to 3 months	126,367	123,718
3 months to 1 year	769	5,123
Over 1 year	<u>2,689</u>	<u>2,593</u>
Total	<u><u>379,639</u></u>	<u><u>380,727</u></u>

16. BORROWINGS

Loans from financial institutions

	As at 30 June 2024 <i>RMB'000</i> (Unaudited)	As at 31 December 2023 <i>RMB'000</i> (Audited)
Bank loans, secured and guaranteed	1,072,230	761,033
Other financial institution loans, secured and guaranteed	<u>69,809</u>	<u>223,012</u>
Total	<u><u>1,142,039</u></u>	<u><u>984,045</u></u>
By maturity date:		
Bank loans, secured and guaranteed		
Within 1 year	782,280	441,063
1–2 years	160,020	160,020
2–5 years	129,930	159,950
Other financial institution loans, secured and guaranteed		
Within 1 year	42,322	223,012
1–2 years	15,258	—
2–5 years	12,229	—
Effective annual interest rate:		
Bank loans, secured and guaranteed	3.15%–4.74%	3.80–6.14%
Other financial institution loans, secured and guaranteed	7.59%–7.67%	5.39%–8.89%

Loans from Falcon Holding LP (“Controlling Shareholder”)

	As at 30 June 2024 <i>RMB’000</i> (Unaudited)	As at 31 December 2023 <i>RMB’000</i> (Audited)
Loans from Controlling Shareholder, secured and guaranteed	—	92,075
Loans from Controlling Shareholder, unsecured and unguaranteed	<u>—</u>	<u>99,158</u>
Total	<u><u>—</u></u>	<u><u>191,233</u></u>
By maturity date:		
Loans from Controlling Shareholder, secured		
Within 1 year	—	92,075
1-2 years	—	—
2-5 years	—	—
Loans from Controlling Shareholder, unsecured and unguaranteed		
Within 1 year	—	99,158
1-2 years	—	—
2-5 years	—	—

The Group repaid all loans from Controlling Shareholder in April 2024.

17. SHARE CAPITAL

	As at 30 June 2024 <i>RMB’000</i> (Unaudited)	As at 31 December 2023 <i>RMB’000</i> (Audited)
Registered, issued and fully paid:		
1,582,618,000 shares of RMB1.00 each	<u><u>1,582,618</u></u>	<u><u>1,582,618</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

COMPANY PROFILE

Introduction

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

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

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

Business Segments

Processed Chicken Meat Products

The Group markets its processed chicken meat products under “鳳祥食品 (Fovo Foods)” (“**Fovo Foods**”), “優形 (iShape)” (“**iShape**”) and “五更爐 (Wu Genglu)” (“**Wu Genglu**”) brands. Processed chicken meat products comprise cooked, semi-cooked and seasoned chicken meat products. Depending on the processing methods, these processed products are required to be chilled or frozen. The raw chicken meat the Group uses in its processed chicken meat production is either supplied by itself or procured from independent third party suppliers. The cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products, which are fully cooked and sterilised (end consumers will need to reheat the frozen cooked chicken meat products before consumption according to the instructions provided on the packaging). The semi-cooked chicken meat products are processed, chilled or frozen and boxed (end consumers will need to further process (including steaming, grilling, roasting or frying) such semi-cooked chicken meat products before consumption according to the instructions provided on the packaging). The seasoned chicken meat products include raw chicken meat flavoured with certain ingredients or spices. The Group also offers ready-to-cook pre-prepared meal solutions, including Chinese dishes. For the six months ended 30 June 2024, the sales volume of processed chicken meat products increased by 20.1% to 73.0 million kilogram (“**kg**”) (six months ended 30 June 2023: 60.8 million kg). For the six months ended 30 June 2024, the revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 15.2% to RMB1,416.6 million (six months ended 30 June 2023: RMB1,229.5 million), representing 53.4% of the Group’s total revenue.

Raw Chicken Meat Products

The Group offers raw white-feathered chicken meat products, which include whole frozen chickens and chicken portions, such as chicken wing tips, chicken breast, chicken drumsticks, chicken drumettes, bone-in chicken thighs, boneless chicken fillets, chicken head, chicken feet and chicken legs. The Group’s broilers are then cut into portions according to its internal or customers’ requirements, which will be chilled or frozen depending on the product’s nature. For the six months ended 30 June 2024, the sales volume of raw chicken meat products increased by 23.6% to 131.5 million kg (six months ended 30 June 2023: 106.4 million kg). For the six months ended 30 June 2024, the revenue from external sale of raw chicken meat products increased by 6.3% to RMB1,153.1 million (six months ended 30 June 2023: RMB1,085.1 million), representing 43.4% of the Group’s total revenue.

Chicken Breeds

The Group sells some of its chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of the Group's chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. The Group sells chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties. For the six months ended 30 June 2024, the sales volume of chicken breeds decreased by 71.7% to 4.0 million birds (six months ended 30 June 2023: 14.2 million birds). For the six months ended 30 June 2024, the revenue from external sale of chicken breeds decreased by 73.9% to RMB9.7 million (six months ended 30 June 2023: RMB37.4 million), representing 0.4% of the Group's total revenue.

Other Products

The Group sells other products, including the sale of eliminated broilers 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 decreased by 11.8% to RMB74.6 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB84.6 million), representing 2.8% of the Group's total revenue.

BUSINESS REVIEW

In the first half of 2024, the white-feathered broilers industry was in a prolonged stage of “grinding at the bottom” of the cycle due to the dual impact of supply and demand. For the breeding section, the price of raw materials such as corn and soybean meal continued its downward trend, leading to further improvement in breeding costs. For the processing and sales section, consumption of chicken was weak and the performance of all channels was sluggish, causing the price of chicken products to fall to a new low in the past three years.

In the first half of 2024, Fengxiang adhered to the development initiative of three “continuance”, fully leveraging the advantages of integrated industry-chain business model and 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 relative remarkable improvements in overall operation and management.

In the first half of 2024, the Group achieved sales revenue of RMB2,654.0 million (the first half of 2023: RMB2,436.5 million), representing a period-on-period growth of 8.9%. The net profit amounted to RMB60.1 million (the first half of 2023: RMB82.1 million), representing a period-on-period decrease of 26.8%.

The Group has advantage of multi-channel penetration and continuous growth in revenue from export business and major customer business; has enhanced its production efficiency and lowered the cost through refined management enhancement by the management personnel and all employees; and has seen decline in the price of raw materials and improvement in breeding efficiency, leading to further reduction in breeding costs.

Although the sales volume of chicken meat products increased, there is a weak end-consumer demand for chicken, resulting in a decrease in the average selling price of chicken products, which contributed to a decrease in net profit.

Business Highlights:

1. *Centralised Procurement Business Continued its Growth Momentum*

During the Reporting Period, the centralised procurement business achieved sales revenue of RMB646.3 million (six months ended 30 June 2023: RMB511.2 million), representing a period-on-period increase of 26.4% and accounting for 24.4% (same period: 21%) of the overall business.

During the Reporting Period, the Group continued to promote refined management, optimise the production and processing section and formulas of its products and enhance the level of automation to achieve cost reduction and efficiency enhancement. Meanwhile, the Group continued to upgrade and transform its existing equipment to further enhance the production capacity of its factories. During the Reporting Period, the Group continued to explore the growth potential of its large customers and focus on building major single products, while actively exploring new channels and new customers, realising the rapid growth of its centralised procurement business.

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

During the Reporting Period, the major customer business under the centralised procurement business achieved revenue of RMB500.5 million (six months ended 30 June 2023: RMB375.7 million), representing a period-on-period increase of 33.2%.

During the Reporting Period, the Group continued to implement its full collaboration with major customers, deeply integrated into the supply chain system of major customers and efficiently synergised with major customers in the sections of R&D, quality control and information sharing. While optimising the processing flow and techniques of mature products, the Group 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 achieved rapid growth in both sales volume and revenue.

2. *The Leading Market Position of Export Business was Further Consolidated*

During the Reporting Period, the sales revenue from the export business of the Group amounted to RMB765.8 million (six months ended 30 June 2023: RMB637.8 million), representing a period-on-period increase of 20.1% and accounting for 28.9% of the overall business (same period: 26.2%).

In the first half of 2024, China's exports showed rapid growth. With more than 30 years of experience in serving overseas customers, the Group has formed a strong moat in terms of brand loyalty, product quality assurance, comprehensiveness of service system and market influence, and has been the largest export supplier in the white-feathered chicken industry in China for consecutive years.

During the Reporting Period, the Group promptly adjusted its internal management structure in accordance with the changes in the export business to better adapt to the needs of international customers and business development. In the face of complex international situations such as geographical conflicts, rising freight costs and the Group's tight production capacity, the Group continued to develop overseas markets and strengthened interactions with overseas customers, thus realising an increase in performance and volume in various segments of the overseas markets and further consolidating its leading position in the export business.

3. Retail Business Remained as a Leader

The retail business achieved sales revenue of RMB202.2 million (six months ended 30 June 2023: RMB231.3 million), representing a period-on-period decrease of 12.6% and accounting for 7.6% of the overall business (same period: 9.5%).

Among which, the share of iShape in the retail business increased from 58.3% for the same period to 59.3%, continuing to play a major role in the Company's retail business.

During the Reporting Period, iShape further expanded its consumption scenarios and promoted the "multi-temperature + multi-protein" strategy, successively launching a series of new products such as skinless chicken thighs at room temperature, bouncy chicken breast meatballs, chicken breast bean curd rolls, and original-flavoured beef. At present, the proportion of iShape's room temperature products has reached 28%, and the brand continues to maintain its leading position in the market as a whole.

On this basis, iShape has focused its marketing efforts on the young customer base and launched a number of co-branded IP products that have achieved good market performance, further expanding the room for future growth.

Besides, during the Reporting Period, iShape cooperated with Costco in China, the largest membership chain store in the United States. At present, the new products customised and developed by iShape for Costco have been launched in all of its stores in China.

Development Measures: Continue to Promote the Refinement of Management and Efficiency of All Aspects Improves Steadily. Continue to Deepen Channel Penetration and Expand Market Share. Continue to Accelerate the Construction of Talent Pool and Increase Organisational Vitality.

1. *Development Goal:*

We will adjust to market demands, commit to upgrade 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 will maintain our industry leadership in the export business and enhance profitability and international influence. We will continue to increase customers' loyalty, actively understand customer needs, continue to enhance product quality, launch new products and increase our market share.

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. *Development Measures:*

In the second half of 2024, the Group will adhere to the three principles of “continuous” and further enhance the Company’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 Efficiency of All Aspects Improves Steadily”:*

At the breeding end, we will continue to promote refined management in all aspects. In the hatching process, we will further enhance the production performance of breeder hatching and reduce the cost of chicks; in the commercial breeding process, we will further improve the efficiency of broiler rearing; in the procurement and feed production process, we will continue to optimise feed formulations to continuously reduce the impact of raw material price fluctuations on breeding costs.

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

At the R&D end, we will enhance the depth of our synergy with customers' business lines, proactively understand customer needs, continue to introduce new products, optimise the efficiency of existing products and increase customer share.

At the operation end, through the integration of all links of operations, we will optimise and improve the allocation of orders, warehousing and logistics, further reduce warehousing and distribution costs and improve delivery efficiency to reduce operation costs.

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 an increase in volume and revenue from various business channels. In the meantime, we continue to increase the proportion of processed chicken meat products and boost the Group's sales revenue.

In the second half of 2024, the Group will make use of information technology and digitalised measures to assist the Company 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 regard this as a start to continuously 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 consolidate the Company's leading position in the export business, and continue to upgrade its services, develop markets and broaden channels so as to provide the most outstanding services 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.

Through the implementation of the strategy of three principles of “continuance”, the Group realised the 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.

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

In order to achieve the goal of high-quality development, enterprises need to be supported by a high quality talent team. In the face of a complex and uncertain domestic market and an international environment full of changes and conflicts, in the second half of 2024, the Group will take practical and effective measures such as share incentives to continue to accelerate the construction of talent pool, increase organisational vitality, consolidate core competencies and create an organisational culture that dares to meet the unknown and challenges.

FINANCIAL REVIEW

Overall performance

In the first half of 2024, the Group experienced an increase of 8.9% in revenue as compared to that of the first half of 2023. Compared with the corresponding period in 2023, there was a decrease of 15.9% in gross profit and a decrease of 26.8% in net profit. The basic earning per share was RMB0.04 for the first half of 2024. Set out below is the detailed information on the fluctuations in the Company's results for the six months ended 30 June 2024.

Items	Six months ended 30 June		Change (%)
	2024 <i>RMB'000</i> (unaudited)	2023 <i>RMB'000</i> (unaudited)	
Total operating revenue	2,654,039	2,436,545	+8.9
Operating costs	2,416,625	2,154,318	+12.2
Selling expenses	79,017	84,768	-6.8
Administrative expenses	61,942	52,892	+17.1
R&D expenses	12,314	13,142	-6.3
Finance costs	32,356	41,667	-22.3
Other gains	1,463	4,821	-69.6
Profit before biological assets fair value adjustments	59,511	71,792	-17.1
Total profit	20,950	83,726	-75.0
Income tax expenses	(39,144)	1,631	N/A
Net profit	60,094	82,095	-26.8
Gross profit	237,414	282,227	-15.9
Gross profit margin	8.9%	11.6%	-22.8
Net profit margin	2.3%	3.4%	-32.8

Operating costs

The Group's operating costs increased by 12.2% to RMB2,416.6 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB2,154.3 million), mainly due to an increase in processing and sales volume of the Group.

Administrative expenses

The Group's administrative expenses increased by 17.1% to RMB62.0 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB52.9 million), mainly due to an increase in employee's remuneration resulted from the implementation of the Company's incentive mechanism for stabilisation of the management team.

Selling expenses

The Group's selling expenses dropped by 6.8% to RMB79.0 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB84.8 million), mainly due to the Group's implementation of a prudent development strategy, which improved the efficiency of investment in the new retail business, leading to a decrease in selling and marketing expenses.

R&D expenses

The Group's R&D expenses decreased by 6.3% to RMB12.3 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB13.1 million), mainly due to the Group's active optimisation in the structure of product R&D and the integration of R&D projects.

Finance costs

	Six months ended 30 June	
	2024	2023
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest expenses	32,969	48,613
Including: Interest expenses for lease liabilities	5,681	6,073
Interest income	(2,095)	(2,734)
Exchange losses	(7,733)	(3,956)
Handling fees and others	9,215	(256)
	<u>32,969</u>	<u>48,613</u>
Total	<u>32,356</u>	<u>41,667</u>

The Group's finance costs decreased by 22.3% to RMB32.4 million for the six months ended 30 June 2024 (six months ended 30 June 2023: RMB41.7 million), mainly due to the improvement of the Group's borrowing structure resulting in the significant decrease in interest rates.

Income tax expenses

The Group's income tax expenses for the six months ended 30 June 2024 recorded an amount of RMB–39.1 million (six months ended 30 June 2023: RMB1.6 million), mainly due to the decrease in deferred income tax expenses resulting from the recognition of deferred income tax assets for deductible temporary differences arising from asset impairment on deposits with GMK Finance Co., Ltd. For details, please refer to Note 7 to the Condensed Consolidated Financial Statements — “INCOME TAX EXPENSES” and Note 14 to the Condensed Consolidated Financial Statements — “DEFERRED INCOME TAX ASSETS AND DEFERRED INCOME TAX LIABILITIES”.

Analysis on Capital Resources

Liquidity and Capital Resources

The Group has funded its operations principally with cash generated from its operations, borrowings and shareholders' capital contributions. The Group's primary uses of cash for the six months ended 30 June 2024 were for working capital purposes and improvement of production equipment and facilities.

Capital Structure

As at 30 June 2024, the registered capital of the Company was RMB1,582,618,000 and the total number of issued shares of the Company 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.

As at 30 June 2024, the total borrowings of the Group amounted to RMB1,142.0 million, representing a decrease of 2.8% as compared to that of 31 December 2023. The decrease was mainly attributable to the decline in 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 a debt-to-asset ratio, which is total debt divided by total assets. The gearing ratio and debt-to-asset ratio as at 30 June 2024 was 37.0% (31 December 2023: 38.7%) and 39.2% (31 December 2023: 40.0%), respectively.

Contingent Liabilities and Pledge of Assets

The Group's bank borrowings as at 30 June 2024 were secured by (i) mortgages of the Group's lands situated in the PRC with an aggregate net carrying values of amount of RMB61.5 million (31 December 2023: RMB62.4 million); (ii) pledge of the Group's bank deposits of RMB68.7 million (31 December 2023: RMB8.6 million); (iii) pledge of certain of the Group's property, plant and equipment with aggregate net carrying amount of RMB1,215.7 million (31 December 2023: RMB886.1 million); and (iv) pledge of the Group's inventories with aggregate net carrying amount of RMB130.2 million (31 December 2023: RMB241.4 million).

As at 30 June 2024, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2024, the Group had 6,075 employees who were directly employed by the Group, of which 6,072 employees were employed in the PRC and three employees were located in Japan. The remuneration packages for the employees include salary, bonuses and allowances. As required by the PRC regulations, the Group (i) participates in social insurance schemes operated by the relevant local government authorities, and (ii) maintains mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. The Group also provides continuing education and training programmes to its employees to improve their skills and develop their potential. The Company also adopted three share award schemes on 24 June 2020, 10 December 2021 (as amended on 6 June 2024) (the "2021 SAS") and 29 August 2023 (as amended on 6 June 2024) (the "2023 SAS"), respectively. The employee participants of the 2021 SAS shall only include connected persons of the Company (as defined under the Listing Rules) while the employee participants of the 2023 SAS shall exclude such connected persons.

BUSINESS OUTLOOK

1. Challenges and risks

- (1) the continued volatility of the international situation has an adverse impact on the development of the export business;
- (2) the recovery of domestic consumer markets falls short of expectations and the prices of products remain low.

2. Opportunities and potential development

- (1) the upward trend in domestic pork prices is further confirmed, opening up space for rebound in chicken prices;

- (2) the breeding costs continue to fall due to the decline in prices of raw materials such as corn and soybean meal;
- (3) the demand for white-feathered chicken is resilient and shows an upward trend in the long-term;
- (4) customer recognition for the white-feathered broilers increases year by year.

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 customers' 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) continuously increase processing capacity to improve capacity utilisation rate and ease order pressure.

OTHER EVENTS

Interim Dividend

The Board did not recommend the declaration or payment of an interim dividend for the six months ended 30 June 2024 (for the six months ended 30 June 2023: Nil).

Proposed Initial Public Offering of A Shares

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

Public Float and Suspension of Trading in the H Shares

Upon completion of the acquisition of the domestic shares of the Company (the “**Shares**”) by Falcon Holding LP (“**Falcon**” or the “**Offeror**”) on 20 December 2022, 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 of the Company (the “**Shareholders**”) to consider and vote on the delisting resolution (the “**Delisting Resolution**”) (among other business).

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

On 18 January 2023, 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.

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 was not satisfied.

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. On 25 April 2023, the Company received a letter from the Stock Exchange setting out the guidance for the resumption of trading in the shares of the Company on the Stock Exchange (the “**Resumption Guidance**”). Pursuant to the Resumption Guidance, the Company shall: (i) restore the minimum public float required under Rule 8.08(1)(a) of the Listing Rules; and (ii) inform the market of all material information for the Shareholders and other investors to appraise the Company’s position. For details, please refer to the joint announcements of the Company and the Offeror dated 1 February 2023 and 26 April 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, 1 September 2023 to 31 December 2023, 1 January 2024 to 30 April 2024, and 1 May 2024 to 31 July 2024, respectively.

In order to satisfy the Resumption Guidance, the Company had taken appropriate steps to restore its public float as required under Rule 8.08(1)(a) of the Listing Rules and resume the trading in H Shares as soon as practicable.

The Company completed subscriptions of a total 182,618,000 H Shares with two subscribers on 11 September 2023, representing approximately 11.53% of the issued share capital of the Company as at the date of this interim results announcement.

The Offeror further completed sales of a total 80,520,000 H Shares with two purchasers on 15 September 2023 and 3 October 2023, representing approximately 5.09% of the issued share capital of the Company as at the date of this interim results announcement.

On 24 July 2024, awards under the 2021 SAS granted to certain selected participants who are non-connected persons of the Company (“**Non-connected Grantees**”) were cancelled and substituted by new grant of awards under the 2023 SAS to such Non-connected Grantees, which were satisfied partly by issuance of 730,000 new H Shares within the scheme mandate limit of the Company (i.e. the total number of H Shares which may be acquired (whether by subscription as new H Shares and/or purchase/acceptance of existing H Shares in issue) in respect of all awards and/or options to be granted under relevant schemes of the Company, which shall not exceed 10% of the issued Shares as at the date of amendment, being 6 June 2024) (the “**Scheme Mandate Limit**”), representing approximately 0.05% of the total issued Shares as enlarged by the allotment and issue of new Shares, and partly by existing H Shares in issue under the 2023 SAS. The trustee holds such H Shares on behalf of the employee participants under the 2023 SAS, hence satisfy the requirement under Rule 8.24 of the Listing Rules and be counted towards the public float of the Company.

Upon completion of the above steps, the Company’s public float restored to over 25%. The Company fulfilled the Resumption Guidance.

As at the date of this interim results announcement, 395,840,395 H Shares, representing approximately 25.00% of the issued Shares, are held by the public (within the meaning of the Listing Rules). The Company applied for, and the Stock Exchange granted, for the resumption of trading in H Shares of the Company with effect from 9:00 a.m. on 31 July 2024. For details, please refer to the announcement of the Company dated 30 July 2024.

Amendments to the Articles of Association

On 29 December 2023, the amendments to the Company Law of the People’s Republic of China (《中華人民共和國公司法》) (the “**PRC Company Law**”) were adopted and took effect on 1 July 2024. The new PRC Company Law makes changes to the current PRC Company Law, including optimisation of corporate governance, enhancement in protection for minority shareholders, and strengthening of responsibilities and fiduciary duties of controlling shareholders, directors, supervisors and senior management members. Listed issuers are required to make any necessary changes to their constitutional documents in accordance with the latest amendments to the PRC Company Law before the effective date.

Meanwhile, given that the Company’s daily business operation will involve cargo transportation, the Company is required to include (i) road transportation of goods (excluding dangerous goods) and (ii) motor vehicle repair and maintenance in its scope of business in accordance with the Regulations of the People’s Republic of China on Road Transportation (《中華人民共和國道路運輸條例》). As a result, the scope of business as stated in the articles of association of the Company (the “**Articles of Association**”) shall be amended and such amendments are subject to review by the company registration authority.

Based on the foregoing, the Company proposed to amend the Articles of Association in order to (i) reflect the change in business scope of the Company; (ii) reflect the latest amendments in the PRC Company Law in the Articles of Association; and (iii) make other consequential, tidy-up and housekeeping amendments (the “**Articles Amendments**”).

In view of the Articles Amendments, the Board and the board of supervisors of the Company proposed to amend the rules of procedure for the general meeting, the rules of procedure for the Board and the rules of procedure for the board of supervisors of the Company (the “**Procedural Rules Amendments**”).

The resolutions in relation to the Articles Amendments and the Procedural Rules Amendments were approved by the Shareholders at the annual general meeting of the Company on 5 June 2024.

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

Proposed Amendments to the Share Schemes

The Company proposed to make amendments to the 2021 SAS and 2023 SAS (the “**Share Schemes**”), including but not limited to, (i) to allow the amended Share Schemes to involve the grant of awarded shares by new H Shares and/or existing H Shares in issue; (ii) to adopt the Scheme Mandate Limit; (iii) to specify that the total number of H Shares which may be acquired (whether by subscription as new H Shares and/or purchase/acceptance of existing H Shares in issue) in respect of all awards and/or options to be granted under the relevant schemes of the Company under the Scheme Mandate Limit as “refreshed” shall not exceed 10% of the total number of issued Shares as at the date of approval of the refreshing of the Scheme Mandate Limit by the Shareholders; (iv) to require approval by the Shareholders for refreshment of the Scheme Mandate Limit after three years from the date of the Shareholders’ approval for the last refreshment (or as the case may be, the date of amendment, being 6 June 2024); (v) to require approval by independent Shareholders for refreshment of the Scheme Mandate Limit within a three-year period from the date of the Shareholders’ approval for the last refreshment (or as the case may be, the date of amendment, being 6 June 2024); (vi) to allow the Company to grant an award to any selected participant at nil or such consideration subject to such terms and conditions as the Board may in its sole and absolute discretion determine; and (vii) to include other amendments for house-keeping purposes and to better align the wording among the amended Share Schemes and with that of the Listing Rules.

The amended Share Schemes constitute share schemes involving issue of new Shares by the Company under Chapter 17 of the Listing Rules. The resolution in relation to the amendments was approved by the Shareholders at the annual general meeting of the Company on 5 June 2024.

Grant of Awards pursuant to the 2023 SAS

To gradually differentiate the eligible participants of the 2021 SAS and 2023 SAS, so that the employee participants of the 2021 SAS shall only include connected persons of the Company (as defined under the Listing Rules) while the employee participants of the 2023 SAS shall exclude such connected persons, on 24 July 2024, the Company (i) cancelled the 2,955,968 awarded shares granted to, yet unvested in, certain Non-connected Grantees under the 2021 SAS and (ii) substituted such cancelled grants under the 2021 SAS by new grants of 2,955,968 awarded shares to such Non-connected Grantees under the 2023 SAS (subject to acceptance by the grantees). The new grants of 2,955,968 awarded shares will be satisfied partly by issuance of 730,000 new H Shares within the Scheme Mandate Limit and partly by existing H Shares in issue under the 2023 SAS, representing approximately 0.1867% of the total issued Shares as at the date of this interim results announcement and the total issued Shares as enlarged by the allotment and issue of new Shares. Subsequent to the new grants of

2,955,968 awarded Shares, the number of Shares available for future grants under the relevant schemes of the Company is 155,305,832. For details, please refer to the announcement of the Company dated 24 July 2024.

Continuing Connected Transaction

As the loan framework agreement (the “**Loan Framework Agreement**”) entered into between the Company and Falcon on 28 January 2023 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 interim results announcement, which is required to be disclosed under Chapter 14A of the Listing Rules.

Compliance with the Corporate Governance Code

During the six months ended 30 June 2024, the Company has complied with all the applicable code provisions of the Corporate Governance Code (“**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 compliance with the CG Code.

Directors’ and Supervisors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 to the Listing Rules as a code of conduct for securities transactions by the directors (the “**Directors**”) and supervisors (the “**Supervisors**”) of the Company. The Company has made specific

enquiries with each Director and Supervisor and each of them confirmed that he or she had complied with all required standards under the Model Code during the six months ended 30 June 2024.

Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2024.

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

Save as disclosed in this interim results announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures for the six months ended 30 June 2024.

Subsequent Event

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

Review of Interim Results

The Audit Committee comprises two independent non-executive Directors, namely, Mr. Chung Wai Man and Ms. Wang Anyi and a non-executive Director, namely, Mr. Lu Wei. Mr. Chung Wai Man serves as the chairman of the Audit Committee, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2024 and is of the view that the interim results of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Report

The interim report of the Company for the six months ended 30 June 2024 will be published on the websites of the Company (www.fengxiang.com) and the Stock Exchange (www.hkexnews.hk), respectively.

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

Shandong, the PRC, 24 August 2024

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

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