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 2020

HIGHLIGHTS

Key Operating Data

	For the year ended 31 December		
	2020	2019	Change *(%)*
White-feathered broilers bred *(unit: million birds)*	**115.8**	101.7	+13.8%
White-feathered broilers processed *(unit: million kg)*	**266.5**	229.3	+16.2%
Sales volume of:			
Raw chicken meat products *(unit: million kg)*	**187.1**	159.9	+17.0%
Processed chicken meat products *(unit: million kg)*	**85.3**	69.6	+22.6%
Chicken breeds *(unit: million birds)*	**35.6**	60.4	-41.1%

Key Financial Data

	For the year ended 31 December			
	2020		2019	
	Before biological assets fair value adjustments	**After biological assets fair value adjustments**	Before biological assets fair value adjustments	After biological assets fair value adjustments
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Revenue	**3,901,615**	**3,901,615**	3,926,217	3,926,217
Gross Profit	**702,051**	**402,039**	1,221,460	428,415
Profit for the year	**178,772**	**151,615**	833,935	837,381
Profit attributable to the owners of the Company	**—**	**152,640**	—	837,522
Basic earnings per share *(in RMB cents)*	**—**	**12.64**	—	80.15

FINANCIAL INFORMATION

The board of directors (the "**Board**") of Shandong Fengxiang Co., Ltd. (the "**Company**" or "**Fengxiang**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2020 (the "**Reporting Period**"), together with the comparative figures in 2019 as follows. Unless otherwise specified, financial data of the Company is presented in Renminbi ("**RMB**").

The Board recommended the payment of a final dividend of RMB0.03 per share and an aggregate dividend of RMB42,000,000 for the Reporting Period.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

		2020			2019		
	Notes	**Results before biological fair value adjustments** *RMB'000*	**Biological fair value adjustments** *RMB'000*	**Total** *RMB'000*	Results before biological fair value adjustments *RMB'000*	Biological fair value adjustments *RMB'000*	Total *RMB'000*
Revenue	3	**3,901,615**	**—**	**3,901,615**	3,926,217	—	3,926,217
Cost of sales		**(3,199,564)**	**(300,012)**	**(3,499,576)**	(2,704,757)	(793,045)	(3,497,802)
Gross profit		**702,051**	**(300,012)**	**402,039**	1,221,460	(793,045)	428,415
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		**—**	**247,885**	**247,885**	—	402,785	402,785
Gain arising from changes in fair value less costs to sell of biological assets		**—**	**24,970**	**24,970**	—	393,706	393,706
Other income and gains	5	**54,132**	**—**	**54,132**	27,942	—	27,942
Selling and distribution costs		**(329,284)**	**—**	**(329,284)**	(159,290)	—	(159,290)
Administrative expenses		**(162,252)**	**—**	**(162,252)**	(160,631)	—	(160,631)
Reversal of/(provision for) loss allowance		**3,065**	**—**	**3,065**	(745)	—	(745)
Other expenses		**(9,006)**	**—**	**(9,006)**	(4,141)	—	(4,141)
Finance costs	6	**(83,890)**	**—**	**(83,890)**	(89,322)	—	(89,322)
Gain on disposal of a subsidiary		**10,076**	**—**	**10,076**	—	—	—
Share of loss of an associate		**(173)**	**—**	**(173)**	—	—	—
Profit before income tax	7	**184,719**	**(27,157)**	**157,562**	835,273	3,446	838,719
Income tax expense	8	**(5,947)**	**—**	**(5,947)**	(1,338)	—	(1,338)
Profit for the year		**178,772**	**(27,157)**	**151,615**	833,935	3,446	837,381

	2020			2019		
	Results before biological fair value adjustments	**Biological fair value adjustments**	**Total**	Results before biological fair value adjustments	Biological fair value adjustments	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Other comprehensive income						
Other comprehensive income that may be reclassified subsequently to profit or loss:						
Exchange difference on translation of financial statements of foreign operations			**(109)**			64
Other comprehensive income for the year			**(109)**			64
Total comprehensive income for the year			**151,506**			837,445
Profit attributable to:						
Owners of the Company			**152,640**			837,522
Non-controlling interest			**(1,025)**			(141)
			151,615			837,381
Total comprehensive income attributable to:						
Owners of the Company			**152,531**			837,586
Non-controlling interest			**(1,025)**			(141)
			151,506			837,445
Earnings per share attributable to owners of the Company						
Basic *(in RMB cents)*			**12.64**			80.15
Diluted *(in RMB cents)*			**12.63**			80.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Notes	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment		**2,463,320**	2,171,889
Right-of-use assets		**270,319**	287,977
Intangible assets		**8,717**	9,528
Interest in an associate		**64,811**	—
Biological assets		**166,192**	157,877
Prepayments and deposits		**155,237**	60,213
Deferred tax assets		**403**	3,509
Total non-current assets		**3,128,999**	2,690,993
Current assets			
Inventories		**572,524**	485,025
Biological assets		**145,922**	141,873
Trade receivables	*11*	**203,619**	206,625
Prepayments, deposits and other receivables		**169,600**	158,531
Due from a related party		**750**	46
Pledged deposits		**266,155**	184,590
Cash and cash equivalents		**1,289,981**	563,365
Total current assets		**2,648,551**	1,740,055
Current liabilities			
Trade and bills payables	*12*	**217,321**	308,120
Accruals and other payables		**342,236**	252,470
Contract liabilities		**35,100**	21,160
Lease liabilities		**4,508**	3,476
Due to related parties		**7,056**	5,283
Borrowings		**1,553,885**	1,266,398
Deferred government grants		**156**	847
Income tax payable		**2,251**	545
Total current liabilities		**2,162,513**	1,858,299
Net current liabilities		**486,038**	(118,244)
Total assets less current liabilities		**3,615,037**	2,572,749

	2020	2019
	RMB'000	*RMB'000*
Non-current liabilities		
Lease liabilities	**188,402**	193,443
Borrowings	**32,353**	100,635
Deferred government grants	**6,747**	15,031
Total non-current liabilities	**227,502**	309,109
Net assets	**3,387,535**	2,263,640
Equity		
Equity attributable to owners of the Company		
Share capital	**1,400,000**	1,045,000
Reserves	**1,989,292**	1,219,372
	3,389,292	2,264,372
Non-controlling interest	**(1,757)**	(732)
Total equity	**3,387,535**	2,263,640

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new or amended IFRSs

Amendments to IFRS 3	Definition of a Business
Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform

None of these new or amended IFRSs has a material impact on the Group's results and financial position for the current or prior period. The Group has not early applied any new or amended IFRSs that is not yet effective for the current accounting period.

(b) New or amended IFRSs that have been issued but are not yet effective

The following new or amended IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16	Interest Rate Benchmark Reform — Phase 2[2]
Annual Improvements	Annual Improvement of IFRS standard 2018–2020[3]
Amendments to IAS 16	Proceeds before Intended Use[3]
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract[3]
Amendments to IFRS 3	Reference to the Conceptual Framework[4]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[5]
Amendment to IFRS 16	Covid-19-Related Rent Concessions[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[6]

1 Effective for annual periods beginning on or after 1 June 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective for annual periods beginning on or after 1 January 2022
4 Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022
5 Effective for annual periods beginning on or after 1 January 2023
6 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16, Interest Rate Benchmark Reform — Phase 2

The amendments address issues that might affect financial reporting when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the interest rate benchmark reform (the "**Reform**"). The amendments complement those issued in November 2019 and relate to (a) changes to contractual cash flows in which an entity will not have to derecognise or adjust the carrying amount of financial instruments for changes required by the Reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate; (b) hedge accounting in which an entity will not have to discontinue its hedge accounting solely because it makes changes required by the Reform, if the hedge meets other hedge accounting criteria; and (c) disclosures in which an entity will be required to disclose information about new risks arising from the Reform and how it manages the transition to alternative benchmark rates.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2018–2020

The annual improvements amends a number of standards, including:

- IFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

- IFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

- IAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 16, Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

The Directors is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to IAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The Directors is currently assessing the impact that the application of the amendments will have on the Group's consolidated financial statements.

Amendments to IFRS 3, Reference to the Conceptual Framework

The amendments update IFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

The Directors do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Amendments to IAS 1, Classification of Liabilities as Current or Non-current

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The Directors do not anticipate that the application of the amendments and revision in the future will have an impact on the Group's consolidated financial statements.

Amendments to IFRS16, Covid-19-Related Rent Concessions

Amendments to IFRS16 permits lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the Covid-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The amendment does not affect lessors. The Group is currently assessing the impact of amendments to IFRS 16 upon adoption and is considering whether it will choose to take advantage of the optional exemption available.

Amendments to IFRS 10 and IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transaction arise.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with the accounting policies which conform with IFRSs, which collective term include all IFRSs and IASs issued by the International Accounting Standards Board and Interpretations issued by IFRS Interpretations Committee. In addition, the financial statements include applicable disclosure required by the Hong Kong Company Ordinance and the Listing Rules.

(b) Basis of measurement

The financial statements have been prepared on a historical cost convention, except for biological assets which are stated at fair values.

(c) Functional and presentation currency

The financial statements are presented in RMB, which is the same as the functional currency of the Company.

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 reportable operating segments as follows:

a) Production and sale of raw chicken meat products

b) Production and sale of processed chicken meat products

c) Production and sale of chicken breeds

d) Sale of other products

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment gross profit before biological assets fair value adjustments.

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

Year ended 31 December 2020	Raw chicken meat products RMB'000	Processed chicken meat products RMB'000	Chicken breeds RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	1,922,651	1,773,387	85,335	120,242	3,901,615
Timing of revenue recognition:					
At a point in time	1,922,651	1,773,387	85,335	120,242	3,901,615
Segment results	296,279	390,055	8,885	6,832	702,051
Reconciliation:					
Biological assets fair value adjustments					(27,157)
Other income and gains					54,132
Corporate and unallocated expenses					(497,477)
Finance costs					(83,890)
Gain on disposal of a subsidiary					10,076
Share of losses of an associate					(173)
Profit before income tax					157,562
Other segment information:					
Write-off of inventories	82	400	—	—	482
Depreciation of property, plant and equipment	122,325	30,308	5,979	1,677	160,289
Depreciation of right-of-use assets	4,284	2,746	—	3,295	10,325
Short-term lease expenses	301	—	137	242	680

Year ended 31 December 2019	Raw chicken meat products *RMB'000*	Processed chicken meat products *RMB'000*	Chicken breeds *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:					
Sales to external customers	1,887,398	1,433,227	426,448	179,144	3,926,217
Timing of revenue recognition:					
At a point in time	1,887,398	1,433,227	426,448	179,144	3,926,217
Segment results	557,356	325,572	314,318	24,214	1,221,460
Reconciliation:					
Biological assets fair value adjustments					3,446
Other income and gains					27,942
Corporate and unallocated expenses					(324,807)
Finance costs					(89,322)
Profit before income tax					838,719
Other segment information:					
Write-off of inventories	229	657	—	244	1,130
Depreciation of property, plant and equipment	66,061	60,900	10,021	4,202	141,184
Depreciation of right-of-use assets	4,145	2,555	—	3,370	10,070
Short-term lease expenses	416	—	102	2,246	2,764

Geographic information

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Mainland China	**3,036,653**	2,959,778
Japan	**382,416**	461,599
Malaysia	**216,861**	220,715
Europe	**202,740**	186,602
Other regions	**62,945**	97,523
	3,901,615	3,926,217

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

(b) Non-current assets

All the Group's non-current assets, excluding deferred tax assets, are located in Mainland China based on the geographical location of the assets.

4. OTHER INCOME AND GAINS

	2020	2019
	RMB'000	*RMB'000*
Bank interest income	**29,802**	7,392
Exchange gain	**1,793**	6,993
Government grants *(note)*	**19,333**	10,155
Others	**3,204**	3,402
	54,132	27,942

Note:

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

5. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on borrowings	**71,398**	64,105
Interest on bills payable	**1,141**	13,696
Interest on lease liabilities	**11,351**	11,521
	83,890	89,322

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories sold, including:		
— Write-off of inventories	**482**	1,130
Amortisation of intangible assets	**2,003**	1,510
Auditor's remuneration	**2,455**	791
Depreciation of property, plant and equipment	**172,404**	163,105
Depreciation of right-of-use assets	**10,504**	10,250
(Gain)/loss on disposals of property, plant and equipment	**(1,992)**	12,686
Loss allowance on trade receivables	**59**	541
Gain on disposal of a subsidiary	**(10,076)**	—
Share of loss of an associate	**173**	—
(Reversal of)/provision for loss allowance on other receivables	**(3,125)**	204
Short-term lease expenses	**4,307**	9,092
Research and development expenses	**21,399**	16,300
Listing expenses	**9,006**	4,141
Exchange gain	**(1,793)**	(6,993)
Employee benefit expense (including directors' emoluments:		
— Wage, salaries and allowances, social securities and other benefits	**516,671**	564,731
— Pension scheme contributions	**35,031**	40,619
— Share-based compensation	**3,453**	—
	555,155	605,350

7. INCOME TAX EXPENSE

	2020	2019
	RMB'000	*RMB'000*
Current tax — Mainland China		
Charge for the year	**4,841**	1,197
Under-provision in respect of prior years	**570**	—
Deferred tax	**536**	141
	5,947	1,338

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% during the years ended 31 December 2020 and 2019 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 subsidiary in Mainland China engaging in primary processing for agriculture products is exempted from EIT during the years ended 31 December 2020 and 2019.

(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 entitled to exemption from EIT during the years ended 31 December 2020 and 2019.

8. DIVIDENDS

On 31 March 2021, the Directors proposed a final dividend of HK$0.03 per share (including tax), amounting to approximately HK$49,677,000 (equivalent to approximately RMB42,000,000) for the year ended 31 December 2020, and will be submitted for formal approval by the shareholders of the Company at the annual general meeting held on 28 May 2021.

9. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company for share award scheme.

	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**152,640**	837,522
Weighted average number of ordinary shares in issue *('000)*	**1,208,012**	1,045,000
Basic earnings per share *(RMB cent per share)*	**RMB12.64**	RMB80.15

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue during the year (excluding the ordinary shares purchased by the Company under the share award scheme) with the shares under the share award scheme.

	2020	2019
Profit attributable to owners of the Company *(RMB'000)*	**152,640**	837,522
Weighted average number of ordinary shares in issue *('000)*	**1,208,012**	1,045,000
Adjustment for share award scheme *('000)*	**768**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share *('000)*	**1,208,780**	1,045,000
Diluted earnings per share *(RMB cent per share)*	**RMB12.63**	RMB80.15

10. TRADE RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**206,869**	209,816
Less: loss allowance	**(3,250)**	(3,191)
	203,619	206,625

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 receivables and overdue balances are reviewed regularly by senior management. Concentrations of credit risk are managed by analysis by customer. The Group does not hold any collateral or other credit enhancements over these balances. Trade and bills receivables are non-interest-bearing.

An aged analysis of the balance of trade receivables as at the end of the reporting periods, based on the invoice date and net of provision, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**140,665**	136,053
1 to 3 months	**60,594**	62,779
3 months to 1 year	**129**	6,325
Over 1 year	**2,231**	1,468
	203,619	206,625

The movement in provision for loss allowance of trade receivables is as below:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**3,191**	2,650
Loss allowance recognised *(note 7)*	**59**	541
At end of year	**3,250**	3,191

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

11. TRADE AND BILLS PAYABLES

Pledged deposits represent deposits pledged to banks for securing banking facilities including letter of credits and bank loans granted to the Group. These pledged deposits will be released upon the release of the relevant facilities or the settlement of relevant borrowings.

Trade payables are 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.

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**217,321**	168,120
Bills payable	**—**	140,000
	217,321	308,120

The Group's bills payable are all aged within six months.

As at 31 December 2019, the Group's bills payable are represents the bills issued to Shandong Yanggu Da Feng Food Co., Ltd. (山東陽穀大豐食品有限公司) ("**Yanggu Da Feng**"), a fellow subsidiary of the Company.

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

	2020	2019
	RMB'000	*RMB'000*
Within 1 month	**149,897**	123,076
1 to 3 months	**58,429**	33,364
3 months to 1 year	**5,868**	7,469
Over 1 year	**3,127**	4,211
	217,321	168,120

As at 31 December 2019, trade payables included an amount of approximately RMB21,098,000, which was payable to Yanggu Da Feng. These balances were unsecured, interest-free and repayable on demand.

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 products in the People's Republic of China ("**PRC**"), 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 chicken meat products substantially from white-feathered broilers. The Group also manufactures and markets a wide range of processed chicken meat products. The main products include (1) processed chicken meat products; (2) raw chicken meat products; (3) chicken breeds; and (4) others. The Group also produces a small portion of chicken meat products from Sichuan Mountain Black Bone Chicken bred in Sichuan, the PRC, in which part of the production facilities are based. Apart from its leading domestic market position in the PRC, the Group has an established and growing export business supplying a wide range of premium quality chicken meat products to overseas customers in Japan, Malaysia, the European Union, South 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

Raw chicken meat products

The Group offers raw white-feathered chicken meat products, which include whole frozen chickens and chicken portions, such as chicken wings, chicken breast, chicken drumsticks, chicken drumettes, bone-in chicken thighs, boneless chicken fillets, chicken head, chicken feet and chicken legs. The Group's broilers are then cut into portions according to its internal or customers' requirements, which will be chilled or frozen depending on the product nature. For the year ended 31 December 2020, the sales volume of raw chicken meat products increased by 17.0% to 187.1 million kilogram ("**kg**") (2019: 159.9 million kg). Revenue from external sale of raw chicken meat products grew by 1.9% to RMB1,922.7 million for 2020 (2019: RMB1,887.4 million), representing 49.3% of the Group's total revenue.

Processed chicken meat products

The Group markets its processed chicken meat products under "鳳祥食品 (Fovo Foods)", "優形 (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 in the PRC and overseas. The cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products, which are fully cooked and sterilised (end consumers will need to reheat the frozen cooked chicken meat products before consumption according to the instructions provided on the packaging). The semi-cooked chicken meat products are processed, chilled or frozen and boxed (end consumers will need to further process (including steaming, grilling, roasting or frying) such semi-cooked chicken meat products before consumption according to the instructions provided on the packaging). The seasoned chicken meat products include raw chicken meat flavoured with certain ingredients or spices. The Group also offers ready-to-cook pre-prepared meal solutions, including Chinese cuisine. The sales volume of processed chicken meat products for 2020 was 85.3 million kg (2019: 69.6 million kg). Revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 23.7% to RMB1,773.4 million for 2020 (2019: RMB1,433.2 million), representing 45.5% 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. The sales volume of chicken breeds for 2020 was 35.6 million birds (2019: 60.4 million birds). Revenue from external sale of chicken breeds significantly dropped by 80.0% to RMB85.3 million for 2020 (2019: RMB426.4 million), representing 2.2% of the Group's total revenue.

Other products

The Group sells other products, including sale of broilers that cannot satisfy the Group's quality requirements and excess broiler eggs that exceed the Group's internal needs, by-products (such as chicken feather, chicken blood and unused chicken organs), organic fertiliser, black-bone chicken meat products (being the Group's Sichuan Mountain Black Bone Chicken), packing materials and other miscellaneous products. This business segment had been slumping during 2020 as compared to that in 2019. Revenue from external sale of other products dropped by 32.9% to RMB120.2 million for 2020 (2019: RMB179.1 million), representing 3.1% of the Group's total revenue.

BUSINESS REVIEW

During 2020, benefiting from the leapfrog development of new retail business, the further development of new centralised procurement business targeted at domestic leading catering enterprises and the long-term trust of key customers of new export business, the Company maintained its revenue amid the downturn pressure from the outbreak of the coronavirus disease and the macroeconomic downturn in 2020 which is partially offset by the decrease in average selling prices of chicken breeds during the year, recording RMB3,696.0 million for chicken meat products (excluding revenue generated from chicken breeds and other segments) and booking a year-on-year growth of 11.3%.

Looking back on 2020, it would be seen as a critical year in the history development and transformation and upgrading of the Company. In 2020:

- the Company continued advancing the optimisation of products structure and highlight its main business of food products which enabled the proportion of processed chicken meat products to reach a record high of 45.5%;

- the Company continued focusing on the development of the retail business. Such channel's revenue accounted for more than 20% for the first time, marking a landmark step in the transformation to a branded food enterprise;

- the Company continued focusing on the development of the "iShape (優形)" brand. Revenue of this series of products booked a year-on-year increase by 280.3% to RMB230.9 million. The "iShape (優形)" brand has become the national pioneer and leader in the field of ready-to-eat chicken breast;

- the Company continued focusing on supply-chain integration, channel extension as well as research and development ("**R&D**") and marketing refinement. The basic structure serving future marketing goals has been built, marking a new stage of precise operation and digital enhancement;

- the Company overcame problems resulting from a range of adverse factors such as the COVID-19 pandemic, which demonstrated not only stronger anti-risk and resilience capabilities, but also great innovation capabilities and growth momentum;

- the Company entered the capital market for the first time, becoming an iconic public company of the PRC in the chicken meat food production on the Stock Exchange.

As at 31 December 2020, benefitting from the above-mentioned reasons, notwithstanding the decrease in net profit (before biological assets fair value adjustment) from RMB833.9 million in 2019 to RMB178.8 million in 2020 which was primarily attributable to the (i) the decrease in profit from sale of chicken breeds, which was attributable to the Company's proactive measures to significantly reduce the production and sales volume of chicken breeds based on the strategic consideration and the drastic fluctuations of the price of chicken breeds as disclosed in the interim report of the Company for the six months ended 30 June 2020; (ii) the decrease in gross profit from the Group's chicken meat products, which was partially due to the decrease in average selling price of raw chicken meat products; and (iii) an increase in selling, marketing, promotion and research and development expenses as a result of the increase in resources invested by the Group in its new retail business, the Company achieved sales revenue of RMB3,901.6 million, which is generally remained the same as in 2019. Moreover, the product and channel structure of the Company have undergone optimisation.

(I) Industry observation: surging consumer demand, promising industry prospects

We are full of confidence in the development of the industry in the next few years, mainly because:

1. Transformation of national taste; deep-rooted trend of healthy diet

People born in the 1980s and 1990s, especially Generation Z (those who was born in 1995–2009), have gradually become major consumers. Their attitude to life and dietary concepts are different from traditional ones.

Occasionally, consumers enjoy guilty pleasure. But more often, healthism prevails: food with lower fat, lower calories, less sugar and salt as well as rich in fiber and nutrition which is easy to cook and serve with moderate portions has become daily favorite of majority of consumers.

In 2019, China became the world's second largest producer and consumer of poultry. The consumption accounted for 14% of the world's total consumption, only behind the United States which accounted for 17.0%. However, China's per capita chicken consumption was only 14.19 kg per year, much lower than the United States with 50.96 kg per year, and also lower than the 17.73 kg per year and 18.74 kg per year in Japan and South Korea, respectively.

White-feathered chicken is closely related to the light meal market due to their characteristics. It has the best development opportunity due to its higher protein, lower fat, low cholesterol, low calorie content and more economical and environmentally-friendly breeding costs.

With the aging population, sub-health normalisation as well as continuous improvement of people's consumption level and nutritional structure, a dietary revolution has occurred in Chinese people's lives and still waters run deep. Consumers are increasingly concerned about their own health, and thus the demand will further increase. This is also the fundamental reason that Fengxiang started its "iShape (優形)" brand with ready-to-eat chicken breast.

2. *Created full consumption scenes, and target customers have changed from families to individuals*

In recent years, the types of processed food in the poultry industry has become more diversified and specialised, and the brand effect of the products gradually appears. Behind these phenomenon, are the changes in consumers' purchase habits and consumption scenes.

We collect information through multiple dimensions including order time, order channel, storage method, purchase motivation, contact channel, etc., and carry out digital portraits of brand users, and match personalised marketing strategies with product portfolios according to different scenarios and consumer groups.

We have noticed that the way young consumers think is significantly different from that of the previous generation. In most cases, the main criterion of the previous generation is the largest value for money ratio, since they prepare meals for the whole family; and young customers needs to select high-quality food ingredients for the family while choosing healthy foods for themselves and their families. They also pay attention to promotional activities, yet they prefer brands that they like and trust. The formation of the "iShape 優形" brand also supports that, once consumption habits are formed, the brand loyalty of this younger generation is evidently higher than the previous generation.

In addition, under the new 14th Five-Year Plan, in line with the rural revitalisation plan, China formulated active policies to support white feathered chickens and other related industries.

Therefore, we believe that the traditional white feathered chicken breeding industry has the best development opportunity with the right time, the right place, and the right people. It is likely that high-quality, high-reputation chicken food brand companies will emerge, transform and upgrade.

(II) Strategic decision: "From raw to cooked, B+C", a new market and a great brand

1. Strategic positioning: Adhering to the "123" strategy and creating a leading chicken brand

In the past few years, the Company was determined to transform and upgrade. By implementing the "123" development strategy ("*One Foundation, Two Major Markets and Three Driving Forces*"), the Company continued increasing the proportion of processed food products, expanding the retail business and creating China's leading chicken brand.

(1) "One Foundation":

To strengthen the Group's advantage in its vertically integrated business model across the entire industry value chain and the industry ecological chain and effectively manage the supply chain, so as to ensure food quality and safety, offer consumers with quality-assured products and lay down a solid foundation for product quality.

(2) *"Two Major Markets":*

To simultaneously develop the domestic market and the international market, ensure "*same production line, same standard, same quality*" for domestic sales and export sales, and facilitate the mutual circulation of the domestic and international markets.

(3) *"Three Driving Forces":*

Firstly, to coordinate online and offline resources to focus on the developing new retail business. New retail represents the B2C business of the Group which has undergone vigorously development over the past few years, providing quality branded products such as "Fengxiang (鳳祥)" and "iShape (優形)" directly to consumers through online e-commerce services, offline convenience stores and boutique supermarkets.

Secondly, to develop the new centralised procurement business targeted at the catering industry and the convenience store system. New centralised procurement, in relation to the food and beverage industry on which the Group has been focusing on, refers to the provision of high quality products to leading enterprises of the catering industry and the convenience store system with high-quality products of group purchasing and procurement business, by leveraging its years of experience in serving KFC, McDonald's and in line with the trend of the upgrading of procurement standards.

Thirdly, to construct the new export business through product optimisation and multiple channels. New export refers to the upgrading of the long-term leading position in the Group's export business, through accumulation of its export experience for 20 years, to deliver supreme services and to achieve diversified channels through upgrading services, developing markets and expanding channels.

Through implementation of the new strategy, the domestic market and the international market supplement and boost each other, and great synergy is created among the new retail business, the new centralised procurement business and the new export business. With the quality and standard for serving global top catering giants for years, the Group is committed to providing hundreds of millions of families with high-quality products and services, creating China's leading chicken meat product brand.

2. *Brand series: "iShape (優形)" breaks through, and innovative "Fengxiang (鳳祥)"*

The Group has three main chicken brands: "iShape (優形)" series, "Fengxiang (鳳祥)" series, and "Wu Genglu (五更爐)" series.

(1) "iShape (優形)*" series:*

With chicken breast as the main raw material, the Company has launched products such as "salad chicken breast (沙拉雞胸肉)", "mini salad chicken breast (Mini沙拉雞胸肉)、"chicken breast slices (胸肉切片)", "protein bars (蛋白棒)" and "Yikou Buren sausage (一口不忍腸)". This series is the pioneer and leader in the ready-to-eat chicken breast market, whose market share and brand reputation are both in the leading position in the industry.

"Shape (優形)" products are unique products created by the Company that conform with the consumption upgrade trend and food industry reform. The products have set foot in approximately 30,000 high-quality convenience stores and boutique supermarkets in China's first-tier cities, and are sold in flagship stores on both Tmall and JD.com.

In 2020, products under the "iShape (優形)" brand name achieved sales revenue of RMB230.9 million, representing a year-on-year increase of 280.0%; during the "618" period, it increased year on year by 481.0%, and during the "Double 11 (雙11)" period, it increased year on year by 705.0% and both market sales and growth rate are much higher than the industry average. Moreover, the products are generally rated as the "most delicious" and "most beloved" chicken breast, maintaining explosive market growth and phenomenal brand influence.

In 2020, "iShape (優形)" also signed contracts with celebrities, Wan Qian and Xu Weizhou as brand image spokespersons for the first time. With the popularity of variety shows, it launched a wave of online and offline marketing and integrated marketing. Through online platforms such as "Xiaohongshu" and "Tik Tok", and through impactful offline marketing activities such as subway packaging, convenience store packages, the Company achieved good results and have left consumers and the society with a deep impression.

The "iShape (優形)" brand is positive, healthy and friendly, focusing on empathy with consumers.

In 2020, the Company added 15 stock keeping units ("**SKUs**") (product segments) to "iShape (優形)" series and upgraded packaging of the whole product line; in 2021, the Company plans to perfect popular products while continuing exploring consumer needs, and it is expected to launch more than 10 new products to enrich the product line. Meanwhile, the Company already has plans to venture into overseas markets.

(2) *"Fengxiang (鳳祥)" series:*

"Fengxiang" is a China well-known trademark. It began exporting to Japan, Southeast Asia, and the European Union in 1996; and it entered the KFC and McDonald's systems in 1998. The Company is now one of China's largest chicken exporters and B-end suppliers.

Since 2016, the Company has been committed to developing product series for C-end users. The "Fengxiang" brand has shown great innovation in the retail end and differentiation in related sub-fields.

Wu Minxia, the only person in the Chinese Olympic team winning five gold medals and the third-generation diving queen, was invited to be the brand image spokeperson of the "Fengxiang (鳳祥)" brand, whose "reassurance" characteristic is highlighted. Further, the Company remains the only designated chicken product supplier by the Training Department of the General Administration of Sport of China for three consecutive years. Furthermore, it has strong persuasiveness and competitiveness in terms of product quality because of its long-term exportation to Japan and the European Union.

In 2020, the Company launched new products such as salted egg flavored chicken (鹹蛋黃嫩骨雞), salted egg flavoured chicken steak (鹹蛋黃大雞排), microwave haichu series (微波嗨廚系列) and olive oil chicken steak (橄欖油大雞排)under the "Fengxiang (鳳祥)" series, which received great market response.

In 2020, "Fengxiang (鳳祥)" brand-name products achieved sales revenue of RMB517.9 million, increasing year on year by 231.0%; during the "Double 11 (雙11)" period, it increased by 548.0% on a year-on-year basis.

(3) "Wu Genglu (五更爐)" series:

"Wu Genglu (五更爐)" is a time-honored brand in Shandong, and smoked chicken and stewed chicken are its flagship products. It is mainly sold in Shandong Province and its surrounding areas, where it has long been a must-have gift for visiting relatives and friends during festivals.

In 2020, the "Wu Genglu (五更爐)" brand-name products achieved sales revenue of RMB43.6 million, representing a year-on-year increase of 23.0%.

In the future, the "Wu Genglu (五更爐)" series will enter a broader market through sinking channels, and may also possibly launch highly-quality regional products through innovative combination with other local flavours.

(III) Business review: strong main business, cooked food takes lead, B2B end remains stable, B2C end is explosive

1. Revenue and profit performance

During the Reporting Period, benefitting from the outstanding performance of the three main business, namely new retail, new centralised procurement, and new export, especially the new retail business, the Company achieved the milestone of transformation and upgrading in terms of business structure and product structure.

During the Reporting Period, sales revenue of the Group was RMB3,901.6 million, which generally remained stable as in 2019.

The analysis is as follows:

Performance of main products: the sales revenue of processed chicken meat products was RMB1,773.4 million, and the proportion of total revenue increased significantly from 36.5% in 2019 to 45.5%; the sales revenue of raw chicken meat products was RMB1,922.7 million, and the proportion of total revenue increased slightly from 48.1% in 2019 to 49.3%; and the sales revenue of chicken breeds and others was RMB205.6 million, and the proportion of total revenue decreased significantly from 15.4% in 2019 to 5.3%. The strategic adjustment of the Company's business structure and product structure has basically been in place.

Performance of main channels: the sales revenue of the new retail channel increased year on year by 214.2% to RMB793.4 million, and the proportion of total revenue increased significantly from 6.4% in 2019 to 20.3%. Among them, online flagship stores in particular achieved a huge increase of 527.1%; the sales revenue of the new centralised procurement channel increased year on year by 12.1% to RMB809.9 million, and the proportion of total revenue increased from 18.4% in 2019 to 20.8%; and the sales revenue of the new export channel decreased year on year by 10.5% to RMB865.0 million, and the proportion of total revenue decreased slightly from 24.6% in the same period in 2019 to 22.2%.

Performance of main brands: the "iShape (優形)" branded products achieved sales revenue of RMB230.9 million, representing a year-on-year increase of 280.3%; the "Fengxiang" branded products achieved sales revenue of RMB517.9 million, representing a year-on-year increase of 231.1%; and the "Wu Genglu (五更爐)" branded products achieved sales revenue of RMB43.6 million, representing a year-on-year increase of 23.2%.

The net profit (before biological assets fair value adjustment) was RMB178.8 million, representing a year-on-year decrease of 78.6%.

(IV) Infrastructure: establishment of distribution channels, upgrade of R&D systems and upgrade logistics services

During the Reporting Period, the Company strengthened several major infrastructures of its operation management.

1. Distribution channels

(1) *New export channels*: the Company withstood the test of the pandemic in Japan, Malaysia and other Asian countries, and the distributorship system remained stable; in the European Union market, the Company shifted its focus of the cooperation network from the catering industry to supermarkets and convenience stores, leading to an increase in sales revenue of 8.6% against the trend; and the Company was also advancing plans for expanding overseas markets.

(2) *New procurement channels*: the Company kept good cooperation with and remained as a top first-tier supplier of KFC and McDonald's, which were included in three driving forces. Moreover, the Company strengthened the effort to develop the market of Chinese restaurant chains, convenience stores and group customers, and managed to be a supplier of more than 42,000 stores. The whole channel achieved a growth of 12.1%, and the income from the main business accounted for 20.8%.

(3) *New retail channels*: during the Reporting Period, the Company's priority were establishment and maintenance of this channel.

① the number of high-quality convenience stores and supermarkets in first-and second-tier cities as well as "iShape (優形)" brand sales network stores reached nearly 30,000, covering nearly 80 cities in China; compared with 2019, the number of stores increased by nearly 10,000.

② the "Fengxiang (鳳祥)" brand sales network cooperation plan in first- and second-tier cities was also launched.

③ the sales cooperation areas of the "Fengxiang (鳳祥)" brand and the "Wu Genglu (五更爐)" brand in supermarkets and small shops of third-and fourth-tier cities were expanded from Liaocheng, Shandong Province to six surrounding cities.

④ the Company opened "iShape (優形)" and "Fengxiang" flagship stores online on Tmall and JD.com, respectively, and sales revenue increased by 527.1%; it became one of the major chicken food suppliers on platforms such as Missfresh (每日優鮮) and Dingdong Maicai (叮咚買菜); and it launched a project of channel establishment and maintenance on new social e-commerce platforms such as Tik Tok (抖音) and Kuaishou (快手).

⑤ the whole channel's sales revenue increased by 214.2% on a year-on-year basis, and the proportion of total revenue increased significantly from 6.4% in 2019 to 20.3%.

2. *R&D system*

The Company has built and tailored a professional and efficient modern R&D team for each business channel.

Shandong R&D Center was set up in its headquarters in Yanggu, Shandong, which is responsible for technology realisation and product implementation; Tokyo R&D Center was set up in Tokyo, which introduces international R&D concepts, technical equipment and product ideas; Shanghai R&D Center was set up in Shanghai, which makes full use of the talent center, information center, technology center and resource center of Shanghai as an international metropolis, thus forming a three-dimensional (3D) modern R&D system with both division of labor and collaboration.

Tokyo R&D Center has introduced a number of international top scholars to form a senior R&D team to conduct consumer research and product development for the entire Asian market by relying on Tokyo's research resources and cutting-edge intelligence. As the overseas R&D center with the highest specification, the most complete functions and the most abundant research resources in China's chicken products industry, it boosts the Company's export and B2B and B2C business to grow continuously and rapidly.

Based on the resource advantages of Shanghai, Shanghai R&D Center is close to key customers and the international city's manure internal and external resources, and its role as an "innovation hub" is becoming more prominent. Through the integration of industry resources, rapid response to key customers and efficient transformation of cutting-edge market intelligence, it boosts the Company's B2B key customers and B2C business to grow continuously and rapidly.

Shandong R&D Center relies on the Company's breeding and production base to provide comprehensive product support for B2B, B2C, export and collection channels, and promote the complete product implementation process from product development and process implementation to lean production, whole industry chain convergence and quality traceability system, which is an important part of the integrated chain of R&D and production.

B2B business is a mature business of the Company. In order to further cultivate the market, the Company has implemented R&D down to each B-side business unit, with the aim of providing innovative product development and comprehensive services to B-side customers, and providing integrated product development solutions for B-side customers with the guidance of rapid response and efficient operation, so as to further provide strong support to the continuous and stable growth of the company's B-side business.

B2C business is a new strategic focus of the Company. Through the introduction of industry leaders, the implementation of the internationally popular product manager and project manager system, absorbing the advanced IPD product portfolio development management process from Huawei and other companies, it creates a modern product lifecycle management process from deep market insight and product idea refinement, to the development of products with core technology and strong product power through technology introduction, and to the product implementation, the whole supply chain lean management and the modernised R&D management process of product lifecycle control and iterative upgrade after product launch; smoothly enables the Company to complete the transition from a resource/production-oriented enterprise to a market-oriented enterprise, to develop the product ideas from the perspective of consumers, to closely connect with the sales side, and to open up a complete chain of product creativity and R&D innovation, providing a solid foundation and powerful assistance for the Company's strategic shift to B2C and the rapid development of C-end brands.

3. *Logistics management*

(1) Informatisation: in order to meet the great demand for processing new online retail orders, the Company developed and complemented the middle system (中台系統) for the new retail business based on the original enterprise resource planning (ERP) system, integrating omni-channel order, inventory, merchandise and financial data management, and has achieved full chain visualisation and integration.

(2) Automation application: with the application of automated storage and retrieval system, the Company has improved warehouse management, formed a planned and choreographed production chain, and significantly increased production capacity. The Company has also applied automatic scanning and weighing equipment at the B2C-end, instantly measuring and storing data to safeguard the development of new retail business.

(3) Logistics service enhancement: the Company has improved customer shopping experience through quality logistics services, and has made significant improvements in order fulfillment rate and order collection time efficiency through the establishment and strict implementation of standard operating procedures (SOP) specifications for logistics services; in term of selection of logistics service providers, the Company only cooperates with top logistics providers (SF Cold Chain (順豐冷鏈) and Jingdong Cold Chain (京東冷鏈)), aiming to provide customers with better services while offering exquisite and healthy products.

(4) Logistics cost control: The Company takes full advantages of its scale and forms strategic partnerships with logistics service providers to effectively control logistics costs and collaborate with the logistics service providers for a win-win situation.

(V) Organisational change: R&D emphasis, strengthening markets, and allocating high-quality resources to the B2C-end and "iShape (優形)"

During the Reporting Period, the Company carried out a deep-level organisational reform, and reorganised the assessment standards and implementation process. In general, the Company will emphasise on R&D, strengthening markets, and allocate more high-quality resources to B2C-end and "iShape (優形)".

The Company reorganised the department structure of products and business according to business characteristics. The B2C-end business (new retail business) was operated more independently, and the professional functions such as resource allocation, product R&D, quality control and logistics integration at the headquarters level were strengthened, in order to develop the main business.

The Company hired scientific research personnel with rich B2C-end experience, further developed the R&D team and formed an internal collaboration mechanism driven by the market and R&D, which further improved its organisational efficiency from trend capturing to product launches, and further improved the speed in the industry chain's response to market demand.

The Company has advantages of coordination and interaction among the three R&D centers in "Tokyo, Shanghai, and Shandong", which is rare in the industry. Tokyo is the leading consumption and cutting-edge technology center, Shanghai is the product innovation center, and Shandong is the process transformation center. Furthermore, the Company established a strategic partnership and its efficient and coordinated R&D system has provided excellent technical and organizational support for meeting market demand.

The Company made it clear that it would allocate more high-quality resources to the C-end and the "iShape (優形)" brand for a long period of time in the future, which will be included in performance assessment of the relevant personnel of the whole Company during the process. The Company will cause the retail business and the "iShape (優形)" brand to become bigger and stronger at all costs.

During the Reporting Period, the Company implemented the first share award scheme. In the future, it may continue to launch (where possible) incentive plans with larger scale and greater benefits in succession in the capital markets of Hong Kong or the PRC, targeting business backbone personnel and professionals, in order to achieve consistency of interests between the Company and employees, and to establish a community of shared future with the same values. In addition, the Company will create and share growth value with employees, to form a positive atmosphere for re-start up, to realise the development vision, and to fulfill the organisational mission.

(VI) Quality Control: Carrying forward the quality advantage to the extreme, and the new-added Good Agricultural Practices (GAP) certificate

The Company boasts a business model with strong upstream and downstream quality control, and is able to produce processed chicken products according to customer orders, including product types and quantities and delivery schedules. Furthermore, the Company is able to well control the entire production process and reduce production costs, thus continuously improving production efficiency and maintaining high reliability.

Through standardisation and refinement of production processes, the Company continues to improve labour productivity and disease prevention and control capabilities in order to realise product tracking and to improve safety and quality. During the Reporting Period, the Company successfully won the Certificate of Honor for Guaranteed Products from the General Administration of Sport of China (國家體育總局保障產品榮譽證書), the "2020 Taishan Quality Certification" (2020年度泰山品質認證) and the "Annual Most Influential Brand" from the world-renowned convenience store Lawson. In 2020, it passed the advanced customs certification of "authorised economic operator" ("**AEO**") and enjoy "green access" globally. AEO is a measure advocated by the World Customs Organisation ("**Customs**") to balance trade and convenience. The Customs implements certificates certification in four aspects, including internal control, financial status, compliance with laws and regulations and trade security, and provides customs clearance facilitation measures and preferential treatment to enterprises that have passed the certification, to facilitate external trade of such enterprises. The AEO advanced certification has been known as the "accelerator" to foreign trade growth. As an AEO certified company, Fengxiang's lower inspection rate stands for shorter customs clearance time and costs saving, which greatly improves the efficiency of express delivery.

The Company continues using food quality and safety solutions that meet the import quality inspection standards of Japan, the European Union and other countries and regions. The food quality and safety solutions cover the six major links in product delivery such as breeders, animal food, breeding, pandemic prevention, testing and logistics, realising the full control of the industrial chain process. Under the management of this system, the Company's production system has been certified by the top three international management system: BRC, HACCP and ISO9001.

FINANCIAL REVIEW

Overall performance

For the year ended 31 December 2020, the Group experienced a slight decrease of 0.6% of revenue as compared to that of 2019. Before biological assets fair value adjustments, there was a decrease of 42.5% of gross profit, 78.6% of profit for the year and 81.8% of profit attributable to the owners of the Company as compared to the corresponding year in 2019. The basic earnings per share was RMB12.64 cents in 2020. Set out below is further information on the fluctuations in the Company's results for the year ended 31 December 2020:

	Year ended 31 December		
	2020	2019	
	RMB'000	*RMB'000*	Change (%)
Revenue	**3,901,615**	3,926,217	-0.6%
Cost of sales (Before biological assets fair value adjustments)	**(3,199,564)**	(2,704,757)	+18.3%
Gross profit (After biological assets fair value adjustments)	**402,039**	428,415	-6.2%
Gross profit (Before biological assets fair value adjustments)	**702,051**	1,221,460	-42.5%
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	**247,885**	402,785	-38.5%
Gain arising from changes in fair value less costs to sell of biological assets	**24,970**	393,706	-93.7%
Other income and gains	**54,132**	27,942	+93.7%
Selling and distribution expenses	**(329,284)**	(159,290)	+106.7%
Administrative expenses	**(162,252)**	(160,631)	+1.0%
Reversal of/(provision for) impairment loss/Loss allowance	**3,065**	(745)	-511.4%
Other expenses	**(9,006)**	(4,141)	+117.5%
Finance costs	**(83,890)**	(89,322)	-6.1%
Profit before income tax (After biological assets fair value adjustments)	**157,562**	838,719	-81.2%
Income tax expense	**(5,947)**	(1,338)	+344.5%
Profit for the year (Before biological assets fair value adjustments)	**178,772**	833,935	-78.6%

	As at 31 December		
	2020	2019	Change
	(%)	*(%)*	*(%)*
Gross profit margin (Before biological assets fair value adjustments)	**18.0**	31.1	-42.2%
Gross profit margin (After biological assets fair value adjustments	**10.3**	10.9	-5.6%
Net profit margin	**3.9**	21.3	-81.8%

Revenue by products

	2020	2019	Change
	RMB'000	*RMB'000*	*(%)*
Raw chicken meat products	**1,922,651**	1,887,398	1.9%
Processed chicken meat products	**1,773,387**	1,433,227	23.7%
Chicken breeds	**85,335**	426,448	-80%
Others	**120,242**	179,143	-32.9%
Total	**3,901,615**	3,926,217	-0.6%

During the Reporting Period, the Company firmly focused its strategy on the retail business and processed chicken meat products business, resulting in a 23.7% increase in sales revenue from processed chicken meat products, representing 45.5% of total revenue (2019: 36.5%); a 214.2% year-on-year increase in sales revenue from new retail channels, representing 20.3% of total revenue (2019: 6.4%); and a 1.9% increase in sales revenue from raw chicken meat products, representing 49.3% of total revenue (2019: 48.1%). Meanwhile, chicken breeds business was no longer the focus of the Company's development, and the unit price, sales volume and revenue of chicken breeds all dropped significantly during the Reporting Period. Through the re-focusing of strategy, the Company realised transformation and upgrading in terms of product structure.

Sales volume and average selling price by products

	2020 *('000)*	2019 *('000)*	Change *(%)*
Raw chicken meat products			
Sales volume *(per kg)*	**187,120**	159,901	17.0%
Average selling price *(RMB per kg)*	**10.3**	11.8	-13.0%
Processed chicken meat products			
Sales volume *(per kg)*	**85,256**	69,566	22.6%
Average selling price *(RMB per kg)*	**20.8**	20.6	1.0%
Chicken breeds			
Sales volume *(per bird)*	**35,570**	60,446	-41.2%
Average selling price *(RMB per bird)*	**2.4**	7.1	-66.0%

During the Reporting Period, the number of white-feathered broiler being bred increased by 13.8% year-on-year, and the production and sales of chicken meat products all maintained corresponding growth, with correlating relationship between breeding, processing and sales growth. Raw chicken meat products were affected by market price fluctuations, resulting in a decline in average selling price; processed chicken meat products were not significantly affected by market price fluctuations, and the Company continued to launch new value-added products, resulting in a slight increase in average selling price.

During the Reporting Period, the price of chicken breeds fluctuated greatly due to market influences and significant drop in the average selling price, and the Company took the initiative to strategically reduce production, resulting in a significant drop in sales of chicken breeds.

Revenue by geographic territory and products

	2020	2019	Change
	RMB'000	*RMB'000*	*(%)*
Mainland China	**3,036,653**	2,959,778	2.6%
Japan	**382,416**	461,599	-17.2%
Malaysia	**216,861**	220,715	-1.7%
European Union	**202,740**	186,602	8.6%
Other countries	**62,945**	97,253	-35.3%
Total	**3,901,615**	3,926,217	-0.6%

Due to the impact of the COVID-19 pandemic, there was a downturn in the domestic and international chicken consumption markets, with some reduction in sales revenue from chicken meat products in Japan and Malaysia and other conturies. During the Reporting Period, the Company has actively expanded its channels, focused on the development of new retail business, new centralised procurement, and new export business, while the Company's strategic choice of "from raw to cooked" and "B+C" achieved relatively good results, resulting in a relatively large increase in sales revenue from processed chicken meat products. As a result, the sales revenue of chicken meat products in China, the European Union grew slightly against the trend and the total sales revenue in the Reporting Period was basically the same as last year.

B2C and B2C sales revenue

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

	2020	2019	Change
	RMB'000	*RMB'000*	*(%)*
B2B	**3,108,203**	3,673,711	-15.4%
B2C	**793,412**	252,506	214.2%
Of which: Online	**482,128**	168,679	185.8%
Offline	**311,284**	83,827	271.3%
Total	**3,901,615**	3,926,217	-0.6%

During the Reporting Period, benefitting from the steady advancement of the Company's B2C-end strategy, the B2C-end business achieved explosive growth, with significant growth in both online and offline. Currently, B2C-end of the business accounts for 20.3% of the Group's revenue, an increase of 13.9% compared to 2019. From the Company's strategy point of view, B2C-end has made greater progress, but the Company's market share in the area of high-quality animal protein is still relatively small, B2C-end is a boundless market, and the Company still has a very broad room for growth.

Finance Costs

The Group's finance costs slightly decreased by 6.1% to RMB83.9 million for 2020 (2019: RMB89.3 million), primarily due to the average interest rate of the Group's borrowings of 3.8% in 2020, representing a year-on-year decrease of 10.4%.

Profit before Income Tax

During the Reporting Period, the significant decline in profit before income tax was a result of two main factors: while the Company made persistent efforts in implementing its "123" strategy, including (1) the Company's firm strategic focus on its retail business and the processed chicken meat products business, instead of chicken breeds that has significant reduced its contribution to the Company's profit; (2) the Company's reinforcement of its strategic layout of meat sources for its future and since new breeding and production facilities are still being constructed, this resulted in strategic losses being incurred from the high costs of procurement of external chicken meat sources during the Reporting Period; and (3) the Company's focus on user demand and significantly increased its investment in professionals, R&D, sales and marketing during the Reporting Period to strengthen its retail business. In the meantime, the Company has also been affected by adverse market conditions, including (1) the continual impact of the COVID-19 pandemic, which suppressed consumer demand (in particular, international consumers) to a certain extent, with raw chicken meat products and prices of chicken breeds reaching a low point; (2) the increased costs of major animal feed ingredients such as corn and soybean meal; and (3) the impact of exchange rate fluctuations on export sales and international business. In addition, the Company has taken the initiative to increase public welfare expenditure and charitable donations during the Reporting Period in order to overcome the COVID-19 pandemic.

For the foregoing reasons, the Group's profit before income tax decreased significantly by 81.2% to RMB157.6 million for 2020 (2019: RMB838.7 million).

Income Tax Expense

The Group's income tax expense was RMB5.9 million for 2020 (2019: RMB1.3 million), representing an effective tax rate of 3.2% (2019: 0.2%), primarily due to tax exemptions granted to the Group due to the nature of its business. During 2020, whilst the Group's raw chicken meat products and chicken breeds continued to receive tax exemptions, the increase in sales revenue of the Group's taxable processed chicken meat products increased the income tax expense of the Group.

Gain Arising on Initial Recognition of Agriculture Produce at Fair Value Less Costs to Sell at the Point of Harvest

Gain arising on initial recognition of agriculture produce at fair value less costs to sell at the point of harvest decreased by 38.5% to RMB247.9 million for 2020 (2019: RMB402.8 million), primarily due to a decrease in market prices of live broilers in 2020.

Gain Arising from Changes in Fair Value Less Costs to Sell of Biological Assets

Gain arising from changes in fair value less estimated costs to sell of biological assets decreased by 93.7% to RMB25.0 million for 2020 (2019: RMB393.7 million), primarily due to a decrease in the market prices of chicken breeds in 2020.

Biological Assets Fair Value Adjustments

The Group's results of operations are affected by changes in fair values of its biological assets. In aggregate, these changes decreased the Group's profit for the year by RMB27.2 million for 2020 (2019: by RMB3.4 million). Biological assets fair value adjustments also increased the total cost of sales by RMB300.0 million for 2020 (2019: RMB793.0 million).

Fair Value Adjustments of Biological Assets

The Group's biological assets represent breeders, broilers, chicken breeds and broiler eggs. The Group measures its biological assets at their fair value less costs to sell when they are sold or as at the balance sheet dates pursuant to IAS 41 Agriculture. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss and presented as "Gain or loss arising from changes in fair value less costs to sell of biological assets" for the year in which it arises. Changes in the fair value less costs to sell of the Group's biological assets resulted in its recognition of gain in the amount of RMB25.0 million for 2020 (2019: RMB393.7 million) in the Group's consolidated statements of comprehensive income. These fair value gains represent fair value changes of the live breeders, live broilers and broiler eggs during the year and those remain on the Group's balance sheet at year-end less the costs to sell. Fair values of biological assets are largely dependent on the number of chickens, type of chicken and their age. The fair value of the Group's biological assets could also be affected by, among other things, the expected market price and the estimated yield of the agricultural produce, being chicken carcass, the expected market price of breeders and survival rate. Fair value gains do not generate any cash inflow for our operations and, similarly, fair value losses do not result in any cash outflows of the Group's operations. The Group expects that its results will continue to be affected by changes in the fair value of our biological assets.

Fair Value Adjustments of Agricultural Produce

Chicken meat products are produced from agricultural produce (that is, chicken carcass) harvested from the Group's biological assets. The Group measures its agricultural produce (that is, the chicken carcass) harvested from the biological assets at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss and presented as "Gain or loss arising from initial recognition of agricultural produce at fair value less costs to sell at the point of harvest" for the year in which it arises. Changes in the initial recognition of the Group's agricultural produce at fair value less costs to sell at the point of harvest resulted in gains in the amount of RMB247.9 million for 2020 (2019: RMB402.8 million) in the consolidated statements of comprehensive income. Agricultural produce is then transferred to inventories and upon subsequent sales, our cost of sales are also charged for changes in the initial recognition of agricultural produce at fair value less costs to sell at point of harvest.

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 2020 were for working capital purposes and capital expenditures for expansion and improvement of production facilities.

The Group had received financial assistance from GMK Finance, whereby the Group pledges commercial bills received by the Group in the ordinary course of business to GMK Finance for discounting in return for cash loans extended to the Group. The discounting of the commercial bills provides the Group a way to factor and to obtain cash from the commercial bills that it receives in its ordinary course of trading, which in turn allows the Group to increase its cash flows in advance.

Capital Structure

As at 31 December 2019, the registered capital of the Company was RMB1,045,000,000 and the total number of issued shares of the Company was 1,045,000,000 domestic shares with RMB1.00 each. Upon the listing of the Company (the "**Listing**") on the Stock Exchange and the completion of the global offering (the "**Global Offering**") of the H shares of the Company ("**H Shares**") on 16 July 2020 (the "**Listing Date**"), the registered capital of the Company increased to RMB1,400,000,000, and the total number of issued shares increased to 1,400,000,000 shares, comprising 1,045,000,000 domestic shares and 355,000,000 H Shares.

During 2020, the Company adopted proactive financing policies. The total borrowings of the Group amounted to RMB1,586.2 million, representing a year-on-year increase of 16.0% as at 31 December 2020. The increase is mainly attributable to (i) the grant of a one-year term loan of RMB200.0 million by state-owned commercial banks at a relatively low interest rate ranging from 3.2% to 3.4% to purchase raw materials, benefiting from the financial support policies promulgated by the PRC government; (ii) leveraging the Company's long established good credit rating, the Company was granted another one-year term loan of RMB485.0 million by a state-owned commercial bank with an interest rate ranging from 2.95% to 4.03%, for the purpose of financing its daily operations; and (iii) the Group's borrowings were renewed normally upon expiration during 2020. The abovementioned new borrowings have effectively strengthened the Company's resilience against uncertain risks brought about by the coronavirus pandemic, and provided sufficient capital reserve for the normal operation and rapid development of the Group.

As at 31 December 2020, the debt-to-equity ratio and debt-to-asset ratio of the Company were 46.8% (31 December 2019: 60.4%) and 41.4% (31 December 2019: 48.9%), respectively.

Contingent Liabilities and Pledge of Assets

The Group's bank borrowings as at 31 December 2020 were secured by (i) mortgages of the Group's lands situated in the PRC with aggregate net carrying values of RMB26.0 million (31 December 2019: RMB26.7 million); (ii) pledge of the Group's bank deposits of RMB266.1 million (31 December 2019: RMB184.6 million); (iii) pledge of certain of the Group's property, plant and equipment with aggregate net carrying amount of RMB277.0 million (31 December 2019: RMB249.5 million); (iv) pledge of certain inventories of the related company with aggregate net carrying amount of RMB535.0 million (31 December 2019: RMB539.4 million); and (v) guarantee from a related party for loans up to RMB49.0 million (31 December 2019: nil).

As at 31 December 2020, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2020, the Group had 7,669 employees who were directly employed by the Group, of which 7,663 employees were employed in the PRC and six employees were located in Japan. The remuneration packages for the employees include salary, bonuses and allowances. As required by the PRC regulations, the Group (i) participates in social insurance schemes operated by the relevant local government authorities, and (ii) maintains mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. The Group also provides continuing education and training programmes to its employees to improve their skills and develop their potential. The Company also adopted a share award scheme, and any full-time or part-time employees of the Group (including any Director) are eligible participants under the said scheme. In June 2020, the Company granted awards to certain selected participants to recognise their contribution and to provide them with incentives to retain them for the continual operation and development of the Group. The scheme has become effective on 16 July 2020.

BUSINESS OUTLOOK

1. Competitive landscape analysis:

    (1) the Company has gained advantages in the retail field of processed chicken meat products and ready-to-eat chicken breast, maintaining a growth rate higher than the industry average.

    (2) a group of excellent companies inside and outside the industry have entered the market, including white feathered chicken companies similar to Fengxiang with advantages in breeding at its own base and experience in supplying to catering companies, as well as traditional food companies that have extended from other meat products. Also, there are new economy companies with certain Internet DNA that are good at digital marketing, and well-known foreign companies with strong brand advantages and large industrial layouts. The industry competition is becoming increasingly intense; however, all chicken food companies face the same challenge: ways to enlarge the market and to keep consumers. The goal of the industry is highly consistent. We welcome excellent companies to participate in fair market competition, hoping that we join forces to be more professional, to expand markets, and to provide better products and services for consumers.

(3) Fengxiang was experiencing a difficult self-revolution in the past few years. Traditional food companies, especially those accustomed to the B2B-end business, would face great challenges when transforming to serving the B2C-end. We always believe that the biggest opponent must be ourselves. Whether a company can stick to its original intention, follow strategies, and constantly jump out of the comfort zone are the foundations of always seizing the initiative in the competition.

(4) Fengxiang is confident that we will continue creating stronger brand differentiation, better user satisfaction, and higher market share in the market competition in the future.

2. Long-term growth strategy:

(1) implementing comprehensive employee stock ownership plans and core member incentive plans, creating long-term consistency of interests between the Company and employees, and fully utilising the subjective initiative of professionals;

(2) continuing optimising the supply chain structure, matching the rapidly growing business needs, controlling costs, and establishing a good industrial ecosystem;

(3) continuing increasing R&D investment, maintaining quality advantages, as well as providing better purchasing, eating and interactive experiences for consumers;

(4) continuing enhancing brand value and consolidating the comprehensive advantages of product power, brand power and marketing power.

3. continuing advancing the process of digital operation transformation. On the basis of "attracting myriad customers" through sales channels in first-tier cities, the Company will switch to refined online offline operations, raising the level of digital operations, improving the capabilities to serve members and cultivating loyal users and brand fans.

OTHER EVENTS

Annual General Meeting

The Company is intended to hold its Annual General Meeting on Friday, 28 May 2021 (the "**2021 Annual General Meeting**"). The notice of 2021 Annual General Meeting will be published and despatched to shareholders of the Company (the "**Shareholders**") in due course pursuant to the requirements of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

Final Dividend

The Board recommended the payment of a final dividend of RMB0.03 per share (including tax) for the year ended 31 December 2020 (2019: nil). Subject to the approval of the Shareholders at 2021 Annual General Meeting, the final dividend is expected to be paid on Wednesday, 28 July 2021 to the Shareholders whose names are registered in the register of members of the Company on Thursday, 10 June 2021. Further details of the dividend payment will be announced after conclusion of the 2021 Annual General Meeting.

Pursuant to the Notice of the State Administration of Taxation on Issues Concerning Individual Income Tax Collection and Management after the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348), individuals who are resident outside the PRC and who hold shares issued in Hong Kong by domestic non-foreign invested enterprises enjoy preferential tax rate in accordance with the tax conventions between Mainland China and the country where the residents reside and the tax arrangements between the Mainland China and Hong Kong (Macao). Individual shareholders will be generally subject to a withholding tax rate of 10% when domestic non-foreign invested enterprises which issue shares in Hong Kong distribute dividends to their shareholders, unless otherwise required by the regulations of relevant tax laws and tax conventions.

Pursuant to the Notice on the Issues Concerning Withholding the Enterprises Income Tax on the Dividends Paid by Chinese Resident Enterprises to H Share Holders Who Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) of the State Administration of Taxation, we are obliged to withhold and pay enterprise income tax at the rate of 10% from dividends paid or payable for H Shares when distributing dividends to non-resident enterprise shareholders of H Shares.

No tax is payable in Hong Kong in respect of dividends paid by us according to the current practice of the Hong Kong Inland Revenue Department.

Shareholders are recommended to consult their tax advisers regarding the tax implication in the PRC, Hong Kong and other tax implications arising from their holding and disposal of H Shares of the Company.

Compliance with the Corporate Governance Code

Since the Listing of the Company's H Shares on the Stock Exchange on 16 July 2020, the Company has complied with all the applicable code provisions of the Corporate Governance Code ("**CG Code**") as set out in Appendix 14 to the Listing Rules since the Listing Date and up to the end of the Reporting Period. 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 ("**Model Code**") as set out in Appendix 10 to the Listing Rules as a code of conduct regarding securities transactions by the Directors and supervisors (the "**Supervisor**") of the Company. 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 since its Listing Date and up to the end of the Reporting Period.

Purchase, Sale or Redemption of Listed Securities

During the period from the Listing Date (i.e. 16 July 2020) to 31 December 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

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 2020.

Significant Events During and After the Reporting Period

On 16 July 2020, the Company issued 355,000,000 H Shares with nominal value of RMB1.0 each pursuant to the Global Offering at HK$3.33 per H Share and the Company's H Shares were listed on the Stock Exchange on the same date. Save as disclosed in the Prospectus, the Group did not have other plans for material investment in capital assets as at 31 December 2020.

On 31 August 2020, the Board proposed to amend the articles of association of the Company (i) to revise the description of the current business scope based on the Directory of Specification of Business Scope Registration (《經營範圍登記規範表述目錄》) issued according to the Notice regarding Implementation of Regulating the Registration of Business Scope of Market Participants (Lu Shi Jian Zhu Zi [2020] No. 212) (《關於全面實行市場主體經營範圍規範化登記的通知》) promulgated by the Shandong Administration for Market Regulation (山東省市場監督管理局); and (ii) to update its registered capital. The relevant resolutions have been approved by the Shareholders on 13 November 2020.

On 31 August 2020, the Company and GMK Finance Co., Ltd. (新鳳祥財務有限公司) ("**GMK Finance**") entered into deposit service framework agreement (the "**Deposit Service Framework Agreement**") in respect of the provision of deposit services by GMK Finance to members of the Group for a term of two years commencing from 1 January 2021 and ending on 31 December 2022 and were approved by the Shareholders at the 2020 third extraordinary general meeting of the Company held on 13 November 2020. The proposed annual caps, being the maximum daily balance of deposits (including interests accrued on such balances) placed by the Company with GMK Finance for the transactions contemplated under the Deposit Service Framework Agreement for the year ended 31 December 2021 and 2022 is RMB1,350 million and RMB1,350 million, respectively. At the time of the transaction, GMK Finance is held as to 52.5% by GMK Holdings, the controlling shareholder of the Company, directly and indirectly held 70.92% interest in the Company's total issued share capital (i.e. 992,854,500 Domestic Shares), and 47.5% by Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司), a company in which GMK Holdings ultimately holds more than 30%. GMK Holdings was held as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing (non-executive Director), Ms. Zhang Xiuying (spouse of Mr. Liu Xuejing), Mr. Liu Zhiguang (son of Mr. Liu Xuejing and executive Director) and Mr. Liu Zhiming (son of Mr. Liu Xuejing and brother of Mr. Liu Zhiguang), respectively. Accordingly, GMK Finance is a connected person of the Company and as a result, the transactions contemplated under the Deposit Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5%, the transactions to be contemplated thereunder are subject to reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. In addition, as one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5% but are less than 25%, it also constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules. For details, please refer to the Company's announcement dated 1 September 2020. Save as disclosed above and to the best knowledge of the Board, the Group had not entered into any connected transaction during the year, which is required to be disclosed under Chapter 14A of the Listing Rules.

On 30 September 2020, the Company's trustee of the share award scheme purchased 2,050,000 H Shares from the market pursuant to the terms of the share award scheme.

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

Re-election of Directors

On 13 November 2020, Mr. Liu Zhiguang, Mr. Xiao Dongsheng, Mr. Ow Weng Cheong, Mr. Wang Jinsheng, Mr. Liu Xuejing, Mr. Zhang Chuanli, Mr. Guo Tianyong, Mr. Zhang Ye and Mr. Chung Wai Man, members of the third session of the Board, have been re-elected as Directors of the fourth session of the Board as approved by the Shareholders at the 2020 third extraordinary general meeting held on 13 November 2020 by way of an ordinary resolution.

Re-election of Supervisors

On 13 November 2020, Mr. Kong Xiangwei and Mr. Chen Dehe, the shareholders representative Supervisors of the third session of the board of Supervisors, have been re-elected as Supervisors of the fourth session of the board of Supervisors as approved by the Shareholders at the 2020 third extraordinary general meeting of the Company held on 13 November 2020. Ms. Lian Xianmin, the employees representative Supervisor of the third session of the board of Supervisors, has also been re-elected as employees representative Supervisor of the fourth session of the board of Supervisors at the employees representative meeting held on 13 November 2020.

Change of Joint Company Secretary and Process Agent

Ms. Mok Ming Wai resigned as the joint company secretary of the Company and the agent for the acceptance of service of process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Process Agent**") with effect from 3 November 2020. Ms. Siu Pui Wah was appointed as the joint company secretary of the Company and the Process Agent with effect from 3 November 2020.

Review of Annual Results

The Company has established the audit committee of the Board (the "**Audit Committee**") in compliance with Rule 3.21 of the Listing Rules with written terms of reference in accordance with paragraph C.3 of the CG Code. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Chung Wai Man, Mr. Guo Tianyong and Mr. Zhang Ye.

The Audit Committee is chaired by Mr. Chung Wai Man. The Audit Committee has reviewed together with the management and the Board 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 2020. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2020 to the Board 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 2020 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This 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 despatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board
Shandong Fengxiang Co., Ltd.
Liu Zhiguang
Chairman

Shandong, PRC, 31 March 2021

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