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凤祥食品

SHANDONG FENGXIANG CO., LTD.

山東鳳祥股份有限公司

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

(Stock Code: 9977)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022**

HIGHLIGHTS

Key Operating Data

	For the year ended		
	31 December		
	2022	2021	Change (%)
White-feathered broilers bred <i>(unit: million birds)</i>	154.8	140.8	+9.9
White-feathered broilers processed <i>(unit: million kg)</i>	355.9	315.6	+12.8
Sales volume:			
Raw chicken meat products <i>(unit: million kg)</i>	251.5	202.9	+24.0
Processed chicken meat products <i>(unit: million kg)</i>	114.0	107.6	+6.0
Chicken breeds <i>(unit: million birds)</i>	32.1	31.1	+3.2

Key Financial Data

	For the year ended 31 December	
	2022 RMB'000	2021 RMB'000
Revenue	5,085,790	4,416,764
Gross profit	583,497	557,939
Net (loss)/profit	(769,029)	47,075
Net (loss)/profit attributable to the shareholders of the parent company	(769,029)	50,911
Adjusted net profit ⁽¹⁾	39,206	47,075
Basic (losses)/earnings per share (<i>in RMB cents</i>)	(55.4)	3.6

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

FINANCIAL INFORMATION

The board of directors (the “**Board of Directors**”) of Shandong Fengxiang Co., Ltd. (the “**Company**” or “**Fengxiang**” and its subsidiaries, collectively the “**Group**”) hereby announces the audited consolidated results and financial position of the Group for the year ended 31 December 2022 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2021 as follows. Unless otherwise specified, financial data of the Company are presented in Renminbi (“**RMB**”).

The following financial information is a summary of the audited consolidated financial statements for the year ended 31 December 2022 of the Group prepared under China Accounting Standards for Business Enterprises (“**CASBE**”) and relevant regulations issued by the Ministry of Finance of the People’s Republic of China (the “**PRC**” or “**China**”), which have been reviewed by the audit committee of the Board of Directors (the “**Audit Committee**”).

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

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

		For the year ended	
		31 December	
		2022	2021
	Note	RMB'000	RMB'000
Total operating revenue	3	5,085,790	4,416,764
Less: Operating costs		4,502,293	3,858,825
Taxes and charges		39,155	29,550
Selling expenses		329,206	345,019
Administrative expenses		108,499	89,311
Research and development expenses		31,944	24,983
Finance costs	4	49,105	47,696
Add: Other gains	5	9,676	13,392
Investment (loss)/income		(11,141)	18,791
Including loss on investments			
in associates and joint ventures		(3,230)	(1,741)
Gain/(loss) on changes in			
fair value	6	21,694	(4,170)
Credit impairment loss	7	(810,859)	(2,150)
Asset impairment loss		(3,937)	—
Gains on disposal of assets		761	1,622
Operating (loss)/profit		(768,217)	48,864
Add: non-operating income		948	943
Less: non-operating expenses		988	1,063
Total (loss)/profit		(768,257)	48,744
Less: income tax expenses	8	771	1,669
Net (loss)/profit		(769,029)	47,075
Net other comprehensive loss after tax		(419)	(408)
Total comprehensive (loss)/income		(769,448)	46,667
Total comprehensive (loss)/income			
attributable to the shareholders of the			
parent company		(769,448)	50,502
Total comprehensive loss attributable to			
minority interests		—	(3,835)
(Losses)/earnings per share	10		
Basic (losses)/earnings per share			
(RMB per Share)		(0.55)	0.04
Diluted (losses)/earnings per share			
(RMB per Share)		(0.55)	0.04

CONSOLIDATED BALANCE SHEET

As at 31 December 2022

		As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Current assets			
Monetary funds		332,156	1,854,774
Trade receivable	11	194,977	260,285
Prepayments		46,041	84,922
Other receivables		14,832	13,776
Inventories	12	897,447	1,018,047
Other current assets		<u>75,108</u>	<u>99,165</u>
Total current assets		<u>1,560,561</u>	<u>3,330,969</u>
Non-current assets			
Long-term equity investments		59,841	63,070
Fixed assets		3,055,597	2,961,615
Construction in progress	13	996	35,293
Productive biological assets	14	255,692	204,484
Right-of-use assets		201,487	194,630
Intangible assets		89,421	91,837
Deferred income tax assets		166	184
Other non-current assets		<u>4,573</u>	<u>48,970</u>
Total non-current assets		<u>3,667,773</u>	<u>3,600,083</u>
Total assets		<u>5,228,334</u>	<u>6,931,052</u>

		As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
	<i>Note</i>		
Current liabilities			
Short-term borrowings	<i>17</i>	1,124,614	1,731,044
Bills payable	<i>15</i>	70,000	46,607
Trade payable	<i>16</i>	454,943	448,844
Contract liabilities		46,449	34,352
Payroll payable		80,137	67,838
Taxes payable		10,035	9,674
Other payable		228,507	236,504
Non-current liabilities due within one year		120,413	132,598
Other current liabilities		2,497	3,003
Total current liabilities		<u>2,137,594</u>	<u>2,710,464</u>
Non-current liabilities			
Long-term borrowings	<i>17</i>	252,148	475,112
Lease liabilities		199,666	196,897
Long-term payable		6,071	125,991
Estimated liabilities		124	155
Deferred income		20,756	22,822
Total non-current liabilities		<u>478,765</u>	<u>820,976</u>
Total liabilities		<u>2,616,359</u>	<u>3,531,440</u>

		As at 31 December 2022	As at 31 December 2021
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
Owners' equity			
Share capital	18	1,400,000	1,400,000
Capital reserve		628,702	621,754
Less: treasury shares		27,685	2,548
Other comprehensive loss		(674)	(254)
Surplus reserves		155,378	155,378
Undistributed profits		<u>456,254</u>	<u>1,225,282</u>
Total equity attributable to owners of the parent company		<u>2,611,975</u>	<u>3,399,612</u>
Total owners' equity		<u><u>2,611,975</u></u>	<u><u>3,399,612</u></u>
Total liabilities and owners' equity		<u><u>5,228,334</u></u>	<u><u>6,931,052</u></u>

NOTES

For the year ended 31 December 2022

1. BASIS OF PREPARATION

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

2. CONTINUAL OPERATION

In 2022, the Company incurred a net loss of RMB769,028,600. The balance of unrestricted monetary funds of the Company as at 31 December 2022 was RMB144,732,800. The balance of short-term borrowings was RMB112,461,700. The balance of long-term borrowings and long-term payables due within one year was RMB112,237,600, indicating the existence of material uncertainties that may cast significant doubt on the Company’s ability to continue as a going concern.

The Company’s management intends to take relevant measures to improve its liquidity and expects to be able to obtain sufficient funds to support the Company’s operating needs for the foreseeable next 12 months.

The Company intends to take the following measures to improve the Company’s ability to continue as a going concern:

- (1) the controlling shareholder of the Company will provide loans to the Company for the Company’s operational needs. According to the Company’s announcement dated 29 January 2023, the new controlling shareholder entered into a loan framework agreement with the Company with a term from January 2023 to January 2024;
- (2) the Company has been actively negotiating with financial institutions to obtain new loans at a reasonable cost. Currently, some financial institutions have already indicated their intentions to grant new loans to the Company and loan renewals at present are normal. Given the Company’s past good credit

history and the influence of the controlling shareholder, the directors of the Company (the “**Directors**”) are confident that new loans can be obtained at a reasonable cost;

- (3) the Company will continue to focus on its main business, fully release its production capacity to generate business growth, continue to research and develop new products and expand overseas customers, accelerate channel construction and accelerate inventory turnover while continuing to adopt cost reduction and efficiency enhancement measures to increase operating cash flow; and
- (4) the Company will further enhance its capability to cope with financial risks, optimise its debt structure, reduce short-term liabilities and increase long-term liabilities to relieve the pressure of short-term debt repayment.

The Directors have reviewed the cash flow projections prepared by the management covering a period of not less than 12 months from the date on which these financial statements are reported by the Group. The management of the Company is of the opinion that the Group will be able to obtain sufficient working capital to ensure that the Group will be able to continue as a going concern for a period of 12 months after 31 December 2022 through the above measures. Accordingly, the Company considers it is appropriate to adopt the going concern basis in preparing the financial statements of the Company.

Notwithstanding the above, there are still significant uncertainties as to whether the management of the Group will be able to implement the above plans and measures. The Group’s ability to continue as a going concern will depend on:

- (1) timely receipt and settlement of loans from the holding company to domestic subsidiaries;
- (2) successfully maintaining ongoing and normal business relationships with the Group’s existing lenders so that the relevant lenders will not take actions to exercise their contractual rights to demand immediate repayment of such borrowings;
- (3) gradual release of the Company’s production capacity, continual stability of overseas customers, normal inventory turnover, timely recovery of trade receivables; and
- (4) successful extensions of term of loans.

If the Group does not achieve the expected results of the above plans and measures, it may not be able to continue as a going concern, and adjustments will have to be made to reduce the book value of the Group’s assets to their

recoverable amounts, to accrue any further liabilities that may arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

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

- (a) production and sale of processed chicken meat products;
- (b) production and sale of raw chicken meat products;
- (c) production and sale of chicken breeds; and
- (d) others comprising the sale of by-products, packing materials and miscellaneous products.

The management of the Company monitors the results of the Group's operating segments separately for the purpose of making decisions on resource allocation and performance assessment.

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

Operating revenue/operating costs

	For the year ended 31 December			
	2022		2021	
	Revenue <i>RMB'000</i>	Costs <i>RMB'000</i>	Revenue <i>RMB'000</i>	Costs <i>RMB'000</i>
Principal business	5,071,896	4,499,675	4,394,460	3,857,161
Other business	13,894	2,618	22,304	1,665
Total	<u>5,085,790</u>	<u>4,502,293</u>	<u>4,416,764</u>	<u>3,858,825</u>

As at the end of the Reporting Period, the transaction price corresponding to performance obligations that have been contracted but not yet performed or not yet completed was RMB46,449,000, which is expected to be recognised as revenue in 2023.

Revenue by products

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw chicken meat	2,500,559	1,913,256
Processed chicken meat	2,371,087	2,295,406
Chicken breeds	53,619	64,822
Others	<u>160,525</u>	<u>143,280</u>
Total	<u><u>5,085,790</u></u>	<u><u>4,416,764</u></u>

Revenue by geographical location of customers

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	3,726,469	3,440,302
Japan	387,353	369,488
Malaysia	329,914	275,957
Europe	558,309	262,068
Other countries or regions	<u>83,745</u>	<u>68,949</u>
Total	<u><u>5,085,790</u></u>	<u><u>4,416,764</u></u>

4. FINANCE COSTS

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	74,095	51,849
Including: Interest expenses on lease liabilities	11,502	11,227
Less: Interest income	23,448	37,434
Exchange (losses)/gains	(14,181)	1,890
Handling fee	1,424	2,380
Discount acceptance notes	<u>11,215</u>	<u>29,010</u>
Total	<u><u>49,105</u></u>	<u><u>47,696</u></u>

5. OTHER GAINS

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	9,323	13,196
Handling fee for withholding individual income tax	228	196
Gains from debt restructuring	<u>125</u>	<u>—</u>
Total	<u>9,676</u>	<u>13,392</u>

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

6. GAIN/(LOSS) ON CHANGES IN FAIR VALUE

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Gain/(loss) on changes in fair value of productive biological assets and consumptive biological assets	<u>21,694</u>	<u>(4,170)</u>
Total	<u>21,694</u>	<u>(4,170)</u>

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

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

7. CREDIT IMPAIRMENT LOSS

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Amounts receivables bad debt loss	(1,956)	(1,301)
Other receivables bad debt loss	(668)	(849)
Monetary fund receivables bad debt loss	<u>(808,235)</u>	<u>—</u>
Total	<u><u>(810,859)</u></u>	<u><u>(2,150)</u></u>

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

8. INCOME TAX EXPENSES

	For the year ended 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expenses	753	1,450
Deferred income tax expenses	<u>18</u>	<u>219</u>
Total	<u><u>771</u></u>	<u><u>1,669</u></u>

Under the Law of the People’s Republic of China on Enterprise Income Tax (the “**EIT Law**”) and the Regulation on the Implementation of the Enterprise Income Tax Law of the People’s Republic of China (the “**Implementation Regulation of the EIT Law**”), the tax rate of the PRC subsidiaries is 25% for the year ended 31 December 2022 except for the followings: (i) according to the Implementation Regulation of the EIT Law and the exemptions regulation set out in the Notice of the Ministry of Finance and State Administration of Taxation on Announcing the Scope of Primary Processing of Agricultural Products Covered by Preferential Policies on Enterprise Income Tax (Trial) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from subsidiaries in Mainland China engaging in primary processing of agricultural products is exempted from enterprise income tax for the year ended 31 December 2022; (ii) pursuant to relevant regulations in respect of the Implementation Regulation of the EIT Law, the income from the Company engaging in projects of animal-husbandry and poultry feeding is exempted from enterprise income tax for the year ended 31 December 2022.

9. DIVIDENDS

No dividend was paid, declared or proposed to owners of the parent company during the year ended 31 December 2022, nor has any dividend been proposed since the end of the Reporting Period (2021: nil).

10. (LOSSES)/EARNINGS PER SHARE

(a) Basic (losses)/earnings per share

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

	For the year ended 31 December	
	2022	2021
Consolidated net (loss)/profit attributable to ordinary shareholders of the parent company (<i>RMB'000</i>)	(769,029)	50,911
Weighted average number of outstanding ordinary shares of the Company	1,387,956,000	1,398,975,000
Basic (losses)/earnings per share (<i>RMB</i>)	(0.55)	0.04
Including: Basic (loss)/earnings per share from continuing operations (<i>RMB</i>)	(0.55)	0.04
Basic (loss)/earnings per share from discontinued operations (<i>RMB</i>)		

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

(b) Diluted (losses)/earnings per share

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

	For the year ended	
	31 December	
	2022	2021
Consolidated net (loss)/profit attributable to ordinary shareholders of the parent company (diluted) (<i>RMB'000</i>)	(769,029)	50,911
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,399,017,500	1,398,975,000
Diluted (losses)/earnings per share (<i>RMB</i>)	(0.55)	0.04
Including: Diluted (losses)/earnings per share from continuing operations (<i>RMB</i>)	(0.55)	0.04
Diluted (losses)/earnings per share from discontinued operations (<i>RMB</i>)		

11. TRADE RECEIVABLE

	As at	As at
	31 December	31 December
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivable	201,047	264,398
Less: bad debt provision	<u>(6,069)</u>	<u>(4,113)</u>
Total	<u>194,977</u>	<u>260,285</u>

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

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Within 1 month	192,640	259,262
1 to 3 months	2,782	2,335
3 months to 1 year	3,098	4
Over 1 year	<u>2,526</u>	<u>2,797</u>
Total	<u>201,047</u>	<u>264,398</u>

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

	<i>RMB'000</i>
As at 31 December 2021	4,113
Provision	3,528
Recovery or reversal	(271)
Resold or written off	<u>(1,301)</u>
As at 31 December 2022	<u><u>6,069</u></u>

During the year, bad debt provision of RMB3,528,000 was made, and bad debt provision of RMB1,572,000 was written off, recovered or reversed.

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

12. INVENTORIES

	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Raw materials	172,431	208,655
Turnover materials	37,009	40,973
Consumptive biological assets	190,022	194,005
Finished goods	11,006	19,628
Inventory goods	490,915	546,190
Materials in transit	—	8,597
Less: Provision for the decline in value of inventory	<u>(3,937)</u>	<u>—</u>
Total	<u><u>897,447</u></u>	<u><u>1,018,047</u></u>

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

13. CONSTRUCTION IN PROGRESS

	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Construction in progress	<u>996</u>	<u>35,293</u>
Total	<u><u>996</u></u>	<u><u>35,293</u></u>

During the Reporting Period, the Company built 12 new broiler farms with battery caged systems.

14. PRODUCTIVE BIOLOGICAL ASSETS

Productive biological assets using the fair value measurement model

Items	Livestock breeding industry <i>RMB'000</i>
Balance at the end of last year	204,484
External procurement	48,048
Self-breeding	130,809
Disposal	(169,053)
Changes in fair value	41,404
Balance at the end of the period	255,692

Notes:

- (1) Self-breeding costs for breeders mainly include the costs of animal feed, labour costs, depreciation and amortisation expenses, apportionment of public expenses, etc.
- (2) Gains or losses from changes in fair value consist of two components: gains from the initial recognition of consumptive biological assets at fair value less sales costs upon harvest and gains from changes in fair value less sales costs of productive biological assets. The Company engaged an independent professional appraiser to assess the fair value of the biological assets as at the balance sheet date.

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

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

Type	Balance at the end of the period <i>(thousand birds)</i>
Breeders	<u>2,232</u>
Total	<u><u>2,232</u></u>

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

15. BILLS PAYABLE

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Acceptance notes	—	46,607
Letter of credit	<u>70,000</u>	<u>—</u>
Total	<u>70,000</u>	<u>46,607</u>

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Within 1 month	—	43,939
1 to 3 months	—	2,668
3 months to 1 year	<u>70,000</u>	<u>—</u>
Total	<u>70,000</u>	<u>46,607</u>

16. TRADE PAYABLE

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Trade payable	<u>454,943</u>	<u>448,844</u>
Total	<u>454,943</u>	<u>448,844</u>

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

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Within 1 month	238,690	369,774
1 to 3 months	197,471	49,150
3 months to 1 year	17,120	21,463
Over 1 year	<u>1,662</u>	<u>8,457</u>
Total	<u><u>454,943</u></u>	<u><u>448,844</u></u>

17. BORROWINGS

	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000
Bank loans, secured and guaranteed	1,427,929	2,250,585
Other financial institution loans, secured and guaranteed	61,205	210,284
Total	1,489,134	2,460,869
By maturity date:		
Bank loans, secured and guaranteed		
Within 1 year	1,175,781	1,775,473
1–2 years	150,716	43,778
2–5 years	101,432	431,334
Other financial institution loans, secured and guaranteed		
Within 1 year	61,205	84,293
1–2 years	—	66,470
2–5 years	—	59,521
Effective annual interest rate:		
Bank loans, secured and guaranteed	3.70%–6.50%	2.40%–5.90%
Other financial institution loans, secured and guaranteed	5.60%–5.65%	4.75%–6.60%

18. SHARE CAPITAL

	As at 31 December 2022 <i>RMB'000</i>	As at 31 December 2021 <i>RMB'000</i>
Registered, issued and fully paid 1,400,000,000 shares of RMB1.00 each	<u>1,400,000</u>	<u>1,400,000</u>

EXTRACT OF INDEPENDENT AUDITOR’S REPORT

I. Qualified opinion

The auditors of the Company (the “**Auditor**”) has audited the financial statements of the Company, which comprise the consolidated and the parent company’s balance sheets as at 31 December 2022, the consolidated and the parent company’s income statements, the consolidated and the parent company’s cash flow statements, the consolidated and the parent company’s statements of changes in owners’ equity for the year 2022, and the related notes to the financial statements.

The Auditor is of the view that, except for the possible impact of matters described in the section “Basis of qualified opinion”, the accompanying financial statements give a fair view of the consolidated and the parent company’s financial position as at 31 December 2022 and of the consolidated and the parent company’s operating results and cash flows for the year 2022 of the Company in accordance with CASBE in all material respects.

II. Basis of qualified opinion

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

The Auditor performed an audit in accordance with the Chinese Auditing Standards for Certified Public Accountants. The “Auditor’s Responsibility for Auditing Financial Statements” section of the audit report further explains its responsibilities under these standards. In accordance with the Code of Ethics for

Chinese Certified Public Accountants, the Auditor is independent of the Company and has fulfilled other responsibilities in terms of professional ethics. The Auditor believes that the audit evidence the Auditor has obtained is sufficient and appropriate to provide a basis for the qualified opinion.

III. Material uncertainties in relation to going concern

The Auditor would like to draw the attention of users of the financial statements to the fact that as stated in the financial statements, as at 31 December 2022, the balance of the Company's unrestricted monetary funds was RMB144.7328 million, the balance of short-term borrowings was RMB1,124.6137 million, and the balance of long-term borrowings and long-term payable due within one year was RMB112.3726 million. Such matters and situations, together with other circumstances as described in "Basis of qualified opinion", indicate the existence of material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern. This matter does not affect the expressed audit opinion.

IV. Other information

The management of the Company is responsible for the other information which comprises all the information in the 2022 annual report of the Company but does not include the financial statements and auditor's report thereon.

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

In connection with the Auditor's audit of the financial statements, the Auditor's responsibility is to read the other information. During the process, the Auditor consider whether there is material inconsistency or there is material misstatement between the other information and the financial statements or the information the Auditor obtained during the audit.

If, based on the work the Auditor performed, the Auditor conclude that there is a material misstatement of the other information, the Auditor is required to report that fact. As described in the "Basis of qualified opinion" section above, the Auditor was unable to obtain sufficient and appropriate audit evidence regarding the attribution period of the loss of RMB808,234,800 deposited with GMK Finance by the Group. Accordingly, the Auditor was unable to ascertain whether other information relating to this matter was materially misstated.

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

I. Qualified opinion in 2022

As set out above, the Auditor has expressed a qualified opinion in the independent auditors' report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2022. The Board of Directors would like to provide the following additional information:

The Company was notified by GMK Holdings, the former controlling shareholder of the Company, that its subsidiaries had overdue debts in March 2022. Among such subsidiaries, GMK Finance was involved in overdue repayment disputes, pursuant to which the creditor filed a civil complaint against GMK Finance, and the guarantors for such loans, including Mr. Liu Xuejing (former controlling shareholder and non-executive Director), GMK Holdings and certain of its subsidiaries were named as defendants (the “**Debt Dispute**”). GMK Holdings, by itself and through its subsidiaries, provided guarantees for some of the loans obtained by the Group from banks, and provided deposits, loan facilities (including term loans and entrusted loans) and bill financing services to the Group. The deposits with GMK Finance have been unavailable for withdrawal and utilisation by the Group for daily operation since November 2022. In addition, there was an overdue payment for deposit interests from GMK Finance to the Group.

II. Basis of qualified opinion

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

The Group made a full impairment of the deposits with GMK Finance for the year ended 31 December 2022 and as at 31 December 2022 due to the following reasons: (i) the Group have been unable to withdraw and utilise the deposits with GMK Finance since November 2022, and there was an overdue payment for deposit interests from GMK Finance to the Group; (ii) the Debt Dispute is still ongoing, and the Board of Directors cannot predict the timing and outcome of the actions initiated by the creditors; (iii) as at the date of this annual results announcement, there is no material progress on the restructuring proposal of the

debt arrangement with GMK Holdings and its subsidiaries; and (iv) the Company has consulted legal advisers regarding the bankruptcy risk of GMK Finance, the potential debt procedures and recoverability of the deposits from GMK Finance based on current circumstances. Based on the foregoing, the management of the Company considered the timing and possibility of the recoverability of the deposits with GMK Finance was highly uncertain and therefore full provision of impairment has been made accordingly.

III. Removal of audit qualification

The management of the Company has discussed with the Auditor and confirmed that since the Auditor expressed an audit qualification on the 2022 financial figures of the Group, this will have carryforward impact on the Company's annual results for the year ending 31 December 2023 as the 2022 financial figures will form the basis for the corresponding figures (including the opening balance figures) presented in the consolidated financial statements for the year ending 31 December 2023. As such, on the assumption that the Auditor does not express a qualified opinion on the 2023 financial figures of the Group, this would not have carryforward impact on the consolidated financial statements for the year ending 31 December 2024 (the "**2024 Financial Statements**") and the audit qualification will be removed in the 2024 Financial Statements.

IV. The Audit Committee's view

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

MANAGEMENT DISCUSSION AND ANALYSIS

COMPANY PROFILE

Introduction

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

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

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

Business Segments

Processed Chicken Meat Products

The Group markets its processed chicken meat products under “鳳祥食品 (Fovo Foods)” (“**Fovo Foods**”), “優形 (iShape)” (“**iShape**”) and “五更爐 (Wu Genglu)” brands. Processed chicken meat products comprise cooked, semi-cooked and seasoned chicken meat products. Depending on the processing methods, these processed products are required to be chilled or frozen. The raw chicken meat the Group uses in its processed chicken meat production is either supplied by itself or procured from independent third party suppliers. The cooked chicken meat products comprise ready-to-eat chicken meat products and frozen chicken meat products, which are fully cooked and sterilised (end consumers will need to reheat the frozen cooked chicken meat products before consumption according to the instructions provided on the packaging). The semi-cooked chicken meat products are processed, chilled or frozen and boxed (end consumers will need to further process (including steaming, grilling, roasting or frying) such semi-cooked chicken meat products before consumption according to the instructions provided on the packaging). The seasoned chicken meat products include

raw chicken meat flavoured with certain ingredients or spices. The Group also offers ready-to-cook pre-prepared meal solutions, including Chinese cuisine. For the year ended 31 December 2022, the sales volume of processed chicken meat products increased by 6.0% to 114.0 million kilogram (“**kg**”) (31 December 2021: 107.6 million kg). For the year ended 31 December 2022, the revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 3.3% to RMB2,371.1 million (31 December 2021: RMB2,295.4 million), representing 46.6% of the Group’s total revenue.

Raw Chicken Meat Products

The Group offers raw white-feathered chicken meat products, which include whole frozen chickens and chicken portions, such as chicken wings, chicken breast, chicken drumsticks, chicken drumettes, bone-in chicken thighs, boneless chicken fillets, chicken head, chicken feet and chicken legs. The Group’s broilers are then cut into portions according to its internal or customers’ requirements, which will be chilled or frozen depending on the product’s nature. For the year ended 31 December 2022, the sales volume of raw chicken meat products increased by 24.0% to 251.5 million kg (31 December 2021: 202.9 million kg). For the year ended 31 December 2022, the revenue from external sale of raw chicken meat products increased by 30.7% to RMB2,500.6 million (31 December 2021: RMB1,913.3 million), representing 49.2% of the Group’s total revenue.

Chicken Breeds

The Group sells some of its chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of the Group’s chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. The Group sells chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties. For the year ended 31 December 2022, the sales volume of chicken breeds increased by 3.2% to 32.1 million birds (31 December 2021: 31.1 million birds). For the year ended 31 December 2022, the revenue from external sale of chicken breeds dropped by 17.3% to RMB53.6 million (31 December 2021: RMB64.8 million), representing 1.1% of the Group’s total revenue.

Other Products

The Group sells other products, including the sale of broilers that cannot satisfy the Group's quality requirements and excess broiler eggs that exceed the Group's internal needs, by-products (such as chicken feathers, chicken blood and unused chicken organs), packing materials and other miscellaneous products. Revenue from the external sale of other products grew by 12.0% to RMB160.5 million for the year ended 31 December 2022 (31 December 2021: RMB143.3 million), representing 3.2% of the Group's total revenue.

BUSINESS REVIEW

2022 marked the third year since Fengxiang's listing, and also the third year of Fengxiang's resilient growth amid the pandemic.

Be it in the financial year of the Reporting Period or in the past three years, Fengxiang withstood multiple challenges and pressures and strode forward steadily in the face of difficulties.

In spite of the limitations caused by various intertwining factors such as the volatile industry cycle, the impact of the COVID-19 pandemic, the suppression of market demand, the surging costs of animal feed ingredients and the debt pressure on the Company, the Group still achieved outstanding results compared to its peers in the industry of which we are deeply proud.

In 2022, with the three major themes of industry restructuring, product innovation and upgrade, and production efficiency enhancement, the Group focused on overcoming internal and external difficulties, reinforcing foundation, controlling costs, retaining customers and striving for space.

During the year, the Group achieved sales revenue of RMB5,085.8 million (2021: RMB4,416.8 million), representing a year-on-year increase of 15.1%, with net loss of RMB769.0 million (2021: net profit of RMB47.1 million). Our net profit after deducting monetary fund receivables bad debt loss arising from the recognition of an one-off and non-recurring impairment loss on the deposits due from GMK Finance was RMB39.2 million (2021: RMB47.1 million), representing a year-on-year decrease of 16.7%.

During the Reporting Period, the Group achieved the above performance mainly because:

- (1) the diversified channel strategy achieved stable performance against fluctuating market demands. The export business grew at a fast rate and achieved its best-ever performance, the single product strategy of the new centralised procurement business was implemented steadily, and the key food and beverage customers business stably developed;

- (2) the breeding results gradually stabilised and reached its record high with significant improvements in the overall breeding quality and other various indicators;
- (3) annual rearing volume reached a record high of 154.8 million birds;
- (4) the strength of the core channels of the B2C new retail business were outstanding, and its market share was stable; and
- (5) the integration of the whole industry chain of production, sales, quality and research achieved synergy effects, enhanced quality and efficiency and enabled innovation.

(I) Business Highlights

1. *New Export Business Became a Pillar*

The export business of white-feathered chicken meat products is the foundation of Fengxiang. In the process of providing products and services to international customers for nearly 30 years, the Group has accumulated domestically-leading and international quality standards, channel resources, industry experience and brand reputation.

The sales revenue of the new export business further rose to RMB1,359.3 million (2021: RMB976.5 million), representing a year-on-year increase of 39.2%, and its proportion of business increased to 26.7% (same period: 22.1%), making the Group the largest export supplier in the white-feathered chicken industry in China and driving and supporting the continuous growth of the Group's overall business in adversity.

The Group continued to have a leading position in exports to East Asian countries such as Japan, and recorded significant growth in Europe and Southeast Asia, in particular the new Middle East market, with more diversified and boutique channels.

It is notable that over the years, the Group has attached great importance to product and service quality and cultivated overseas markets, accumulating valuable customer satisfaction and loyalty. During the global pandemic, the Group received tremendous trust and support from international customers and obtained opportunities for extraordinary growth.

2. Major Customer Business

The major customer business is the supply of chicken meat products by the Group to international Western-style fast food stations in Mainland China.

Sales revenue from the major customer business reached RMB684.2 million (2021: RMB643.5 million), representing a year-on-year increase of 6.3%. The Group serves major customers located in most regions in the PRC such as Northeast, North, East, Central and Northwest China. On the basis of expanding the coverage of sales territory, the Group has actively cooperated with customers' needs and promoted product innovation, added several new types of processed food products, basically covering all relevant products supplied by the customers.

Under the challenges unfavourable to the macro-environment in 2022, with national food and beverage revenue declining by 6.3% compared to the same period last year, the Group's various industrial lines worked together and further strengthened its cooperation with the key customers, recording good results in terms of sales revenue growth.

3. New Centralised Procurement Business Rose as a Star

The new centralised procurement business achieved sales revenue of RMB926.2 million (2021: RMB901.7 million), representing a year-on-year increase of 2.7% and accounting for 18.2% (same period: 20.4%) of the overall business.

During the Reporting Period, the centralised procurement business division endeavoured to improve operations by deploying a series of refined operating means to various aspects including the focused development of single products, extensive exploration in gaining new customers, speedy turnovers of products, achieving a year-on-year increase of 19.3% in human resources efficiency indicators as compared to the last reporting period.

Due to the COVID-19 pandemic, the revenue of national food and beverage industry in 2022 decreased by 6.3% compared with the same period last year, of which its revenue in the first half year decreased by 7.7% compared with the same period last year (source: National Bureau of Statistics). In light of multiple rounds of pandemic lockdown implemented in Shanghai, Xi'an, Shenyang, Zhengzhou and other cities, stores of high-end food and beverage brand have suspended dine-in for a long time. Under the severe pandemic situation, the Group rapidly expanded its market shares against the difficulties. Therefore, the sales volume of high-end food and beverage brands in the second half year increased by 22.2% over the same period last

year, with a growth of 11.3% in sales volume through channels during the year. Meanwhile, in response to the development trend of the industry and the demand for new products of customers, the Group actively undertook projects of high-end food and beverage brands, facilitated new product development and independently recommended a variety of new products, becoming a supplier of all chicken meat products.

The No.1 Central Document for 2023 has introduced a proposal to “nurture and develop the prepared dish industry” (培育發展預製菜產業) for the first time, making prepared dish a new business model and industry that promotes the high-quality development of rural industries and has a trillion-dollar market with immense potential for growth. Poultry meat is a key ingredient for prepared dishes, thus poultry prepared dishes may become a new growth point for poultry enterprises. The Group has years of experience in the development of prepared dishes for overseas B-end institutions and domestic B-end institutions and C-end consumers, serving a wide range of ready-to-eat, microwaveable, boiled, steamed, roasted and stir-fried prepared dishes. After continuous upgrade of production lines and product optimisation, the Group’s production capacity of processed chicken meat products reached 142,000 tonnes. This has enabled the Group to meet the production and processing demands for four major categories of dishes, including ready-to-cook, ready-to-eat, ready-to-heat and ready-to-prepare dishes. In 2022, sales revenue of its processed chicken meat products business accounted for 46.6%, which delivered a higher and more stable profit.

In addition, the Group intensified its efforts in new product development, broadened its portfolio and launched a number of new products to meet the rapidly changing customer and market demand for prepared dish products.

4. *New Retail Business Remained as a Leader*

The new retail business achieved sales revenue of RMB625.9 million (2021: RMB948.1 million), representing a year-on-year decrease of 34.0% and accounting for 12.3% (same period: 21.5%) of the overall business.

Among which, the share of “iShape (優形)” in the new retail business increased from 51.6% for the same period to 54.4%, continuing to play a major role as the Company’s customer-end products.

During the period when the chicken breast products business was severely affected by the pandemic, even though the whole business saw negative growth, “iShape (優形)” brand steadily maintained its price levels and market shares. For example, in the two major battle fields of online sales TMall and JD.com, the market shares of “iShape (優形)” exceeded that of the first

runner-up by 5.1% with unit prices nearly twice its major competing products. In terms of offline markets, the products under the “iShape (優形)” series have covered nearly 60,000 network points across 142 cities, among which the majority are quality convenience stores and boutique key accounts. And in the post-pandemic era, “iShape (優形)” speeds up the establishment and promotion of campus distribution channels to further focus on the young consumers.

For several years, “iShape (優形)” has consistently implemented its strategy of single products to continuously add new products into existing ones and has made great success so far. Among which, the sales of salad chicken breast, our competitive product, amounted to over RMB300 million; newly-launched Xiao Q chicken breast, chicken breast bar, Jia’ge chicken drumstick (加個雞腿), low-fat chicken breast meatball and chicken breast luncheon meat also demonstrated excellent growth.

The four products newly launched during the Reporting Period all demonstrated the R&D level of new products and the competitiveness of the products of the Company. Low-fat chicken breast meatball, a product with sales exceeding RMB10 million within 10 months of launch, became the top seller among new products. Chicken breast meat fried rice achieved a repurchase rate of 17.5%, becoming an ace in terms of repurchase rate among new products. Room-temperature chicken breast sausage achieved sales of over RMB7 million within 10 months of launch. Tender MIX chicken breast became the best new product representing quality, forming a new barrier for low temperature categories in the future.

(II) Observation of Current Trends

1. *China will be the World’s Largest Consumer Market and is entering an Era of Quality and Personalised Consumption*

Two significant signs of China entering a new era of consumption are: (i) China’s GDP per capita has crossed the threshold of US\$10,000, and consumption has become the primary driver of economic growth for six consecutive years; (ii) the combination of three major waves of change — people, traffic channels and supply chains has led to an unprecedented transformation in the cost structure of consumer goods in China.

2. *Strong Growth in Processed Chicken Meat Products under the Common Choice of Three Specific Customer Groups*

Over the past five years, changes in 14 segments, including food and beverage, have had a significant impact on consumers' lives, with a particularly obvious trend of consumption upgrade. White-collar women occupy the main position of consumption decision-making, and our major consumer groups, namely "Her Economy", "Generation Z" and "Silver Economy", have shown convergence in their choice of food, which focus on choosing the "healthier", "tastier" and "more convenient" products.

With higher protein, lower fat and lower energy consumption, white-feathered broiler becomes an important growth pole in the trend towards nutrition and consumption upgrade. According to Frost & Sullivan, the average growth rate of the white-feathered broiler market is expected to exceed 10% in the next five years, reaching RMB150 billion in 2025.

The white-feathered broiler industry has undergone comprehensive transformation and upgrade in recent years, from producing chicken breeds and raw chicken meat products primarily to mainly providing processed chicken meat products instead. The size of the processed chicken meat market is expected to exceed RMB60 billion in 2024.

3. *Changes in Underlying Logic of Consumption Industry*

Due to the combined effect of the industry cycle and the pandemic cycle, the underlying logic of the consumption industry has undergone significant changes: consumer attitude had changed from impulsive consumption for "internet celebrity, most popular and fresh-seeking" previously to the current rational consumption for "high quality, excellent price and pragmatism". The growth driver of the consumer market has changed from attention-driven to product quality-driven accordingly.

(III)Strategic Path: Achieving Quality Growth by Shifting from Raw Food Business to Cooked Food Business, and Relying on B + C

1. *Development Goal*

In order to adjust to market demands, we are committed to upgrading the industry of traditional chicken meat products and achieving sustainable, steady and balanced quality growth.

We will continue to pursue balanced growth across multiple channels and expand production lines. We aim to maintain our industry leadership in new export business and enhance profitability and international influence. Based on the needs of key clients from B2B-end, we will ceaselessly enhance product quality, introduce new products and improve shares.

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

We strive to build “iShape (優形)” as the most popular brand of chicken meat products and even low burden food among consumers, and to continue to create higher market value of the new retail business.

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

In recent years, the Group has been actively transforming and upgrading itself, continuously implementing the “123” development strategy (“**One Foundation, Two Major Markets and Three Driving Forces**”), increasing the proportion of sales of processed food products, expanding the retail business and building itself as China’s leading brand of chicken meat products.

(1) “One Foundation”

We insist to extend the Group’s advantage in its vertically integrated business model across the entire industry value chain and the industry ecological chain, and strengthen management on the quality of raw material supply, so as to ensure food quality and safety, offer consumers with quality-assured products and lay a solid foundation for product quality; and on top of this, we steadily promote the growth of our breeding capacity and strengthen the foundation of our integrated industry-chain business model.

(2) “Two Major Markets”

We simultaneously drive the balanced development of the domestic market and the international market, ensure “same production line, same standard, same quality” for domestic sales and export sales, and facilitate the dual circulation of the domestic and international markets.

(3) *“Three Driving Forces”*

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

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

Thirdly, we focus on the development of new retail business through online and offline collaboration. In line with the Group’s efforts in the development of B2C business commenced several years ago, the new retail business mainly provides consumers with quality products including “iShape (優形)” and “Fengxiang” through channels such as online e-commerce, offline convenience stores and boutique supermarkets.

Through the implementation of the new strategy, the Group realised the mutual promotion of the domestic market and the international market. Great synergy and three driving forces are 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 food and beverage giants for years, the Group provided hundreds of millions of families and individual consumers with quality products and services, creating a leading brand of chicken meat products.

3. *The Development Direction of “iShape (優形)”*

The strategy of “iShape (優形)” is to achieve steady development of the chicken breast products, then gradually transform from high-end chicken breast products to “low-burden” meat products and healthy food.

We have been building “iShape (優形)” with the focus on “health needs”, gradually transforming from rational brand philosophy of “high nutrition” and “high function” to emotional brand philosophy of “low physical burden”, “low psychological burden”. In our relentless pursuit of “professionalism” and “fashion”, we continue to subdivide user groups and maximise the satisfaction of consumers’ diversified needs.

FINANCIAL REVIEW

Overall performance

For the year ended 31 December 2022, the Group experienced an increase of 15.1% in revenue as compared to that of 2021. There was a net loss of RMB769.0 million as compared with a net profit of RMB47.1 million in 2021, mainly due to the recognition of an one-off and non-recurring impairment loss on deposits due from GMK Finance. The Company recorded a net profit of RMB39.2 million, representing a year-on-year decrease of 16.7%, without taking into account the monetary fund receivables bad debt loss arising from such an impairment loss. There was an increase of 4.6% in gross profit as compared to that of 2021. The basic loss per share was RMB55.4 cents in 2022. Set out below is the detailed information on the fluctuations in the Company's results for the year ended 31 December 2022.

Items	For the year ended 31 December		
	2022 RMB'000	2021 RMB'000	Change (%)
Total operating revenue	5,085,790	4,416,764	+15.1
Operating costs	4,502,293	3,858,825	+16.7
Selling expenses	329,206	345,019	-4.6
Administrative expenses	108,499	89,311	+21.5
R&D expenses	31,944	24,983	+27.9
Finance costs	49,105	47,696	+3.0
Other gains	9,676	13,392	-27.7
Gain/(loss) on changes in fair value	21,694	(4,170)	+620.3
Total (loss)/profit	(768,257)	48,744	-1,676.1
Net (loss)/profit	(769,029)	47,075	-1,733.6
Adjusted net profit ⁽¹⁾	39,206	47,075	-16.7
Gross profit	583,497	557,939	+4.6
Gross profit margin	11.5%	12.6%	-8.7
Net (loss)/profit margin	(15.1)%	1.1%	-1,472.7

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

Revenue by products

	For the year ended 31 December		
	2022	2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
Raw chicken meat products	2,500,559	1,913,256	+30.7
Processed chicken meat products	2,371,087	2,295,406	+3.3
Chicken breeds	53,619	64,822	-17.3
Others	160,525	143,280	+12.0
Total	<u>5,085,790</u>	<u>4,416,764</u>	<u>+15.1</u>

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

Sales volume and average selling price by products

	For the year ended 31 December		
	2022	2021	Change
			(%)
Raw chicken meat products			
Sales volume (<i>per kg</i>)	251,535,459	202,911,040	+24.0
Average selling price (<i>RMB per kg</i>)	9.94	9.43	+5.4
Processed chicken meat products			
Sales volume (<i>per kg</i>)	114,020,427	107,572,326	+6.0
Average selling price (<i>RMB per kg</i>)	20.8	21.34	-2.5
Chicken breeds			
Sales volume (<i>per bird</i>)	32,067,474	31,082,052	+3.2
Average selling price (<i>RMB per bird</i>)	1.67	2.09	-19.8

During the Reporting Period, the number of white-feathered broilers being slaughtered experienced a year-on-year increase of 13.4%, and the production and sales volume of chicken meat products both experienced corresponding growth. The growth of breeding, processing and sales are related. For raw chicken meat products, there was an increase in average selling price due to increased sales volume in new export channels; for processed chicken meat products, there was a slight decrease in the average selling price due to decreased sales volume of the “iShape (優形)” products. During the Reporting Period, the price of chicken breeds fluctuated significantly due to the market impact, with a drop in the average selling price.

Revenue by geographic territory and products

	For the year ended 31 December		
	2022	2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
Mainland China	3,726,469	3,440,302	+8.3
Japan	387,353	369,488	+4.8
Malaysia	329,914	275,957	+19.6
Europe	558,309	262,068	+113.0
Other countries	83,745	68,949	+21.5
Total	<u>5,085,790</u>	<u>4,416,764</u>	<u>+15.1</u>

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

B2B and B2C sales revenue

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

	For the year ended 31 December		
	2022	2021	Change
	<i>RMB'000</i>	<i>RMB'000</i>	(%)
B2B	4,459,921	3,468,674	+28.6
B2C	625,869	948,089	-34.0
Of which: Online	266,356	486,325	-45.2
Offline	359,513	461,764	-22.1
Total	<u>5,085,790</u>	<u>4,416,764</u>	<u>+15.1</u>

During the Reporting Period, the Company further expanded its B2B customer base and achieved growth in sales volume. Revenue from the B2B business increased by 28.6% and accounted for 87.7% (2021: 78.5%) of the total revenue, representing an increase of 9.2%. Accordingly, revenue from the B2C business decreased by 34.0% due to the decline in sales volume of the products under the iShape and Fovo Foods

series caused by the impact of the COVID-19 pandemic. Revenue from the B2C business reached 12.3% (2021: 21.5%) of the total revenue, representing a decrease of 9.2%.

Operating costs

The Group's operating costs increased by 16.7% to RMB4,502.3 million for the year ended 31 December 2022 (2021: RMB3,858.8 million), mainly due to (i) a 9.9% increase in the sales of white-feathered broilers reared by the Company and (ii) rising costs of animal feeds due to the year-on-year increase in corn and soybean meal prices.

Administrative expenses

The Group's administrative expenses increased by 21.5% to RMB108.5 million in 2022 (2021: RMB89.3 million), mainly due to the increase in the share incentive expenses and service fees.

Selling expenses

The Group's selling expenses decreased by 4.6% to RMB329.2 million in 2022 (2021: RMB345.0 million), mainly due to the decrease of sales and marketing expense of the Group.

R&D expenses

The Group's R&D expenses increased by 27.9% to RMB31.9 million in 2022 (2021: RMB25.0 million), mainly due to increased investment in R&D with the establishment of a multi-level new product R&D system.

Finance costs

The Group's finance costs for the year ended 31 December 2022 increased by 3.0% to RMB49.1 million (2021: RMB47.7 million), which was mainly due to (i) the increase in borrowing rates; and (ii) the decrease in interest income.

Total profit/(loss)

During the Reporting Period, loss for the year was primarily due to the recognition of impairment loss on deposits due from GMK Finance.

Analysis on Capital Resources

Liquidity and capital resources

The Group has funded its operations principally with cash generated from its operations, borrowings and capital contributions of shareholders of the Company (the “Shareholders”). The Group’s primary uses of cash in 2022 were for working capital purposes and capital expenditures for expansion and improvement of production equipment and facilities.

Capital structure

As at 31 December 2022, the registered capital of the Company was RMB1,400,000,000 and the total number of issued shares of the Company was 1,400,000,000 shares, comprising 1,045,000,000 domestic shares and 355,000,000 H shares with a nominal value of RMB1.0 each.

As at 31 December 2022, the total borrowings of the Group amounted to RMB1,489 million, representing a decrease of 39.5% as compared to that as at 31 December 2021. The decrease was mainly attributable to: (i) the repayment of certain long-term borrowings that has fallen due; and (ii) the decrease of pledged borrowings.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total equity, and balance sheet ratio, which is total borrowings divided by total assets. The gearing ratio and balance sheet ratio as at 31 December 2022 was 57.0% (31 December 2021: 72.4%) and 50.0% (31 December 2021: 51.0%), respectively.

Contingent liabilities and pledge of assets

The Group’s bank borrowings as at 31 December 2022 were secured by (i) mortgages of the Group’s lands situated in the PRC with aggregate net carrying values of RMB74.3 million (31 December 2021: RMB57.7 million); (ii) pledge of the Group’s bank deposits of RMB187.7 million (31 December 2021: RMB472.4 million); (iii) pledge of certain of the Group’s property, plant and equipment with aggregate net carrying amount of RMB1,948.5 million (31 December 2021: RMB667.8 million); and (iv) guarantee from a related party for loans up to RMB264.0 million (31 December 2021: RMB313.0 million).

As at 31 December 2022, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2022, the Group had 7,202 employees who were directly employed by the Group, of which 7,198 employees were employed in the PRC and 4 employees were located in Japan. The remuneration packages for the employees include salary, bonuses and allowances. As required by the PRC regulations, the Group (i) participates in social insurance schemes operated by the relevant local government authorities, and (ii) maintains mandatory pension contribution plans, medical insurance, work-related injury insurance, unemployment insurance and maternity insurance. The Group also provides continuing education and training programmes to its employees to improve their skills and develop their potential. The Company also adopted two share award schemes on 24 June 2020 and 10 December 2021, respectively, and any full-time or part-time employees of the Group (including any Director) are eligible participants under the said schemes.

BUSINESS OUTLOOK

1. Opportunities and potential development

- (1) the recovery and eruption of demands as feed grain prices have stabilised and the industry cycle returned to a new round of rising period;
- (2) increasing and rapid growth in healthy-food market, with chicken breast as the main ingredient;
- (3) improvement in the efficiency of convenience stores, Tmall and other advantageous channels, and a rapid rise in new e-commerce platforms such as Tik Tok, Kuaishou;
- (4) further accumulation of strength and rapid amplification of energy of the “iShape (優形)” brand value; and
- (5) re-structuring of the international landscape opening opportunities for us to enter into more overseas markets.

2. Premium growth strategies at current stage

- (1) maintain stability: taking advantage of breeding and farming, and making full efforts to ensure stability and efficiency on the supply side;
- (2) consolidate business foundation: strengthening team building, infrastructure and system construction, and striving to stay as the best in the industry with regard to overall operation and management standards;
- (3) strengthen development: continue to seek benefits from business growth and stimulate internal strength from development;

- (4) plan for the future: actively establish a plan by keeping pace with outstanding domestic and foreign peers to enhance competitiveness in a sustainable manner; and
- (5) comprehensive management: significantly enhance quality, increase revenue and reduce costs by focusing on human, financial, material from farming, production to marketing.

OTHER EVENTS

Annual General Meeting

The Company is intended to hold its annual general meeting for the year 2022 on Friday, 19 May 2023. The notice of annual general meeting will be published and despatched to the Shareholders in due course pursuant to the requirements of the Listing Rules.

Final Dividend

The Board of Directors has resolved not to declare any final dividend for the year ended 31 December 2022 (2021: nil).

Proposed Initial Public Offering of A Shares

On 29 January 2021, the Board of Directors has resolved and approved to commence the relevant preparation related to the proposed initial public offering of A shares of the Company. The Company has engaged Huatai United Securities Co., Ltd. as the pre-listing tutoring institution and submitted the registration application for pre-listing tutoring with the Shandong Supervisory Commission (山東證監局) of the China Securities Regulatory Commission (中國證券監督管理委員會) on 29 January 2021. As at the date of this annual results announcement, the Company is 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.

MGO

On 5 May 2022, an application for judicial restructuring (the “**Judicial Restructuring**”) was filed against Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司) (“**Xiangguang Copper**”), a subsidiary of GMK Holdings, with the Liaocheng Intermediate People’s Court, Shandong Province in the PRC by a creditor on the ground that Xiangguang Copper is unable to repay the debts falling due. The People’s Court of Yanggu County, Shandong Province in the PRC as appointed to hear the case, subsequently accepted the application of Judicial Restructuring of 19 companies, including GMK Holdings, Shandong Fengxiang (Group) Co., Ltd. and

Shandong Fengxiang Investment Co., Ltd. (collectively, the “**Former Controlling Shareholders**”) and Xiangguang Copper (but, for the avoidance of doubt, does not include the Company).

On 16 September 2022, an auction announcement was published by the administrator of Xiangguang Copper (the “**Administrator**”) on the network platform of Alibaba Judicial Auction in relation to the proposed auction sale of the domestic shares of the Company held by the Former Controlling Shareholders.

On 16 October 2022, Falcon Holding LP (the “**Falcon**” or “**Offeror**”) won the auction at the aggregate bid price of RMB1,372,279,100 (equivalent to HK\$1,502,336,359) for the sale shares, being 992,854,500 domestic shares in the Company (the “**Sale Share(s)**”), which represents a consideration of RMB1.3822 per Sale Share (equivalent to HK\$1.5132 per Sale Share) (the “**Acquisition**”). The Offeror, the Administrator, and the Former Controlling Shareholders entered into a sale and purchase agreement and a supplemental agreement thereto on 16 October 2022 and 19 December 2022, respectively. On 20 December 2022, the Acquisition was completed and the Offeror became the new controlling shareholder of the Company.

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

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

On 18 January 2023, the Delisting Resolution was not approved at the 2023 first extraordinary general meeting (the “**General Meeting**”) and the H share class meeting (the “**H Share Class Meeting**”) of the Company held on that date, and the Delisting Resolution was not implemented and lapsed.

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

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

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

As the Delisting Resolution was not approved and the public float of the Company fell below 25% following the close of the Offers, the minimum public float requirement as set out in Rule 8.08(1)(a) of the Listing Rules is not satisfied. The directors of Falcon Holding GP Limited (being the general partner of the Offeror), for and on behalf of the Offeror, undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares, which may include issuance of new Shares by the Company or placing down part of the interest that the Offeror or its parties acting in concert with it hold in the Company following the close of the Offers, to ensure the minimum percentage of the shares as required under Rule 8.08(1)(a) of the Listing Rules to the public. To restore the public float by placing down, the Offeror may either directly dispose of, transfer, or engage a placing agent for placing of, the shares held by the Offeror or its concert parties. In addition, the Directors jointly and severally undertook to the Stock Exchange to take appropriate steps to ensure that sufficient public float exists in the Shares.

The Company has applied for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules.

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

Save as disclosed above, during the year ended 31 December 2022, based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that the Company maintained the public float as required under Listing Rules.

Change of Directors

On 30 March 2022, Mr. Wang Jinsheng tendered his resignation from his position as an executive Director, and Mr. Ow Weng Cheong tendered his resignation from his position as a non-executive Director. On 30 March 2022, Ms. Zhou Jinying and Mr. Shi Lei were proposed to be appointed as executive Directors of the Company and were elected at the annual general meeting of the Company held on 31 May 2022.

The fourth session of the Board of Directors expired upon the conclusion of the General Meeting and the H Share Class Meeting of the Company held on 18 January 2023 and all incumbent Directors retired from their positions as Directors at that time. On 28 December 2022, the Board of Directors resolved to re-elect Mr. Xiao Dongsheng and Mr. Shi Lei as executive Directors, elect/re-elect Ms. Wang Anyi, Ms. Zhao Yinglin and Mr. Chung Wai Man as independent non-executive Directors, and elect Mr. Qiu Zhongwei, Mr. Lu Wei, Mr. Zhu Lingjie and Ms. Zhou Ruijia as non-executive Directors at the General Meeting. On 18 January 2023, the appointments of each of the above Directors of the fifth session of the Board of Directors were approved by the Shareholders at the General Meeting. Mr. Zhu Lingjie was elected and appointed as the chairperson of the Board of Directors.

Change of Supervisors

The fourth session of the board of supervisors (the “**Board of Supervisors**”) expired upon the conclusion of the Shareholders Meetings, and all incumbent supervisors of the Company (the “**Supervisor(s)**”) retired from their positions as Supervisors at that time. On 28 December 2022, the Board of Supervisors resolved to elect Ms. Gao Jin and Mr. Zhu Kaijie as shareholders representative Supervisors at the General Meeting. On 18 January 2023, the appointments of each of the above Supervisors of the fifth session of the Board of Supervisors were approved by the Shareholders at the General Meeting. On the same date, Mr. Ma Xianwen was elected as an employees representative Supervisor at the employees representative meeting of the Company. Ms. Gao Jin was elected and appointed as the chairperson of the Board of Supervisors.

Amendments to the Articles of Association

Due to the change in the controlling shareholder of the Company, the enterprise type of the Company has changed from “other limited company (listed)” to “company limited by shares (foreign investment, listed)”. As a result, the scope of business of the Company as set out in the articles of association of the Company (the “**Articles of Association**”) shall be amended according to the PRC regulatory requirements.

The resolution in relation to the above amendments was approved by the Shareholders at the extraordinary general meeting of the Company on 28 February 2023. Save as disclosed above, during the Reporting Period and up to the date of this annual results announcement, there had been no material change to the Articles of Association. The Articles of Association is available on the websites of the Company and the Stock Exchange.

Change of Address of the Principal Place of Business in Hong Kong

The address of the principal place of business in Hong Kong of the Company has been changed to 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong with effect from 30 December 2022.

Continuing Connected Transaction

On 28 January 2023, the Company and Falcon entered into the loan framework agreement (the “**Loan Framework Agreement**”), pursuant to which Falcon will provide a revolving loan facility to the Group for a term of one year commencing from 28 January 2023 and ending on 27 January 2024. The proposed annual caps, being the maximum daily balance of the loans (including interests accrued) for the transactions contemplated under the Loan Framework Agreement for the year ended 31 December 2023 and 2024 is USD13,591,000 and USD13,591,000 (the annual cap for the year ending 31 December 2024 is set up to 27 January 2024, being the end date of the term of the Loan Framework Agreement), respectively. At the time of the transaction, Falcon is the controlling shareholder of the Company directly holding over 70% interest in the Company’s total issued share capital. Accordingly, Falcon is a connected person of the Company and as a result, the transactions contemplated under the Loan Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The Company has complied with the applicable disclosure requirements under Chapter 14A of the Listing Rules. Please refer to the Company’s announcement dated 29 January 2023 for details.

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

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

Save as disclosed in this annual results announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures for the year ended 31 December 2022.

Subsequent Event

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

CORPORATE GOVERNANCE

Compliance with the Corporate Governance Code

During the Reporting Period, the Company has complied with all the applicable code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 14 to the Listing Rules. The Company will continue to review and monitor its corporate governance practice to ensure the compliance of the CG Code.

Directors’ and Supervisors’ Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as a code of conduct regarding securities transactions by the Directors and Supervisors. The Company has made specific enquiries with each Director and each Supervisor, and they confirmed that they had complied with all required standards under the Model Code during the Reporting Period.

Purchase, Sale or Redemption of Listed Securities

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

Review of Annual Results

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

The Audit Committee is chaired by Mr. Chung Wai Man. The Audit Committee has reviewed together with the management and the Board of Directors the accounting principles and policies adopted by the Company, the audited annual results and the audited consolidated financial statements of the Company for the year ended 31 December 2022. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2022 to the Board of Directors for approval.

Auditor’s Scope of Work for the Annual Results Announcement

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Auditor to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by the Auditor in this respect did not constitute an assurance engagement in accordance with CASBE and consequently no assurance has been expressed by the Auditor on the preliminary announcement.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is published on the websites of the Company (www.fengxiang.com) and the Stock Exchange (www.hkexnews.com.hk), respectively, and the annual report containing all the information required by the Listing Rules will be 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 of Directors
Shandong Fengxiang Co., Ltd.
Zhu Lingjie
Chairman

Shandong, PRC, 30 March 2023

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

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