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凤祥食品

SHANDONG FENGXIANG CO., LTD.

山東鳳祥股份有限公司

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

(Stock Code: 9977)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

HIGHLIGHTS

Key Operating Data

	For the six months ended 30 June		
	2020	2019	Change (%)
White-feathered broilers bred (unit: million birds)	55.8	47.7	+17.0%
White-feathered broilers processed (unit: million kg)	124.0	100.6	+23.3%
Sales volume of:			
Raw chicken meat products (unit: million kg)	85.9	64.7	+32.8%
Processed chicken meat products (unit: million kg)	37.8	32.2	+17.4%
Chicken breeds (unit: million birds)	21.1	30.8	-31.5%

Key Financial Data

	For the six months ended 30 June			
	2020		2019	
	Before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	After biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	After biological assets fair value adjustments <i>RMB'000</i> (Unaudited)
Revenue	1,902,759	1,902,759	1,681,322	1,681,322
Gross profit	369,712	227,390	495,474	146,871
Profit for the period	146,572	144,674	332,177	340,616
Profit attributable to the owners of the Company	—	145,415	—	340,762
Basic earnings per share (<i>in RMB cents</i>)	—	13.92	—	32.61

FINANCIAL INFORMATION

The board of directors (the “**Board**”) of Shandong Fengxiang Co., Ltd. (the “**Company**”) and its subsidiaries, collectively the “**Group**”) is pleased to announce the unaudited condensed consolidated results and financial position of the Group for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019 as follows:

The following financial information is a summary of the unaudited condensed consolidated financial statements for six months ended 30 June 2020 of the Group, which have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	Notes	Six months ended 30 June					
		2020			2019		
		Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Revenue	3	1,902,759	—	1,902,759	1,681,322	—	1,681,322
Cost of sales		(1,533,047)	(142,322)	(1,675,369)	(1,185,848)	(348,603)	(1,534,451)
Gross profit		369,712	(142,322)	227,390	495,474	(348,603)	146,871
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest		—	54,122	54,122	—	134,511	134,511
Gain arising from changes in fair value less costs to sell of biological assets		—	86,302	86,302	—	222,531	222,531
Other income and gains	4	12,506	—	12,506	17,967	—	17,967
Selling and distribution costs		(121,057)	—	(121,057)	(62,276)	—	(62,276)
Administrative expenses		(53,643)	—	(53,643)	(62,210)	—	(62,210)
Research and development expenses		(9,974)	—	(9,974)	(7,925)	—	(7,925)
Provision for impairment loss		(133)	—	(133)	(691)	—	(691)
Other expenses		(10,932)	—	(10,932)	—	—	—
Finance costs	5	(38,967)	—	(38,967)	(47,635)	—	(47,635)
Profit before income tax	6	147,512	(1,898)	145,614	332,704	8,439	341,143
Income tax expense	7	(940)	—	(940)	(527)	—	(527)
Profit for the period		<u>146,572</u>	<u>(1,898)</u>	<u>144,674</u>	<u>332,177</u>	<u>8,439</u>	<u>340,616</u>

	2020			Six months ended 30 June 2019		
	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total
Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Other comprehensive income						
Other comprehensive income that may be reclassified subsequently to profit or loss:						
Exchange difference on translation of financial statements of foreign operation			(3)			(67)
Other comprehensive income for the period			(3)			(67)
Total comprehensive income for the period			144,671			340,549
Profit attributable to:						
Owners of the Company			145,415			340,762
Non-controlling interest			(741)			(146)
			144,674			340,616
Total comprehensive income attributable to:						
Owners of the Company			145,412			340,695
Non-controlling interest			(741)			(146)
			144,671			340,549
Earnings per share attributable to owners of the Company						
Basic and diluted (in RMB cents)	9		13.92			32.61

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITIONS

As at 30 June 2020

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		2,236,623	2,171,889
Right-of-use assets		295,231	287,977
Intangible assets		10,037	9,528
Biological assets	10	158,739	157,877
Prepayments and deposits		116,964	60,213
Deferred tax assets		3,588	3,509
		<hr/>	<hr/>
Total non-current assets		2,821,182	2,690,993
Current assets			
Inventories		595,652	485,025
Biological assets	10	131,417	141,873
Trade receivables	11	200,852	206,625
Prepayments, deposits and other receivables		176,385	158,531
Due from a related party		1,500	46
Pledged deposits		434,378	184,590
Cash and cash equivalents		1,084,062	563,365
		<hr/>	<hr/>
Total current assets		2,624,246	1,740,055

		As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Current liabilities			
Trade and bills payables	12	267,042	308,120
Accruals and other payables		303,156	252,470
Contract liabilities		16,435	21,160
Lease liabilities		5,951	3,476
Due to related parties		10,056	5,283
Borrowings	13	2,156,440	1,266,398
Deferred government grants		480	847
Income tax payable		668	545
		<u>2,760,228</u>	<u>1,858,299</u>
Total current liabilities		<u>2,760,228</u>	<u>1,858,299</u>
Net current liabilities		<u>(135,982)</u>	<u>(118,244)</u>
Total assets less current liabilities		<u>2,685,200</u>	<u>2,572,749</u>
Non-current liabilities			
Lease liabilities		189,277	193,443
Borrowings	13	66,869	100,635
Deferred government grants		19,989	15,031
		<u>276,135</u>	<u>309,109</u>
Total non-current liabilities		<u>276,135</u>	<u>309,109</u>
Net assets		<u><u>2,409,065</u></u>	<u><u>2,263,640</u></u>
Equity			
Equity attributable to owners of the Company			
Share capital	14	1,045,000	1,045,000
Reserves		1,365,538	1,219,372
		<u>2,410,538</u>	<u>2,264,372</u>
Non-controlling interest		<u>(1,473)</u>	<u>(732)</u>
Total equity		<u><u>2,409,065</u></u>	<u><u>2,263,640</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. BASIS OF PREPARATION AND PRESENTATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 (“**IAS 34**”) and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. These condensed consolidated interim financial statements were authorised for issue on 31 August 2020.

The preparation of these condensed consolidated interim financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. There have been no material revisions to the nature and amount of estimates of amounts reported in the Accountant’s Report presented in the prospectus of the Company dated 30 June 2020 (the “**Prospectus**”).

These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the Accountants’ Report presented in the Prospectus. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”) and should be read in conjunction with the Accountants’ Report presented in the Prospectus.

The condensed consolidated results have not been audited but have been reviewed by the audit committee of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention and are presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Other than changes in accounting policies resulting from application of new and amendments to IFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's financial statements for the year ended 31 December 2019 underlying the preparation of historical financial information included in the Accountants' Report presented in the Prospectus.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board which are mandatory effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

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

Further information about those IFRSs is described below.

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

3. REVENUE AND SEGMENT INFORMATION

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

- (a) Production and sale of raw chicken meat products
- (b) Production and sale of processed chicken meat products
- (c) Production and sale of chicken breeds
- (d) Others comprising sale of organic fertiliser, by-products, packing materials and miscellaneous products

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

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.

Six months ended 30 June 2020	Raw chicken meat products RMB'000 (Unaudited)	Processed chicken meat products RMB'000 (Unaudited)	Chicken breeds RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Segment revenue:					
Sales to external customers	<u>963,549</u>	<u>822,036</u>	<u>60,313</u>	<u>56,861</u>	<u>1,902,759</u>
Timing of revenue recognition:					
At a point in time	<u>963,549</u>	<u>822,036</u>	<u>60,313</u>	<u>56,861</u>	<u>1,902,759</u>
Segment results	181,301	170,925	16,929	557	369,712
Reconciliation:					
Biological assets fair value adjustments					(1,898)
Other income and gains					12,506
Corporate and unallocated expenses					(195,739)
Finance costs					(38,967)
Profit before income tax					<u>145,614</u>
Other segment information:					
Write-off of inventories	31	149	—	—	180
Depreciation of property, plant and equipment	56,109	14,657	3,734	1,591	76,091
Depreciation of right-of-use assets	2,104	1,368	—	1,672	5,144
Short-term lease expenses	202	—	68	145	415

Six months ended 30 June 2019	Raw chicken meat products <i>RMB'000</i> (Unaudited)	Processed chicken meat products <i>RMB'000</i> (Unaudited)	Chicken breeds <i>RMB'000</i> (Unaudited)	Others <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
Segment revenue:					
Sales to external customers	<u>731,762</u>	<u>659,708</u>	<u>205,186</u>	<u>84,666</u>	<u>1,681,322</u>
Timing of revenue recognition:					
At a point in time	<u>731,762</u>	<u>659,708</u>	<u>205,186</u>	<u>84,666</u>	<u>1,681,322</u>
Segment results	206,218	126,046	150,649	12,561	495,474
Reconciliation:					
Biological assets fair value adjustments					8,439
Other income and gains					17,967
Corporate and unallocated expenses					(133,102)
Finance costs					<u>(47,635)</u>
Profit before income tax					<u>341,143</u>
Other segment information:					
Write-off of inventories	12	116	—	34	162
Depreciation of property, plant and equipment	32,818	24,969	2,709	1,432	61,928
Depreciation of right-of-use assets	2,073	1,272	—	1,699	5,044
Short-term lease expenses	305	—	35	64	404

Geographic information

Revenue from external customers

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Mainland China	1,452,074	1,234,916
Japan	205,940	211,947
Malaysia	98,043	75,548
Europe	109,516	104,561
Others	37,186	54,350
	<u>1,902,759</u>	<u>1,681,322</u>

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

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	4,906	4,099
Exchange gain	5,100	8,159
Government grants (<i>note</i>)	1,565	3,521
Others	935	2,188
	<u>12,506</u>	<u>17,967</u>

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

5. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on borrowings	33,001	34,116
Interest on bills payable	—	7,617
Interest on lease liabilities	5,966	5,902
	<u>38,967</u>	<u>47,635</u>

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging:

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold, including:		
Write-off of inventories	180	162
Amortisation of intangible assets	995	755
Auditor's remuneration	603	745
Depreciation of property, plant and equipment	81,399	79,484
Depreciation of right-of-use assets	5,234	5,134
Loss on disposals of property, plant and equipment	605	1,423
Loss allowance on trade receivables	2,768	439
(Reversal of loss allowance)/loss allowance on other receivables	(2,635)	252
Short-term lease expenses	4,436	4,775
Listing expenses	2,189	—
Exchange gain	(5,100)	(8,159)
Employee benefit expense (including Directors' and supervisors' remuneration):		
Wage, salaries and allowances, social securities and other benefits	249,282	279,192
Pension scheme contributions	15,713	20,605
	<u>264,995</u>	<u>299,797</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax -Mainland China		
Charge for the period	1,019	432
Deferred tax	(79)	95
	<u>940</u>	<u>527</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for the six months ended 30 June 2020 (2019: 25%) except for the followings:

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

8. DIVIDENDS

No dividend was paid, declared or proposed to owners of the parent for the six months ended 30 June 2020 (2019: Nil), nor has any dividend been paid, declared or proposed since the end of the reporting period.

9. EARNINGS PER SHARE

The basic earnings per share for the six months ended 30 June 2019 and 2020 are calculated based on the profit of RMB340,762,000 (unaudited) and RMB145,415,000 (unaudited), respectively, attributable to owners of the Company and the weighted average of 1,045,000,000 ordinary shares during the period.

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

10. BIOLOGICAL ASSETS

The biological assets of the Group represent breeders, broilers and broiler eggs. The broilers and broiler eggs are raised for sale and consumption in production, which are classified as current assets. Breeders are held to produce further broiler eggs and broilers, which are classified as non-current assets.

The quantity of biological assets owned by the Group are as follows:

	As at 30 June 2020	As at 31 December 2019
Breeders	1,765,980	1,615,581
Broilers	11,892,870	10,641,754
Broiler eggs	13,096,033	13,597,187
	<u>26,754,883</u>	<u>25,854,522</u>

Biological assets as at 30 June 2020 and 31 December 2019 are stated as fair value less estimated costs to sell and are analysed as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Non-current portion	158,739	157,877
Current portion	131,417	141,873
	<u>290,156</u>	<u>299,750</u>

Measurement of fair value

The Group's chickens were independently valued by the independent and qualified valuers, Jones Lang LaSalle Sallmanns Limited. The fair value of biological assets is a level 3 recurring fair value measurement. There were no transfers into or out of level 3 during the period.

The fair value of the biological assets is determined by using the market approach and replacement cost approach and is with reference to the market-determined prices of items with similar size, species, age and weight. These adjustments are based on unobservable inputs.

11. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	206,811	209,816
Less: loss allowance	(5,959)	(3,191)
	<u>200,852</u>	<u>206,625</u>

The Group's trading terms with its customers are mainly on cash and credit. The credit period is generally 30 to 60 days. The Group seeks to maintain strict control over its outstanding 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 based on the invoice date and net of provision, is as follows:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 month	191,059	136,053
1 to 3 months	873	62,779
3 months to 1 year	4,746	1,403
Over 1 year	4,174	6,390
	<u>200,852</u>	<u>206,625</u>

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

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
At beginning of period/year	3,191	2,650
Loss allowance recognised	2,768	541
At end of period/year	<u>5,959</u>	<u>3,191</u>

12. TRADE AND BILLS PAYABLES

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.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade payables	246,835	168,120
Bills payable	20,207	140,000
	<u>267,042</u>	<u>308,120</u>

The Group's bills payable are all aged within six months. As at 31 December 2019, the Group's bills payable represented the bills issued to Shandong Yanggu Dafeng Food Co., Ltd. (山東陽穀大豐食品有限公司), 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:

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 1 month	178,994	123,076
1 to 3 months	55,939	33,364
3 months to 1 year	6,418	7,469
Over 1 year	5,484	4,211
	<u>246,835</u>	<u>168,120</u>

13. BORROWINGS

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Bank loans, secured	1,937,203	894,542
Other loans from financial institution, unsecured	—	28,000
Other loans from financial institution, secured	286,106	444,491
	2,223,309	1,367,033
Less: Non-current portion	(66,869)	(100,635)
Portion classified as current liabilities	<u>2,156,440</u>	<u>1,266,398</u>
Effective interest rate per annum		
	2.85% to	2.85% to
Bank loans, secured	5.80%	5.10%
Other loans from financial institution, unsecured	—	6.19%
	2.70% to	2.70% to
Other loans from financial institution, secured	6.60%	6.65%

14. SHARE CAPITAL

	As at 30 June 2020 <i>RMB'000</i> (Unaudited)	As at 31 December 2019 <i>RMB'000</i> (Audited)
Registered, issued and fully paid:		
1,045,000,000 shares of RMB1.00 each	<u>1,045,000</u>	<u>1,045,000</u>

On 16 July 2020, 355,000,000 H shares of par value RMB1.00 each of the Company were issued by way of a global offering. On the same date, the Company's H shares were listed on The Stock Exchange of Hong Kong Limited.

MANAGEMENT DISCUSSION AND ANALYSIS

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

COMPANY PROFILE

Introduction

The Company is the largest white-feathered broiler meat exporter and the leading retail enterprise of chicken meat food in China, which was established as a joint stock limited liability company in the PRC on 17 December 2010 and listed on the Main Board of The Stock Exchange 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, 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 six months ended 30 June 2020, the sales volume of raw chicken meat products increased by 32.8% to 85.9 million kilogram ("kg") (six months ended 30 June 2019: 64.7 million kg). Revenue from external sale of raw chicken meat products grew by 31.7% to RMB963.5 million for six months ended 30 June 2020 (six months ended 30 June 2019: RMB731.8 million), representing 50.6% 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. For the six months ended 30 June 2020, the sales volume of processed chicken meat products was 37.8 million kg (six months ended 30 June 2019: 32.2 million kg). Revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 24.6% to RMB822.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB659.7 million), representing 43.2% of the Group's total revenue.

Chicken Breeds

The Group sells some of its chicken breeds hatched from broiler eggs to other independent third parties for breeding into broilers. The sales volume of the Group's chicken breeds is based on the average selling prices of chicken breeds, which is market-driven. The Group sells chicken breeds to local chicken farmers and other poultry business operators, who are independent third parties. For the six months ended 30 June 2020, the sales volume of chicken breeds was 21.1 million birds (six months ended 30 June 2019: 30.8 million birds). Revenue from external sale of chicken breeds significantly dropped by 70.6% to RMB60.3 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB205.2 million), representing 3.2% 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 was relatively stable for the first half of 2020 as compared to the corresponding in 2019. Revenue from external sale of other products dropped by 32.8% to RMB56.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB84.7 million), representing 3.0% of the Group's total revenue.

The Group is dedicated to ensuring a high standard of safety and quality of its chicken meat products and the raw materials for its production of animal feeds, Parent Stock Day-old Chicks, chicken breeds and chicken meat products the Group procures. The Group has obtained the Halal Certification issued by China Shandong Islamic Association and the Group's white-feathered chicken meat products are halal certified by adopting Islamic slaughter rituals. The Group has obtained, among other things, ISO22000 (Food Safety) Certificate and ISO9001 (Quality) Certificate. Further, the Group has been accredited with HACCP (Hazard Analysis and Critical Control Points) for its food processing plant of chilled and frozen chicken meat products. Being named an "area with broilers lacking highly pathogenic avian influenza" (肉雞無高致病性禽流感小區) by the Ministry of Agriculture and Rural Affairs of the PRC in May 2019, it is proved that no infected case of the avian influenza was found in the Group's breeder and broiler farms. The Group currently has 20 veterinarians who have passed the national veterinarian qualification examination of the PRC.

BUSINESS REVIEW

During the six months ended 30 June 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 realised revenue growth amid the downturn pressure, recording RMB1,902.8 million and booking a period-on-period growth of 13.2%.

Industry Overview: Positive Development Trend and Optimistic Growth Outlook

We are optimistic about the development of chicken meat and other high-quality animal protein food products. The development trend of meat products industry of China in recent years can be summarised in four key aspects:

1. *Significant Improvement of Nutrition Structure*

Over the past 30 years, China's meat products consumption market maintains an overall rapid growth, with chicken meat and beef developing at a faster pace. In the meantime, the proportion of poultry meat grows at a much quicker speed, and it is to continue to grow at a faster rate in the next ten years, even taking into account negative impacts including the breeding capacity restrictions and the post-pandemic influence.

2. *Greater Penetration of Health Concept*

Since China “emerges”, it is now “getting richer” and “getting stronger”. The society has developed from “having enough food” to “having a good diet” and “having a healthy diet”; and food with high protein, low fat, low cholesterol and low calorie become the mainstream. Under such a circumstance, it is timely for the launch and development of the “iShape (優形)” brand, which is now on the right track of exponential demand growth.

3. *More Stringent Food Processing Regulation*

In the post-pandemic era, the PRC government has enhanced the implementation of regulatory policies on poultry breeding and processing; leading players of the catering industry have set more diversified and higher indicators for selecting raw material suppliers, and placed more weight on corporations' comprehensive ability. Therefore, the cooperation between these companies and leading enterprises of the industry with designated scale, such as the Group, will expand and deepen.

4. *Inevitable Trend of Low-temperature Transformation*

Owing to the penetration and development of relevant industries over the years, the online and offline channel capacity has improved, the cold chain network has upgraded and expanded to the lower-end of the market, the promotion of low-temperature chicken meat products can be realised in a more cost-effective way, and the proportion of such category will grow further, which will become an irresistible trend. From a long-term perspective, the level is expected to be comparable with the European Union and Japanese markets, and the market capacity and potential will be enormous.

Transformation and Upgrading Plan over the Past Three Years: Sticking to the “123” Strategy, Realising the B2B and B2C business layout, and Creating Leading Brands

Strategic Positioning: Sticking to the “123” Strategy

Cultivating deeply in the industry for approximately 30 years, the Group has secured a leading position in the white-feathered broiler breeding and production end and the B2B end. It was awarded the title of national key leading enterprise for agricultural industrialisation and was the largest white-feathered broiler meat exporter in the PRC. Since 1996, it has been exporting products to overseas markets, including Japan, South Korea, Mongolia, the European Union and Southeast Asia, and has been offering products to KFC, McDonald's and other global catering giants. Over the past three years, the Group has been committed to transformation and upgrading, implementing the “123” development strategy (one foundation, two major market and three driving forces) and creating China's leading chicken meat product brand.

(1) “One foundation”:

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

(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 new retail business. New retail represents the B2C business of the Group which has undergone vigorously development over the past few years, providing “Fovo Food (鳳祥食品)” and “iShape (優形)” products 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, by leveraging its years of experience in serving KFC, McDonald’s and other large-scaled international catering chains 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.

As the Group advances the 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 creating China’s leading chicken meat product brand.

2. *Brand Series: Fovo Foods Series Focuses on Nutritious and Delicious Food, and the iShape Series Targets the Middle to High-End Market*

The Group is proactively creating a leading chicken meat brand in China, with sub-brands targeting different consumer groups for satisfying consumer demands and establishing clear positioning.

The *iShape (優形) series*: responds to the consumption upgrade trend, targets the middle and high-end income groups, portrays as a middle to high-end brands, and focuses on yearning for a better life and advocates the concept of healthy living; the *Fovo Foods (鳳祥食品) series*: targets the family and personal consumption scenes, provides consumers with assurance and deliciousness, emphasises quality; the *Wu Genglu (五更爐) series*: targets Liaocheng City and surrounding areas, inheriting historical taste; and other sub-brands achieves expansion and breakthrough of categories through production, supply and service of high-quality protein, to satisfy more needs of consumers.

Business Review: Pursuing Change Aggressively, Growing amid Downturn Pressure

1. *Revenue and Profit Performance*

During the six months ended 30 June 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 customers of new export business, the Group realised revenue growth amid the downturn pressure, recording RMB1,902.8 million and booking a period-on-period growth of 13.2%. The analysis of major products and channels is set out below:

Sales revenue from processed chicken meat products amounted to RMB822.0 million, representing a period-on-period increase of 24.6%. Sales revenue from new retail channel reached RMB373.1 million, representing a period-on-period increase of 431.5%. Export sales revenue amounted to RMB450.7 million, representing a period-on-period increase of 1%.

For the six months ended 30 June 2020, the net profit amounted to RMB144.7 million, representing a period-on-period decrease of 57.5%. The main reasons for the decrease in net profit include:

1) *Chicken breeds business recorded a significant decrease in profit*

Sales volume of chicken breeds stood at 21.1 million (six months ended 30 June 2019: 30.8 million), representing a period-on-period decrease of 31.5%. Sales revenue from chicken breeds amounted to RMB60.3 million (six months ended 30 June 2019: RMB205.2 million), representing a period-on-period decrease of 70.6%. Gross profit from sales of chicken breeds amounted to RMB16.9 million (six months ended 30 June 2019: RMB150.6 million), dropping by RMB133.7 million and representing a period-on-period decrease of 88.8%.

Such decrease 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 by:

- Accumulating the production capacity of chicken breeds to support to expansion in production capacity of broilers, eliminate mature chickens ahead of schedule, introduce new Parent Stock Day-old Chicks, and reduce the production of current chicken breeds;
- Pooling more resources to develop the core business of chicken meat products, take proactive measures to reduce the external sales of chicken breeds, and increase the number of chicken breeds bred; and
- The average selling price of chicken breeds stayed at RMB2.9 per bird, representing a period-on-period decrease of 57.1%, as the consumption demand has not returned to the normal level due to the coronavirus pandemic;

- 2) *Marketing and research and development expenses increased significantly, representing a period-on-period increase of RMB60.8 million*

Marketing expenses amounted to RMB121.0 million, representing a period-on-period increase of RMB58.8 million or 94.4%. Research and development expenses amounted to RMB10.0 million, representing a period-on-period increase of RMB2.0 million or 25.9%. Such increase was attributable to the Group's resource input in its new retail end, including increasing marketing and promotion expenses, expanding its new retail professional team and increasing research and development expenses in the chicken meat products end and the breeding end.

- 3) *Costs of purchased chicken meat products were relatively high*

To implement the "123" strategy, the Group made advance arrangements and purchased sources of high-quality chicken meat products to further expand the coverage of new channels and new market, but such a move has been initiated under the circumstances where the Group's potential capacity has not been fully utilised. To ensure long-term stable and quality foundation, the Group purchased chicken meat from breeding and processing enterprises of the same quality as itself, adopted a strategic cooperation model and made settlement by cost-plus pricing, which led to higher purchase costs and affected the gross margin.

The Group has been taking effective measures to lower the cost pressure of purchased chicken meat products to improve its gross margin through:

- Promoting its own capacity expansion plan, and making full use of its low-cost advantage of self-owned capacity; and
- Establishing closer cooperative relationship with enterprises offering purchased chicken meat products, communicating with these enterprises on breeding technology, supply chain and cost management experience, and assisting strategic partners to effectively control breeding cost.

- 4) *Donation*

The Group donated materials of RMB8.7 million during the coronavirus pandemic. It actively fulfilled social responsibility and supported the fight against coronavirus disease by donating health food and materials for epidemic prevention and control, and offering privileges and care packages to frontline medical staffs and their families.

2. Revenue by Product

	Six months ended 30 June 2020 RMB'000	Percentage of total revenue %	Six months ended 30 June 2019 RMB'000	Percentage of total revenue %	Growth rate %
Raw chicken meat products	963,549	50.6	731,762	43.5	31.7
Processed chicken meat products	822,036	43.2	659,708	39.2	24.6
Chicken breeds	60,313	3.2	205,186	12.2	-70.6
Others	56,861	3.0	84,666	5.1	-32.8
Total	<u>1,902,759</u>	<u>100.0</u>	<u>1,681,322</u>	<u>100.0</u>	<u>13.2</u>

- (1) During the six months ended 30 June 2020, the Group recorded total revenue of RMB1,902.8 million (six months ended 30 June 2019: RMB1,681.3 million) amid the coronavirus pandemic, and maintained a growth of 13.2%.
- (2) The Group continued to adjust and improve the business structure, and sales revenue from the core business of chicken meat products maintained a rapid growth. In particular, revenue from raw chicken meat products was RMB963.5 million (six months ended 30 June 2019: RMB731.8 million) and grew by 31.7%; revenue from processed chicken meat products was RMB822.0 million (six months ended 30 June 2019: RMB659.7 million) and grew by 24.6%.
- (3) After the reduction in the proportion of chicken breeds and other non-core businesses, the proportion of the Group's core business reached 93.8% (six months ended 30 June 2019: 82.7%). In particular, processed chicken meat products accounted for 43.2% (six months ended 30 June 2019: 39.2%) of the total revenue during the six months ended 30 June 2020, representing a period-on-period increase of 24.6%.
- (4) During the six months ended 30 June 2020, "iShape (優形)", the mid- and high-end brand the Group has been vigorously promoting witnessed rapid development, and "iShape (優形)" series products recorded a period-on-period growth of 316%.

3. *Revenue by Channel*

Revenue

- (1) During the six months ended 30 June 2020, the new retail business recorded another leapfrog development, showed the most noticeable growth and realised sales revenue of RMB373.1 million (six months ended 30 June 2019: RMB70.2 million), representing a period-on-period increase of 431.5%. Specifically, the online and offline segments grew by 532% and 289% period-on-period, respectively. The new retail business during the six months ended 30 June 2020 has accounted for 19.6% of the total revenue (six months ended 30 June 2019: 4.2%) of the Group, while the new retail model only accounted for 2.0%, 2.0%, 3.3% and 6.4% for the four years ended 31 December 2019, respectively.
- (2) During the six months ended 30 June 2020, the Company's domestic sales recorded RMB1,079.0 million (six months ended 30 June 2019: RMB1,164.7 million), representing a period-on-period decrease of 7.4% and accounting for 56.7% (six months ended 30 June 2019: 69.2%) of the total revenue. The decrease in revenue from overall domestic sales was partially offset by the revenue from the new centralised procurement business, which overcome the impact of the coronavirus pandemic and recorded sales revenue of RMB375.7 million (six months ended 30 June 2019: RMB336.9 million) amid the downturn pressure, representing a period-on-period increase of 11.5%. Particularly, McDonald's and KFC were still the partners in the catering industry with the closest and deepest relationship. The new centralised procurement business segment accounted for 19.7% (six months ended 30 June 2019: 20.0%) of the total revenue.
- (3) During the six months ended 30 June 2020, the new export business upgraded to diversified channels, showed a strong risk resistance capacity and recorded sales revenue of RMB450.7 million (six months ended 30 June 2019: RMB446.4 million), representing a period-on-period increase of 1% and accounting for 23.7% (six months ended 30 June 2019: 26.6%) of the total revenue. Specifically, the Malaysian market and the European Union market grew by 29.8% and 4.7% respectively; the Japanese market basically remained flat.

Channel Expansion: Focusing on New Retail, New Centralised Procurement and New Export

During the six months ended 30 June 2020, consumption upgrading, downstream channel expansion, upgrading of online shopping speed, and quality and safety became the four remarkable development trends. The Group seized opportunities, increased inputs and focused on developing the new retail, new centralised development and new export businesses.

1. New Retail

① *Offline terminals:*

In the offline segment, the Group realised a coverage of about 25,000 high-quality convenience stores in more than 70 major cities during the six months ended 30 June 2020, added approximately 5,000 stores to the network as compared with the end of 2019, and became the preferred partner of many brands, including Lawson, FamilyMart, 7-11 and Bianlifeng, in respect of cooked chicken meat products and low-temperature chicken meat products. It is expected that the network will cover all provinces and regions in Mainland China this year, and the number of stores will continue to increase.

In the Group's production base in Liaocheng, Shandong Province, the Group succeeded in the pilot program of "branding" operation model during the six months ended 30 June 2020. It expanded to "community stores" and "couple operated stores" by building an all-category admission and all-scenario marketing, and recorded outstanding sales performance in Liaocheng through adopting merchandising display in terminals, standardised team maintenance and relying on physical stores to advance O2O promotion, with sales revenue growing by 341% period-on-period. The Group will promote the operation model to a larger scope in the future, and the first round will cover eight cities around Liaocheng.

② *Online channels:*

The Group expanded its coverage to leading e-commerce businesses including Tmall, JD.com, MissFresh, Freshippo, Dingdong Maicai, Meituan Maicai, YUNJI and Daling Family, and established in-depth cooperation with leading content e-commerce businesses and social media e-commerce businesses. In particular, "iShape (優形)" has become the selected KA merchant of Tmall and JD.com and the first strategic partner of Missfresh, YUNJI and Daling Family in respect of processed chicken meat products.

2. *New Centralised Procurement:*

The coronavirus pandemic has accelerated the quality upgrading of China's catering industry and convenience store catering system, and leading players continue to improve the procurement standards. Accordingly, the development of new centralised procurement business becomes a new strategic layout and a new business growth point of the Group.

During the six months ended 30 June 2020, the Group maintained long-term cooperation with McDonald's and KFC, provided products and services to over 30 renowned China-based catering enterprises chain, including JIGUANG Fried Chicken, BKP, Shanghai Zhengxin, Kungfu and Laoniangjiu, and will gradually reach more than 33,000 stores under these brands.

The Group also realised further cooperation with approximately 9,000 boutique convenience stores.

As the negative impact of the coronavirus pandemic abates and when gradually disappear, the new centralised procurement business will generate higher revenue and profit contribution in the future.

3. *New Export:*

(1) Japan: Since the first export order in 1996, the Group has been developing the Japanese market for 24 years. Currently, it has established diversified marketing channels, covered segments of convenience stores, hypermarkets, low-price supermarkets, life supermarkets, catering chain stores and food processing plants, and established friendly cooperation with such segments. Owing to such layout, the Japanese market showed a strong ability to undertake the shift of business focus and a strong risk resistance capacity during the coronavirus pandemic.

- (2) European Union: Since 2010 when the Group entered the European Union market, the Group witnesses the export to European Union growing from several hundred tons to approximately 10,000 tons every year, with the number of customers increasing from two or three in the early stage to over a dozen at the end of six months ended 30 June 2020, and with the channel expanding from the catering industry at the early stages to supermarket and convenience store systems. With such diversified channel layout, the adjusted marketing structure and the promotion of sophisticated services, the Group recorded 5% of sales revenue growth amid the downturn pressure during the six months ended 30 June 2020, even though the European Union reported severe conditions in fighting the coronavirus pandemic.
- (3) Other markets: On the condition of stable business development, the Group adjusted its product and channel structure and improved the service ability.

Research and Development Upgrading: Staying Market Oriented, Accelerating Update

During the six months ended 30 June 2020, the Group remained market demand oriented and created a great synergy to accelerate new product development and commercialisation by leveraging the collaboration and interaction of “Tokyo + Shanghai + Shandong” research and development centers, with Tokyo serving as the cutting-edge technology and market center, Shanghai as the production innovation center and Shandong as the process commercialisation center, establishing strategic cooperation with international leading meat product research and development organisations.

Taking a new product as an example, with trend insight, the market’s front end noticed that customers have a strong demand for deliciousness and health, and boldly came up with a new product idea. The research and development team of the Group co-operated and worked together with external partners, and the new product concept was ready in a short period of time for the process adjustment stage.

Salted egg flavored chicken (鹹蛋黃嫩骨雞) is a new product that opened another category of blue sea. The concept of the product was first proposed at the end of December 2019, and it only took three months to hit the market, with the concept, the nutrition value and the consumption experience highly recognised by consumers. It is also a single popular item that many famous livestreaming anchors expect to co-operate with.

In the brand end, the development of new products including protein bar expanded the coverage of “iShape (優形)”. In the product end, the Group accelerated the update of Fovo series products through the development of salted egg flavored chicken (鹹蛋黃嫩骨雞) and chicken patty squares (雞肉小方). In the marketing end, the Group developed roasted chicken products, offered strong support and effective solutions to address the particular needs of ALDI, a leading retail brand in Germany, and directly supported the Group to expand the type and path of marketing channels.

The advantage of research and development end and its continuous upgrading significantly improved the core competitiveness of the Group and its brands.

Product Portfolio: Focusing on iShape Brand, Fostering Fovo Food as High-quality Items

iShape Brand Series

iShape (優形) is the mid-and high-end brand the Group has been vigorously developing. iShape is the largest ready-to-eat chicken breast brand in China, in terms of revenue and market share as at 30 June 2020.¹

iShape features nutritious, low-fat, high-protein, ready-to-eat and convenient chicken meat products. As at 30 June 2020, it has three major categories: meal replacement series, extra meals series and leisure snack series. It has 31 stock keeping units (“SKUs”) in total and is available on major e-commerce platforms and at over 25,000 offline outlets.

iShape focuses on yearning for a better life and advocates the concept of healthy living with products which are low in fat, tasty and ready-to-eat, and will continuously develop and launch more new products to satisfy more consumption scenarios.

¹ Data source: Frost & Sullivan

Fovo Food Series

As a well-known trademark in China, Fovo has three major categories: seasoned cooked chicken meat products, seasoned raw chicken meat products and fresh frozen chicken meat products. As at 30 June 2020, 80 SKUs were available in the market.

Salted egg flavored chicken (鹹蛋黃嫩骨雞) and “Jia’ge chicken drumstick” (加個雞腿) under the seasoned cooked chicken meat products and olive oil seasoned chicken (橄欖油嫩雞排) under the seasoned raw chicken meat products become the key single items of the Group by adaptation to customers’ demands, unique product features and higher gross profit potential.

Fovo Food series products focus on the desire of safety, flavor and quality, and families are their core target customers. As the market develops and customers have higher requirements, Fovo gradually introduce the health concept and launches chicken patty squares (雞肉小方) to satisfy the personal consumption scenario.

Wu Genglu Series

Wu Genglu (五更爐) has a long history, and is a well-known trademark in China and a Shandong time-honoured brand. It inherits the traditional craftsmanship and aims to provide customers with the most traditional delicacy.

The brand has two categories: Wu Genglu smoked chicken (五更爐熏雞) and Wu Genglu salt baked chicken (五更爐鹽焗風味雞), with four SKUs as at 30 June 2020.

Currently, products are made of whole chicken. Products made of chicken wings, eggs and other parts of chicken will be developed in the future to meet customers’ needs, which will instantly available for multiple scenarios including family gathering, festival gift and outing.

Supply Chain: Digitisation, Intelligence, Systematisation

During the six months ended 30 June 2020, the Group further strengthened the construction of supply chain digitisation, intelligence, systematisation and stepped up efforts to promote welfare breeding, so as to reduce breeding cost.

Currently, the Group relies on its remote control real-time big data information system and the artificial intelligence (AI) technology supply chain management plan to realise 24-hour intelligent monitoring of the key breeding processes.

The Group equips its breeder and broiler farms with comprehensive environmental management module and water and feed supply system. The system collects data of at least 400 key points every five minutes, and the monitoring data would be sent to the monitoring centre and the mobile terminal of the administrator at the same time. On such basis, the intelligent monitoring system calls historical breeding data automatically and adjusts environmental parameters, including the optimal temperature, humidity, ventilation, pressure and cooling, according to changes of weather and climate, thereby ensuring breeders and broilers grow in a comfortable and stable environment and further improving the production performance and the breeding efficiency.

Currently, the Group has globally leading technology and management ability in production performance, such as fertilisation rate, feeding quantity and size control of breeders and broilers.

With such a foundation, the Group steadily enhances the welfare breeding practice to better satisfy the demands of global customers. So far, the Group's welfare breeding has covered aspects of breeding, breeding pens, feeding and health management.

By applying big data to the supply chain, the Group realises scientific matching of raw materials, including corn, soybean meal, vegetable oil, vitamin, amino acid and mineral substance, based on the differentiated nutrition requirements in different growth stages, provides breeders and broilers with comfortable temperature, dry ground, good air quality and sufficient food according to the age of breeders and broilers. The Group insists on breeding with zero hormone and promote the growth of breeders by favorable internal and external environment and scientific and reasonable diet.

Quality Control: Pursuing 100% Qualification Rate, Maximizing the Quality Advantage

Relying on the vertically integrated business model, the Group is able to produce processed chicken meat products according to customers' orders, including the variety and number of products and the delivery schedule. The Group can better control the whole production process and reduce production costs; therefore, it can continuously improve the production efficiency and have a high reliability.

The Group continues to improve the productivity and the epidemic prevention and control ability through production process standardisation and delicacy management, thereby realising product traceability to better ensure the safety and quality. During the six months ended 30 June 2020, the government conducted 115 random inspections, and products were subject to 37 spot checks in the market and 303 type tests; and achieved 100% qualification rate for all the test results of the Group.

The Group continues to apply the food safety solution that can meet import quality standards of Japan, the European Union and other countries and regions. The food safety solution covers six processes of product delivery: breeders, animal feed, breeding, quarantine, inspection and logistics, and achieves management and control of the whole process of industry chain. Under the management of this system, the Group's production system has obtained the accreditation of BRC, HACCP and ISO9001, the three international top-level management systems.

Organisational Reform: Staying Customer-centric and Market-oriented, Implementing Equity Incentive

The Group decided several years ago to vigorously develop new retail business, change the growth model, upgrade the industry structure and gradually promote organisational adjustment, and has achieved initial success.

During the six months ended 30 June 2020, the Group comprehensively promoted the "customer-centric and market-oriented" organisational reform by centering on the "123" development strategy, followed market demand and development trend to optimise organisational labor division and improve the efficiency. Combining internal cultivation with external introduction, the Group selected talents for professional positions of marketing, sales and research and development, established a "dual core" marketing team with new retail genes and food industrial characteristics, thereby developing employees' potential and stimulating organisational vitality. As at 30 June 2020, the organisational reform is being promoted further.

During the six months ended 30 June 2020, the Group focused on the “123” new strategy and concentrated more resources to the marketing end. It advocated and promoted flat communication and decision-making mechanism. After collecting the latest information on market demands and customer experience, it utilised such information to form guidelines for the planning, research and development, procurement, production, logistics of the supply end. The Group motivated frontline employees effectively by empowerment, and built a complete cycle from capturing customers’ demands and market trends to delivering customers with products they desire via proper marketing channels. As at 30 June 2020, the mechanism improvement and the process rebuilding are being developed and updated continuously.

During the six months ended 30 June 2020, the Group implemented the first round of share award incentive scheme, and it will launch incentive plans with larger scope and greater benefit in batches to business key stakeholders and professional talents. The aim of incentive plans is to align interests between the Group and employees, build a community of shared values, create and share growth benefits with employees, thereby building an environment characterised by the entrepreneurship, realising the development vision and fulfilling the organisational mission.

Branding Building: Building Quality-assured Fovo and Beautiful iShape, Actively Fulfilling Social Responsibility

During the six months ended 30 June 2020, the Group stepped up efforts in branding operation and marketing promotion, striving to improve the brand recognition and reputation.

Quality is the foundation; safety and quality assurance is the gene of all brands of the Company and also the memory point of Fovo series:

- The Group’s products passed the strict test of the State General Administration of Sports — Training Council (國家體育總局訓練局) with 100% qualification rate, and was selected as the Preparation and Protection Products for National Athletes to offer them with nutritional support in all sporting events. As at 30 June 2020, the Group is the only corporation providing national athletes with chicken meat products through the State General Administration of Sports — Training Council.

- In 2019, Ms. Wu Minxia, the winner of five gold medals in Olympic Games and the diving queen, acted as the ambassador and the chief tasting officer of Fovo brand. Ms. Wu Minxia maintained friendly co-operation with the Group during the six months ended 30 June 2020, and offered strong champion endorsement to the Group’s characteristic of brand and quality assurance.

During the six months ended 30 June 2020, the Group vigorously developed the mid-and high-end brand “iShape (優形)”. On the basis of quality and safety assurance, “iShape (優形)” advocates the “beauty, health” concept and is gradually known and accepted by customers for the healthy and high-quality image of “high protein, low fat without any use of hormones”.

- In 2020, “iShape (優形)” took the opportunity of the Sisters Riding the Winds and Breaking the Waves (《乘風破浪的姐姐》), a show of Mango TV, winning great popularity to engage Ms. Wan Qian as the ambassador. The integrated marketing campaign themed “The Attraction of Ms. Wan and iShape” (「萬優引力」) was launched vigorously, and the Group’s brand reputation, the brand preference, the online hotspot initiating ability, the buzz word freshness and the follower conversion rate all witnessed significant improvement.
- During the six months ended 30 June 2020, “iShape (優形)” sponsored Back to Field 4 (《嚮往的生活4》), the top variety show of Mango TV, and many celebrities in Mainland China including Zhao Lusi, Cheng Xiao and Li Chun strongly recommended the brand on Xiaohongshu (小紅書). In the livestreaming field, which is currently under spotlight in Mainland China, “iShape (優形)” was endorsed by Wei Ya, the livestreaming queen, Zhang Guowei, the world high jump champion, and Wang Sulong, a super star, as consumer and anchor of livestreaming studios. The Group’s sales consistently recorded remarkable performance, and the brand was widely recognised by anchors of livestreaming studios, which laid down a solid foundation for potential long-term cooperation.

The Group attached great importance to fulfilling social responsibility and endowed the brands with heart-warming elements. During the six months ended 30 June 2020, the Group donated over RMB8.7 million of materials for fighting the coronavirus pandemic.

Ensuring the health and safety of staffs in the course of work

After the outbreak of the coronavirus pandemic, the Group immediately made arrangements for resumption of work and production to ensure the market supply. Simultaneously, it initiated the emergency mechanism, established the epidemic prevention and control system, and organised trainings in this regard. It closely monitored the health conditions of staff, required staff to keep reasonable distance when dining, set a series of specific requirements on production and way of living. During the coronavirus pandemic, production plants set up 120 temperature checking points and provided 171 temperature checking instruments; every staff checked the temperature twice every day and was provided with masks; materials for epidemic prevention and disinfection were sufficient. For the Group's production lines, staff washed and disinfected their hands every hour, to ensure their health and safety and the production safety of the Group.

Donating materials for epidemic prevention

The Group leveraged its position as a leading enterprise and actively participated in the initiative of stabilising the chicken price in the capacity of a market player. It launched measures for the benefit and convenience of locals, and opened exclusive online green channels for hometown products. In the meantime, it actively purchased and co-ordinated materials from overseas markets to support the epidemic prevention and control in its hometown, including a total of 11,040 protective suits, 52,360 masks and 4,400 protective goggles.

The Group sent 130,000 chicken meat products in two batches to certain hospitals in Wuhan in the first place. It also launched the "Care Package" charity activity to Hubei's medical staff, sending them chicken meat products worth of RMB4.6 million.

FINANCIAL REVIEW

Overall performance

In the first half of 2020, the Group experienced an increase of 13.2% of revenue as compared to that of the first half of 2019. Before biological assets fair value adjustments, there was a decrease of 25.4% of gross profit, 55.9% of profit for the period and 57.3% of profit attributable to the owners of the Company as compared to the corresponding period in 2019. The basic earnings per share was RMB13.92 cents for the first half of 2020. Set out below is further information on the fluctuations in the Company's results for the six months ended 30 June 2020.

	Six months ended 30 June		Change (%)
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)	
Revenue	1,902,759	1,681,322	+13.2
Cost of sales (Before biological assets fair value adjustments)	(1,533,047)	(1,185,848)	+29.3
Gross profit (After biological assets fair value adjustments)	227,390	146,871	+54.8
Gross profit (Before biological assets fair value adjustments)	369,712	495,474	-25.4
Gain arising on initial recognition of agricultural produce at fair value less costs to sell at the point of harvest	54,122	134,511	-59.8
Gain arising from changes in fair value less costs to sell of biological assets	86,302	222,531	-61.2
Other income and gains	12,506	17,967	-30.4
Selling and distribution expenses	(121,057)	(62,276)	+94.4
Administrative expenses	(53,643)	(62,210)	-13.8
Research and development expenses	(9,974)	(7,925)	+25.9
Provision for impairment loss/Loss allowance	(133)	(691)	-80.8
Other expenses	(10,932)	—	—
Finance costs	(38,967)	(47,635)	-18.2
Profit before income tax (After biological assets fair value adjustments)	145,614	341,143	-57.3
Income tax expense	(940)	(527)	78.4
Profit for the period (Before biological assets fair value adjustments)	146,572	332,177	-55.9
	As at 30 June		
	2020	2019	
	(%)	(%)	
Gross profit margin (After biological assets fair value adjustments)	12.0	8.7	+3.3
Gross profit margin (Before biological assets fair value adjustments)	19.4	29.5	-10.1
Net profit margin	7.7	20.3	-12.6

Finance Costs

The Group's finance costs slightly decreased by 18.1% to RMB39.0 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB47.6 million), primarily due to the average interest rate of the Group's borrowing of 4.0% in the first half of 2020, representing a period-on-period decrease of 8.0%.

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 59.8% to RMB54.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB134.5 million), primarily due to a decrease in market prices of live broilers in the first half of 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 61.2% to RMB86.3 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB222.5 million), primarily due to a decrease in the market prices of chicken breeds in the first half of 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 period by RMB1.9 million for the six months ended 30 June 2020 (six months ended 30 June 2019: increased profit for the period by RMB8.4 million). Biological assets fair value adjustments also increased the total cost of sales by RMB142.3 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB348.6 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 period 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 RMB86.3 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB222.5 million) in the Group's unaudited condensed 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 period 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 RMB54.1 million for the six months ended 30 June 2020 (six months ended 30 June 2019: RMB134.5 million) in the unaudited condensed 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 Groups' primary uses of cash for the six months ended 30 June 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 Co., Ltd. (新鳳祥財務有限公司), whereby the Group pledges commercial bills received by the Group in the ordinary course of business to GMK Finance for discounting in return for cash loans extended to the Group. The discounting of the commercial bills provides the Group a way to factor and to obtain cash from the commercial bills that it receives in its ordinary course of trading, which in turn allows the Group to increase its cash flows in advance.

Capital Structure

As at 30 June 2020, 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 RMB1.0 each. Upon the listing of the Company (the “**Listing**”) on the Stock Exchange and the completion of the global offering of the H shares of the Company (the “**Global Offering**”) on 16 July 2020, 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 the six months ended 30 June 2020, the Company adopted proactive financing policies. The total borrowings of the Group amounted to RMB2,223.0 million, representing a period-on-period increase of 62.6% as at 30 June 2020. The increase is mainly attributable to (i) the grant of a one-year term loan of RMB200 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 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; (iii) the Group's borrowings were renewed normally upon expiration during the six months ended 30 June 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 30 June 2020, the debt to equity ratio and debt to asset ratio of the Company were 92.3% (31 December 2019: 60.4%) and 55.7% (31 December 2019: 48.9%), respectively. After the Company's listing on 16 July 2020, the debt-to-equity ratio and debt-to-asset ratio of the Company decreased to 61.4% and 45.0%, respectively.

Contingent Liabilities and Pledge of Assets

The Group's bank borrowings as at 30 June 2020 were secured by (i) mortgages of the Group's lands situated in the PRC with aggregate net carrying values of RMB26.4 million (31 December 2019: RMB26.7 million); (ii) pledge of the Group's bank deposits of RMB434.4 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 RMB283.5 million (31 December 2019: RMB249.5 million); and (iv) pledge of certain inventories of the related company with aggregate net carrying amount of RMB535.0 million (31 December 2019: RMB539.4 million).

As at 30 June 2020, the Group did not have any material contingent liabilities.

Human Resources

As at 30 June 2020, the Group had 7,880 employees who were directly employed by the Group, of which 7,878 employees were employed in the PRC and two 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

The Group is fairly confident about the healthy development of the industry and itself:

1. ***New retail:*** The Group will continue to increase brand building investment and further develop channels, so as to ensure the absolute leading position of “優形 (iShape)” in terms of scale, market share, brand recognition and reputation, and to build a leading brand.
2. ***New centralised procurement:*** The Group will seize the opportunities emerging along with the catering industry’s rising demands for high-quality suppliers, and will increase its resource input and diversify its products and services, so as to increase its market share and consolidate its leading position.
3. ***New export:*** The Group will, on one hand, continue to penetrate well into and cultivate the existing market, and on the other hand, continue to develop new businesses, optimise its structure and improve its services, so as to enhance its leading edge.
4. Through combining internal cultivation with external introduction, the Group will offer outstanding talents with platforms and opportunities; further optimise its organisational structure, implement its share award scheme, so as to provide institutional and cultural guarantee to the realisation of its new business strategies.
5. The Group will accelerate the integration of organic growth and the pursuance of strategic co-operation, solve the issue of insufficient production capacity, upgrade its supply chain management abilities, and engage in the internationalisation of resource allocation, so as to ensure a quality foundation for realising the mutual facilitation of its domestic and overseas markets.

OTHER EVENTS

Interim Dividend

The Board did not recommend the declaration or payment of an interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

Use of Proceeds from the Global Offering

The H shares of the Company were listed on the Stock Exchange on 16 July 2020 with net proceeds received by the Group from the Global Offering amounting to HK\$1,004 million (i.e. equivalent to approximately RMB889 million) (after deducting the underwriting commission, fees and all related expenses), which will be utilised for the purposes set out in the Prospectus.

Compliance with the Corporate Governance Code

The Board and the management of the Company are committed to achieving and maintaining high standards of corporate governance. Since the listing of the Company's H Shares on the Stock Exchange on 16 July 2020, the management of the Company has been actively observing the latest corporate governance requirements in the PRC, Hong Kong and abroad. In the opinion of the Board, the Company has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") since its listing and up to the date of this announcement.

Directors' and Supervisors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as a code of conduct for securities transactions by the directors and supervisors of the Company. The Company has made specific enquiries with each Director and Supervisor and each of them confirmed that he or she had complied with all required standards under the Model Code since its listing and up to the date of this announcement.

Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities for the six months ended 30 June 2020.

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

Save as disclosed in this announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures in the first half of 2020.

Subsequent Events

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 30 June 2020.

On 31 August 2020, the Board proposed to amend its articles of association (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, and the relevant resolutions will be proposed to the general meeting of the Company for shareholders' approval.

Review of Interim Results

The Audit Committee comprises three independent non-executive Directors, namely, Mr. Guo Tianyong, Mr. Zhang Ye and Mr. Chung Wai Man. Mr. Chung Wai Man serves as the chairman of the Audit Committee, who has the professional qualification and experience in financial matters in compliance with the requirements of the Listing Rules. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and the unaudited interim results of the Group for the six months ended 30 June 2020 and is of the view that the interim results of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

Publication of Interim Report

The interim report of the Company for the six months ended 30 June 2020 will be published on the websites of the Company (www.fengxiang.com) and the Stock Exchange (www.hkexnews.hk), respectively and despatched to the shareholders of the Company in due course.

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

Shandong, the PRC, 31 August 2020

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 the 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.