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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 2021**

HIGHLIGHTS

Key Operating Data

	For the year ended		Change (%)
	2021	2020	
White-feathered broilers bred (unit: million birds)	140.8	115.8	+21.6
White-feathered broilers processed (unit: million kg)	315.6	266.5	+18.4
Sales volume:			
Raw chicken meat products (unit: million kg)	202.9	187.1	+8.4
Processed chicken meat products (unit: million kg)	107.6	85.3	+26.2
Chicken breeds (unit: million birds)	31.1	35.6	-12.6

Key Financial Data

	For the year ended 31 December	
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Revenue	4,416,764	3,901,615
Gross profit	557,939	603,246
Net profit	47,075	151,615
Net profit attributable to the shareholders of the parent company	50,911	152,640
Basic earnings per share (<i>in RMB cents</i>)	3.6	12.8

FINANCIAL INFORMATION

The board of directors (the “**Board**”) of Shandong Fengxiang Co., Ltd. (the “**Company**” or “**Fengxiang**” and its subsidiaries, collectively the “**Group**”) hereby announces the audited consolidated results and financial position of the Group for the year ended 31 December 2021 (the “**Reporting Period**”), together with the comparative figures for the corresponding period in 2020 as follows. Unless otherwise specified, financial data of the Company are presented in Renminbi (“**RMB**”).

As approved by the shareholders of the Company (the “**Shareholders**”) at the annual general meeting of the Company on 28 May 2021 (“**2020 AGM**”), the Company changed its basis for preparation of the overseas financial statements from the International Financial Reporting Standards (“**IFRSs**”) to China Accounting Standards for Business Enterprises (“**CASBE**”). The following financial information is a summary of the audited consolidated financial statements for the year ended 31 December 2021 of the Group prepared under CASBE, which have been reviewed by the audit committee of the Board (the “**Audit Committee**”).

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Note	For the year ended 31 December	
		2021 RMB'000	2020 RMB'000
Total operating revenue	3	4,416,764	3,901,615
Less: Operating costs		3,858,825	3,298,369
Taxes and charges		29,550	26,409
Selling expenses		345,019	230,006
Administrative expenses		89,311	113,995
Research and development expenses		24,983	21,399
Finance costs	4	47,696	53,029
Add: Other income	5	13,392	19,275
Investment income		18,791	9,980
Including (loss)/income on investments in associates and joint ventures		(1,741)	10,566
Loss on changes in fair value	6	(4,170)	(27,158)
(Reversal of) impairment loss		(2,150)	3,016
Gains on disposal of assets		1,622	1,523
Operating profit		48,864	165,044
Add: non-operating income		943	1,443
Less: non-operating expenses		1,063	8,926
Total profit		48,744	157,562
Less: income tax expenses	7	1,669	5,947
Net profit		47,075	151,615
Total comprehensive income		46,667	151,506
Total comprehensive income attributable to the shareholders of the parent company		50,502	152,531
Total comprehensive income attributable to minority interests		(3,835)	(1,025)
Earnings per share			
Basic earnings per share (RMB per Share)		0.04	0.13
Diluted earnings per share (RMB per Share)	9	0.04	0.13

CONSOLIDATED BALANCE SHEET

As at 31 December 2021

		As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Current assets			
Monetary funds		1,854,774	1,556,135
Trade receivable	10	260,285	204,369
Prepayments		84,922	62,400
Other receivables		13,776	8,369
Inventories	11	1,018,047	718,446
Other current assets		99,165	98,832
Total current assets		3,330,969	2,648,550
Non-current assets			
Long-term equity investments		63,070	64,811
Fixed assets		2,961,615	2,161,696
Construction in progress	12	35,293	301,021
Productive biological assets		204,484	166,192
Right-of-use assets		194,630	188,318
Intangible assets		91,837	91,321
Long-term deferred expenses		—	411
Deferred income tax assets		184	403
Other non-current assets		48,970	154,826
Total non-current assets		3,600,083	3,128,999
Total assets		6,931,052	5,777,549

		As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Current liabilities			
Short-term borrowings	<i>15</i>	1,731,044	1,485,724
Bills payable	<i>13</i>	46,607	—
Trade payable	<i>14</i>	448,844	217,321
Contract liabilities		34,352	38,833
Payroll payable		67,838	73,941
Taxes payable		9,674	7,661
Other payable		236,504	257,510
Non-current liabilities due within one year		132,598	72,635
Other current liabilities		3,003	2,456
Total current liabilities		<u>2,710,464</u>	<u>2,156,081</u>
Non-current liabilities			
Long-term borrowings	<i>15</i>	475,112	—
Lease liabilities		196,897	188,402
Long-term payable		125,991	38,424
Estimated liabilities		155	184
Deferred income		22,822	6,922
Total non-current liabilities		<u>820,976</u>	<u>233,933</u>
Total liabilities		<u>3,531,440</u>	<u>2,390,013</u>

		As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
	<i>Note</i>		
Owners' equity			
Share capital	16	1,400,000	1,400,000
Capital reserve		621,754	621,211
Less: treasury shares		2,548	3,822
Other comprehensive income		(254)	154
Surplus reserves		155,378	151,387
Undistributed profits		1,225,282	1,220,362
		<hr/>	<hr/>
Total equity attributable to owners of the parent company		3,399,612	3,389,293
		<hr/>	<hr/>
Minority interests		—	(1,757)
		<hr/>	<hr/>
Total owners' equity		3,399,612	3,387,536
		<hr/> <hr/>	<hr/> <hr/>
Total liabilities and owners' equity		6,931,052	5,777,549
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NOTES

For the year ended 31 December 2021

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

The Company is affected by the debt disputes of its controlling shareholder, GMK Holdings Group Co., Ltd. (“**GMK Holdings**”) and its subsidiaries, and there is a risk that such borrowings would be called for early repayment by the borrowers due to a decline in guarantee capacity. As at 31 December 2021, the Group’s unrestricted monetary funds was RMB1,374,795,900, of which the funds deposited with GMK Finance Co., Ltd. (新鳳祥財務有限公司) (“**GMK Finance**”), which is also controlled by GMK Holdings, was RMB1,041,438,100. As at the date of this report, the deposits with GMK Finance decreased to RMB884,942,400.

As a result of the overdue debts of the controlling shareholder and its subsidiaries, there is a risk that the bank borrowings of RMB1,078,000,000 guaranteed by them will be called for early repayment by the borrowers in advance and the Group is not able to estimate the recoverability of the funds placed with GMK Finance yet. These circumstances indicate the existence of material uncertainties that may give rise to significant doubts about 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) although the relevant lenders have not requested the Group to repay the loan immediately, The Company has been actively communicating with the relevant lenders in relation to the status of the Group's business, operations, financial position and cash position which remain normal and stable, and that the Group has sufficient financial resources to support the repayment of the loan in accordance with the original repayment schedule. The Directors of the Company (the "**Director(s)**") are confident that the relevant lenders will not exercise the rights to require the Company to repay the loan immediately before the original contractual repayment date.
- (2) the Group has been actively negotiating with certain financial institutions to obtain new loans at a reasonable cost. The financial institutions have indicated intentions to grant new loans to the Company's and secure Company's loan renewals. Given the Company's good credit history over the past years and its ability to provide sufficient collateral with other assets, the Directors are confident new loans can be obtained at a reasonable cost.
- (3) the Company will continue to focus on its main businesses, fully release production capacity to achieve business growth, increase sales revenue, speed up inventory turnover and accelerate the recovery of trade receivable, while continuing to adopt cost reduction and efficiency enhancement measures to increase operating cash flows.
- (4) the Company will further improve its capability to cope with financial risks, optimise its debt structure, reduce short-term liabilities and increase long-term liabilities to minimise the pressure of short-term debt repayment.
- (5) support the controlling shareholders in actively attracting strategic investors and strive to properly address the current debt risks as soon as possible.

The Directors have reviewed the cash flow projections prepared by the management covering a period of not less than 12 months from the date of filing of these financial statements 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 2021 through the above measures. Accordingly, the Company considers it 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) successfully maintaining ongoing and normal business relationships with the Group's existing lenders so that the relevant lenders will not take action to exercise their contractual rights to demand immediate repayment of such borrowings;
- (2) successful acquisition of new sources of financing when required;
- (3) the sustainable and stable development of the Group's business;
- (4) controlling shareholder to mitigate the phased debt risk as soon as possible

If the Group does not achieve the expected results of these plans and measures, it may not be able to continue as a going concern, and adjustments will have to be made to reduce the carrying value of the Group's assets to their recoverable amounts, to accrue for 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

Operating revenue/operating costs

	For the year ended 31 December			
	2021		2020	
	Revenue	Costs	Revenue	Costs
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Principal business	4,394,460	3,857,161	3,879,902	3,295,199
Other business	22,304	1,665	21,713	3,171
Total	<u>4,416,764</u>	<u>3,858,825</u>	<u>3,901,615</u>	<u>3,298,369</u>

Revenue by products

	For the year ended	
	31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Raw chicken meat	1,913,256	1,922,651
Processed chicken meat	2,295,406	1,773,387
Chicken breeds	64,822	85,335
Others	143,280	120,242
Total	<u>4,416,764</u>	<u>3,901,615</u>

Revenue by geographical location of customers

	For the year ended	
	31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Mainland China	3,440,302	3,036,653
Japan	369,488	382,416
Malaysia	275,957	216,861
Europe	262,068	202,740
Other countries or regions	68,949	62,945
	<hr/>	<hr/>
Total	4,416,764	3,901,615
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4. FINANCE COSTS

	For the year ended	
	31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses	51,849	53,279
Including: Interest expenses on lease liabilities	11,227	10,610
Less: Interest income	37,434	23,900
Exchange gains or losses	1,890	(1,607)
Handling fee	2,380	705
Discount acceptance notes	29,010	24,552
	<hr/>	<hr/>
Total	47,696	53,029
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5. OTHER GAINS

	For the year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	13,196	19,275
Handling fee for withholding individual income tax	196	—
Total	<u>13,392</u>	<u>19,275</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. LOSS ON CHANGES IN FAIR VALUE

	For the year ended 31 December	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on changes in fair value of productive biological assets and consumptive biological assets	<u>(4,170)</u>	<u>(27,158)</u>
Total	<u>(4,170)</u>	<u>(27,158)</u>

The Company's loss on changes in fair value consist of: (i) loss arising from initial recognition of agricultural products at fair value less sales costs upon receipt; (ii) 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. INCOME TAX EXPENSES

	For the year ended	
	31 December	
	2021	2020
	RMB'000	RMB'000
Current income tax expenses	1,450	6,303
Deferred income tax expenses	219	(356)
Total	<u>1,669</u>	<u>5,947</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 year ended 31 December 2021 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 subsidiaries in Mainland China engaging in primary processing for agricultural products is exempted from enterprise income tax for the year ended 31 December 2021; (ii) pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from the Company engaging in projects of animal-husbandry and poultry feeding is exempted from enterprise income tax for the year ended 31 December 2021.

8. DIVIDENDS

The first final dividend of RMB0.03 per ordinary share, amounting to RMB42,000,000 for the year ended 31 December 2020 was approved at the 2020 AGM held on 28 May 2021. Such dividends were already paid.

Save as disclosed above, no dividend was paid, declared or proposed to owners of the parent during the year ended 31 December 2021, nor has any dividend been proposed since the end of the Reporting Period (2021: nil).

9. EARNINGS PER SHARE

(a) Basic earnings per share

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

	For the year ended	
	31 December	
	2021	2020
Consolidated net profit attributable to ordinary shareholders of the parent company (RMB'000)	50,911	152,640
Weighted average number of outstanding ordinary shares of the Company	1,398,975,000	1,192,609,167
Basic earnings per share (RMB)	0.04	0.13
Including: Basic earnings per share from continuing operations (RMB)	0.04	0.13
Basic earnings per share from discontinued operations (RMB)		

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. The amount in the previous period was mainly due to the new shares arising from the listing of the Company's H shares in July 2020.

(b) Diluted earnings per share

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

	For the year ended	
	31 December	
	2021	2020
Consolidated net profit attributable to ordinary shareholders of the parent company (diluted) <i>(RMB'000)</i>	50,911	152,640
Weighted average number of outstanding ordinary shares of the Company (diluted)	1,398,975,000	1,192,609,167
Diluted earnings per share <i>(RMB)</i>	0.04	0.13
Including: Diluted earnings per share from continuing operations <i>(RMB)</i>	0.04	0.13
Diluted earnings per share from discontinued operations <i>(RMB)</i>		

10. TRADE RECEIVABLE

	As at	As at
	31 December	31 December
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivable	264,398	207,619
Less: bad debt provision	(4,113)	(3,250)
Total	<u>260,285</u>	<u>204,369</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 and bills receivables are non-interest-bearing.

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Within 1 month	259,262	203,072
1 to 3 months	2,335	88
3 months to 1 year	4	0
Over 1 year	2,797	4,458
	<hr/>	<hr/>
Total	<u>264,398</u>	<u>207,619</u>

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

	<i>RMB'000</i>
As at 31 December 2020	3,250
Provision	1,241
Recovery or reversal	(54)
Changes in the scope of consolidation	(324)
As at 31 December 2021	<u>4,113</u>

During the year, bad debt provision of RMB1,241,000 was made and bad debt provision of RMB378,000 was written off.

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

11. INVENTORIES

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Raw materials	208,655	124,632
Turnover materials	40,973	35,233
Consumptive biological assets	194,005	145,922
Finished goods	19,628	9,567
Inventory goods	546,190	390,594
Materials in transit	8,597	12,497
	<hr/>	<hr/>
Total	<u>1,018,047</u>	<u>718,446</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.

12. CONSTRUCTION IN PROGRESS

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Construction in progress	35,293	301,021
	<hr/>	<hr/>
Total	<u>35,293</u>	<u>301,021</u>

13. BILLS PAYABLE

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Acceptance notes	<u>46,607</u>	<u>—</u>
Total	<u><u>46,607</u></u>	<u><u>—</u></u>

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

	As at 31 December 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Within 1 month	43,939	—
1 to 3 months	<u>2,668</u>	<u>—</u>
Total	<u><u>46,607</u></u>	<u><u>—</u></u>

14. 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 2021 <i>RMB'000</i>	As at 31 December 2020 <i>RMB'000</i>
Trade payable	<u>448,844</u>	<u>217,321</u>
Total	<u><u>448,844</u></u>	<u><u>217,321</u></u>

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

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Within 1 month	369,774	149,897
1 to 3 months	49,150	58,429
3 months to 1 year	21,463	5,868
Over 1 year	8,457	3,127
	<hr/>	<hr/>
Total	<u>448,844</u>	<u>217,321</u>

15. BORROWINGS

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000
Bank loans, secured and guaranteed	2,250,585	1,485,724
Other financial institution loans, secured and guaranteed	210,284	100,514
Total	2,460,869	1,586,238
By maturity date:		
Bank loans, secured and guaranteed		
Within one year	1,775,473	1,485,724
1–2 years	43,778	
2–5 years	431,334	
Other financial institution loans, secured and guaranteed		
Within one year	84,293	68,161
1–2 years	66,470	32,353
2–5 years	59,521	
Effective annual interest rate:		
Bank loans, secured and guaranteed	2.40%-5.90%	2.95%-5.80%
Other financial institution loans, secured and guaranteed	4.75%-6.60%	4.75%-6.65%

16. SHARE CAPITAL

	As at 31 December 2021 <i>RMB'000</i> (Audited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
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

1. Qualified opinion

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 2021, 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 2021, 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 2021 and of the consolidated and the parent company’s operating results and cash flows for the year 2021 of the Group in accordance with CASBE in all material respects.

2. Basis of qualified opinion

The bank deposit balance in the consolidated balance sheet of the Company as at 31 December 2021 included funds amounting to RMB1,041,438,100 deposited with GMK Finance Co., Ltd. (“**GMK Finance**”), which is also controlled by GMK Holdings Group Co., Ltd. (“**GMK Holdings**”). 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. Accordingly, the Auditor was unable to obtain sufficient and appropriate audit evidence regarding the recoverability of the above amounts to make a judgment as to whether adjustments to the related financial statement items are 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 have 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.

3. 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 at 31 December 2021, GMK Holdings and its subsidiaries provided joint liability guarantee for the bank borrowings amounting to RMB1,078 million of the Company. Due to the overdue debts issue of the above guarantors, there is a risk that the bank borrowings of the Company will be called for early repayment. Such matters or circumstances, together with the circumstances as described in the “Material uncertainties in relation to going concern” in this annual results announcement, 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.

4. Other information

The management of the Company is responsible for the other information. The other information comprises the information included in the 2021 annual report of the Company, but does not include the financial statements and our audit report thereon. Our audit opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the “Basis of qualified opinion” section above, we were unable to obtain sufficient and appropriate audit evidence regarding the recoverability of the amounts of RMB1,041.4 million deposited with GMK Finance by the Company. Accordingly, we were unable to ascertain whether other information relating to this matter was materially misstated.

The Board and Audit Committee’s View and the Plan to Address the Opinion

(I) *Qualified opinion in 2021*

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 2021. The Board would like to provide the following additional information:

The Company was notified by GMK Holdings, the controlling shareholder of our Company, that its subsidiaries had overdue debts recently. Among such subsidiaries, GMK Finance was involved in overdue repayment disputes, pursuant to which, the creditor filed a civil complaint (民事起訴狀) against GMK Finance, and the guarantors for such loans, including Mr. Liu Xuejing (controlling shareholder and non-executive Director), GMK Holdings and certain of its subsidiaries are named as defendants (“**Debt Dispute**”). GMK Holdings, by itself and through its subsidiaries, currently provides guarantees for some of the loans obtained by the Group from banks, and provides deposits, loan facilities (including term loans and entrusted loans) and bill financing services to the Group.

Basis of qualified opinion

As the Group is not able to estimate the proportion of the recoverability amounts of deposits and related accrued interests in GMK Finance for the year ended 31 December 2021, the Auditor has not been provided with sufficient and appropriate audit evidence regarding the possible impact of the abovementioned matter on the deposits and the reasons for not recognising impairment, 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 2021 was qualified accordingly.

The Group did not make any impairment for the year ended 31 December 2021 and as at 31 December 2021 due to the following reasons: (i) the Debt Dispute is beyond the control, and without any fault, of the Company and the Directors; (ii) the Debt Dispute is still ongoing and at an early stage and the Board cannot predict the timing and outcome of the actions initiated by the creditor; (iii) as at the date of this annual results announcement, the Group has a deposit (including related accrued interests) amounting to approximately RMB885 million in GMK Finance. Despite the Debt Dispute, GMK Finance is still carrying out its business as usual under proper regulation and supervision by the China Banking and Insurance Regulatory Commission, and the Group's withdrawal and utilisation of deposits for daily operations and its collection of deposit interests remains normal. In particular, from 1 January 2022 up to the date of this annual results announcement, the Group has made withdrawals of approximately RMB156 million.

Removal of audit qualification

To address the qualified opinion, the Board is in the progress of making assessment of possible solutions to recover the deposits and related accrued interests, depending on the development and negotiation of the Debt Dispute. The Board has been actively discussing with GMK Holdings to understand its debt arrangement with its subsidiaries, and will update the Auditor regarding the progress of the overdue debts. It is also currently considering deposit protection measures to safeguard the interests of the Group and the Shareholders as a whole. The Group has not experienced any difficulty in withdrawing its monies from GMK Finance on demand according to its daily capital needs, the Group will withdraw the remaining deposits from GMK Finance gradually according to its daily capital needs. If the Group is able to collect the remaining deposits in 2022, then the qualification on the related issue is expected to be removed by the year ending 31 December 2022.

(II) Material uncertainties in relation to going concern

The Group's current liabilities mainly comprise of short-term borrowings made by the Group with banks or other financial institutions, amounting to approximately RMB1,731 million, of which approximately RMB1,078 million is guaranteed by GMK Holdings, by itself and through its subsidiaries and there is a risk that such borrowings would be called for early repayment, indicating the existence of material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern.

As at the date of this annual results announcement, excluding such guaranteed loans, the Company still has monetary funds of approximately RMB800 million. Also, despite the Debt Dispute, the guaranteed loans had not been called for repayment yet. The Group has been actively communicating with the relevant lenders in relation to the status of the Group's business, operations, financial position and cash position which remain normal and stable, and that the Group has sufficient financial resources to support the repayment of the loan in accordance with the original repayment schedule. The Directors are confident that the relevant lenders will not exercise the rights to require the Group to repay the loan immediately before the original contractual repayment date. In addition, the Group has been negotiating with certain financial institutions, which have indicated intentions to grant new loans to the Group and secure Company's loan renewals. Given the Group's good credit history over the past years and its ability to provide sufficient collateral with other assets, the Directors are confident new loans can be obtained at a reasonable cost.

Given that (i) the Group's current assets amount to approximately RMB3,331 million, which exceeds the deposits and interests accrued in GMK Finance by approximately RMB2,449 million as at the date of this annual results announcement; (ii) the Group maintains its ability to raise adequate funding according to its needs through borrowings; (iii) the Group will continue to focus on its main businesses, fully release production capacity to achieve business growth, increase sales revenue, speed up inventory turnover and accelerate the recovery of trade receivable, while continuing to adopt cost reduction and efficiency enhancement measures; (iv) the Group will further improve its capability to cope with financial risks, optimise its debt structure, reduce short-term liabilities and increase long-term liabilities to minimise the pressure of short-term debt repayment; (v) the Group will support the controlling shareholders in actively attracting strategic investors and strive to properly address the current debt risks as soon as possible; and (vi) the Group will continue to implement measures aiming at improving the working capital and cash flows of the Group, the Directors are of the opinion that, the Group will have sufficient funds to finance its operations and to meet its financial obligations within twelve months from 31 December 2021, and therefore are of the view that the Group would be able to continue as a going concern.

(III) 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

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

COMPANY PROFILE

Introduction

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

The Group is principally based in Shandong in the PRC and produces and sells processed chicken meat products and raw chicken meat products mainly from white-feathered broilers. The main products include (i) processed chicken meat products; (ii) raw chicken meat products; (iii) chicken breeds; and (iv) others. The Group also produced a small portion of chicken meat products from Sichuan Mountain Black-Bone Chicken bred in Sichuan in the PRC, in which part of the production facilities were based. Such business operation ceased on 28 May 2021 through disposal of its 90% equity interests of Xingwen Tianyang Jishi Food Development Co., Ltd.* (興文天養極食食品發展有限公司) (“**Xingwen Tianyang**”) and Xingwen Tianyang ceased to be a subsidiary of the Company. 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, the Middle East, the United Kingdom, 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 (優形)**”) and “五更爐 (Wu Genglu)” (“**Wu Genglu**”) brands. Processed chicken meat products comprise cooked, semi-cooked and seasoned chicken meat products. Depending on the processing methods, these processed products are required to be chilled or frozen. The raw chicken meat the Group uses in its processed chicken meat production is either supplied by itself, or procured from independent third party suppliers 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 year ended 31 December 2021, the sales volume of processed chicken meat products was 107.6 million kilogram (“**kg**”) (31 December 2020: 85.3 million kg). Revenue from sale of processed chicken meat products (after elimination of inter-segment transactions) grew by 29.4% to RMB2,295.4 million for the year ended 31 December 2021 (31 December 2020: RMB1,773.4 million), representing 52.0% 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 nature. For the year ended 31 December 2021, the sales volume of raw chicken meat products increased by 8.4% to 202.9 million kg (31 December 2020: 187.1 million kg). Revenue from external sale of raw chicken meat products dropped by 0.5% to RMB1,913.3 million for the year ended 31 December 2021 (31 December 2020: RMB1,922.7 million), representing 43.3% 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 2021, the sales volume of chicken breeds was 31.1 million birds (31 December 2020: 35.6 million birds). Revenue from external sale of chicken breeds dropped by 24.0% to RMB64.8 million for the year ended 31 December 2021 (31 December 2020: RMB85.3 million), representing 1.5% 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), black-bone chicken meat products (such business operation ceased on 28 May 2021), packing materials and other miscellaneous products. Revenue from external sale of other products grew by 19.2% to RMB143.3 million for the year ended 31 December 2021 (31 December 2020: RMB120.2 million), representing 3.2% of the Group's total revenue.

BUSINESS REVIEW

Focusing on three main pillars covering industry re-structuring, product innovation and upgrade, and productivity improvement, "iShape (優形)" brand achieved rapid development and took the lead in the new retail business, accelerating revenue growth to hit a record high in 2021.

During the Reporting Period, the Group achieved sales revenue of RMB4,416.8 million (2020: RMB3,901.6 million), representing a year-on-year increase of 13.2%, with net profit of RMB47.1 million (2020: RMB151.6 million), representing a year-on-year decrease of 69.0%. The main reasons for the profit decline are primarily attributable to (i) the increase in the costs of animal feed due to the year-on-year increase in the price of raw materials such as corn and soybean meal; (ii) the increase in selling and marketing expenses as a result of the increase in resources invested by the Group in its new retail business; and (iii) the decrease in the selling prices of raw chicken meat products due to the impact of COVID-19 epidemic which led to a drop in the demand for such products.

(I) Observation of Current Trends

1. *China is Entering an Era of Quality and Personalised Consumption*

We notice signs of China entering an era of new consumption, mainly characterised by: (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.

The main characteristics of the transformation in consumption patterns are:

- (1) from “Made in China” to “Chinese market”;
- (2) from a country of major consumption to strong consumption;
- (3) from the pursuit of quantity and scale to the pursuit of quality and experience; and
- (4) from functional consumption to cultural consumption.

2. *Strong Growth in Chicken Breast and Processed Chicken Meat Products and Converging Choice of Food by Consumers*

Over the past five years, changes in consumers’ choice of food and beverage segment has witnessed a particularly obvious trend of consumption upgrade. Our major consumer groups, namely “Her Economy”, “Generation Z” (those born in 1995–2009) and “Silver Economy” (those born before 1965), has 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 products witnessed substantial growth 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.

Chicken breast, with its high protein and low fat characteristics, has become the fastest growing category in the healthy meal replacement market. After the creation of the ready-to-eat chicken breast products in 2017, “iShape (優形)” experienced a rapid market growth, with a compound growth rate of over 160% by 2019. The compound growth rate is expected to reach 60% from 2019 to 2024. In 2021, chicken breast products on two traditional major e-commerce platforms, namely Tmall and JD.com, grew by more than 38%, among which, “iShape (優形)” together with two other top brands, contributed 90% of the market growth (source: Ecdataway).

The highlight of online sales in 2021 was that apart from the traditional e-commerce platforms, interest e-commerce became another important marketing area for enterprises. Together with super IPs, it brought brand new imagination to the industry. Social and short video platforms such as Tik Tok, Xiaohongshu and Kuaishou became the competition centre in the era of e-commerce 2.0. The integration of the new generation interest e-commerce and traditional e-commerce will pose opportunity and challenge for enterprises. “iShape (優形)” paved its way with offline development and online growth, presenting an all-rounded channel win-win situation, and being the first brand to enter the incremental market to gain a dominant position. In August 2021, “iShape (優形)” commenced a strategic cooperation with Tik Tok. The turnover on the single platform of Tik Tok exceeded RMB15 million in the “818 Trendy Goods Festival”, ranking first in the sales volume of the chicken meat product category.

(II) Business Highlights

1. *“iShape (優形)”’s Continued Rapid Growth, Product Upgrade, Widening Taste and Increasing Brand Influence*

“iShape (優形)” became the biggest highlight of this year. Products under the “iShape (優形)” series continued to maintain its rapid development, achieving sales revenue of RMB489.2 million (2020: RMB230.9 million) with a year-on-year growth of 111.8%. “iShape (優形)”’s share in the new retail business achieved a year-on-year growth to 51.6% from 29.1%, supporting half of the Company’s new retail business and future growth.

In particular, the growth rate of online and offline sales were 193.5% and 48.0%, respectively, with the revenue ratio of 6:4. Chicken breast single products under the “iShape (優形)” brand accounted for 46.7% of the retail revenue, representing an increase of 122.4% from 25.1% in the same period last year, while the protein bar single products recorded a year-on-year growth of 25.4% through the upgrade in taste and packaging.

All newly launched products, including “Buzha π”, “YoYo” and “Xiao Q”, have all passed the market test and officially joined the “iShape (優形)” series. From the product innovation of salad chicken breast, to the iteration of Chinese-flavored cuisine, and further to a series of multi-dimensional upgrade of traditional chicken products such as “Jia’ge chicken drumstick”, non-fried crispy chicken nuggets of “Buzha π”, “Gancuiburen” chicken breast chips, Yikou Buren sausage, etc., the “iShape (優形)” brand continued to grow, and a full-scene and low-calorie “iShape (優形)” family has been gradually established.

During the Reporting Period, according to the 180-day repurchase rate of the “iShape (優形)” flagship store, our members accounted for over 50% and non-members reached approximately 22%. In addition, in the 2021 “618” marketing campaign, “iShape (優形)” was selected as one of the TOP 100 cases in Tmall 618, with a year-on-year growth of 246.6% in Tmall flagship store and 56% in JD.com flagship store. At the same time, “iShape (優形)” also took two of the top five places (ranked 2nd and 5th) in the Tik Tok 618 livestream salesperson ranking for fresh food category. In August 2021, the monthly sales of “iShape (優形)” on Tik Tok platform amounted to RMB20.19 million. “iShape (優形)” was also selected as the only Chief Treasure Brand for the Taobao Festival of Creation (淘寶造物節) and the Chief Partner Brand for Tik Tok’s first e-commerce festival. In the “11.11 Festival” marketing campaign in 2021, the sales revenue of all “iShape (優形)”’s channels exceeded RMB30 million, once again securing the top-seller of the category. The sales from its flagship stores on the whole network recorded a year-on-year increase of 104.2%. The average rate of daily activity of Tik Tok e-commerce platform increased by 226% before the campaign, with the total number of offline sales stores exceeding 43,000.

2. *Leading by New Retail, New Export Recovery, New Centralised Procurement Innovation, and Three Driving Forces to revitalise the Business*

- (1) *New retail business*: the new retail business continued to expand rapidly and achieved sales revenue of RMB948.1 million (2020: RMB793.4 million), representing a year-on-year growth of 19.5%, and accounting for 21.5% (same period: 20.3%) of its overall business.
- (2) *New export business*: the new export business achieved sales revenue of RMB976.5 million (2020: RMB865.0 million), representing a year-on-year growth of 12.9%, and accounting for 22.1% (same period: 22.2%) of its overall business. Under the pressure of a year-on-year decline of 17.2% in the first half of the year, it achieved a strong rebound against the trend in the second half of the year, with an increase of 27.3% and 29.3% in the Malaysian and European market, respectively, leading to a leap in the overall export. It was also worth mentioning that the products under the Fengxiang series entered the Middle East market for the first time and successfully gained a foothold. Furthermore, Fengxiang passed the stringent scrutiny of JD Wetherspoon, a fast food chain/bar giant in the United Kingdom, becoming the first chicken meat supplier from China in the company's history.
- (3) *New centralised procurement business*: the new centralised procurement business achieved sales revenue of RMB901.7 million (2020: RMB809.9 million), representing a year-on-year growth of 11.3%, and accounting for 20.4% (same period: 20.8%) of its overall business; among which, the “Small B2B” business (small and medium-sized food and beverage chains, convenience store hot boxes, etc.) achieved the desired effect of a rapid advance.

3. *Organisational Changes and Core Functional Upgrade due to Substantial Resources Investment in “iShape (優形)” and the New Retail Business*

- (1) *Independent Operation of the New Retail Business in the Listed Companies System*
 - (a) established iShape Food Technology Co., Ltd. (優形食品科技有限公司) with the introduction of new retail business, professional team and relevant assets;
 - (b) ensured stable operation of the B2B-end business, and invested substantial resources into the new retail business;

- (c) on the premise of stabilising the front-end integrated breeding and production capacity, actively deployed a strategic cooperation system for external meat source procurement to ensure the supply chain management capability; and
 - (d) continued to increase brand building and marketing efforts to ensure the brand of “iShape (優形)” remains sustainable, healthy and value-added.
- (2) *Introduced Core R&D Management and Technology Team to Build and Optimise R&D System*
- (a) **Basic Research and Application Development.** Focusing on our target consumer’s insights and demand realisation, we continued to strengthen the speed and efficiency of product application and development; at the same time, based on the demand for continuous growth of brand value, we upgraded to open up and leverage domestic and foreign quality resources, established internal and external joint creation mechanism, developed core technologies, and kept abreast with multiple channels of the meat products and healthy food industry through active deployment and penetration;
 - (b) **Product Manager and Project Manager.** We upgraded from the previous single-track responsibility system of a product manager to a cross-responsibility system of both the product manager and project manager, implemented Integrated Product Development (integrating the research and development (“**R&D**”) system, milestone key point management) product whole process management and formed a horizontal project team to ensure rapid product iteration and maintain the new fashion image; and
 - (c) **Differentiation and Experience.** We upgraded from the previous R&D system that focused only on product quality to that which emphasised the integration of R&D and market system. With market demand, consumer research and consumer insight as the guide, and with the ultimate consumer experience as the objective of our product development, we developed new products with strong product strength featuring unique concepts and core technology. In the whole process of R&D, we simultaneously pursued the overall improvement in product and service quality, and constantly explored better differentiation and experience.

(3) *Upgraded the Logistics System and Implemented Cost Reduction and Efficiency Improvement*

- (a) the logistics procurement centre was set up at the end of 2020 to undertake the management functions of the headquarters;
- (b) model upgrade — from warehouse and distribution separation to warehouse and distribution integration for B2C to enhance efficiency; from cooperation and integration of a number of logistic providers to strategic cooperation with industry giants; adjusted delivery from one warehouse to delivery from separate warehouses to save time;
- (c) during the Reporting Period, warehousing capability grew by 10%, transportation volume grew by 13.5%, and customers sales volume grew by 50%; the average price per unit of new retail online delivery master contracts decreased by 56.3% compared with that of the same period in 2020; and
- (d) during the Reporting Period, we completed the information system construction and OEM supplier foundation deployment.

(4) *Production Efficiency Upgrade and Cost Control*

During the Reporting Period, the Group’s non-automated slaughterhouse improved significantly in terms of efficiency. The fully automated slaughterhouse has also gone from trial operation to mass production, with remarkable improvement in cutting efficiency. The cooked production line achieved considerable cost reduction and efficiency improvement.

(III) Strategic Path: Upgrading the Industry in the Region through “iShape (優形)”

1. *Three-year Development Goal*

We are committed to upgrading the industry of traditional chicken meat products and achieving quality growth with higher gross profit and brand premiums. We strive to build “iShape (優形)” as the most popular brand of chicken meat products and even low burden food to generate higher market value in the new retail business. At the same time, we also hope to achieve the expected objective of capacity expansion, steadily improve the quality of breeding, adapt to and meet the basic needs of key clients from business-end and “iShape (優形)” company, and ensure the improvement of supply chain management capabilities.

We will continue to develop and integrate market-based meat source procurement and the OEM system to accomplish stable development of new centralised procurement channel business.

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

According to the statistics in 2021, the Group continued to be the leading retailers and exporters of chicken meat products in the PRC. Over the past few years, the Company has been determined to transform and upgrade itself by implementing the “123” development strategy (“One Foundation, Two Major Markets and Three Driving Forces”), and the Company continued increasing the proportion of processed food products, expanding the retail business and building itself as China’s leading chicken meat products brand.

(1) “One Foundation”

We extend the Group’s advantage in its vertically integrated business model across the entire industry value chain and the industry ecological chain, and continue strict 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;

(2) “Two Major Markets”

We 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 dual circulation of the domestic and international markets;

(3) “Three Driving Forces”

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

Secondly, we develop the new centralised procurement business for the food and beverage industry and convenience store system. In response to the Group's previous focus on the food and beverage industry, the new centralised procurement refers to the provision of group purchasing or procurement of high quality products to leading enterprises of the food and beverage industry, the convenience store system and the Group's customers, by leveraging its years of experience in serving McDonald's and KFC, and in line with the trend of the upgrading of procurement standards.

Thirdly, we 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 Company's export business, through accumulation of its export experience for over 20 years, to deliver supreme services and to achieve diversified channels through upgrading services, developing markets and expanding channels.

Through implementation of the new strategy, the domestic market and the international market supplement and boost each other. 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 is committed to providing hundreds of millions of families and individual consumers with high-quality products and services, creating China's leading chicken meat product brand.

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 2021, the Group experienced an increase of 13.2% in revenue as compared to that of 2020 with a decrease in net profit of 69.0% as compared to that of 2020. There was a decrease of 7.5% in gross profit as compared to that of 2020. The basic earnings per share was RMB3.6 cents in 2021. Set out below is the detailed information on the fluctuations in the Company's results for the year ended 31 December 2021.

	For the year ended 31 December		
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change (%)
Total operating revenue	4,416,764	3,901,615	+13.2
Operating costs	3,858,825	3,298,369	+17.0
Selling expenses	345,019	230,006	+50.0
Administrative expenses	89,311	113,995	-21.7
R&D expenses	24,983	21,399	+16.7
Finance costs	47,696	53,029	-10.1
Other gains	13,392	19,275	-30.5
Loss on changes in fair value	(4,170)	(27,158)	+84.6
Total profit	48,744	157,562	-69.1
Net profit	47,075	151,615	-69.0
Gross profit	557,939	603,246	-7.5
Gross profit margin	12.6%	15.5%	-18.3
Net profit margin	1.1%	3.9%	-72.6

Revenue by products

	For the year ended 31 December		
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change (%)
Raw chicken meat products	1,913,256	1,922,651	-0.5
Processed chicken meat products	2,295,406	1,773,387	+29.4
Chicken breeds	64,822	85,335	-24.0
Others	143,280	120,242	+19.2
Total	<u>4,416,764</u>	<u>3,901,615</u>	<u>+13.2</u>

During the Reporting Period, the Group's sales revenue increased due to (i) the Company efforts in putting its strategic focus on the retail business, leading to an increase in sales of processed chicken meat products, especially “iShape (優形)” products, resulting in a growth in revenue of processed chicken meat products, representing 52.0% (2020: 45.5%) of the total revenue; (ii) the decrease in unit price of chicken breeds resulting in a drop in revenue of chicken breeds, representing 1.5% (2020: 2.2%) of the total revenue; and (iii) increase in revenue from other by-products due to an increase in production capacity and sales volume, representing 3.2% (2020: 3.1%) of the total revenue.

Sales volume and average selling price by products

	For the year ended 31 December		
	2021	2020	Change (%)
Raw chicken meat products			
Sales volume (<i>per kg</i>)	202,911,040	187,120,104	+8.4
Average selling price (<i>RMB per kg</i>)	9.43	10.30	-8.2
Processed chicken meat products			
Sales volume (<i>per kg</i>)	107,572,326	85,255,855	+26.2
Average selling price (<i>RMB per kg</i>)	21.34	20.80	+2.6
Chicken breeds			
Sales volume (<i>per bird</i>)	31,082,052	35,570,166	-12.6
Average selling price (<i>RMB per kg</i>)	2.09	2.40	-13.1

During the Reporting Period, the number of white-feathered broilers being slaughtered experienced a year-on-year increase of 18.4%, and the production and sales volume of chicken meat products both experienced corresponding growth. The growth of breeding, processing and sales are related. Raw chicken meat products were affected by market price fluctuations, resulting in a decline in average selling price; processed chicken meat products were not significantly affected by market price fluctuations, and the sales volume of the Company's “iShape (優形)” products with high gross profit recorded a rapid growth, with a slight increase in the average selling price. During the Reporting Period, the price of chicken breeds fluctuated significantly due to the market impact, with a drop in the average selling price. The Company also took the initiative to strategically reduce production, resulting in a decrease in the sales volume of chicken breeds.

Revenue by geographic territory and products

	For the year ended 31 December		
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change (%)
Mainland China	3,440,302	3,036,653	+13.3
Japan	369,488	382,416	-3.4
Malaysia	275,957	216,861	+27.3
European Union	262,068	202,740	+29.3
Other countries	68,949	62,945	+9.5
Total	<u>4,416,764</u>	<u>3,901,615</u>	<u>+13.2</u>

During the Reporting Period, the Company's revenue growth in the Mainland China market was driven by an increase in processing capacity of breeding and the rapid growth in sales volume of the products under the "iShape (優形)" brand. Also, in light of the competitiveness of the Company's products and the re-structuring of the international landscape, during the Reporting Period, the Company continued to focus on the development of new retail business, new centralised procurement, and new export business, all of which have achieved positive results, leading to the growth in sales revenue from Malaysia, the European Union 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		
	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>	Change (%)
B2B	3,468,674	3,108,203	+11.6
B2C	948,089	793,412	+19.5
Of which: Online	486,325	482,128	+0.9
Offline	461,764	311,284	+48.3
Total	<u>4,416,764</u>	<u>3,901,615</u>	<u>+13.2</u>

During the Reporting Period, the Company achieved rapid growth in its B2B and B2C businesses through further expansion of its customer base and growth in sales volume. Revenue from the B2B business increased by 11.6% compared with that of the same period in 2020. Revenue from the B2B business amounted to 78.5% (2020: 79.7%) of the total revenue, representing a decrease of 1.2%. In addition, products under the “iShape (優形)” series continued to maintain rapid growth, and its share in the new retail business achieved a year-on-year growth to 51.6% from 29.1%. Accordingly, revenue from the B2C business increased by 19.5% compared with that of the same period in 2020. Revenue from the B2C business reached 21.5% (2020: 20.3%) of the total revenue, representing an increase of 1.2%.

Operating costs

The Group’s operating costs increased by 17.0% to RMB3,858.8 million for the year ended 31 December 2021 (2020: RMB3,298.4 million), mainly due to (i) a 14.0% 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 decreased by 21.7% to RMB89.3 million in 2021 (2020: RMB114.0 million), mainly due to less engagement with service suppliers after the listing which resulted in a decrease in service fees.

Selling expenses

The Group’s selling expenses increased by 50.0% to RMB345.0 million in 2021 (2020: RMB230.0 million), mainly due to the increase in resources invested by the Group in its new retail business.

R&D expenses

The Group’s R&D expenses increased by 16.7% to RMB25.0 million in 2021 (2020: RMB21.4 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 2021 slightly decreased by 10.1% to RMB47.7 million (for the year ended 31 December 2020: RMB53.0 million), which was mainly due to the capitalisation of interest on construction in progress in 2021 of RMB8.8 million.

Total profit

During the Reporting Period, the significant decline in profit before income tax was primarily due to (i) the increase in the costs of animal feed due to the year-on-year increase in the price of raw materials such as corn and soybean meal; (ii) the increase in selling and marketing expenses as a result of the increase in resources invested by the Group in its new retail business; and (iii) the decrease in the selling prices of raw chicken meat products due to the impact of COVID-19 epidemic which led to a drop in the demand for such products. For the foregoing reasons, the Group's profit before income tax decreased significantly by 69.1% to RMB48.7 million for the year ended 31 December 2021 (for the year ended 31 December 2020: RMB157.6 million).

Opening Figures of the Balance Sheets during the Interim Period and the Reporting Period in 2021

There is a slight difference between the opening figures of the interim balance sheet in 2021 and the opening figures during the Reporting Period, mainly because the Group prepared the year-end financial report for 2021 with the adoption of fair value measurement instead of the costs method measurement for the biological assets as previously adopted in the preparation of the interim results report. With reference to the similar industry practices, and in view of the material fluctuations in the market price of biological assets during the year, the management believes that the use of fair value measurement can better reflect the accuracy of biological assets measurement. Accordingly, the measurement of the opening figures in the year-end balance sheet of 2021 was changed to the use of fair value measurement to be consistent with the measurement model of biological assets for the current year, and provide readers of the statements with comparable and reliable financial information.

Analysis on Capital Resources

Liquidity and capital resources

The Group has funded its operations principally with cash generated from its operations, borrowings and Shareholders' capital contributions. The Group's primary uses of cash in 2021 were for working capital purposes and capital expenditures for expansion and improvement of production equipment and facilities.

Capital structure

As at 31 December 2021, 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 2021, the total borrowings of the Group amounted to RMB2,460.9 million, representing an increase of 55.1% as compared to that of 31 December 2020. The increase was mainly attributable to: (i) the grant of a two-year term loan of RMB300.0 million by state-owned commercial banks at a relatively low interest rate ranging from 3.85% to 3.95% for the purpose of financing the Group's daily operations, benefiting from the financial support policies promulgated by the PRC government; (ii) the grant of a 5.5-year project loan of RMB500.0 million by commercial banks to expand the whole broiler industrial chain of breeding, slaughtering and processing capacity; and (iii) the Group's borrowings were renewed normally upon expiration during 2021. The abovementioned new medium and long-term borrowings have improved the Company's capital structure, effectively strengthened the Company's capability against uncertain risks in the market, and provided sufficient capital reserves for the normal operation and rapid development of the Group.

As at 31 December 2021, the debt-to-equity ratio and debt-to-asset ratio of the Company were 72.4% (31 December 2020: 46.8%) and 51.0% (31 December 2020: 41.4%), respectively.

Contingent liabilities and pledge of assets

The Group's bank borrowings as at 31 December 2021 were secured by (i) mortgages of the Group's lands situated in the PRC with aggregate net carrying values of RMB57.7 million (31 December 2020: RMB26.0 million); (ii) pledge of the Group's bank deposits of RMB472.4 million (31 December 2020: RMB266.1 million); (iii) pledge of certain of the Group's property, plant and equipment with aggregate net carrying amount of RMB667.8 million (31 December 2020: RMB277.0 million); and (iv) guarantee from a related party for loans up to RMB313.0 million (31 December 2020: RMB49.0 million).

As at 31 December 2021, the Group did not have any material contingent liabilities.

Human Resources

As at 31 December 2021, the Group had 7,524 employees who were directly employed by the Group, of which 7,520 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. In 2021, 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.

BUSINESS OUTLOOK

1. Challenges and risks:

- (1) continuous increase in costs of animal feed, such as corn, soybean meal;
- (2) decrease in the selling prices of raw chicken meat products due to the impact of COVID-19 epidemic which led to a drop in the demand for such products; and
- (3) intensified competition due to more industry competitors.

2. Opportunities and potential development:

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

3. Long-term growth strategies:

- (1) in terms of business model, the Group will continue to focus on its main businesses, fully release production capacity, safeguard business growth, increase sales revenue, speed up inventory turnover and accelerate the recovery of trade receivable, while continuing to adopt cost reduction and efficiency enhancement measures to increase operating cash flows;
- (2) in terms of financial management, the Group will further improve its capability to cope with financial risks, optimise its debt structure, reduce short-term liabilities and increase long-term liabilities to minimise the pressure of short-term debt repayment;

- (3) in terms of talent strategy, the Group launched share award schemes to implement long-term, medium-term and short-term incentives during the Reporting Period to attract and retain talent, and set up a new partnership mechanism for breeding and retail ends;
- (4) in terms of internal driving force, the Group will shape itself to become an effective central driver for the market and R&D development, build a multi-level R&D and marketing system for new products according to user needs, and continue to ensure an increase in the market share of single salad chicken breast market, while focusing on innovating new single products;
- (5) continue to improve the membership operation and service capabilities, realise joint creation of brands and products, strengthen the advantage of knowing the consumers preferences, and continue to pursue the leading position of the mid-to-high-end products;
- (6) continue to strengthen rapid organisational change and learning capability, and continue to promote the rapid evolution of our enterprise with digital marketing approach; and
- (7) continue to strengthen the construction of sales channels to extend its presence to the sinking markets and normal-temperature meat market, and deeply enrich and improve the strategic partnership system, and optimise and enhance the peripheral ecosystem of our enterprise.

OTHER EVENTS

Annual General Meeting

The Company is intended to hold its annual general meeting for the year 2021 on Tuesday, 31 May 2022 (the “**Annual General Meeting**”). 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 has resolved not to declare any final dividend for the year ended 31 December 2021 (2020: RMB0.03 per share).

Proposed Initial Public Offering of A Shares

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

Adoption of CASBE

Since the date on which the H shares of the Company became listed on the Stock Exchange, the Company has been preparing its financial statements under both CASBE and IFRSs. In order to facilitate the application process of the proposed issue of the A shares of the Company, and to align the financial information disclosure of the Company in both markets, the Board considered and approved a resolution on 19 April 2021 in relation to the change of its basis for preparation of the overseas financial statements from IFRSs to CASBE, which was approved by the Shareholders at the 2020 AGM on the proposed amendments to the articles of association of the Company (the “**Articles of Association**”).

Amendments to the Articles of Association

In view of the adoption of CASBE, the Company amended the relevant articles of the Articles of Association in relation to the preparation of the financial statements of the Company which shall be in accordance with CASBE and the requirements of applicable laws and regulations. The resolution in relation to the above amendments was considered and approved by the Shareholders at the 2020 AGM.

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 Overseas Auditors

In view of the above change to the standards in the preparation of the Company's overseas financial statements, the Company has changed its overseas auditor from BDO Limited to BDO China SHU LUN PAN Certified Public Accountants LLP (the "**Auditor**"), which was approved by the Shareholders at the 2020 AGM.

Change of Shareholders Representative Supervisor

On 31 March 2021, Mr. Kong Xiangwei tendered his resignation from his position as a shareholders representative supervisor of the Company (the "**Supervisor**") and the chairman of the board of Supervisors (the "**Board of Supervisors**"). On the same date, Mr. Zhang Jun was proposed to be appointed as a shareholders representative Supervisor and the chairman of the Board of Supervisors and was elected at the 2020 AGM.

Change of Directors

On 19 April 2021, Mr. Ow Weng Cheong, an executive Director, has been re-designated as a non-executive Director and ceased to be the vice general manager of the Company. On 30 March 2022, he tendered his resignation from his position as a non-executive Director.

On 19 April 2021, Mr. Zhang Ye tendered his resignation from his position as an independent non-executive Director and a member of the Audit Committee and the nomination committee of the Company.

On 19 April 2021, Ms. Zhao Yinglin was proposed to be appointed as an independent non-executive Director, a member of the Audit Committee and the nomination committee of the Company and was elected at the 2020 AGM.

On 30 March 2022, Mr. Wang Jinsheng tendered his resignation from his position as an executive Director.

On 30 March 2022, each of Ms. Zhou Jinying and Mr. Shi Lei was proposed to be appointed as an executive Director and shall be effective after being approved by the Shareholders at the Annual General Meeting.

Change of Joint Company Secretary and Process Agent

Ms. Siu Pui Wah resigned as the joint company secretary of the Company and the agent for the acceptance of service of process and notices on behalf of the Company in Hong Kong under Part 16 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**Process Agent**”) with effect from 28 November 2021. Ms. Yu Wing Sze was appointed as the joint company secretary of the Company and the Process Agent with effect from 28 November 2021.

Connected Transactions

On 28 May 2021, Shandong Fengxiang Industrial Co., Ltd. (山東鳳祥實業有限公司) (“**Fengxiang Industrial**”), a wholly-owned subsidiary of the Company (as the purchaser) and Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司) (“**Xiangguang Copper**”), an associate of GMK Holdings, a controlling shareholder of the Company and a connected person of the Company (as the vendor) entered into the asset transfer agreement, pursuant to which Fengxiang Industrial agreed to acquire machineries and equipment which are associated with and currently used by Yanggu Sewage Water Treatment Plant (陽穀縣第二污水處理廠) from Xiangguang Copper at a consideration of RMB23,125,900 (equivalent to approximately HK\$27,288,600). The Company has complied with the applicable disclosure requirements under Chapter 14A of the Rules Governing the Listing of the Securities on The Stock Exchange of Hong Kong Limited (“**Listing Rules**”), details of which are set out in the Company’s announcement dated 28 May 2021.

On 28 August 2021, the Company entered into the procurement and outsourcing framework agreement with GMK Holdings, pursuant to which GMK Holdings together with its subsidiaries and associates (excluding the Group), collectively “**GMK Group**”, shall provide raw materials and processing services to the Group. On the same date, the Company and GMK Holdings entered into the new product sales framework agreement, pursuant to which the Group shall sell commodities including poultry products, by-products and other livestock and poultry breeding waste materials such as mixture of paddy husk and chicken manure to GMK Group. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules, details of which are set out in the Company’s announcement dated 28 August 2021.

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.

Share Award Scheme

On 10 December 2021, the Company adopted a share award scheme (the “**2021 Share Award Scheme**”) to recognise the contributions by certain employees of the Group and to provide them with incentives in order to retain them and to attract suitable personnel. On the same day, an aggregate of 23,487,800 awarded shares (“**Awarded Shares**”) were granted to 63 selected employees under the 2021 Share Award Scheme (accounts for approximately 6.62% of the total number of issued H shares and approximately 1.68% of the total issued share capital of the Company as at the date of this annual results announcement) and 2,609,800 reserved shares will be kept for the time being in the pool of the Trust Fund as reserve for future grants of awarded shares to the selected employees. 4,043,700 Awarded Shares were granted to selected employees who is a connected person (“**Connected Selected Employees**”). The transactions contemplated under the grant to the Connected Selected Employees constitute connected transactions of the Company under Chapter 14A of the Listing Rules. As the grant to the Connected Selected Employees, either (i) forms part of the remuneration package of the director service contract, or (ii) all of the applicable percentage ratios are below 0.1% and the grant of Awarded Shares is on normal commercial terms, such grant to each of them is fully exempt from reporting, announcement and independent shareholders’ approval under Rules 14A.73(6) and 14A.95, and/or 14A.76(1) of the Listing Rules. For details, please refer to the Company’s announcement dated 10 December 2021.

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 2021.

Subsequent Event

Save as disclosed in this annual results announcement, the Board 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 paragraph C.3 of the CG Code. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Chung Wai Man, Mr. Guo Tianyong and Ms. Zhao Yinglin.

The Audit Committee is chaired by Mr. Chung Wai Man. The Audit Committee has reviewed together with the management and the Board the accounting principles and policies adopted by the Company, the audited annual results and the audited consolidated financial statements of the Company for the year ended 31 December 2021. The Audit Committee also recommended and submitted the annual results and the consolidated financial statements for the year ended 31 December 2021 to the Board for approval.

Auditor’s Scope of Work for the Annual Results Announcement

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by 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
Shandong Fengxiang Co., Ltd.
Liu Zhiguang
Chairman

Shandong, PRC, 30 March 2022

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