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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)

CONTINUING CONNECTED TRANSACTIONS

(1) PROCUREMENT AND OUTSOURCING FRAMEWORK AGREEMENT

AND

(2) NEW PRODUCT SALES FRAMEWORK AGREEMENT

CONTINUING CONNECTED TRANSACTIONS

On 28 August 2021, the Company and GMK Holdings have entered into the following agreements for a term commencing from 28 August 2021 and ending on 31 December 2022:

Procurement and Outsourcing Framework Agreement

Pursuant to the Procurement and Outsourcing Framework Agreement, GMK Group shall provide raw materials and processing services for production materials to the Group.

New Product Sales Framework Agreement

Pursuant to the Product Sales Framework Agreement, 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.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GMK Holdings is the controlling shareholder of the Company directly and indirectly holding 70.92% interest in the Company's total issued share capital (i.e. 992,854,500 domestic shares). GMK Holdings is held as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing (non-executive Director), Ms. Zhang Xiuying (spouse of Mr. Liu Xuejing), Mr. Liu Zhiguang (executive Director) and Mr. Liu Zhiming (son of Mr. Liu Xuejing and brother of Mr. Liu Zhiguang), respectively. Accordingly, GMK Holdings is a connected person of the Company and the transactions contemplated under each of the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the highest annual cap of transactions under each of the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement are more than 0.1% but less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

BACKGROUND

Reference is made to the section headed “Connected Transactions — Fully-exempt Continuing Connected Transactions — 5. Procurement of raw materials” in the Prospectus relating to the procurement by the Group of raw materials such as condiments and flavouring ingredients from Zhongke Biotechnology for production, and consumption goods such as office supplies and vegetables from Fengxiang Supermarket for self-consumption. Due to an increase in the Group’s demand for the raw materials supplied by Zhongke Biotechnology and the new engagement with Zhongke Biotechnology to provide processing services for production materials including flavouring and seasonings based on specific recipes, the Company and GMK Holdings have entered into the Procurement and Outsourcing Framework Agreement to better regulate the transactions contemplated thereunder according to Chapter 14A of the Listing Rules.

Reference is also made to the section headed “Connected Transactions — Non-exempt Continuing Connected Transactions — 1. Sales of poultry products and by-products” in the Prospectus relating to the Original Product Sales Framework Agreement, pursuant to which the Group sells commodities including poultry products and by-products to the members of GMK Group and other connected persons. Due to a change in the composition of the Company’s connected persons, and an increase in demand and variety of commodities to be sold to the members of GMK Group including Yanggu Xiangqi, the Original Product Sales Framework Agreement was terminated, and the Company and GMK Holdings have entered into the New Product Sales Framework Agreement.

PROCUREMENT AND OUTSOURCING FRAMEWORK AGREEMENT

1. Summary of the terms of the Procurement and Outsourcing Framework Agreement

The principal terms of the Procurement and Outsourcing Framework Agreement are summarised below:

- Date: 28 August 2021
- Parties: (i) The Company; and
- (ii) GMK Holdings.

Subject matter:	Pursuant to the Procurement and Outsourcing Framework Agreement, GMK Holdings shall provide to the Group the raw materials, consumption goods, and processing services for production materials including flavouring and seasonings based on specific recipes.
Term:	From 28 August 2021 to 31 December 2022 (both dates inclusive)
Pricing policy:	The pricing of the raw materials, consumption goods and/or services under the Procurement and Outsourcing Framework Agreement shall be determined with reference to the market price. The market price refers to (i) the price charged by an independent third party which provides such raw materials, consumption goods and/or services at the time, or (ii) the price charged when providing such raw materials, consumption goods and/or services to an independent third party at that time under normal commercial transaction conditions within Liaocheng, Shandong Province.

2. Historical transaction amount

For the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, the sales of the raw materials and consumption goods to the Group by the members of GMK Group amounted to approximately RMB0.6 million, RMB0.7 million, RMB1.5 million and RMB1.8 million, respectively. The Company has just commenced the engagement of Zhongke Biotechnology to provide processing services for its production materials.

3. Proposed annual caps

The following table sets out the proposed annual caps for the transactions to be contemplated under the Procurement and Outsourcing Framework Agreement for the two years ending on 31 December 2022:

	For the year ending 31 December 2021 <i>(RMB)</i>	For the year ending 31 December 2022 <i>(RMB)</i>
Annual caps	10.0 million	11.0 million

The above proposed annual caps are determined after taking into consideration of the following factors, among other things:

- (1) the historical transaction amounts with GMK Group for the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021;
- (2) the increase in demand for the raw materials resulting from an increase in sales of processed chicken meat products, in particular, due to the business expansion under the “優形 (iShape)” (“**iShape**”) brand, achieving sales revenue of RMB238.0 million for the six months ended 30 June 2021, which already outperformed its full year sales revenue in 2020 with a period-on-period growth of 195.0% and the sales revenue under “五更爐(Wu Genglu)” (“**Wu Genglu**”) brand amounted to RMB22.7 million for the six months ended 30 June 2021, representing a period-on-period increase of 3.5%; and
- (3) the expected growth in transaction amounts under the new engagement of Zhongke Biotechnology to provide processing services for production materials of approximately RMB3 million and RMB5 million for the period from 28 August 2021 to 31 December 2021 and the year ending 31 December 2022, respectively.

4. Reasons for and benefits of entering into the Procurement and Outsourcing Framework Agreement

The Company has been purchasing raw materials from GMK Group such as condiments and flavouring ingredients that are used in the preparation of the Group’s processed chicken meat products as part of its ordinary and usual course of business. The Group has a strong research and development capabilities to diversify its product portfolio of processed chicken meat products with the three research institutions in Shandong, Shanghai and Tokyo to develop more formulas, flavours and packaging options for the Group’s products according to the changing consumption patterns and consumer demand. Due to business expansion and the increase in sales of the Group’s products, the demand for such raw materials and production materials also increased, in particular, condiments used for producing products under iShape and Wu Genglu brands, which involve certain technical knowhow and specific recipes.

The Directors consider that a steady relationship with the suppliers is of importance to the Group and it is also in line with the procurement policy of the Group and in turn avoids any unnecessary disruption to the Group's business and guarantees a smooth operation of the Group. In addition, given the existing business relationship with Zhongke Biotechnology, the Company believes that they are well-positioned to serve the production needs of the Group because Zhongke Biotechnology has a thorough understanding of the operations and development needs of the Group. The Company is also of the view that the outsourcing of processing services for the production materials will allow the Company to better control the quality of the production materials and manage the production schedule and costs provided that the Group has been given priority on supply against other purchasers, and the Group will only be required to pay for the procurement and outsourcing at price which is no less favourable than those offered by any independent third party for comparable materials and/or services. The Directors consider that the transactions could be cost-efficient, expedient and beneficial for the Group.

NEW PRODUCT SALES FRAMEWORK AGREEMENT

1. Summary of the terms of the New Product Sales Framework Agreement

The principal terms of the New Product Sales Framework Agreement are summarised below:

Date: 28 August 2021

Parties: (i) the Company; and
(ii) GMK Holdings.

Subject matter: Pursuant to the New Product Sales Framework Agreement, 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.

Term: From 28 August 2021 to 31 December 2022 (both dates inclusive)

Pricing policy: The pricing of the commodities under the New Product Sales Framework Agreement shall be determined with reference to the market price. The market price refers to (i) the price paid by an independent third party which purchases such commodities at the time, or (ii) the price charged when providing such commodities to an independent third party at that time under normal commercial transaction conditions within Liaocheng, Shandong Province.

2. Historical transaction amount

For the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021, the sales of the poultry products and by-products to the members of GMK Group by the Group amounted to approximately RMB7.8 million, RMB7.1 million, RMB8.0 million and RMB6.0 million, respectively. The Group has agreed to sell livestock and poultry breeding waste materials such as mixture of paddy husk and chicken manure to Yanggu Xiangqi.

The actual transaction amounts for the transactions contemplated under the Original Product Sales Framework Agreement from 1 January 2021 up to the date of this announcement did not exceed the relevant annual cap for the year ending 31 December 2021.

3. Proposed annual caps

The following table sets out the proposed annual caps for the transactions to be contemplated under the New Product Sales Framework Agreement for the two years ending on 31 December 2022:

	For the year ending 31 December 2021	For the year ending 31 December 2022
	<i>(RMB)</i>	<i>(RMB)</i>
Annual Caps	20.0 million	32.0 million

The above proposed annual caps are determined after taking into consideration of the following factors, among other things:

- (1) the historical transaction amounts under the Original Product Sales Framework Agreement for the three years ended 31 December 2018, 2019 and 2020 and the six months ended 30 June 2021;
- (2) the additional transactions of the Group selling the mixture of paddy husk and chicken manure to GMK Group under the New Product Sales Framework Agreement which shall commence in October 2021 and is anticipated to be of heavy demand from Yanggu Xiangqi in operating its power generation business with expected transaction amounts of approximately RMB9 million and RMB18 million for the period from its commencement to 31 December 2021 and the year ending 31 December 2022, respectively; and
- (3) the expected increase in demand from GMK Group for the commodities sold under the New Product Sales Framework Agreement which is anticipated to reach approximately RMB10 million and RMB12 million for the years ending 31 December 2021 and 2022, respectively.

4. Reasons for and benefits of entering into the New Product Sales Framework Agreement

The Company has been selling poultry products and by-products to GMK Group as part of its ordinary and usual course of business and the Company has been generating revenue from such sales. The Group will also commence the sale of mixture of paddy husk and chicken manure to GMK Group in October 2021 as Yanggu Xiangqi, a member of GMK Group requires large amounts of mixture of paddy husk and chicken manure as fuels for its power generation burners. The selling price of the commodities including mixture of paddy husk and chicken manure the Group offers to GMK Group is expected to be no less favourable than those the Group offers to independent third parties. As such, the transaction amounts under the New Product Sales Framework Agreement correspond to the increase in demand of quantity and variety of commodities offered by the Group to GMK Group.

The main reason for entering into the New Product Sales Framework Agreement with GMK Holdings is due to a change in the composition of the Company's connected parties and the Original Product Sales Framework Agreement has to be terminated.

BOARD CONFIRMATION

The Directors (including the independent non-executive Directors) consider that the terms of each of the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement and transactions contemplated thereunder are in the ordinary and usual course of business of the Group and have been reached after arm's length negotiation, are on normal commercial terms or better. Based on the reasons above, the Directors (including the independent non-executive Directors) consider that the terms of each of Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement and their respective annual caps are fair and reasonable and are in the interests of the Company and its shareholders as a whole.

Apart from Mr. Liu Zhiguang and Mr. Liu Xuejing who have abstained from voting on the relevant Board resolutions approving the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement, Mr. Zhang Chuanli, a non-executive Director, has also abstained from voting on the same Board resolutions given that he is a director of GMK Holdings. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, there are no other Directors who has any material interest in the transactions contemplated under the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement.

INTERNAL CONTROL MEASURES

In order to ensure that the terms (including the pricing principles and the annual caps) contained in the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement are fair and reasonable and will be complied with, the Company has adopted the following internal control and corporate governance measures:

- (i) the finance department of the Company will closely monitor and record the actual transaction amounts of the continuing connected transactions under the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement to ensure that the annual caps will not be exceeded;
- (ii) the relevant personnel of the business department of the Company will conduct regular checks to review and assess that the transactions contemplated under the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement are conducted in accordance with the terms of the agreement and will also regularly compare the prices and terms with the market prices or standards of similar transactions to consider whether the prices charged on specific transactions are fair and reasonable and in compliance with the above pricing policies;

- (iii) the auditors of the Company will conduct review (which is subject to the annual review and disclosure requirements under the Listing Rules) on the continuing connected transactions on an annual basis and confirm (a) whether the transactions under the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework have been approved by the Board; (b) whether the transactions are in accordance with the Group's pricing policies in all material respects; (c) whether the transactions are entered into in accordance with the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement; and (d) whether the annual caps are not exceeded; and
- (iv) the independent non-executive Directors will conduct an annual review (which is subject to the annual review and disclosure requirements under the Listing Rules) to confirm that the transactions under the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement are (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or better; and (c) the transactions are conducted in accordance with the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement, which the terms are fair and reasonable as well as in the interests of the shareholders as a whole.

INFORMATION ON THE PARTIES

The Company

The Company is a joint stock limited liability company established in the PRC, and together with its subsidiaries principally engaged in producing and selling processed chicken meat products and raw chicken meat products mainly from white-feathered broilers.

GMK Holdings

GMK Holdings is a company established in the PRC with limited liability on 29 October 2009 and the controlling shareholder of the Company, which is the holding company of a conglomerate, whose principal business activities primarily include (in addition to the businesses of the Group) the smelting of non-ferrous metals and the provision of financial services.

LISTING RULES IMPLICATIONS

As at the date of this announcement, GMK Holdings is the controlling shareholder of the Company directly and indirectly holding 70.92% interest in the Company's total issued share capital (i.e. 992,854,500 domestic shares). GMK Holdings was held as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing (non-executive Director), Ms. Zhang Xiuying (spouse of Mr. Liu Xuejing), Mr. Liu Zhiguang (executive Director) and Mr. Liu Zhiming (son of Mr. Liu Xuejing and brother of Mr. Liu Zhiguang), respectively. Accordingly, GMK Holdings is a connected person of the Company and the transactions contemplated under each of the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profit ratio) under Rule 14.07 of the Listing Rules in respect of the highest annual cap of transactions under the each of the Procurement and Outsourcing Framework Agreement and the New Product Sales Framework Agreement are more than 0.1% but less than 5%, the transactions contemplated thereunder constitute continuing connected transactions of the Company that are subject to the reporting, annual review and announcement requirements, but are exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	the board of Directors
“Company”	Shandong Fengxiang Co., Ltd. (山東鳳祥股份有限公司), a joint stock company established in the PRC with limited liability on 17 December 2010, whose H shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company

“Fengxiang Supermarket”	Shandong Fengxiang Supermarket Co., Ltd. (山東鳳祥超市有限公司), a company established in the PRC with limited liability on 30 March 2004, which is indirectly wholly-owned by GMK Holdings
“GMK Group”	GMK Holdings together with its subsidiaries and associates (excluding the Group)
“GMK Holdings”	GMK Holdings Group Co., Ltd. (新鳳祥控股集團有限責任公司), a company established in the PRC with limited liability on 29 October 2009, which is owned as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing, Ms. Zhang Xiuying, Mr. Liu Zhiguang and Mr. Liu Zhiming, respectively, and the controlling shareholder of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“New Product Sales Framework Agreement”	the product sales framework agreement entered into by GMK Holdings and the Company on 28 August 2021 in respect of sales of commodities including poultry products and by-products and other livestock and poultry breeding waste materials such as mixture of paddy husk and chicken manure by the Group to the members of GMK Group
“Original Product Sales Framework Agreement”	the product sales framework agreement entered into by GMK Holdings, Xiangrui International Stock Holding Group Company Ltd. and the Company on 25 June 2020 in respect of sales of commodities including poultry products and by-products by the Group, which was terminated on 28 August 2021
“PRC” or “China”	the People’s Republic of China but excluding, for the purposes of this announcement, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan

“Procurement and Outsourcing Framework Agreement”	the procurement and outsourcing framework agreement entered into by GMK Holdings and the Company on 28 August 2021 in respect of the procurement of raw materials and consumption goods, and outsourcing of processing services for production materials to the members of GMK Group by the Group
“Prospectus”	the prospectus of the Company dated 30 June 2020
“RMB”	the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yanggu Xiangqi”	Yanggu Xiangqi Biomass Power Generation Co., Ltd. (陽穀縣祥琦生物質發電有限公司), a Company established in the PRC with limited liability on 26 March 2018, which is indirectly wholly owned by GMK Holdings
“Zhongke Biotechnology”	Zhongke Fengxiang Biotechnology Co., Ltd. (中科鳳祥生物工程股份有限公司), a company established in the PRC with limited liability on 30 September 2001, in which GMK Holdings ultimately holds more than 30%
“%”	per cent

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

Shandong, the PRC
28 August 2021

As at the date of this announcement, the Board comprises Mr. Liu Zhiguang, Mr. Xiao Dongsheng and Mr. Wang Jinsheng as executive directors, Mr. Liu Xuejing, Mr. Zhang Chuanli and Mr. Ow Weng Cheong as non-executive directors, and Mr. Guo Tianyong, Ms. Zhao Yinglin and Mr. Chung Wai Man as independent non-executive directors.