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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)

DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTION: DEPOSIT SERVICE FRAMEWORK AGREEMENT

DEPOSIT SERVICE FRAMEWORK AGREEMENT

On 31 August 2020, the Company and GMK Finance entered into the Deposit Service Framework Agreement for a term of two years commencing from 1 January 2021 and ending on 31 December 2022.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, GMK Finance is held as to 52.5% by GMK Holdings, the controlling shareholder of the Company, directly and indirectly held 70.92% interest in the Company's total issued share capital (i.e. 992,854,500 Domestic Shares), and 47.5% by Xiangguang Copper, a company in which GMK Holdings ultimately holds more than 30%. GMK Holdings was held as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing (non-executive Director), Ms. Zhang Xiuying (spouse of Mr. Liu Xuejing), Mr. Liu Zhiguang (executive Director) and Mr. Liu Zhiming (son of Mr. Liu Xuejing and brother of Mr. Liu Zhiguang), respectively. Accordingly, GMK Finance is a connected person of the Company and as a result, the transactions contemplated under the Deposit Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5%, the transactions to be contemplated thereunder are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5% but are less than 25%, the provision of Deposit Services under the Deposit Service Framework Agreement also constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Apart from Mr. Liu Zhiguang and Mr. Liu Xuejing who have abstained from voting on the relevant Board resolutions approving the Deposit Service 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 Deposit Service Framework Agreement.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed by the Company to consider, and to advise the Independent Shareholders on the terms of the Deposit Service Framework Agreement and the proposed annual caps.

Octal Capital has been appointed as the Independent Financial Adviser for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of the Deposit Service Framework Agreement and the proposed annual caps are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole.

GENERAL

A circular containing, among other things, (i) further details of the Deposit Service Framework Agreement and the proposed annual caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules, together with the notice of the general meeting, will be despatched to the Shareholders not more than 15 business days after the publication of this announcement (i.e. on or before 21 September 2020) in accordance with the requirements of the Listing Rules.

1. BACKGROUND

Reference is made to the section headed “Connected Transactions” in the Prospectus in relation to the Existing Deposit Service Framework Agreement, which will expire on 31 December 2020.

After considering the future needs of the Group and to better regulate the future continuing connected transactions, the Company and GMK Finance entered into the Deposit Service Framework Agreement for a term of two years commencing from 1 January 2021 and ending on 31 December 2022.

2. DEPOSIT SERVICE FRAMEWORK AGREEMENT

Pursuant to the Existing Deposit Service Framework Agreement, GMK Finance shall provide the Deposit Services to the Group. As the Existing Deposit Service Framework Agreement and the annual cap will expire on 31 December 2020 and in order to better regulate the provision of the Deposit Services, the Company and GMK Finance entered into the Deposit Service Framework Agreement on 31 August 2020 in respect of the Deposit Services procured by the members of the Group from GMK Finance.

The Deposit Service Framework Agreement is conditional upon the Independent Shareholders’ approval at the EGM having been obtained.

The summary of the principal terms of the Deposit Service Framework Agreement is set forth below:

Date: 31 August 2020

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

Description of the transaction: GMK Finance shall provide the Deposit Services to members of the Group for a term of two years from 1 January 2021 to 31 December 2022. The Deposit Service Framework Agreement shall be non-exclusive, and the Group is at liberty to obtain deposit services from other third parties.

The relevant parties shall enter into separate Deposit Agreements to set out the specific provisions of the Deposit Services, and the terms and conditions of the Deposit Agreements shall be determined by the relevant parties in accordance with the terms of the Deposit Service Framework Agreement.

The term of each of the Deposit Agreements shall not exceed the term of the Deposit Service Framework Agreement.

Pricing policy: The interest rates payable by GMK Finance to the Group in respect of the Deposit Services shall:

- (i) be determined based on arm's length negotiations between GMK Finance and the Group with reference to the prevailing interest rate for similar deposit services which can be obtained by the Group from independent third parties and on normal commercial terms;
- (ii) not be lower than the interest rates to be paid by independent third parties; and
- (iii) be in compliance with the rules and regulations prescribed by the PBOC and/or other relevant rules and regulations within the PRC.

Historical figures and existing annual caps:

The following table sets out the historical figures and the existing annual caps under the Existing Deposit Service Framework Agreement:

	Historical amount for the year ended 31 December 2017 (RMB'000)	Historical amount for the year ended 31 December 2018 (RMB'000)	Historical amount for the year ended 31 December 2019 (RMB'000)	Existing annual cap for the year ending 31 December 2020 (RMB'000)
Maximum daily balance of deposits (including interests accrued thereon) placed by the Company with GMK Finance	295,200	458,400	479,500	600,000

Proposed annual caps

The following table sets out the proposed annual caps for the transactions to be contemplated under the Deposit Service Framework Agreement:

	For the year ending 31 December 2021 (RMB'000)	For the year ending 31 December 2022 (RMB'000)
Maximum daily balance of deposits (including interests accrued on such balances) placed by the Company with GMK Finance	1,350,000	1,350,000

The above proposed annual caps on the maximum daily balance of deposits have been determined after taking into consideration of the following factors, among other things:

- (1) the historical deposits that were maintained by the Group with GMK Finance for the past three years;
- (2) the utilisation of the maximum daily balance of deposits (including interests accrued thereon) placed by the Company with GMK Finance pursuant to the annual cap for the year ending 31 December 2020 under the Existing Deposit Service Framework Agreement as at the date of this announcement, amounting to approximately RMB599 million;

- (3) the expected continued growth in assets and amounts of deposits as well as cash management needs of the Group due to the expansion of its business and operation and an increase of cash and cash equivalents from approximately RMB563 million as at 31 December 2019 to approximately RMB1,084 million as at 30 June 2020;
- (4) historically, the Group had pledged commercial bills received by the Group in the ordinary course of business to GMK Finance for discounting in return for cash loans extended to the Group and the Group has discretion to make its selection whether such loans shall be remitted or settled through the accounts of the Group maintained with GMK Finance. Pursuant to the framework agreement dated 25 June 2020 entered into between the Company and GMK Finance for the provision of financial assistance by GMK Finance to the Group through the discounting of commercial bills, the annual caps obtained for the years ending 31 December 2021 and 2022 are RMB600 million and RMB500 million, respectively; and
- (5) the net proceeds from the global offering of the Company's H Shares (the "**Global Offering**"), of which part of it is expected to be placed with GMK Finance in consideration of the higher deposit interest rates offered by GMK Finance as compared to the three principal bankers of the Company. Since the net proceeds is expected to be utilised over the years 2021 to 2022, the Board is of the view that placing part of the net proceeds with GMK Finance will allow the Company to earn the same or better interest rate which in turn will optimise the deposit interests obtained and benefit the Group as a whole while maintaining risk management on the level of concentration in respect of deposits placed.

In determining the annual caps for the interests on deposits, the Board have considered the current interest rate offered by GMK Finance, which is also the upper floating range limit on the benchmark rates on deposits allowed by the PBOC.

3. REASONS AND BENEFITS FOR THE TRANSACTIONS

GMK Finance has been providing Deposit Services to the Group historically and prior to the listing of the Company on the Stock Exchange, thus it has developed a deep understanding of the capital needs and business operations of the Group. In view of the stability and reliability of the financial services provided by GMK Finance, including the Deposit Services in previous years, the Company believes that GMK Finance is well-positioned to serve the financial needs of the Group, and it is expected that it will be cost-efficient, expedient and beneficial for the Group to use the Deposit Services.

Moreover, under the Deposit Service Framework Agreement, the monies that the Group deposits with GMK Finance can be withdrawn on demand and do not have a minimum deposit period, and the Group would earn the same rate of interest as offered by other financial institutions that also offer deposit services. The deposit interest rates offered by GMK Finance to the Group shall comply with the benchmark deposit interest rates promulgated by the PBOC from time to time (if any) for financial institutions such as GMK Finance, and the Group's deposit interest rates shall be the same as those offered by GMK Finance to independent third parties (or better), and the Group will only deposit its funds with GMK Finance if the rates quoted by GMK Finance are no less favourable than the quotes of deposit rates offered by two other banks offering deposit services obtained by the Group.

Furthermore, the net proceeds from the Global Offering received by the Company was approximately HK\$1,004 million (i.e. approximately RMB889 million). As disclosed on pages 184 and 357 of the Prospectus, among the net proceeds raised from the Global Offering, the Group intends to utilise approximately 45% (i.e. approximately HK\$452 million) to fund its expansion plan and carry out the procurement of facilities over a 24-month period (subject to the purchase price at that time). The Group will also use approximately 42.5% (i.e. approximately HK\$427 million) of the net proceeds to repay existing borrowings indicated in the Prospectus, of which the latest maturity period is December 2022. In view of the expected time of usage of net proceeds, it is considered that the Company's plan to place part of the net proceeds from the Global Offering will allow the Company to earn the same or a better interest rate under the Deposit Service Framework Agreement as compared to other third party banks or financial institutions for deposit services with similar terms.

Once the Deposit Service Framework Agreement is approved by the Independent Shareholders at the EGM, the Company will place part of the net proceeds with GMK Finance according to its plan and expected time of usage. However, as at the date of this announcement, the Company has no concrete plan as to the timing of deposits of the aforesaid amount with GMK Finance.

In addition, GMK Finance had a registered capital of RMB3,000 million and is an institution licensed by the Shandong Office of CBIRC, and is subject to the rules and requirements of such regulatory authority, which will reduce risks to the Group in receiving the Deposit Services. The Company believes that given the registered capital of GMK Finance and its licensed status, and its better understanding of the operations of the Group, GMK Finance would be able to provide the Group with expedient and efficient delivery of services. The Group also expects that as an intra-group service provider, GMK Finance will generally have more efficient communication channels with the Group as compared with other domestic commercial banks or financial institutions. The Deposit Services will also facilitate internal settlement and shorten the time required for fund transfer and turnover.

Given the transactions to be contemplated under the Deposit Service Framework Agreement are in the ordinary and usual course of business of the Company and are under normal commercial terms, the Directors (excluding the independent non-executive Directors whose views will be formed after taking into account the advice of Octal Capital) are of the view that the terms of the Deposit Service Framework Agreement and the proposed annual caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

4. IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, GMK Finance is held as to 52.5% by GMK Holdings, the controlling shareholder of the Company, directly and indirectly held 70.92% interest in the Company's total issued share capital (i.e. 992,854,500 Domestic Shares), and 47.5% by Xiangguang Copper, a company in which GMK Holdings ultimately holds more than 30%. GMK Holdings was held as to 51%, 9%, 20% and 20% by Mr. Liu Xuejing (non-executive Director), Ms. Zhang Xiuying (spouse of Mr. Liu Xuejing), Mr. Liu Zhiguang (executive Director) and Mr. Liu Zhiming (son of Mr. Liu Xuejing and brother of Mr. Liu Zhiguang), respectively. Accordingly, GMK Finance is a connected person of the Company and as a result, the transactions contemplated under the Deposit Service Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than profits ratio) (as defined under Rule 14.07 of the Listing Rules) in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5%, the transactions to be contemplated thereunder are subject to reporting, announcement, annual review and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, as one or more of the applicable percentage ratios as defined under Rule 14.07 of the Listing Rules in respect of the annual caps of the transactions to be contemplated under the Deposit Service Framework Agreement exceed 5% but are less than 25%, the provision of Deposit Services under the Deposit Service Framework Agreement also constitutes a discloseable transaction of the Company and is subject to reporting and announcement requirements under Chapter 14 of the Listing Rules.

Apart from Mr. Liu Zhiguang and Mr. Liu Xuejing who have abstained from voting on the relevant Board resolutions approving the Deposit Service 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 Deposit Service Framework Agreement.

As GMK Holdings and its associates have material interests in the transactions to be contemplated under the Deposit Service Framework Agreement, GMK Holdings and its associates will be required to abstain from voting at the EGM with respect to the ordinary resolutions in connection with Deposit Service Framework Agreement and the proposed annual caps.

5. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee has been formed by the Company to consider, and to advise the Independent Shareholders on the terms of Deposit Service Framework Agreement and the proposed annual caps.

Octal Capital has been appointed as the Independent Financial Adviser for providing advice to the Independent Board Committee and the Independent Shareholders on whether the terms of Deposit Service Framework Agreement and the proposed annual caps are fair and reasonable, and whether they are in the interests of the Company and the Shareholders as a whole.

6. INFORMATION OF THE COMPANY AND GMK FINANCE

The Company is a joint stock limited liability company established in the PRC, principally engaged in breeding, slaughtering and processing, sale of poultry, and production and sale of animal feeds and organic fertilisers.

GMK Finance is a limited company established in the PRC and a non-wholly owned subsidiary of GMK Holdings. GMK Finance is a financial institution licensed by the Shandong Office of CBIRC, and primarily engages in financial services business, including the provision of deposit services, provision of loans on the basis of the discounting of commercial bills and the provision of entrusted loans.

7. INTERNAL CONTROL MEASURES

In order to ensure that the pricing policy in the Deposit Service Framework Agreement is adhered to, the Group has the following internal control procedures and policies:

- (i) the finance department of the Company shall be responsible for reviewing the pricing terms of the Deposit Services by obtaining quotations from GMK Finance and at least two other independent financial institutions for rates of deposits of an equivalent amount and for the equivalent period, and will only use the Deposit Services if the terms quoted by GMK Finance are no less favourable than the terms quoted by such two other independent financial institutions;
- (ii) the finance department of the Company shall also be responsible for monitoring and collecting on a regular basis the actual maximum daily balance of deposits to be placed by the Group with GMK Finance pursuant to the Deposit Service Framework Agreement and the Deposit Agreements, so to ensure that the maximum daily balance will not exceed the proposed annual caps for each financial year;
- (iii) the independent non-executive Directors will review the transactions to be entered into pursuant to the Deposit Service Framework Agreement in order to ensure all such transactions are entered into in accordance with the terms and pricing policies of the Deposit Service Framework Agreement, are on normal commercial terms or better, on terms that are fair and reasonable, and in accordance with and do not exceed the proposed applicable annual caps; and
- (iv) the auditors of the Company will conduct an annual review on the pricing and annual caps of the continuing connected transactions to be entered into pursuant to the Deposit Service Framework Agreement.

8. GENERAL

A circular containing, among other things, (i) further details of the Deposit Service Framework Agreement and the proposed annual caps; (ii) the letter from the Independent Board Committee to the Independent Shareholders; (iii) the letter from Octal Capital to the Independent Board Committee and the Independent Shareholders; and (iv) other information as required under the Listing Rules, together with the notice of the EGM, will be despatched to the Shareholders not more than 15 business days after the publication of this announcement (i.e. on or before 21 September 2020) in accordance with the requirements of the Listing Rules.

For the purpose of this announcement, the translation of HK\$ into RMB is based on the approximate exchange rate of HK\$1.00 = RMB0.88520. Such translation should not be construed as a representation that the amount in question have been, could have been or could be converted at any particular rate at all.

9. DEFINITIONS

Unless the context otherwise requires, the following expression in this announcement shall have the following meanings:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CBIRC”	the China Banking and Insurance Regulatory Commission (中國銀行保險監督管理委員會)
“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
“Deposit Agreements”	the deposit agreements to be entered into between members of the Group and GMK Finance as contemplated under the Deposit Service Framework Agreement

“Deposit Service Framework Agreement”	the deposit service framework agreement entered into by GMK Finance and the Company on 31 August 2020 in respect of the provision of Deposit Services to the Group
“Deposit Services”	deposit services provided by GMK Finance
“Director(s)”	director(s) of the Company
“Domestic Share(s)”	ordinary share in the Company’s capital, with a nominal value of RMB1.0 each, which are subscribed for and paid up in RMB by PRC nationals and/or PRC-incorporated entities
“EGM”	the 2020 third extraordinary general meeting of the Company to consider and, if thought fit, to approve, among other things, the transactions contemplated under the Deposit Service Framework Agreement and the respective annual caps
“Existing Deposit Service Framework Agreement”	the deposit service framework agreement entered into between GMK Finance and the Company on 25 June 2020 in respect of the provision of the Deposit Services to the Group, details of which has been disclosed in the Prospectus
“GMK Finance”	GMK Finance Co., Ltd. (新鳳祥財務有限公司), a company established in the PRC with limited liability on 26 June 2015, a financial institution that is under the supervision of the Shandong Office of CBIRC (中國銀保監會山東監管局) and owned as to 52.5% by GMK Holdings and 47.5% by Xiangguang Copper, respectively and in turn a non-wholly owned subsidiary of GMK Holdings and is therefore a connected person of the Company

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 a controlling shareholder of the Company, directly and indirectly held 70.92% interest in the Company's total issued share capital
“Group”	the Company and its subsidiaries
“H Share(s)”	overseas listed foreign share(s) in the share capital of the Company with nominal value of RMB1.0 each, which are subscribed for and traded in Hong Kong dollars and listed on the Stock Exchange
“Hong Kong”	the Hong Kong Special Administrative Region of the People's Republic of China
“HK\$”	the lawful currency of Hong Kong
“Independent Board Committee”	the independent committee of the Company, the members of which consist of all the independent non-executive Directors, formed to advise the Independent Shareholders with respect to the Deposit Service Framework Agreement and the proposed annual caps
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Shareholders”	Shareholders who are not required to abstain from voting at the EGM
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PBOC”	People's Bank of China (中國人民銀行)

“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
“Prospectus”	the prospectus of the Company dated 30 June 2020
“RMB”	the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Domestic Share(s) and/or H Share(s)
“Shareholder(s)”	the registered holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Xiangguang Copper”	Yanggu Xiangguang Copper Co., Ltd. (陽穀祥光銅業有限公司), a company established in the PRC with limited liability on 6 January 2005, 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
31 August 2020

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