

Stock Code: 600057

Stock Abbreviation: Xiamen Xiangyu

# **Xiamen Xiangyu Co., Ltd.**

## **2023 Interim Report (Summary)**

## **I. Industry Analysis and a Comprehensive Overview of Company's Core Business Operations during the Reporting Period**

In this section, we will discuss and analyze the industry in which the company operates in two parts: "Analysis of the industry's operating conditions during the reporting period and future of industry trends" and "Company's business model."

### **1. Analysis of the Industry's Operating Conditions during the Reporting Period and Future of Industry Trends**

In the first half of 2023, the global arena remains tumultuous and ever-evolving. Globally, major economies experienced sluggish growth, high level of uncertainty of the macro environment, and a slower-than-expected recovery in international trade. The adverse impact of global environment changes has escalated. On the domestic front, China faced some challenges in terms of export growth and business investment confidence, which were compounded by various difficulties, including cyclical and structural contradictions. Additionally, weak domestic demand hindered the smooth progress of the economy, resulting in a relatively sluggish process of economic recovery.

On the supply side, there has been a downward trend in the YoY profit growth of industrial enterprises of a certain scale, with limited monthly recovery. The manufacturing sector continued to face structural deflationary pressures, and the issue of overcapacity remained unresolved. On the demand side, weak external demand and a slow recovery in domestic demand resulted in an increase in cautious attitudes and behaviors, such as adopting a "wait-and-see" approach. Additionally, Chinese companies that heavily rely on resources and labor gradually shifted their production bases overseas, leading to a partial diversion of domestic demand to international markets. In the realm of supply chain services, there was a noticeable decline in the consumption of goods by manufacturing clients, and this downward trend is likely to persist in the third quarter. However, there may be a turning point on the horizon. Furthermore, within the supply chain services process, we observed that larger manufacturing clients were gradually stabilizing and improving their production and business prospects, while small and medium enterprises still held weak expectations. Pressing issues such as increasing accounts receivable, prolonged payment cycles, and rising debt ratios remained

prominent.

Looking ahead, some industries will still be under pressure from continued downward cycles. However, potential recovery in demand may be on the horizon as stable growth policies are already in the pipeline. As inventories gradually clear and supply-side capacity resumes, it will create favorable conditions for bulk commodity supply chain service companies to restore their service ecosystems. This will enable them to leverage their scale advantages and improve the profitability of the bulk commodity supply chain industry.

## **2. Industry Development Trends**

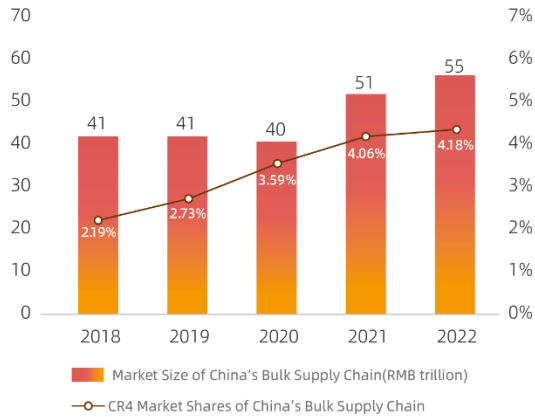
In recent years, due to the disruptions caused by global geopolitical shifts and macroeconomic factors, the speed of changes in domestic policies and the business environment has been accelerating. Additionally, with the domestic market approaching saturation, increasing labor costs, and supply chain outsourcing driving relocation, many leading manufacturing companies are shifting their focus towards overseas markets. In this new landscape, it becomes increasingly important for bulk supply chain service providers to prioritize the safety and stability of their services. However, effectively leveraging their model, technological, and resource advantages to establish an internationalized supply chain service system and better meet the needs of manufacturing companies in terms of internationalization, safety, efficiency, and etc., becomes of utmost importance.

Specifically, we have noticed the following distinct trends:

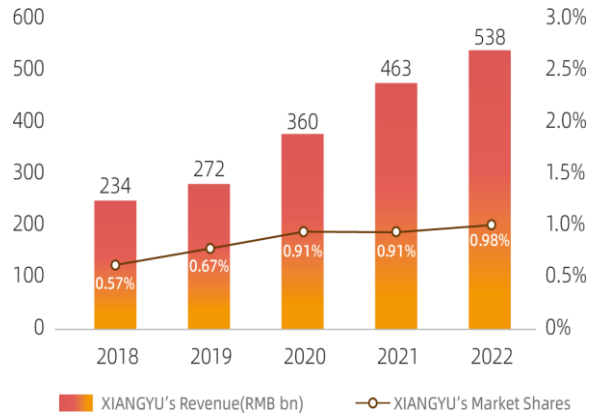
**(1) The concentration of China's bulk supply chain industry continues to rise, and leading companies achieve contrarian growth.**

Over the past five years, the market size of China's bulk supply chain has remained stable at around

40-50 trillion RMB.<sup>1</sup> Despite sluggish domestic demand and a slowdown in industrial production and exports in the first half of 2023, top-tier bulk supply chain service companies have effectively utilized their resources and services to actively expand their distribution networks and expand their market shares under the downward cycle, highlighting the dominance of these leading players in the industry.



**Figure 1: Market Size and CR4 Market Share in China's Bulk Supply Chain Industry**



**Figure 2: Company Revenue and Market Share in China's Bulk Supply Chain Industry**

**(2) The Chinese bulk supply chain service industry is poised to enter a new era of globalization, unlocking the industry's "second growth curve."**

As the domestic population dividend diminishes and the market reaches saturation, the manufacturing industry tends to shift towards emerging markets along the Belt and Road Initiative, such as Southeast Asia and Africa. These markets offer abundant natural resources and competitive advantages for early market entrants.

As the "Belt and Road" initiative continues to deepen, the pace of China's manufacturing industry expanding overseas will accelerate, which will further intensify the trend of global supply chain restructuring. Domestic bulk supply chain service enterprises, on the basis of their solid presence in the domestic market, are now speeding up their international expansion. This will help manufacturing companies to sail into international waters and pave the way for industry leaders to

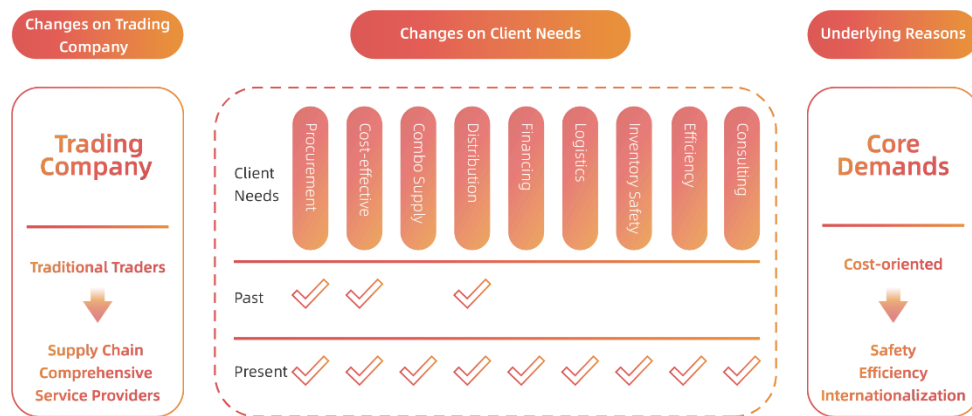
<sup>1</sup> The market size of the bulk supply chain service industry is determined by the combination of revenue generated by major industrial enterprises and the value of bulk imports.

unlock their "second growth curve".

**(3) The evolving needs of manufacturing enterprise customers will drive the iterative transformation of the supply chain industry's service model.**

Customer demands are shifting from single-category and single-link services to a more diverse range of offerings, including combined supply, integrated links, expanded supply chains, and regional synergy. Consequently, the ability to manage diverse product portfolios, provide varied service offerings, and establish robust logistics infrastructure becomes vital. A core differentiating factor lies in the "physical-trade linkage," which combines multi-product operations with comprehensive integrated services, serving as a key driver of competitiveness.

Against this backdrop, supply chain enterprises equipped with comprehensive supply chain solution design capabilities and integrated services are well-positioned to expand their involvement across multiple stages of the value chain. By efficiently allocating resources and leveraging networked logistics services, they can deepen customer loyalty, enhance market shares, and improve profit margins.



**Figure 3: Changes in Customer Demand and Evolution of Service Providers**

## II. Business Model

The Company focuses on the core demands of manufacturing enterprise customers and continuously provides "comprehensive, multi-level, wide-ranging" services. By optimizing product combinations, upgrading business models, and improving profit structures, the Company strives to be at the forefront of industry in terms of model leadership.

### 1. Product Combination

Based on customer needs and its own business philosophy, the Company selects products based on the following criteria: ① Strong liquidity and easy monetization; ② High standardization and easy storage; ③ Large demand, long industrial chain, and ability to provide comprehensive services at multiple stages. The Company currently mainly deals in bulk such as metallic minerals, agricultural products, energy and chemicals, and new energy, covering six core categories: "ferrous metals, aluminum, stainless steel, new energy, coal, and grain."

The Company continuously enriches its product portfolio and focuses on important niche categories to establish scale advantages and market influence. It cultivates the ability to provide a comprehensive package of bulk supply and adjusts the product composition dynamically based on industry cycles. This enable the Company to maintain a balanced product structure in different cycles, resulting in better growth potential and hedging capabilities.

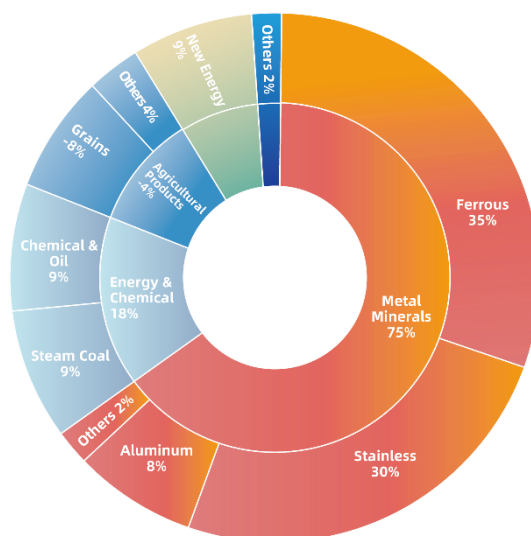
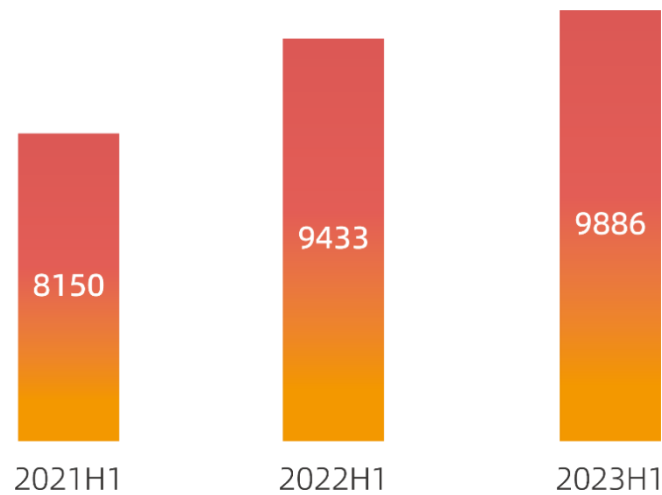


Figure 4: Breakdown of Combined Futures and Spot Gross Profit in 1H23

## 2. Customer Structure

With the advantage of our brand and superior services, our company has defied market challenges and successfully expanded our customer base using a dedicated ground promotion team. In the first half of 2023, we achieved a significant YoY increase of 453 active customers, bringing the total to 9,886.



**Figure 5: Number of Active Customer Base for the Company**

Over the past few years, the company has been continuously optimizing its client portfolio, with a focus on increasing the proportion of manufacturing enterprise clients. As of the end of the first half of 2023, manufacturing enterprises accounted for more than 50%/60% of the Company's client base and total service volume. Notably, the service volume for the manufacturing enterprises of the new energy supply chain accounts for more than 90%, and that for the manufacturing enterprises of the ferrous metals, aluminum, coal, and grain supply chain accounts for more than 60% respectively.

## 3. Operating Mode

In stage 1.0, the Company transitioned from a "Single-point Service" model to an "Integrated Service" approach, offering one-stop comprehensive services such as raw material procurement, finished product distribution, inventory management, warehousing and logistics, and supply chain finance. Through customizing and providing procurement and sales plans, cross-regional

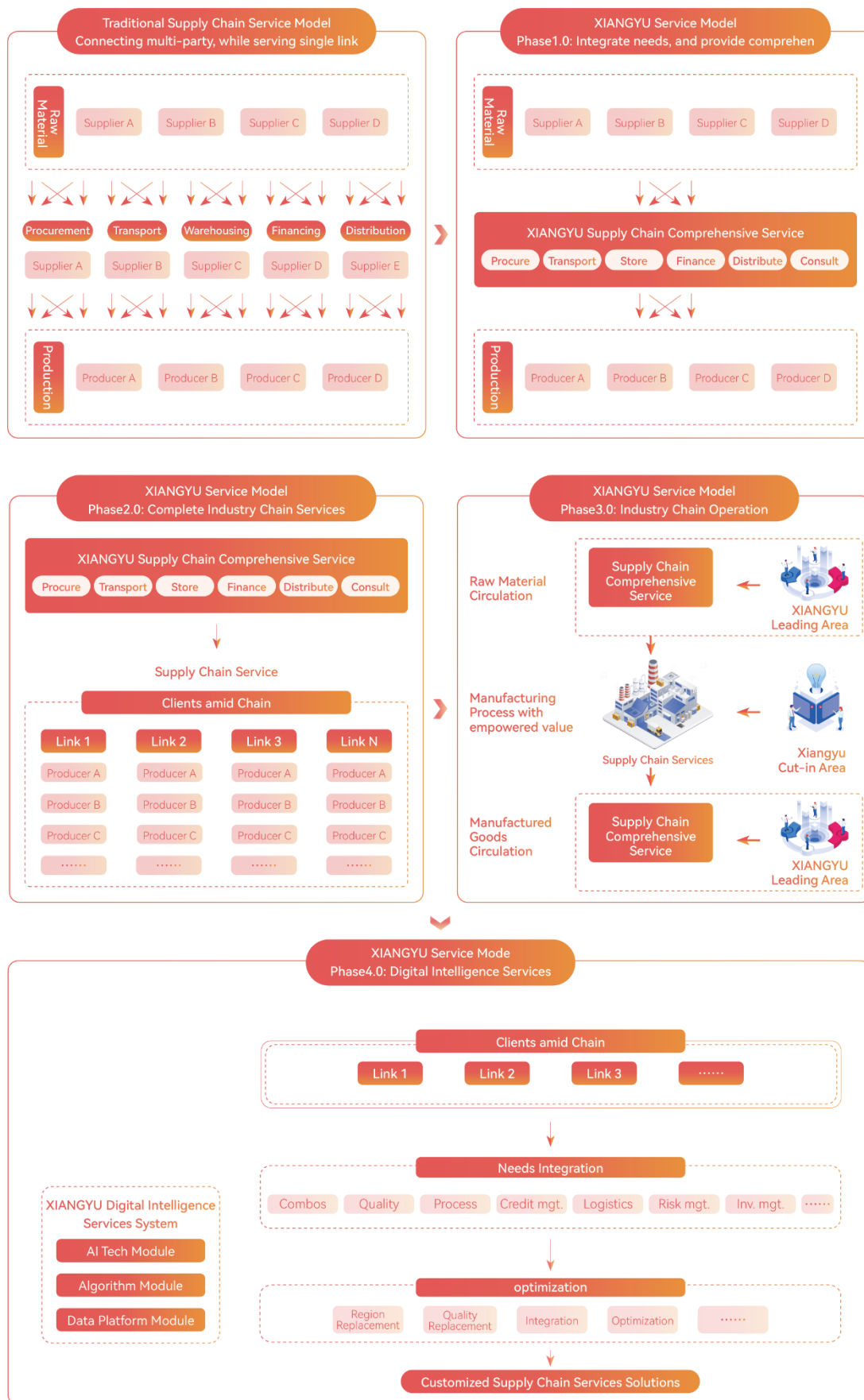
transportation, and other comprehensive services, the company successfully resolved the issue of spatial and temporal disparities for bulk commodities.

A prime illustration of this model is the virtual factory initiative, wherein the Company plays a full-fledged role in the critical manufacturing supply chain, furnishing customers with raw material procurement and supply, product distribution, as well as ancillary services such as logistics, finance, consulting, among others, thereby generating profit from the services we provide.

In stage 2.0, the Company had established customer loyalty and channel advantages by offering "Integrated Services" in a specific industrial chain segment. Building on this success, the Company extended its "Integrated Services" upstream and downstream along the industry chain, and initiated "Full-industry Chain Service Model". The model expands range of goods and growth potential.

In stage 3.0, after forming service and advantages of industry research throughout the full industry chain, the Company capitalized on the opportunity to enter the productive manufacturing links with value-adding potential, forming an industrial chain operation mode of "Supply Chain Services + Production Manufacturing", further improving the profitability of comprehensive revenue and smoothing cyclical fluctuations.





**Figure 6: Evolution of the Company's Operating Model**

In the 4.0 phase, the Company has established a diverse range of comprehensive service capabilities, full-industry chain service capabilities, and industrial chain operation capabilities in the previous three phases. These services are provided either separately or in combination to cater to the needs of customers from various industries, regions, scales, and business natures.

In order to cater to the needs of our customers, the Company has established a range of service capabilities, including networked logistics, digital supply chain, risk management, global resource integration, as well as multidimensional industrial research capabilities and dedicated promotion service teams. These capabilities are interwoven, connected, and integrated onto a platform, which is continuously evolving into the “Xiangyu Smart Supply Chain Comprehensive Service Platform”. Through leveraging a vast array of service cases and data gathered from specific business scenarios, our platform gains a profound understanding of the demands and needs of manufacturing enterprise customers. This enables us to swiftly analyze and integrate this information to recommend suitable products and services. By tailoring and customizing our output to each individual client, we deliver personalized supply chain solutions that are perfectly attuned to their unique requirements.

The “Xiangyu Smart Supply Chain Comprehensive Service Platform” has a core advantage in that it combines diverse commodity supply with efficient logistics services through its unique “trade-logistics linkage” system. By seamlessly integrating with the purchasing and sales systems of manufacturing enterprises, the Company utilizes multimodal transportation logistics capabilities, multi-channel commodity supply and sales channels, and big data mining and analysis to accurately predict customer inventory levels, match supply channels to products, and achieve seamless regional warehouse cross-region distribution and cross-period replenishment. This enables us to accurately and efficiently resolve all kinds of “time and space mismatch” issues, making us a leader in the industry.

#### **4. Profit Model**

The Company places great emphasis on service revenue and scale-driven profitability, establishing a solid foundation for stable profitability. Through regional expansion, customer, and product category diversification, as well as the implementation of service overlays, the Company has

achieved continuous and steady growth in its operational performance. It also capitalizes on price differentials to generate profits during periods of volatility in commodity prices.

To enhance service revenue levels, the Company engages in direct upstream procurement and integrates full-chain services, thereby improving circulation efficiency and reducing costs within the supply chain. The Company also focuses on achieving scale-driven profitability by maintaining robust growth and implementing synergies between physical and trading activities. Leveraging its extensive customer resources and extensive logistics network, the Company enhances its capabilities in industrial research and analysis of commodity supply and demand. It employs scientific position management to optimize income from price differentials.

**Table 1 Profit Structure and Definitions**

<b>Source of Revenue</b>	<b>Interpretation</b>		<b>the Correlation with Commodity Prices</b>
<b>Service Profits</b>	By leveraging the benefits of platformization and scaling operations, the Company offer customers comprehensive services across the entire industry chain. The Company offerings include procurement and sales, processing, logistics and distribution, supply chain finance, and information consulting, for which the Company earn service fees (including Financial Service Revenue). Through the “Yuliantong” digital supply chain service platform, the Company upgrade supply chain finance service model, charging customers stable service fees without assuming guarantee responsibilities.		Weak Correlation
<b>Transaction Profits</b>	Scale Collective Bargaining Profit	Leveraging our extensive business volume, we strive to achieve cost advantage through centralized procurement and specialized operation, thereby reducing operational costs across all segments and contributing to trading revenue. As the Company continue to enhance our scale advantage and	Weak Correlation

Source of Revenue	Interpretation		the Correlation with Commodity Prices
		<p>professional expertise, the sensitivity of the Company's trading revenue to price fluctuations in commodities has also decreased. The Company strive for consistent and sturdy growth, improving revenue levels through physical-commerce and trade-trade linkage.</p>	
	<p>Profiting from Price Disparities</p>	<p>By leveraging the Company's expertise in professional analysis, the Company conduct trades by studying the trends of commodity price changes over time and the spatial differences in pricing across different regions to generate profitability. With a vast customer network and robust logistics infrastructure, the Company enhances its capabilities in industry research and supply-demand analysis, strategically managing positions to maximize returns.</p>	<p>Strong Correlation</p>

### **III. Analysis of Core Competitiveness in Reporting Period**

#### **1. Networked Logistics Service Capability**

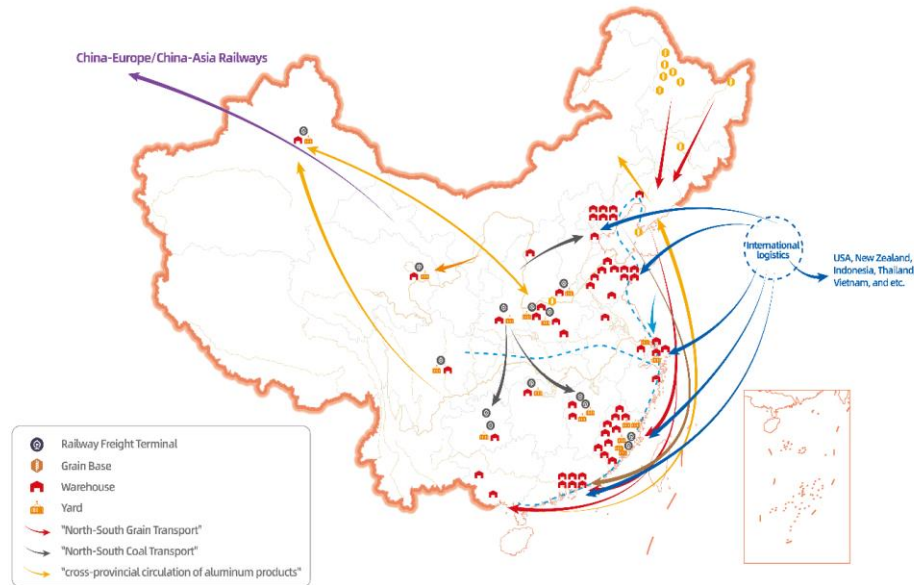
The Company, a national 5A-level logistics enterprise, has cultivated three major logistics operating entities (Xiangyu Express, Xiangdao Logistics, Xiangyu Agricultural Products). It possesses a team of over a thousand professionals specialized in logistics services, with a focus on market and internationalization.

The Company has taken the lead in constructing a networked logistics service system that revolves around “highway, railway, waterway, and warehouse” linking markets both domestically and internationally. This system includes a railway transportation network that connects the east and west regions and links the north and south regions, a highway transportation network that radiates throughout the country, a waterway transportation network that extends from major domestic ports to the “Belt and Road” regions, a warehouse cluster that covers the coastal areas in the east and the bulk distribution areas in the central and western regions, and international logistics channels such as international chartering and international freight trains that link overseas markets. This enables the Company to provide high-quality, end-to-end, customized logistics services for bulk, as well as multimodal transport comprehensive solutions.

By establishing multiple multimodal transport routes such as cross-province circulation of aluminum products,” “north-to-south grain transportation,” “west-to-east coal transportation,” and “north-to-south coal transportation.” The Company enhances the operational efficiency and market competitiveness of its logistics service system. The networked logistics service system is one of the core capabilities of the Company in serving manufacturing industry clients and also serves as an important cornerstone for the Company’s cargo rights control and business digitization transformation.

**Table2 Logistics Resources and Capabilities**

<b>Category</b>	<b>Resources Capability</b>
<b>Railway</b>	11 railway cargo stations (10 self-owned and 1 managed), covering major commodity distribution hubs in the central and western regions. It is supported by 47 dedicated railway lines, approximately 2.5 million square meters of container yards and warehouses, and around 30k self-owned containers. The annual transportation capacity exceeds 35 million tons, ranking among the top in the industry. It has also formed high-quality transportation routes for coal and aluminum products, such as “Shandong/Henan-Xinjiang” and “Shaanxi-Yunnan/Guizhou/Sichuan”.
<b>Highway</b>	The Company possesses a fleet of around 1,000 self-owned transport vehicles and its network freight platform integrates more than 80k vehicles from the market. During the reporting period, it successfully transported over 11 million tons of goods.
<b>Waterway</b>	The Company has established strategic partnerships with reputable port and shipping companies such as China Merchants Port Group Co., Ltd., Shandong Port Group Co., Ltd., COSCO, Tianjin Port Group Co., Ltd., The combined domestic coastal and Yangtze River transport volume reached approximately 15 million tons during the reporting period. Moreover, the Company owns a multipurpose vessel and its network water transportation platform includes over 850 vessels from the market. The commissioned transport volume exceeded 7 million tons during the reporting period, showcasing an optimized water transport capacity configuration that combines both self-owned and cooperative resources.
<b>Warehousing</b>	The top 7 grain procurement platforms boast a combined storage capacity of over 13 million tons, accompanied by the presence of 9 dedicated railway lines. The company’s 46 warehouses (self-owned or leased) cover an expansive area of approximately 1.6 million square meters. Furthermore, there are 8 yards, with a cumulative expanse surpassing 500k square meters.
<b>International Logistics</b>	By leveraging global capabilities in bulk and break-bulk international chartering and international rail logistics corridors, the Company are establishing the China-Indonesia logistics corridor (targeting a cargo volume exceeding 7 million tons during the reporting period), the China-Vietnam & Thailand logistics corridor, and the China-Europe bi-directional transportation corridor. Through these channels, we aim to enhance our international multimodal transportation capabilities and strengthen our overseas localized logistics services.



**Figure 7: Company's Nationwide and International Networked Logistics Service Ecosystem**

## 2. Digitalized Supply Chain Service Capability

The Company is focused on three core goals: expanding the incremental market, improving service efficiency, and elevating the business model. Leveraging vast business data, extensive customer resources, and diverse application scenarios, the Company is building an intelligent information technology system. The digitalization efforts of the Company can be categorized into three levels:

**Digitalization of logistics infrastructure:** The Company is actively implementing digital transformations in warehouses to create a smart logistics service platform that improves logistics management efficiency, enhances cargo control capabilities, and integrates multi-modal transportation systems.

**Digitalization as a driver for business model innovation:** Building upon the smart logistics platform, the company is developing and constructing the "Yuliantong" digital supply chain service platform to effectively connect funding partners with customer demands. Additionally, in collaboration with the Alibaba team, the Company is connecting various stages of the grain industry to create an "agricultural industry-level internet platform" with a focus on the "grain planting industry alliance, grain warehouse alliance, and grain circulation industry alliance".

Digitalization empowering operational efficiency: Through an integrated support system encompassing modules like financial control, human resources management, customer relations, risk management, and equipment and asset management, the Company is providing comprehensive support for business operations. Utilizing enterprise management analysis systems, customer analysis, and large-scale data operation systems, the Company is extracting and analyzing vast amounts of business data to serve and support business decision-making.

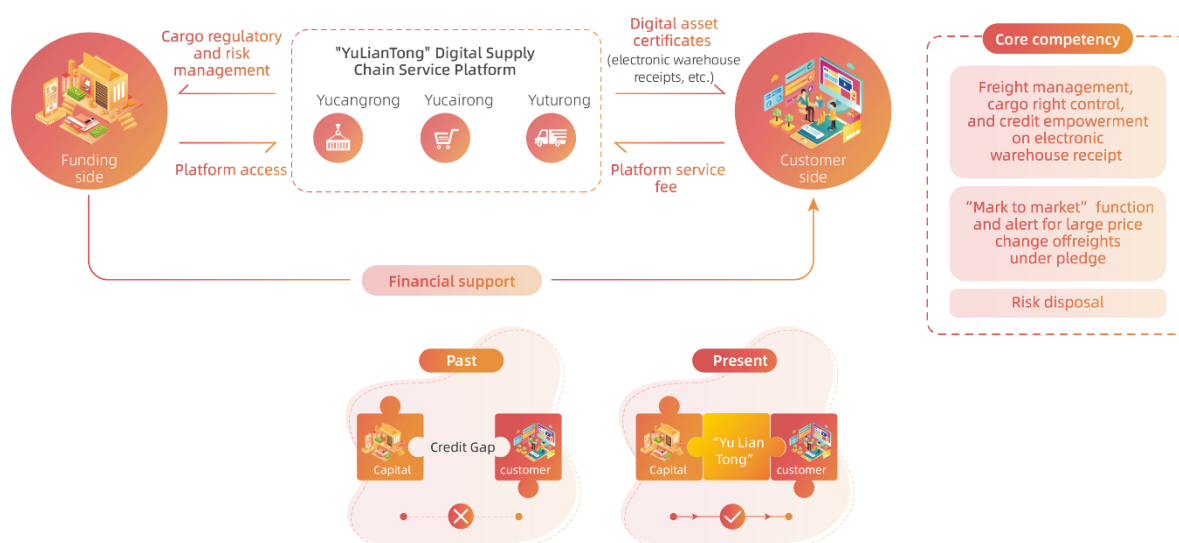


Figure 8: "Yulian Tong" Digital Supply Chain Service Platform

### 3. Systematic Risk Management Capability

The company firmly grasps the foundations of risk control by targeting manufacturing enterprises as its core clients and focusing on highly liquid, easily convertible, standardized, and storable bulk as its main products. It adapts the composition of these products dynamically based on industry cycle changes to maintain a balanced product structure that offers better growth potential and the ability to hedge against market fluctuations.

The Company has established three lines of defense for risk management: front-line business departments, headquarters risk control departments, and headquarters audit departments. It actively engages in risk management activities, including the establishment of a pre-control system, in-process management, post-incident analysis, and ongoing system optimization. Major risks



identified by the Company are mapped, categorized, and managed through a hierarchical and stratified approach. Additionally, digital tools are leveraged to strengthen key risk management areas, such as customer credit risks and price risks, through automated warning systems to ensure operational stability.

#### **4. Global Channels and Resource Integration Capabilities**

The Company has cultivated a strong customer base consisting of top-tier enterprises in the metal minerals, agricultural products, energy and chemicals, and new energy industries, forming a robust and well-established global business network. It has formed close partnerships with domestic and international stakeholders, including clients, fund providers, technology supporters, and logistics service providers, enabling the accumulation of extensive industry resources, information resources, logistics resources, and financial resources. The Company's resource barriers are progressively strengthening, as its business model continues to mature, enhancing its ability to negotiate with upstream suppliers, distribute products downstream, and deliver comprehensive supply chain services.

#### **5. Multidimensional Industrial Research Capabilities**

The Company has established a three-tier research framework, comprising the headquarters research institute, specialized research subsidiaries, and research departments within frontline operating entities. It has assembled a team of dedicated research professionals who conduct continuous tracking and analysis across macro, industry, and product dimensions. Moreover, the Company has joined forces with renowned investment research firm, Kaifeng Fund, through a strategic collaboration in the form of a joint venture company. The Company has also successfully implemented the construction of comprehensive supply chain databases, encompassing operations, finance, logistics, risk management, and human resources. With the accumulation of extensive data, it has established data processing models to continuously enhance its data mining capabilities. The development of the Company's research capabilities plays a pivotal role in mitigating industry risks, tackling market price fluctuations, and ensuring steady and efficient business operations.

## **6. Professional Supply Chain Service Team**

The Company places great emphasis on talent development and team building, establishing a market-driven, professional, and international supply chain service team that is capable of designing specialized supply chain solutions to meet customer needs. The Company's team management and motivation strategies are highly market-oriented and systematized. In 2020 and 2022, equity incentive plans were introduced to enhance the Company's long-term incentive mechanism, with a cumulative incentive allocation of nearly 8% of the total share capital at the time of granting. The incentive shares are further tilted towards core management personnel and frontline business teams, aiming to attract and retain exceptional talent and fully engage the Company's core team by cultivating a sense of ownership.

## **IV. Management Discussion and Analysis**

### **1. Major Business Achievements and Operational Data in the mid-year of 2023**

#### **(1) Major Business Achievements**

In the mid-year of 2023, both domestic and international demand remained weak, leading to overall downward pressure on prices of bulk. As a result, the manufacturing sector, including the Company's clients, experienced a slowdown in demand for raw materials. This, coupled with reduced inventory levels and extended delivery cycles, has had a direct impact on our profitability. Our financial performance has shown a YoY decline, with our revenue decreasing by 8.11% to 233.5 billion RMB and our net profit attributed to parent company dropping by 35.77% to 891 million RMB. The return on equity has decreased by 4.09 percentage points to 5.50% and the net profit margin on sales has decreased 0.38 percentage points to 0.42%. On the positive side, our asset-liability ratio has declined by 4.30 percentage points to 70.20%.

In order to mitigate the challenges posed by the intricate and volatile macroeconomic environment, our company has remained steadfastly committed to our "6th Five-Year Plan" strategic framework, focusing on fulfilling the needs of our manufacturing clients. We have forged strong partnerships and weathered the storm together, while also persistently pursuing innovative transformation and enhancing our service capabilities. This has yielded positive results in terms of business expansion and acquiring new customers. Notably, our trading volume in bulk commodities has recorded a growth of 13.72% to 102.05 million tons. Specifically, the trading volume of ferrous metals supply chain has reached 40.72 million tons (+9.50% YoY), that of grain has reached 6.06 million tons (+9.97% YoY), that of thermal coal has reached 26.57 million tons (+18.26% YoY), that of oil product has reached 2.66 million tons (+229.23% YoY), and that of new energy has reached 0.15 million tons (+115.26% YoY)

Our consistent dedication to excellence has been recognized through numerous accolades. For twelve consecutive years, we have been included in the prestigious Fortune China's Top 500 Companies, climbing to the 25th position. Furthermore, we have been honored with the first place

in the national general warehousing enterprise rankings for 2023 and have been recognized as an excellent case in China's logistics and supply chain financial services in 2022. Additionally, we have received the gold award at the International Grain and Oil Expo. The recognition of our brand value has been reflected in our inclusion in the Top 100 List of Brand Value of Chinese Listed Companies for 2023, while our pristine credit rating has been maintained at the AAA level.

## (2) Major Business Data

The Company has entered into a Blanket Purchase Agreement with its customers to furnish them with a comprehensive range of supply chain services encompassing procurement and distribution, logistics, supply chain finance, information consulting, processing, and so forth. In line with industry norms and practices, all aforesaid services were dependent on the bulk commodity supply as the primary carrier, and their corresponding revenue and profits were manifested in the operating performance of core commodities, as articulated below:

Unit: billion, RMB

Category	Total Operating Trading Volume		Total Operating Revenue		Combined Futures and Spot Gross Profit		Combined Futures and Spot Gross Profit Margin	
	Number (million tons)	YOY	Amount	YOY	Amount	YOY	Value	YOY
<b>Commodity Trading</b>	102.05	13.72%	224.9	-8.48%	3.29	-33.83%	1.47%	<b>Decrease by 0.56 percentage points</b>
Among these: Metallic Mineral	60.77	8.04%	148.2	-13.71%	2.48	-22.43%	1.67%	Decrease by 0.19 percentage points
Agricultural Products	8.12	16.92%	26.5	9.74%	-0.13	-118.94%	-0.48%	Decrease by 3.23 percentage points
Energy and Chemical	33.02	24.66%	40.4	1.92%	0.61	-28.91%	1.50%	Decrease by 0.65 percentage points
New Energy	0.15	115.26%	9.4	8.96%	0.29	-1.80%	3.04%	Decrease by 0.33 percentage points

Notes: The Company provides integrated supply chain services and engages in spot trading to support its operations.

It utilizes futures instruments to hedge against price volatility in the commodity markets, resulting in changes in fair value and gains or losses from the disposal of such instruments. The combined gross profit and gross profit margin of the futures and spot trading are calculated after accounting for the hedging gains or losses.

During the reporting period, the Company primarily operated in a market where commodity prices generally declined. This put pressure on the demand and profitability of its downstream customers, resulting in a decrease in both the company's operating revenue and gross profit. Specifically, in the grain supply chain, the sales activities occur in batches while the purchasing season is relatively concentrated. This industry characteristic creates a mismatch in the timing of procurement and sales,

making the gross profit and gross profit margin highly sensitive to price fluctuations. The corn market experienced a decline in price during the reporting period, leading to a negative gross profit margin for the agricultural products sector.

In addition to serving the internal supply chain business team, the Company's logistics system also provides services to external customers in the open market. The performance of this operation is independent accounting, and the details are as follows:

Unit: million, RMB

Category	Total Operating Revenue		Total Gross Profit		Gross Profit Margin	
	YOY	Amount	Amount	YOY	Amount	YOY
<b>Commodity Logistics</b>	<b>3,422</b>	<b>-11.50%</b>	<b>388</b>	<b>-14.99%</b>	<b>11.33%</b>	<b>Decrease by 0.47 percentage points</b>
Among these: Integrated Logistics	2,770	-12.59%	269	-2.49%	9.72%	Increase by 1.01 percentage points
Agricultural Products Logistics	149	-29.18%	90	-10.44%	60.12%	Increase by 12.58 percentage points
Railway Logistics	503	3.21%	29	-63.71%	5.79%	Decrease by 10.67 percentage points

Notes: Integrated logistics, agricultural logistics, and railway logistics refer to the market-oriented logistics services provided by three subsidiaries of Xiangyu, namely Xiangyu Express, Xiangyu Farming, and Xiangdao Logistics. Integrated logistics mainly includes international routes, international trains, inland water transportation, road transportation, domestic and overseas warehousing, while agricultural logistics mainly includes grain national and provincial storage services.

The agricultural product logistics sector experienced a decline in business volume due to reduced activity in grain national storage, resulting in a slight decrease in operating revenue. However, there was an increase in the proportion of provincial grain storage business and futures delivery warehousing business, leading to a YoY growth in gross profit margin. Railway logistics was affected by both weak demand in the coal market and changes in the policy regarding charges for returning empty open-top containers. Additionally, there was an increase in depreciation and amortization, resulting in a decrease in gross profit and gross profit margin.

## 2. Key Initiatives and Accomplishments in the Mid-Year of 2023

During the mid-year of 2023, the Company made a steadfast commitment to business innovation

and transformation. It centered its efforts on meeting the core needs of its customers, with a particular focus on achieving "platformization, internationalization, and digitalization." Simultaneously, the Company continuously strived to enhance its comprehensive supply chain service capabilities.

### **(1) Optimization of Customer Structure**

The Company continued to target manufacturing enterprise clients and provided comprehensive services to enhance their cost-effectiveness. Despite downstream demand and profitability pressures in the manufacturing industry, the Company's tailored services helped improve customer retention. The proportion of manufacturing enterprises in terms of client base and service volume has remained above 50% and 60% respectively. Notably, the proportion of manufacturing enterprise clients of aluminum supply chain has increased to over 75% in terms of service volume, while that of coal and grain supply chain has increased to 65% and over 60% respectively. In Addition, the Company focused on resource-based and industrial strategic clients, signing strategic/long-term agreements with Fone Energy, Jining Energy, and China Shipping, among others.

### **(2) Improvement of Platform Capabilities**

Platform capability enhancement: The Company prioritized the development of an integrated platform to provide customers with a seamless and high-quality one-stop supply chain service experience. This included strengthening channel and logistics capabilities to meet customer demands effectively.

Overall, these initiatives enabled the company to solidify its business innovation transformation in the first half of 2023, with a focus on core customer needs and a commitment to platformization, internationalization, and digitalization. Consequently, the Company's comprehensive supply chain service capabilities have continued to improve.

### **①Channel Resource Capability**

In terms of the metal mineral supply chain, the Company focused on core capacity building and emphasized the extension of upstream and downstream chains. In the stainless-steel supply chain, it continued to integrate channels for upstream ore sources and downstream steel mills to ensure the supply chain service for the "XY Group's integrated stainless-steel smelting and refining project in Indonesia, with a production capacity of 2.5 million tons." In the aluminum supply chain, it expanded overseas direct mining channels and strengthened the integration of the entire upstream and downstream channels, while innovating the transshipment business model. In the black metal supply chain, it improved the integrated service capabilities of raw material supply chains such as coking coal, coke, iron ore, and silicon manganese alloy, and provided value-added services such as price management and spot pricing for end customers to enhance service revenue.

In the agricultural products supply chain, the Company achieved a total autumn grain purchase volume of over 11 million tons for the 2022-2023 production season. It also added the national soybean regulation and reserve business and promoted international business layout by establishing an office in Central Asia and initiating the first barley procurement and sales business. It deepened the operational mode of the industrial chain and continuously expanded the soybean crushing layout.

In the energy and chemical supply chain, the Company seized upstream resources and explored diversified end customers. In the coal sector, it strengthened the capability of direct pithead procurement, optimized customer structure, and continued to explore non-electric end customers. In the oil products sector, it developed new international suppliers upstream and established good cooperative relationships with multiple domestic integrated refining and chemical groups downstream. In the plastics and chemical sector, it deepened cooperation with core customers and enhanced overseas sales capabilities.

In the new energy supply chain, the Company connected key customers and nodes, and its international competitiveness became increasingly prominent. In the lithium-ion battery and nickel-cobalt sector, relying on the full industry chain service model, it deepened cooperation with leading customers and maintained steady management of lithium-ion battery products, with nickel product sales volume increasing by over 100% YoY. In the photovoltaic sector, it continued to deepen

cooperation with domestic leading enterprises, utilized its overseas warehouse advantages, and served factory-type customers in Turkey, India, Europe, and other countries or regions, increasing the export volume of photovoltaic main and auxiliary materials. In the energy storage sector, it firmly pursued the coordinated strategy of solar energy storage and lithium energy storage, utilized the advantage of battery cell supply, entered the supply chain system of energy storage system integrators, and focused on building new growth opportunities.

## **②Logistics Service Capability**

The company has pioneered the construction of a networked logistics service system centered around "highway, railway, waterway, and warehouse" in the industry. It is also accelerating its global logistics layout to provide robust support for the rapid establishment of a global supply chain service system.

In terms of highway transportation, the freight volume on the networked freight platform has exceeded 11 million tons, marking a YoY growth of over 100%. Additionally, there has been an addition of more than 20k vehicles, bringing the total number of integrated vehicles on the platform to over 80k.

Regarding railway transportation, the volume of China-Europe and Central Asia freight trains has increased by 45% compared to the same period of previous year. The Company successfully launched the inaugural return China-Kazakhstan-Wuhan freight train and the first Jiangxi Nanchang International Land Port "Railway Express" China-Europe train.

In the field of water transportation, there has been a steadfast enhancement of China's international ship operations capacity. The business volume on the China-Indonesia shipping route increased by approximately 400% compared to the previous year, while the business volume on international long-haul sea routes soared by over 900% YoY. The integration of the online water transportation platform successfully incorporated more than 850 vessels from the wider maritime community.



In terms of warehouse, the Company has added 5 new self-operated warehouse points within the country, bringing the total number of self-owned and leased warehouses under management to 46. Additionally, a new Fujin corn futures delivery warehouse has been established, increasing the overall number of futures/commodity delivery warehouses to 17. The total storage capacity has reached over 1 million tons, covering commodities such as soybean, corn, pulp, PE, PP, PVC, short fibers, coking coal, iron ore, and industrial silicon across 10 categories.

### **(3) Expansion of International Business**

The Company has included "internationalization" as one of its key development directions in its "Sixth Five-Year" strategic plan. As part of its efforts to accelerate the establishment of an internationalization support system, the company is actively expanding its international business.

Firstly, the Company is strategically focusing on developing localized platforms to align with the global supply chain restructuring trend. It is gradually establishing on-the-ground operations for various products such as plastics, aluminum ingots, nickel ore, and petroleum coke in emerging regions like Vietnam, Indonesia, and the United States.

Secondly, the Company is strengthening its capabilities in international aviation and rail operations to facilitate the advancement of its overseas business. It is also expanding its network of overseas warehouses to reach countries and regions including Europe, South Africa, Brazil, and Southeast Asia, aiming to enhance its comprehensive service capabilities for industrial clients.

Thirdly, the Company is aggressively expanding its international business, with a total international business volume of around \$15.5 billion, showing a remarkable YoY growth rate of 41%. Its imports amount to nearly \$10 billion, with a YoY growth of 50%. In terms of imports, the clearance volume of Mongolian coal has increased by over 240% YoY, ranking among the industry leaders. The direct import volume of bauxite has grown sevenfold, and the crude oil import business has made steady progress. In terms of exports, the revenue from the exports of photovoltaic products is 21 times of the amount in the same period of the previous year.

#### **(4) Breakthroughs in Digital Innovation**

The Company is strategically committed to implementing digital innovation and advancing a series of digital projects to establish a digital transformation support system that empowers the development of the enterprise.

Firstly, the Company has focused on three major production areas: Suihua, Yi'an, and Fujin, through the Xiangyu Iron Army initiative. The agricultural industry-level internet platform has attracted around 5,000 new planters, bringing the total number of planters to over 43,000. Approximately 1.3 million acres of land has been recorded for the 2023-2024 production season, steadily progressing the expansion of diversified businesses such as order-to-grain, the benefit farmers' market, and "grain chain connectivity." The WaaS system has facilitated the storage of approximate 14 million tons of grains and the inspection of grains of approximate 90k times, effectively supporting business operations. The integration of external systems (customers, ports, etc.) has been promoted to achieve efficient data management.

Secondly, Xiamen Yuliantong Supply Chain Technology Co., Ltd. has been established to undertake the research and development, as well as the operation, of the "Yuliantong" digital supply chain service platform. This aims to accelerate business expansion, and the customer credit limit has reached approximately 1.4 billion RMB, representing a YoY growth of over 150%.

Thirdly, the Company has improved the smart logistics service platform. The construction of the Xifeng and Gaoan smart industrial parks has been completed and launched, while the design plans for the Qinghai, Hunan, Sanmenxia, and Gongyi smart industrial parks have been finalized. The intelligent upgrading of the Xiangdao area in Anyang is continuously being enhanced to improve cargo ownership control and customer experience.

Lastly, the Company continuously enhances the functionality of the network freight platform to enhance customer experience. It has introduced services such as waterway transfer and

transshipment, enriched service scenarios, and improved risk management capabilities through features like vehicle trajectory verification and alerts for delayed unloading of on-route deliveries.

### **(5) Deepening Industrial Operations**

The Company has ventured into various manufacturing sectors, including shipbuilding, mining, and oil refining, to enhance its operational capabilities along the industrial chain. Capitalizing on the market recovery and the positive impact of its branded ship models, the shipbuilding division has secured 15 new orders, with over 50 orders in hand which could cover the productions to 2025. By implementing lean management, innovating manufacturing processes, and prioritizing branded ship models, the Company has achieved a significant improvement in average financial gross margin, thereby enhancing its sustained profitability. The Company's strategic positioning in the manufacturing sector aims to smoothen industry cycles, mitigate market risks, and elevate overall profitability.

### **3. Key Business Plans for the Second Half of 2023**

In the second half of 2023, the Chinese economy is expected to face a complex and challenging external environment. However, it still possesses resilience and potential for growth, and the long-term prospects remain positive. In the short term, there might be continued volatility in the bulk supply chain industry market. To address these challenges, our Company will remain committed to fulfilling core customer needs and continuously enhance our capabilities in integrated digital platforms. Furthermore, we will expand our international footprint, while focusing on risk management. By capitalizing on opportunities, we aim to increase our market share and scale, thereby improving profitability margins.

Our strategic focus will be on the following key areas:

**International Expansion:** We will continue to expand our upstream resources overseas and develop a diverse portfolio of international end customers. This will include providing supply chain services for the "XY Group's integrated stainless-steel smelting and refining project in Indonesia, with a

production capacity of 2.5 million tons." in Indonesia. In addition, we will further strengthen our presence in export and transit businesses in Southeast Asia. Moreover, we will strategically establish international logistics nodes in regions such as Southeast Asia, Central Asia, and Africa.

**Logistics Capabilities:** By integrating domestic and international logistics resources, we aim to optimize agricultural product logistics, aluminum logistics, and the establishment of an international chartering platform. This will enable us to provide specialized and efficient logistics services across various segments of the supply chain.

**Agricultural Product Sector:** Taking into account the impact of extreme weather conditions on the global supply of corn, we will enhance our industry analysis capabilities and optimize our business operations accordingly. Additionally, we will proactively identify and meet the demands of downstream customers, closely monitor production areas, and strategically adjust our procurement and sales strategies. To further enhance our international presence, we will expand our product offerings and import channels. Moreover, we will further enhance the digitization by promoting the "Xing Xing Xiang Nong" app and the WaaS system.

**Manufacturing Sector:** In the manufacturing sector, we will pursue a structured approach to advance our soybean crushing project layout and continue to optimize our operational model along the industrial chain. Additionally, we will prioritize the successful delivery of over 20 shipbuilding projects throughout the year. By strengthening our cost management practices, we aim to improve the profitability and contribute incremental profits.

**Capital Operation:** We will actively facilitate the implementation of non-public A-share issuances to bolster our capital base, enabling us to seize growth opportunities and strengthen our financial position.

Xiamen Xiangyu Co., Ltd.

August 28th, 2023