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DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement of Interim Results for the six months ended 30 June 2018

The board of directors (the "Board") of DaChan Food (Asia) Limited (the "Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30 June 2018.

Highlights

	Six months ended 30 June		
	2018 (unaudited)	**2017 (unaudited)**	**% change**
Turnover (RMB'000)	3,380,398	4,089,072	-17.3 *(note)*
Gross profit (RMB'000)	339,034	363,550	-6.7
Gross profit margin (%)	10.0	8.9	
Profit/(loss) attributable to equity shareholders of the Company (RMB'000)	8,505	(15,809)	153.8
Basic earnings/(loss) per share (RMB)	0.008	(0.016)	

Note: Affected by the IFRS 15 Revenue from Contracts with Customers being effective on 1 January 2018, turnover of the meat product segment decreased by approximately RMB584,819 thousand. For the six months ended 30 June 2018, assuming that the original accounting policies in 2017 were adopted, turnover would amount to approximately RMB3,965,217 thousand, representing a decrease of approximately 3.0% as compared with the same period of last year.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 – not audited by auditors

(Expressed in thousands of Renminbi)

	Note	Six months ended 30 June 2018	2017
Turnover	3	3,380,398	4,089,072
Cost of sales		(3,041,364)	(3,725,522)
Gross profit		339,034	363,550
Change in fair value of biological assets less cost to sell		(3,920)	(2,219)
Fair value of agricultural produce on initial recognition		–	4,672
Reversal of fair value of agricultural produce due to sales and disposals		–	(5,571)
Other operating income	4	4,227	2,116
Other net gains/(losses)	4	21,065	(10,434)
Distribution costs		(183,516)	(197,181)
Administrative expenses		(148,140)	(114,386)
Profit from operations		28,750	40,547
Finance costs	5(a)	(15,163)	(25,300)
Share of profit of equity accounted investees		16,361	8,733
Profit before taxation	5	29,948	23,980
Income tax	6	(8,515)	(9,950)
Profit for the period		21,433	14,030
Attributable to:			
Equity shareholders of the Company		8,505	(15,809)
Non-controlling interests		12,928	29,839
Profit for the period		21,433	14,030
Earnings/(loss) per share			
– Basic (RMB)	7	0.008	(0.016)
– Diluted (RMB)	7	0.008	(0.016)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 – not audited by auditors

(Expressed in thousands of Renminbi)

	Six months ended 30 June	
	2018	**2017**
Profit for the period	21,433	14,030
Exchange differences on translation of financial statements of overseas subsidiaries	(10,197)	8,549
Total comprehensive income for the period	11,236	22,579
Attributable to:		
Equity shareholders of the Company	(2,366)	(4,405)
Non-controlling interests	13,602	26,984
Total comprehensive income for the period	11,236	22,579

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

(Expressed in thousands of Renminbi)

	Note	**At 30 June 2018 (unaudited)**	**At 31 December 2017 (audited)**
Non-current assets			
Fixed assets	8		
– property, plant and equipment		1,327,084	1,341,398
– lease prepayments		187,509	191,477
Interests in equity-accounted investees		73,062	58,747
Other non-current financial assets		1,948	1,948
Deferred tax assets		30,559	28,134
Long-term tax recoverable	10	90,806	90,806
Other non-current assets		14,908	10,111
		1,725,876	1,722,621
Current assets			
Inventories		816,399	892,039
Biological assets		92,445	9,677
Trade receivables	9	309,503	396,412
Other receivables and prepayments	10	492,201	451,480
Cash and cash equivalents		371,357	526,568
		2,081,905	2,276,176
Current liabilities			
Trade payables	11	416,412	701,696
Other payables	12	420,774	529,459
Provisions		2,540	3,719
Interest-bearing borrowings		471,660	300,740
Income tax payable		3,008	2,209
		1,314,394	1,537,823
Net current assets		767,511	738,353
Total assets less current liabilities		2,493,387	2,460,974
Non-current liabilities			
Interest-bearing borrowings		673,485	600,072
Deferred tax liabilities		475	336
		673,960	600,408
Net assets		1,819,427	1,860,566
Capital and reserves			
Share capital		97,920	97,920
Reserves		912,986	923,857
Retained profits		492,170	519,369
Total equity attributable to equity shareholders of the Company		1,503,076	1,541,146
Non-controlling interests		316,351	319,420
Total equity		1,819,427	1,860,566

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and has complied with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board ("IASB"). It has been authorised for issue on 8 August 2018.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses based on the current situation. Actual results may differ from these estimates.

2 Changes in accounting policies

(i) Overview

The IASB has issued a number of amendments to International Financial Reporting Standards ("IFRSs") that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 9, *Financial instruments*
- IFRS 15, *Revenue from contracts with customers*
- Amendments to IFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions.*

Affected by the IFRS 15 Revenue from contracts with customers being effective on 1 January 2018, since the new revenue criterion uses transfer of control as the timing of revenue recognition, the Group's turnover from sales of day-old chicks and feeds to contract farmers, according to the transfer of control method, will no longer be recognized. The Group decided to elect to use the cumulative effect transition method for the application of HKFRS 15 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity as at 1 January 2018. The changes in the accounting policies of the customer contracts resulted in decreases of RMB35,704 thousand and RMB11,674 thousand in retained profits and non-controlling interests, respectively, as at 1 January 2018. These changes led to a decrease of approximately RMB584,819 thousand in turnover of the meat product segment in mid-term, a decrease of RMB96,177 thousand in trade receivables, an increase of RMB84,168 in biological assets, an increase of RMB29,222 thousand in trade payables and an increase of RMB3,509 thousand in other payables in other projects included in the interim consolidated financial statements. Although the above change in criterion will affect the amount of revenue recognition, it has no impact on the Group's cash flow and profitability throughout the contract period.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 Turnover and segment reporting

The Group manages its businesses by divisions, sorted by different business lines. The Group has presented the following three reportable segments, and no operating segments have been aggregated to form each of the reportable segments.

Meat: The meat segment carries on business of breeding and hatching of broiler eggs, contract farming, processing and marketing of chilled and frozen chicken meat under the brand of "DaChan".

Livestock feed: The livestock feed segment manufactures and distributes complete feed, base mix and pre-mix for swine, layer, broiler, dairy, duck, and breeder poultry under the brands of "Dr. Nupak", "DaChan", "SOS" and "Green Knight".

Processed foods: The processed foods segment produces and distributes pickled, pre-fried, roasted foods, and sells further processed chilled and frozen chicken meat under the brand of "Sisters' Kitchen".

Information about reportable segments

Information regarding the Group's reportable segments as provided for the CEO for the purposes of resource allocation and assessment of segment performance for the six month periods ended 30 June 2018 and 2017 is set out below.

For the six months ended 30 June

	Meat		**Livestock feeds**		**Processed foods**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	567,405	1,177,548	2,009,209	2,215,676	803,784	695,848	3,380,398	4,089,072
Inter-segment turnover (eliminated at consolidation)	204,077	202,125	299,028	302,165	–	–	503,105	504,290
Total	771,482	1,379,673	2,308,237	2,517,841	803,784	695,848	3,883,503	4,593,362
Segment gross profit	36,010	17,678	166,512	211,272	136,512	134,600	339,034	363,550

4 Other operating income and other net gains/(losses)

	Six months ended 30 June	
	2018	**2017**
	RMB'000	RMB'000
Other operating income		
Interest income	2,503	1,449
Government grants	1,355	666
Rental income	369	1
	4,227	2,116

	Six months ended 30 June	
	2018	**2017**
	RMB'000	RMB'000
Other net gains/(losses)		
Reversal of impairment of fixed assets	8,358	–
Net foreign exchange (losses)/gains	(253)	(17,700)
Net gains/(losses) on disposals of fixed assets	5,544*	(1,312)*
Others	7,416	8,578
	21,065	(10,434)

* Of the net gains on disposals of fixed assets during the six months ended 30 June 2018, RMB9,744,000 was attributable to profits on sale of properties (during the six months ended 30 June 2017: Nil).

5 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	**2017**
	RMB'000	RMB'000
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	(15,163)	(25,300)

(b) Other items

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Amortisation of lease prepayments	(2,777)	(2,505)
Depreciation of property, plant and equipment	(74,207)	(70,795)
Net provision of impairment losses on trade receivables	(6,411)	(1,607)
Net reversal/(provision) of write down of inventory	4,807	(425)

6 Income tax

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Current tax	(10,771)	(9,564)
Deferred taxation	2,256	(386)
	(8,515)	(9,950)

(i) Pursuant to the rules and regulations of the Cayman Islands, British Virgin Islands ("BVI") and Samoa, the Group is not subject to any income tax in the Cayman Islands, BVI and Samoa.

(ii) On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No.7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tiered profits tax rate applies to years of assessment commencing on or after 1 April 2018.

Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. For the relevant period in the six months ended 30 June 2018, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (six months ended 30 June 2017: 16.5%).

(iii) Pursuant to the corporate income tax laws and regulations of the PRC, the Company's subsidiaries in the PRC for the six months ended 30 June 2018 are subject to PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2017: 25%), except for Tianjin DaChan Prospect Research and Development Co., Ltd. ("TDPR"), which is subject to a preferential tax rate of 15% (six months ended 30 June 2017: 15%), as it has obtained the new high-tech enterprise qualification during 2016.

(iv) Pursuant to the income tax laws and regulations of Malaysia, the Company's subsidiary in Malaysia is subject to Malaysian income tax rate of 24% for the six months ended 30 June 2018 (six months ended 30 June 2017: 24%).

(v) Pursuant to the Amended Investment Licence No. 1219/GPDC1-BKH-KCN-DN dated 23 September 2003, issued by Dong Nai Industrial Zone Authority, Asia Nutrition Technologies (VN) Co., Ltd. ("ANT-VN") is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% for the six months ended 30 June 2018 (six months ended 30 June 2017: 15%).

(vi) Asia Nutrition Technologies (HN) Co., Ltd. ("ANT-HN") is subject to Corporate Income Tax of Vietnam at the rate of 10% for the first 15 years commencing from its first year of operation and 22% for the succeeding years. Therefore, the applicable tax rate of ANT-HN is 10% for the six months ended 30 June 2018 (six months ended 30 June 2017: 10%).

(vii) Asia Nutrition Technologies (LA) Co., Ltd. ("ANT-LA") is subject to Corporate Income Tax of Vietnam at the rate of 20% for the first 10 years commencing from its first year of operation and 22% for the succeeding years. Therefore, the applicable tax rate of ANT-LA is 20% for the six months ended 30 June 2018 (six months ended 30 June 2017: 17%).

(viii) Pursuant to the Amended Investment Licence No. 43/2010/ND-CP dated 26 September 2012, issued by Binh Dinh Province Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. ("ANT-MV") is subject to Vietnam Corporate Income Tax of 20% for the six-month period ended 30 June 2018 (six months ended 30 June 2017: 20%).

7 Earnings/(loss) per share

The calculation of basic earnings per share as at 30 June 2018 is based on the profit attributable to ordinary equity shareholders of the Company of RMB8,505 thousand (six months ended 30 June 2017: losses of RMB15,809 thousand) and the weighted average of 1,015,489,500 ordinary shares (six months ended 30 June 2017: 1,013,519,459) in issue during the reporting period.

The calculation of diluted earnings per share for the six months ended 30 June 2018 is based on profit attributable to ordinary equity shareholders of the Company of RMB8,505 thousand and the diluted weighted average number of ordinary shares in issue of 1,015,489,500 during the reporting period. The calculation of diluted loss per share for the six months ended 30 June 2017 does not assume the exercise of the Company's share options as the effect is anti-dilutive.

8 Fixed assets

During the six months ended 30 June 2018, the Group acquired items of fixed assets with a cost of RMB80,298,000 (six months ended 30 June 2017: RMB95,701,000). Items of fixed assets with a net book value of RMB21,361,000 were disposed of during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB3,860,000), resulting in a gain on disposal of RMB5,544,000 (six months ended 30 June 2017: loss of RMB1,312,000).

9 Trade receivables

The ageing analysis as of the end of the reporting period:

	At 30 June 2018 RMB'000	**At 31 December 2017** RMB'000
Current	227,395	306,193
Less than 30 days past due	44,247	59,369
31-60 days past due	18,941	14,797
61-90 days past due	10,685	8,108
More than 90 days past due	27,298	21,018
Amounts past due	101,171	103,292
Less: Provision for bad debt	(19,063)	(13,073)
	309,503	396,412

The Group generally grants a credit period of 30 days to 60 days to its customers.

10 Other receivables and prepayments

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
VAT recoverable	432,900	439,409
Deposits and prepayments	122,165	79,053
Advances to staff	9,774	6,681
Others	18,168	17,143
	583,007	542,286
Less: non – current VAT recoverable	90,806	90,806
	492,201	451,480

11 Trade payables

An ageing analysis of the trade payables is analysed as follows:

	At 30 June 2018 RMB'000	At 31 December 2017 RMB'000
Current	238,650	379,814
Less than 30 days past due	109,566	215,088
31-60 days past due	39,688	62,385
61-90 day past due	5,149	12,367
More than 90 days past due	23,359	32,042
Amounts past due	177,762	321,882
	416,412	701,696

12 Other payables

	At 30 June 2018	At 31 December 2017
	RMB'000	RMB'000
Sale rebate	120,457	151,214
Salaries, wages, bonuses and other benefits payable	56,233	87,506
Accrued expenses	93,264	99,399
Contract performance deposits	38,432	40,008
Receipts in advance	19,634	14,760
Payables for purchase of fixed assets	22,759	58,593
Amounts due to related parties	46,100	54,100
Others	23,895	23,879
	420,774	529,459

13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2018 (2017: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2018	**2017**	**% change**
Turnover (RMB'000)	3,380,398	4,089,072	-17.3
Gross profit (RMB'000)	339,034	363,550	-6.7
Gross profit margin (%)	10.0	8.9	
Profit/(loss) attributable to shareholders of the Company (RMB'000)	8,505	(15,809)	153.8

In the first half of 2018, as the parent breeding farms have generally reduced production capacity due to the sluggish market of day-old chicks in the previous year and the breeding stock of grandparent breeders has continuously remained at a low level since 2015, the white feather meat chicken market in the PRC bottomed out with market prices of day-old chicks and feather chicken increasing by 185% and 22%, respectively, as compared with the same period of last year. At the same time, impacts arising from H7N9 have been basically eliminated in the first half year, and hence the chicken meat consumption market has gradually recovered. However, due to the downward trend in prices of pork, consumption on chicken meat in the PRC has not grown significantly and the market price of chicken meat increased by 8% only as compared with the same period of last year. Under such market conditions, the Group controlled the cost of day-old chicks by leveraging its "minimum guarantee plus profit sharing" cooperation model with parent breeding farms and reduced the breeding cost by providing high quality day-old chicks, feeds and services to farms, so as to maximize the profits of its breeding business.

Prices of pigs in the PRC have continued to move downward since 2017 and even touched the lowest level in eight years in the first half year. The breeding pigs segment suffered losses continuously and as a result, competition in the pig feeds market became even more intense. The Group has put great effort in research and development and pooled its resources on the promotion and application of special feeds while optimizing and integrating the production and sales process of its feed processing plants, with an aim to reducing its costs and expenses.

Prices of pigs in Vietnam rose to a level above cost in the second quarter, yet the pig stocks were at a low level after undergoing a long period of adjustment, causing impacts on the overall sales in the feed business in Southeast Asia. The Group has timely adjusted its sales strategies and increased the marketing efforts of poultry feed, reducing the impacts caused by the decreased pig stocks on the Group's profitability.

The food business remains the major segment for development of the Group with pooled resources. In the first half of 2018, income from the food business accounted for approximately 24% of the total income of the Group and its gross profit accounted for approximately 40% thereof. The steady increase in production of the Bengbu food factory enabled the Group to optimize the production and sales strategies of its food processing plants, giving strong support to the intensive development of professional catering channels across the nation.

Meat

	Six months ended 30 June		
	2018	**2017**	**% change**
Turnover (RMB'000)	567,405	1,177,548	-51.8
Gross profit (RMB'000)	36,010	17,678	103.7
Gross profit margin (%)	6.3	1.5	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of "Sisters' Kitchen", sells lightly processed tender chicken meat, supplies chicken meat to fast food shops, internal and external food processing plants and food processing service providers and supplies feed and day-old chicks to contract farmers. The production regions of the segment cover Northeast China, Northern China and Eastern China while its sales network covers the entire nation.

The Group's increase in the proportion of food productization reduced the sales pressure of raw meat. The integration of small shops with supermarkets in the meat product segment minimized sales cost. In addition, the integration of sales channels enables the Group to strengthen the day-old chicks supply and the breeding management of feather chickens in the upstream industrial chain by pooling its resources of meat business. In the first half of 2018, gross profit of the meat business amounted to RMB36,010 thousand, representing an increase of RMB18,332 thousand as compared with the same period of last year.

Livestock Feed (From External Customers)

	Six months ended 30 June		
	2018	**2017**	**% change**
Turnover (RMB'000)			
– China	807,393	816,315	-1.1
– Vietnam and Malaysia	1,201,816	1,399,361	-14.1
Total	2,009,209	2,215,676	-9.3
Gross profit (RMB'000)			
– China	50,375	65,080	-22.6
– Vietnam and Malaysia	116,137	146,192	-20.6
Total	166,512	211,272	-21.2
Gross profit margin (%)			
– China	6.2	8.0	
– Vietnam and Malaysia	9.7	10.4	
Total	8.3	9.5	

The operating income of the feed segment was primarily derived from the sales of piglet, sow, hog, broiler and egg chicken feed to external customers in China, Vietnam and Malaysia. Corn and soybean meal are the primary raw materials of the feed segment. The main product brands of this segment are "Dr Nupak", "Green Knight" and "SOS". The production and sales regions of this segment cover Vietnam, Malaysia and Northeast, Northern, Central and Southwest China.

Despite that the gross profit of the domestic feed segment decreased by 22.6% due to the fierce market competition and the increasing prices of bulk raw materials, the sales volume in feed only decreased by 5.3% as compared with the same period of last year as resources have been continuously invested in the research and development and the marketing strategies of high quality feeds. The feed segment has been actively adjusting the production and sales volume of each factory to further reduce the feed processing costs and fees.

The Group has been actively deploying its feed segment in Vietnam to the upstream industrial chain to consolidate and increase its market share there.

Along with the demand and supply of pigs in Vietnam being more or less balanced after adjustment, the profits of the pig breeding business has recovered to a normal level and profits from the feed segment in Vietnam may increase in the second half year.

Processed Food

	Six months ended 30 June		
	2018	**2017**	**% change**
Turnover (RMB'000)			
– Mainland China	562,149	479,570	17.2
– Export	241,635	216,278	11.7
Total	803,784	695,848	15.5
Gross profit (RMB'000)			
– Mainland China	108,112	101,064	7.0
– Export	28,400	33,536	-15.3
Total	136,512	134,600	1.4
Gross profit margin (%)			
– Mainland China	19.2	21.1	
– Export	11.8	15.5	
Total	17.0	19.3	

The processed food segment includes the production and sale of prepared food under the "Sisters' Kitchen" brand, as well as centrifuged and marinated, stewed, pre-fried, steamed, grilled and ready-to-eat consumer food items. The processed food products of the Group were not only sold in the PRC market, but were also exported to overseas markets like Japan.

Customer groups of the processed food segment include customers at end-consumer markets and professional markets. The sales channels of the processed food segment are mainly group catering, bakery, casual catering, takeaways, international customers, key customers as well as the retail consumption market.

In the first half of 2018, driven by the robust markets of domestic food and export food, the operating income of the food segment grew by approximately 15.5% as compared with the same period of last year, with a steady increase in the proportion of food productization. In spite of the fact that counterfeit products in the market had certain impact on sale volume in Eastern China, the sales of domestic food segment still grew by approximately 17% as compared with the same period of last year as a result of active expansion of sales channels and promotion of new products. Notwithstanding that the appreciation of Renminbi from January to May affected our profitability in the export food segment, a growth of approximately 15% in the sales volume of the export food segment as compared with the same period of last year was still recorded due to the high quality of our products, which ensured the continuous growth of the export food segment.

Being the major element of the Group's strategic development plan, the food segment will continue to grow while driving a stable and positive growth in the meat segment.

Financial Review:

1) Other Operating Income and Other Net Gains

In the first six months of 2018, other operating income of the Group amounted to approximately RMB4,227 thousand (2017: approximately RMB2,116 thousand). Other operating income mainly comprised interest income and government grants.

In the first six months of 2018, other net gains of the Group amounted to approximately RMB21,065 thousand (other net losses in 2017: approximately RMB10,434 thousand). Other net gains mainly comprised other balances derived from activities other than the Group's business operation such as net foreign exchange losses, reversal of impairment of fixed assets and net gains on disposals of fixed assets.

2) Liquidity, Financial Resources and Capital Structure

As at 30 June 2018, the Group's cash and bank deposit balances amounted to approximately RMB371,357 thousand, representing a decrease of approximately RMB155,211 thousand as compared with 31 December 2017. Interest-bearing borrowings increased by approximately RMB244,333 thousand to approximately RMB1,145,145 thousand (31 December 2017: approximately RMB900,812 thousand). The interest-bearing borrowings to equity ratio was approximately 62.9% (31 December 2017: approximately 48.4%). Current ratio was maintained at a healthy level of approximately 1.58 times (31 December 2017: approximately 1.48 times).

3) Capital Expenditure

In the first six months of 2018, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB80,298 thousand, which included the Group's newly established cooked food factories in Bengbu for expansion of the food segment and the Group's newly built feed factories in Cambodia for expansion of the feed segment. The primary source of fund of the Group's capital expenditure is long-term bank loans.

4) Exchange Rate

The Group's business transactions were mainly denominated in RMB, USD and VND. RMB appreciated by approximately 3.77% against USD in the first quarter of 2018 but depreciated by approximately 5.03% against USD in the second quarter of 2018. During the reporting period, RMB depreciated by approximately 1.26% against USD generally. As the food export business was denominated in USD, fluctuation in exchange rate affected the profitability of the exported food. During the reporting period, VND depreciated by approximately 1.10% against USD but the change of exchange rate had no material impact on the Group's business operation.

5) Interest

During the first six months in 2018, the Group's interest expense amounted to approximately RMB15,163 thousand (2017: approximately RMB25,300 thousand), representing a decrease of approximately 40.1% as compared with the same period of 2017. The decrease in interest expense was primarily due to the increase of bank borrowings of low interest rates.

6) Pledge of Assets

As at 30 June 2018, the Group had no assets pledged as security against bank facilities.

7) Capital Commitment

As at 30 June 2018, the capital expenditure of the Group contracted for but not yet provided in the financial statements was approximately RMB110,335 thousand and the capital expenditure authorised but not contracted for was approximately RMB111,609 thousand.

Staff Compensation and Training

As at 30 June 2018, the Group had a total of 10,657 staff (31 December 2017: 10,655). In order to build up a team comprised of professional staff and management to meet the development needs of the Group, the Group offers competitive remuneration packages to its staff by taking into consideration industry practice, the financial performance of the Group, and the staff's own performance. The Group places great emphasis on training and development of its staff and regards its staff as its core. With a view to continuously enhancing the job skills and industry knowledge of its management and other staff, the Group has offered them various training programs. The Group aims at promoting the quality of its staff through implementing the above programs and offering them the best opportunity for personal career development. The Group believes such programs benefit both itself and its staff.

The Group regularly reviews its remuneration and benefit policies according to industry standards, the Group's financial results, as well as the individual performance of its staff so as to offer fair and competitive compensation packages to its staff. Other fringe benefits, such as insurance, medical benefits and provident fund, are also provided for existing and respectable staff.

OTHER INFORMATION

Code on Corporate Governance Practices

Throughout the six months ended 30 June 2018, the Company has complied with the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

Code Provision E.1.2 stipulates that the chairmen of the board and the audit, remuneration and nomination committees of the Company should answer questions at the annual general meetings of the Company. Mr. Wei Anning, the chairman of the remuneration committee of the Company, and Mr. Chen Chih, the chairman of the nomination committee of the Company, were unable to attend the annual general meeting of the Company held on 29 June 2018 due to other pre-arranged business commitments which must be attended by them.

Code Provision F.1.1 stipulates that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company's affairs. The company secretary of the Company, Ms. Cho Yi Ping, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. Cho has been appointed as the company secretary of the Company since 8 August 2016. The Company has also assigned a member of the senior management, Ms. Feng Yuxia, the head of the legal department of the Company, as the contact person with Ms. Cho. As Ms. Cho is a practicing solicitor of Hong Kong with understanding of the Listing Rules, her qualifications meet the requirements of the Listing Rules in terms of a company secretary of a listed issuer. Further, whenever necessary, information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. Cho through the contact person assigned, and Ms. Cho is very familiar with the operations and management of the Group. Having in place a mechanism that enables Ms. Cho to keep abreast of the Group's development promptly without material delay and with the expertise and experience of Ms. Cho, the Board is confident that having Ms. Cho as the company secretary of the Company is beneficial to the Group's compliance with the relevant board procedures and applicable laws, rules and regulations.

Code Provision A.6.7 states that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the shareholders' views. Mr. Han Chia-Yau, Mr. Harn Jia-Chen and Mr. Chao Tien-Shin, the non-executive Directors of the Company and Mr. Chen Chih and Mr. Wei Anning, the independent non-executive Directors of the Company, were absent from the annual general meeting of the Company held on 29 June 2018 due to their participation in other pre-arranged business commitments which must be attended by them.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules for regulating the securities transactions of the Directors. All Directors have confirmed, following the specific enquiry by the Company, that they complied with the required standards set out in the Model Code and the Company's code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee of the Company was established with terms of reference in accordance with Appendix 14 to the Listing Rules. The audit committee is delegated by the Board to assess matters related to the financial statements and to provide recommendations and advice regarding the Company's financial reporting matters, including reviewing the interim results for the six months ended 30 June 2018, and the internal control and risk management system. The audit committee has reviewed the interim results of the Company and does not have any disagreement with the accounting treatment adopted by the Company.

The members of the audit committee comprises Mr. Way Yung-Do (Chairman of the audit committee), Mr. Chen Chih and Mr. Wei Anning, who are independent non-executive directors of the Company.

By Order of the Board
Han Jia-Hwan
Chairman

Hong Kong, 8 August 2018

As at the date of this announcement, Mr. Han Jia-Hwan (Chairman) and Mr. Han Chia-Yin are the executive Directors, Mr. Han Chia-Yau, Mr. Harn Jia-Chen and Mr. Chao Tien-Shin are the non-executive Directors, and Mr. Way Yung-Do, Mr. Chen Chih and Mr. Wei Anning are the independent non-executive Directors.