DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement of Annual Results for 2018

The board of directors (the "Board") of DaChan Food (Asia) Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2018, prepared in conformity with the basis of presentation as stated in note 2 below, together with the comparative figures for the year ended 31 December 2017 as follows:

Highlights

	2018	**2017**	**% change**
Turnover (RMB'000)	7,191,911 *(Note)*	8,507,477	-15.5
Gross profit (RMB'000)	760,300	815,942	-6.8
Gross profit margin (%)	10.6	9.6	
Profit attributable to equity shareholders of the Company (RMB'000)	13,135	29,120	-54.9
Basic earnings per share (RMB)	0.01	0.03	
Dividend per share (HK cents)	0	0	

Note: These figures were calculated according to the IFRS 15 effective on 1 January 2018. Assuming the original 2017 accounting rules were adopted, turnover of 2018 would be RMB8,404,543 thousand, representing a decrease of about 1.2% as compared with the same period of last year.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	**2018**	**2017**
Turnover	3	7,191,911	8,507,477
Cost of sales		(6,431,611)	(7,691,535)
Gross profit		760,300	815,942
Change in fair value of biological assets less costs to sell		–	2,028
Fair value of agricultural produce on initial recognition		–	9,556
Reversal of fair value of agricultural produce due to sales and disposals		–	(8,498)
Other operating income		18,054	13,142
Other net gains/(losses)		19,780	(14,595)
Distribution costs		(382,405)	(399,313)
Administrative expenses		(307,712)	(261,452)
Profit from operations		108,017	156,810
Finance costs	4(a)	(35,407)	(42,183)
Share of gains/(losses) of equity-accounted investees		13,933	(1,313)
Profit before taxation	4	86,543	113,314
Income tax	5	(24,648)	(21,445)
Profit for the year		61,895	91,869
Profit for the year attributable to:			
Equity shareholders of the Company		13,135	29,120
Non-controlling interests		48,760	62,749
Profit for the year		61,895	91,869
Dividends payable to shareholders of the Company attributable to the year:			
Final dividend proposed after the end of the reporting period	6	0	0
Earnings per share	7		
– Basic (RMB)		0.01	0.03
– Diluted (RMB)		0.01	0.03

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2018	2017
Non-current assets			
Fixed assets			
– property, plant and equipment		1,354,682	1,341,398
– lease prepayments		190,468	191,477
Interests in equity-accounted investees		78,457	58,747
Other financial assets		1,948	1,948
Deferred tax assets		27,872	28,134
Long-term tax recoverable	9	84,924	90,806
Other non-current assets		15,666	10,111
		1,754,017	1,722,621
Current assets			
Inventories		847,131	892,039
Biological assets		129,115	9,677
Trade receivables	8	307,205	396,412
Other receivables and prepayments	9	456,849	451,480
Cash and cash equivalents		408,721	526,568
		2,149,021	2,276,176
Current liabilities			
Trade payables	10	493,192	701,696
Other payables	11	432,564	529,459
Contract liabilities		8,052	–
Provisions		1,099	3,719
Interest-bearing borrowings		272,216	300,740
Income tax payable		4,526	2,209
		1,211,649	1,537,823
Net current assets		937,372	738,353
Total assets less current liabilities		2,691,389	2,460,974
Non-current liabilities			
Interest-bearing borrowings		863,043	600,072
Deferred tax liabilities		497	336
		863,540	600,408
Net assets		1,827,849	1,860,566
Capital and reserves			
Share capital		97,920	97,920
Reserves		895,654	923,857
Retained profits		496,800	519,369
Total equity attributable to equity shareholders of the Company		1,490,374	1,541,146
Non-controlling interests		337,475	319,420
Total equity		1,827,849	1,860,566

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 General information

DaChan Food (Asia) Limited was incorporated in the Cayman Islands on 18 May 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries are primarily involved in the manufacturing and trading of livestock feeds, poultry and chilled meat and processed food.

The Company publicly offered its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 4 October 2007.

2 Basis of preparation

The annual results have been reviewed by the audit committee of the Company.

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations issued by the International Accounting Standards Board ("IASB"), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost except that the following items:

– derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The financial statements are presented in Renminbi ("RMB") ("presentation currency"). All financial information presented in RMB has been rounded to the nearest thousand of RMB unless otherwise indicated.

(d) Changes in accounting policies

The IASB has issued a number of new IFRSs and several amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, Prepayment features with negative compensation which have been adopted at the same time as IFRS 9.

(i) *IFRS 9, Financial instruments, including the amendments to IFRS 9, Prepayment features with negative compensation*

IFRS 9 replaces IAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Therefore, comparative information continues to be reported under IAS 39.

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and IAS 11, Construction contracts, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IASs 11 and 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The following table summarises the impact of transition to IFRS 15 on retained earnings and the related tax impact at 1 January 2018:

	RMB'000
Retained earnings	
Removal of revenue recognition for selling day-old chicks and feeds to contract farmers	122,408
Related cost of sales	(75,030)
Net decrease in retained earnings at 1 January 2018	47,378

3 Turnover and segment information

Turnover mainly represents the sales value of goods sold to customers but excludes value added tax ("VAT") or other sales taxes and is after deduction of any trade discounts.

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the chief executive officer of the Company ("CEO") for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Meat products: The meat products segment carries on business of broiler farming, hatching of broiler breeder eggs, contract farming, processing and marketing of chilled and frozen chicken meat marketed under the brand of "DaChan" and "Sisters' Kitchen".

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

Processed foods: The processed foods segment produces and distributes pickled, pre-fried, and instant food.

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources among segments, the CEO monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets and current assets with the exception of deferred tax assets and other corporate assets. Segment liabilities include trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segment.

Turnover and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is gross profit.

In addition to receiving segment information concerning gross profit, the CEO is provided with segment information concerning turnover (including inter-segment sales), depreciation and amortisation. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the CEO for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Meat products		**Livestock feeds**		**Processed foods**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Turnover from external customers	1,134,149	2,382,142	4,249,355	4,498,662	1,808,407	1,626,673	7,191,911	8,507,477
Inter-segment turnover	429,186	414,415	620,234	652,111	–	–	1,049,420	1,066,526
Total	1,563,335	2,796,557	4,869,589	5,150,773	1,808,407	1,626,673	8,241,331	9,574,003
Segment result	130,056	82,214	319,841	415,416	310,403	318,312	760,300	815,942
Unallocated operating income and expenses	–	–	–	–	–	–	(652,283)	(659,132)
Profit from operations	–	–	–	–	–	–	108,017	156,810
Finance costs	–	–	–	–	–	–	(35,407)	(42,183)
Share of gains/(losses) of equity-accounted investees	–	–	–	–	–	–	13,933	(1,313)
Income tax	–	–	–	–	–	–	(24,648)	(21,445)
Profit for the year	–	–	–	–	–	–	61,895	91,869
Depreciation and amortisation for the year	58,125	60,731	49,511	49,621	46,053	33,380	153,689	143,732
Reportable segment assets	1,064,034	1,229,340	1,291,498	1,339,740	828,179	602,992	3,183,711	3,172,072
Additions to non-current segment assets during the year	48,178	119,960	79,218	102,447	57,347	115,811	184,743	338,218
Reportable segment liabilities	398,439	257,692	532,351	878,176	343,220	223,006	1,274,010	1,358,874

(b) Reconciliations of reportable segment turnover, profit or loss, assets and liabilities

	2018	2017
Turnover		
Reportable segment turnover	8,241,331	9,574,003
Elimination of inter-segment turnover	(1,049,420)	(1,066,526)
Consolidated turnover	7,191,911	8,507,477
Profit		
Reportable segment profit	760,300	815,942
Change in fair value of biological assets less costs to sell	–	2,028
Fair value of agricultural produce on initial recognition	–	9,556
Reversal of fair value of agricultural produce due to sales and disposals	–	(8,498)
Other operating income	18,054	13,142
Other net gains/(losses)	19,780	(14,595)
Distribution costs	(382,405)	(399,313)
Administrative expenses	(307,712)	(261,452)
Finance costs	(35,407)	(42,183)
Share of gain/(losses) of equity-accounted investees	13,933	(1,313)
Consolidated profit before taxation	86,543	113,314
Assets		
Reportable segment assets	3,183,711	3,172,072
Deferred tax assets	27,872	28,134
Cash and cash equivalents	408,721	526,568
Unallocated head office and corporate assets	282,734	272,023
Consolidated total assets	3,903,038	3,998,797
Liabilities		
Reportable segment liabilities	1,274,010	1,358,874
Income tax payable	4,526	2,209
Deferred tax liabilities	497	336
Interest-bearing borrowings	706,672	745,751
Unallocated head office and corporate liabilities	89,484	31,061
Consolidated total liabilities	2,075,189	2,138,231

(c) Geographical information

The following table sets out information about the geographical location of the Group's turnover from external customers and the Group's tangible assets and interests in equity accounted investees ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and the location of operations in the case of interests in equity-accounted investees.

	Turnover from external customers		**Specified non-current assets**	
	2018	**2017**	**2018**	**2017**
Mainland China	3,980,333	5,297,101	1,306,404	1,321,920
Vietnam	2,671,261	2,697,100	323,036	271,068
Japan	490,868	469,730	–	–
Rest of Asia Pacific	49,449	43,546	9,833	8,745
	7,191,911	8,507,477	1,639,273	1,601,733

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2018	**2017**
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	35,407	42,183
(b) Staff costs		
Salaries, wages, bonuses and other benefits	660,217	646,408
Contributions to retirement schemes	79,202	82,454
Equity-settled share-based payment expenses	–	430
	739,419	729,292

The Group is required to participate in pension schemes organised by the respective municipal governments of the People's Republic of China (the "PRC") whereby the Group is required to pay annual contributions for PRC based employees at rates ranging from 18% to 20% (2017: 18% to 20%) of the standard wages determined by the relevant authorities in the PRC during the year. The Group has no other material obligation for payment of retirement benefits to the PRC based employees beyond the contributions described above.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance of Hong Kong for employees employed under the Employment Ordinance of Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group is required to make contributions to the scheme from 5 to 12 percent (2017: 6 percent) of the employees' relevant income and its employees are required to make contributions to the scheme from 5 to 12 percent (2017: 5 percent) of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HKD") 30,000. Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia's Employees Provident Fund is based on 13 percent (2017: 13 percent) of the eligible employees' salaries when the salaries is Malaysia Ringgit ("MYR") 5,000 or below, or based on 12 percent (2017: 12 percent) of the eligible employees' salaries when the salaries is above MYR5,000.

The Group also made contribution on the statutory social security and health insurance in Vietnam from 8.8 to 12.1% (2017: 21%) of the eligible employees' salaries.

Save for the above schemes, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

(c) Other items

	2018	**2017**
Auditors' remuneration		
– audit services	4,877	4,557
– tax services	100	128
	4,977	4,685
Amortisation of lease prepayments	5,586	5,243
Depreciation of property, plant and equipment	148,103	138,489
Amortisation of biological assets	8,460	–
Net impairment loss of trade receivables recognised	20,221	3,245
Net recognise of impairment loss of inventory	6,785	9,510
Operating lease charges		
– plant and machinery	17,913	24,286
– others	15,226	8,142
Research and development costs	1,012	3,573
Cost of inventories	6,044,740	7,321,954

5 Income tax in the consolidated income statement

	2018	2017
Current tax		
Provision for the year	22,053	19,382
Under-provision in respect of prior years	2,172	632
	24,225	20,014
Deferred tax		
Origination and reversal of temporary differences	423	1,431
	24,648	21,445

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

(ii) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill"). The Bill 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 rates regime applicable to the years of assessment commencing on or after 1 April 2018. According to the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. During the relevant period for the 12 months ended 31 December 2018, the Hong Kong profits tax of qualifying corporations of the Group was taxed according to the two-tiered profits tax rates regime. The profits of other members of the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5% (for the 12 months ended 31 December 2017: 16.5%).

(iii) Pursuant to the income tax rules and regulations of the PRC, the Group entities incorporated in the PRC are liable to PRC Corporate Income Tax at a rate of 25% (2017: 25%), except for Tianjin DaChan Prospect Research and Development Co., Ltd. ("TDPR"), which is subject to a preferential tax rate of 15 percent (2017: 15 percent), as it has obtained the new high-tech enterprise qualification during 2017.

(iv) Pursuant to the income tax rules and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 24% for the year ended 31 December 2018 (2017: 24%).

(v) Pursuant to the Amended Investment Licence No. 1219/GPDC1-BKH-KCN-DN dated 23 September 2003 and issued by Dong Nai Industrial Zone Authority, Asia Nutrition Technologies (VN) Co., Ltd. ("ANTC-VN") is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% (2017: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2017: 20%).

(vi) Asia Nutrition Technologies (HN) Co., Ltd. ("ANTC-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. However, ANTC-HN is entitled to a full tax exemption for four years starting from 2005, its first profit-making year, pursuant to the Minutes of Inspection by Tax Department of Hai Duong Province dated 24 November 2006 and a 50% reduction in tax rate for the next four years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-HN is 10% for the year ended 31 December 2018 (2017: 10%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2017: 20%).

(vii) Asia Nutrition Technologies (LA) Co., Ltd. ("ANTC-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. However, ANTC-LA is entitled to a full tax exemption for 2 years starting from 2008, its first profit-making year, and a 50% reduction in tax rate for the next three years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-LA is 20% for the year ended 31 December 2018 (2017: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2017: 20%).

(viii) Pursuant to the Amended Investments Licence No. 43/2010/ND-CP dated 26 September 2012 and issued by Binh Dinh Provice Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. ("ANTC-MV") is subject to Vietnam Corporate Income Tax of 20% for the year ended 31 December 2018 (2017: 20%).

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2018	**2017**
Profit before taxation	86,543	113,314
Income tax calculated at PRC's Corporate Income Tax rate of 25% (2017: 25%) (note)	21,636	28,329
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(7,393)	(3,193)
Tax effect of non-deductible expenses	2,262	2,927
Tax effect of non-taxable income	(7,365)	(14,352)
Tax effect of the movement of tax losses and temporary difference not recognised	13,336	8,211
Effect on deferred tax balances resulting from a change in tax rate	–	(1,109)
Under provision in respect of prior years	2,172	632
Actual tax expense	24,648	21,445

Note: The income tax rate of 25% (2017: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2018	**2017**
Final dividend proposed after the end of the reporting period	0	0

On 22 March 2019, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2018 (2017: No distribution).

7 Earning per share

The calculation of basic earnings per share for the year ended 31 December 2018 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB13,135 thousand (2017: approximately RMB29,120 thousand) and the weighted average of 1,015,489,500 ordinary shares (2017: 1,014,581,504) in issue during the year.

For the year ended 31 December 2018, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB13,135 thousand (2017: approximately RMB29,120 thousand) and the weighted average of 1,015,489,500 ordinary shares (2017: 1,015,489,500).

8 Trade receivables

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

	2018	2017
Current	215,087	306,193
1-180 days past due	96,295	85,916
181-365 days past due	8,731	5,243
More than 365 days past due	18,028	12,133
Amounts past due	123,054	103,292
Less: Provision for bad debt	(30,936)	(13,073)
	307,205	396,412

The Group normally allows a credit period ranging from 30 days to 60 days to its customers.

9 Other receivables and prepayments

	2018	2017
VAT recoverable	416,279	439,409
Deposits and prepayments	80,843	79,053
Advances to staff	11,281	6,681
Others	33,370	17,143
	541,773	542,286
Less: non-current VAT recoverable	84,924	90,806
	456,849	451,480

Except for non-current VAT recoverable, all other receivables are expected to be recovered within one year.

10 Trade payables

An ageing analysis of the trade payables is as follows:

	2018	2017
Current	298,783	379,814
Less than 30 days past due	137,570	215,088
31-60 days past due	24,730	62,385
61-90 days past due	14,751	12,367
More than 90 days past due	17,358	32,042
Amounts past due	194,409	321,882
	493,192	701,696

11 Other payables

	2018	2017
Sales rebate	138,253	151,214
Salaries, wages, bonuses and other benefits payable	104,426	87,506
Accrued expenses	62,175	99,399
Contract performance deposits	45,256	40,008
Receipts in advance	–	14,760
Payables for purchase of fixed assets	13,614	58,593
Amounts due to related parties	46,100	54,100
Others	22,740	23,879
	432,564	529,459

All other payables are expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

	2018	2017	% change
Turnover (RMB'000)	7,191,911	8,507,477	-15.5
Gross profit (RMB'000)	760,300	815,942	-6.8
Gross profit margin (%)	10.6	9.6	
Profit attributable to shareholders of the Company (RMB'000)	13,135	29,120	-54.9

Economic Environment and Strategy Direction

In 2018, the domestic white feather broilers market in China was affected by the control on production capacity of the grandparent and parent breeders, as well as decline in production performance of breeders caused by various factors such as molting and disease. The supply of commercial day-old chicks and feather chickens remained at low level. At the same time, the outbreak of African swine fever triggered an increase in demand for chicken as replacement, and the domestic chicken market demand rose steadily. Due to a recovery of demand and a shortage of supply, sales of day-old chicks, feather chickens and chicken meat reached a new high in recent year in the fourth quarter. In particular, the market price of day-old chicks broke through RMB 8.5 to a record high, and domestic breeders companies therefore gained handful of profits.

During the early stage, the meat division appropriately scaled down the rearing of breeding chickens in order to reduce the associated rearing and breeding risks, and used the method of purchasing breeding eggs from external suppliers and hatched in the hatchery to maintain the supply of day-old chicks. Therefore, the unusual high demand for day-old chicks failed to bring extraordinary profits to the business. However, as the Group adopted "minimum guarantee plus profit sharing" cooperation model with parent breeders farms when purchasing breeding eggs from them, when compared with directly purchasing day-old chicks from market, it not only ensures the source of chickens, but also reduces the cost of day-old chicks to a certain extent.

In 2018, after experiencing a downturn in the first half of the year, the domestic hog market suffered further the impact of African swine fever in the second half of the year. The sudden decrease in the pig stock has made competition in the pig feed market more severe. The situation of overcapacity in domestic feed was more prominent, and competition among feed enterprises was more intense.

In the face of sudden market conditions, the domestic feed industry strengthened the pig farm services to overcome difficulties with customers. At the same time, the focus of research and development and marketing was shifted to poultry feed to minimize the adverse impact of the epidemic on the Group's profitability.

The Group persistently adhered to the following operating strategies in 2018:

(1) Leveraging on food as its key business in the continuous development of the Group, continuing to strengthen its product and market development efforts in the food segment, securing its leading position in the professional catering market.

(2) Maintaining a proper scale of electrical slaughtering of broilers and strengthening risk management and cost control of day-old chicks, feather chickens and meat products, providing a safe traceable raw meat supply for the food segment.

(3) Enjoying a stable market share in the feed market in Southeast Asia, beginning to plan for the rearing of breeding of pigs and chickens upstream for enhancing vertical integration of the production chain and strategic cooperation with customers.

(4) Focusing on the sales of functional feeds with higher added value in the pig feed market in the PRC, enhancing the research and development and marketing of poultry feed to diversify market risks. At the same time, further integrate production and sales strategies to reduce production costs.

Business Review

In 2018, turnover of the Group decreased by approximately RMB1,315,566 thousand as compared with the same period of last year, among which, a decrease of approximately RMB1,212,632 thousand was caused by changes in the principle of income recognition of the International Accounting Standards. Affected by the decline in both domestic feed and Vietnamese feed performance, the Group's gross profit decreased by approximately RMB55,642 thousand as compared with the same period of last year. On the other hand:

1. as African swine fever has dragged the capital flow of pig farm customers, for the sake of prudence, the Group's provision for bad debt increased by approximately RMB 8,865 thousand;

2. The Group adjusted its borrowing strategy and incurred a foreign exchange gain of approximately RMB1,553 thousand, a reduction in foreign exchange loss of approximately RMB39,167 thousand from a loss of approximately RMB37,614 in 2017;

3. the real estate project invested by the Group in Tianjin has generated a profit attributable for the year of approximately RMB17,484 thousand;

In summary, profit attributable to equity shareholders of the Company decreased by approximately RMB15,985 thousand as compared with the same period of last year.

Meat Product

	2018	2017	% change
Turnover (RMB'000)	1,134,149	2,382,142	-52.4
Gross profit (RMB'000)	130,056	82,214	58.2
Gross profit margin (%)	11.5	3.5	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of "DaChan" "Sister's Kitchen" and lightly processed tender chicken meat, sells chicken meat to fast food shops, internal and external food processors and food processing service providers, and supplies feeds and day-old-chicks to contract farmers. The production region of the segment covers Northeast China, North China and East China while its sales network covers the entire nation.

Business Review

In 2018, although the meat products segment failed to obtain high profit from the soaring market price of day-old chicks due to the small scale of its self-owned breeding chicken farm, we continued to lower the cost of breeding through measures such as improving the structure of farmers, strengthening the breeding technology services, supporting farmers to change the way of rearing to caging and improving feed performance. At the same time, with the much favourable chicken meat market conditions, gross profit increased by approximately RMB47,842 thousand as compared with the same period of last year, representing a growth of 58.2%.

Future Strategies

The operating strategy of "eliminating risk" adhered by the meat product business will continue to be implemented in the future, including: (i) adjustment of the terms of contracts between the Group and external chicken farms depending on the market price trend of day-old chicks and enter into strategic cooperation supply contracts with a minimum guarantee is provided when the price is low and sharing profit when the price is high; (ii) in response to the current situation of low parent breeders stock in the domestic market, an undersupply of commercial day-old chicks and unstable quality of chickens, to adequately expand the scale of rearing self-owned parent breeders to ensure the supply of a certain proportion of high-quality chickens; (iii) to encourage contract farmers to change the way of rearing from netting to caging, to assist them to strengthen management, reduce the rearing and breeding fees and raise the rearing and breeding efficiency; and (iv) to continue increasing the ratio of converting the Group's chicken meat to prepared food and deeply processed food products and eliminate market risk when the meat market is on decline, etc.

Livestock Feeds (From External Customers)

	2018	2017	% change
Turnover (RMB'000)			
– China	1,604,760	1,823,810	-12.0
– Vietnam and Malaysia	2,644,595	2,674,852	-1.1
Total	4,249,355	4,498,662	-5.5
Gross profit (RMB'000)			
– China	82,007	139,889	-41.4
– Vietnam and Malaysia	237,834	275,527	-13.7
Total	319,841	415,416	-23.0
Gross profit margin (%)			
– China	5.1	7.7	
– Vietnam and Malaysia	9.0	10.3	
Total	7.5	9.2	

The operating income of the feeds segment was primarily derived from the sales of pig feeds, broiler and egg chicken feeds to external customers in China, Vietnam and Malaysia. Corn and soybean are the primary raw materials of feeds sold by the Group. The main product brands of this segment are "Dr. Nupak" and "SOS". The production and sales region of this segment covered Vietnam, Malaysia and northeastern, northern, central and southwestern China.

Business Review

In 2018, due to the adverse market environment, gross profit of our domestic feed business in China fell by 41.4%. In addition to the decline in sales caused by market changes, the loss incurred by pig breeding and the control of raw material costs are also important factors leading to the decline in gross profit of the business. Product mix and marketing strategy of the business were adjusted in a timely manner in the face of market changes. Although total sales decreased by 12% year-on-year, broiler feeds increased by 14%, and the proportion of broiler feeds to total sales also increased to 25% from 19% in the same period last year.

Due to the low pigs stock and fierce market competition in the first half of the year, the gross profit of Vietnamese feed business decreased by 13.7% in 2018. However, we actively adjusted our sales strategy and increased efforts of promotion in the poultry market, sales in the fourth quarter grew by 9.5% quarter-on-quarter and an increase of 8.7% as compared with the same period last year.

Future Strategies

The feeds segment will continue to pursue the following strategies: (i) to take advantage of the fermentation technique for pre-digestion in intestines in biotechnology and to focus on marketing activities for sow and piglet feeds products; (ii) to increase the research and development of poultry feeds and build up our core competitiveness in poultry feeds; (iii) to select valued customers and offer them products, technical and service support so as to enhance their loyalty and contribution to the Group; and (iv) to strengthen the management of bulk raw materials procurement systems to create raw material cost advantages.

Processed Food

	2018	2017	% Change
Turnover (RMB'000)			
– Mainland China	1,278,804	1,125,708	13.6
– Export	529,603	500,965	5.7
Total	1,808,407	1,626,673	11.2
Gross profit (RMB'000)			
– Mainland China	226,173	244,060	-7.3
– Export	84,230	74,252	13.4
Total	310,403	318,312	-2.5
Gross profit margin (%)			
– Mainland China	17.7	21.7	
– Export	15.9	14.8	
Total	17.2	19.6	

The processed food segment includes the production and sales of prepared food under the "Sister's Kitchen" brand, as well as centrifuged and marinated, stewed, pre-fried, steamed, grilled 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. The sales areas of the processed food segment cover Japan, Singapore, Hong Kong, northeastern, northern, eastern, southern and central China and a few inland regions such as northwestern and southwestern China.

Business Review

In 2018, the processed food segment as a whole showed a steady growth trend. Despite an increase in raw material costs and rising fixed costs after the new Bengbu food factory was put into operation trimming our gross profit by 2.5% as compared with the same period of last year, sales and operating income increased by 7.4% and 11.2% respectively as compared with the same period of last year. Among them, with the steady promotion of the export business of the Group's second export factory, Dalian Gongchan Factory, the sales of exported foods increased by 5.0% year-on-year. In addition, gross profit of exported foods also grew by 13.4% year-on-year benefited from the appreciation of the US dollar.

Future Strategies

The core values of the Groups' branding are assurance and traceability. Seizing the opportunities arisen from concerns over food safety of the Chinese people, the Group has developed a unique edge for its brand. The processed food segment will continue to work out the following strategies: (i) to continue to concentrate its resources on research and development of products in the professional catering market, improve product competitiveness, build up various key products, expand in the market, increase market share, improve the structure of sales network, and continuously enhance the performance of our sales team; (ii) to provide key customers with all-round service and form strategic alliances with them, and achieve mutual growth; (iii) to continue to utilize its advantageous in research of resources for Japanese-style products to further the development of customer base in regions such as Singapore and Hong Kong in order to diversify risks in the export market; and (iv) to closely coordinate online sales and offline sales to build its brand advantage in the retail consumer market.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2018, the Group recorded other operating income of approximately RMB18,054 thousand (2017: approximately RMB13,142 thousand) which mainly comprised of interest income and government subsidies. The increase in other operating income was mainly due to the increase in interest income.

In 2018, other net gains of the Group amounted to approximately RMB19,780 thousand (2017: losses of approximately RMB14,595 thousand). Other net gains mainly include net foreign exchange gain and net gain on the disposal of assets.

Distribution costs accounted for approximately 5.32% of total turnover (2017: approximately 4.69%).

Administrative expenses accounted for approximately 4.28% of turnover (2017: approximately 3.07%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2018, the Group's cash and bank deposit balances amounted to approximately RMB408,721 thousand, representing a decrease of approximately RMB117,847 thousand from 2017. The Group's interest-bearing borrowings increased by approximately RMB234,447 thousand to approximately RMB1,135,259 thousand (2017: approximately RMB900,812 thousand). As at 31 December 2018, the interest-bearing borrowings to equity ratio was approximately 62.1% (2017: approximately 48.4%). Current ratio was maintained at a healthy level of approximately 1.77 times (2017: approximately 1.48 times).

3) Capital Expenditure

In 2018, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB184,743 thousand which was primarily paid from internal resources and bank borrowings.

4) Exchange Rate

The Group's business transactions are mainly denominated in RMB, USD and VND. During the year under review, VND against RMB appreciated by approximately 2.94% while RMB against USD depreciated by approximately 5.04%.

5) Interest

In 2018, the Group's interest expense amounted to approximately RMB35,407 thousand (2017: approximately RMB42,183 thousand), representing a decrease of approximately 16.1% from 2017. The decrease in interest expenses was mainly due to the change from high interest rate RMB interest-bearing borrowings to low interest rate USD interest-bearing borrowings.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2018 (2017: no distribution).

7) Charge on Assets

As at 31 December 2018, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2018, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB89,145 thousand (2017: approximately RMB104,591 thousand) and the capital expenditure authorised but not contracted for was approximately RMB76,992 thousand (2017: approximately RMB246,591 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2018, the Group had a total of 10,619 employees (31 December 2017: 10,655). The Group has paid remuneration to its staff with reference to industry practice, the financial performance of the Group and the employee's work performance in order to form a team of professional staff and management to fulfil the development needs of the Company. The Group places great emphasis on the training and development of employees and regards excellent employees as the Group's core competitiveness. With a view to constantly enhancing their job skills and industry knowledge, the Group has offered various training programs to its members of management and other employees. The Group implemented these programs not only to enhance the quality of its staff, but also to give best chances for development of their personal career. The Group regularly reviews compensation and benefit policies according to industry benchmark, financial results as well as the individual performance of employees so as to offer fair and competitive compensation packages to the employees. Other fringe benefits including insurance, medical benefits and provident fund are also provided to retain loyal employees.

OTHER INFORMATION

Annual General Meeting ("AGM")

The 2019 AGM of the Company will be held on 27 June 2019 (Thursday) and the notice of AGM will be published and dispatched to shareholders in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Closing of Register of Members

The Company will close its register of members from 21 June 2019 (Friday) to 27 June 2019 (Thursday), both dates inclusive, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 20 June 2019 (Thursday) (Hong Kong time).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

Compliance with the Corporate Governance Code

The Company is committed to achieving good corporate governance standard including having a quality Board, sound internal control and risk management, high transparency and accountability to its shareholders. Except for the following immaterial deviations, it has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018:

Code Provision A.6.7

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Chao Tien-Shin, Mr. Han Chia-Yau and Mr. Harn Jia-Chen, Non-executive Directors of the Company and Mr. Chen Chih and Mr. Wei Anning, Independent Non-executive Directors of the Company were unable to attend the annual general meeting and extraordinary general meeting of the Company held on 29 June 2018 due to other prearranged business commitments which must be attended by them.

Code Provision F.1.1

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs.

Ms. Cho Yi Ping ("Ms. Cho"), a partner of the Company's legal advisers, Wong & Tang Solicitors, has been appointed as the company secretary of the Company (the "Company Secretary") with effect from 8 August 2016.

The Company has assigned a member of the senior management, Ms. Feng Yuxia, the head of legal department of the Company as the contact person with Ms. Cho. 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, the contact person assigned will promptly deliver information regarding the performance, financial positions and other major development and affairs of the Group to Ms. Cho. Having in place a mechanism that enables Ms. Cho to get hold of the Group's development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. Cho as the Company Secretary is beneficial to the Group's compliance with the relevant board procedures, applicable laws, rules and regulations.

Audit Committee

The audit committee of the Company ("Audit Committee") was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. The Audit Committee is authorised by the Board to assess matters relating to the financial statements and to provide recommendations and advice on matters including review of relationships with external auditors, the Company's financial reporting (including the review of the annual results for the year ended 31 December 2018), the internal control and risk management system. There was no disagreement between the Audit Committee and the external auditors on the accounting policies adopted by the Company.

The Audit Committee comprises Mr. Way Yung-Do (chairman of the Audit Committee), Mr. Chen Chih and Mr. Wei Anning, who are all independent non-executive directors of the Company.

On behalf of the Board
Harn Jia-Chen
Chairman

Hong Kong, 22 March 2019

As at the date of this announcement, Mr. Harn Jia-Chen (Chairman) and Mr. Han Chia-Yin are the executive directors, Mr. Han Jia-Hwan, Mr. Han Chia-Yau 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.