DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement Of Annual Results For 2019

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 2019, 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 2018 as follows:

Highlights

	2019	**2018**	**% change**
Turnover (RMB'000)	8,035,206	7,191,911	11.7
Gross profit (RMB'000)	981,575	760,300	29.1
Gross profit margin (%)	12.2	10.6	
Profit attributable to equity shareholders of the Company (RMB'000)	133,683	13,135	917.8
Basic earnings per share (RMB)	0.13	0.01	
Dividend per share (HK cents)	0	0	

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2019
(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2019	2018
Turnover	3	8,035,206	7,191,911
Cost of sales		(7,053,631)	(6,431,611)
Gross profit		981,575	760,300
Other operating income		18,706	18,054
Other net (losses)/gains		(31,190)	19,780
Distribution costs		(391,045)	(382,405)
Administrative expenses		(282,459)	(307,712)
Profit from operations		295,587	108,017
Finance costs	4(a)	(45,860)	(35,407)
Share of (losses)/gains of equity-accounted investees		(607)	13,933
Profit before taxation	4	249,120	86,543
Income tax	5	(43,133)	(24,648)
Profit for the year		205,987	61,895
Profit for the year attributable to:			
Equity shareholders of the Company		133,683	13,135
Non-controlling interests		72,304	48,760
Profit for the year		205,987	61,895
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)		0.13	0.01
– Diluted (RMB)		0.13	0.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2019
(Expressed in thousands of Renminbi unless otherwise stated)

	Note	**2019**	**2018**
Non-current assets			
Fixed assets			
– property, plant and equipment		1,370,273	1,354,682
– lease prepayments		215,958	190,468
Interests in equity-accounted investees		78,019	78,457
Other financial assets		1,948	1,948
Deferred tax assets		26,094	27,872
Long-term tax recoverable	9	97,762	84,924
Other non-current assets		8,430	15,666
		1,798,484	1,754,017
Current assets			
Inventories		934,682	847,131
Biological assets		169,544	129,115
Trade receivables	8	295,843	307,205
Other receivables and prepayments	9	479,282	456,849
Cash and cash equivalents		370,102	408,721
		2,249,453	2,149,021
Current liabilities			
Trade payables	10	557,080	493,192
Other payables	11	470,094	432,564
Contract liabilities		10,435	8,052
Provisions		–	1,099
Interest-bearing borrowings		531,149	272,216
Lease liabilities		6,340	–
Income tax payable		19,417	4,526
Dividend payable		2,511	–
		1,597,026	1,211,649
Net current assets		652,427	937,372
Total assets less current liabilities		2,450,911	2,691,389

	Note	2019	2018
Non-current liabilities			
Interest-bearing borrowings		351,473	863,043
Lease liabilities		86,506	–
Deferred tax liabilities		450	497
		438,429	863,540
Net assets		2,012,482	1,827,849
Capital and reserves			
Share capital		97,920	97,920
Reserves		920,724	895,654
Retained profits		616,903	496,800
Total equity attributable to equity shareholders of the Company		1,635,547	1,490,374
Non-controlling interests		376,935	337,475
Total equity		2,012,482	1,827,849

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 2019 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 for 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 new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on the Group's results and financial position for the current or prior periods that have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of right-of-use assets and lease liabilities at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 **RMB'000**
Operating lease commitments at 31 December 2018	95,104
Less: commitments relating to leases exempt from capaitalisation:	
short-term leases and other leases with remaining lease term ending on or before 31 December 2019	2,611
leases of low-value assets	13
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	1,679
	94,159
Less: total future interest expenses	43,073
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	51,086
Add: finance lease liabilities recognised as at 31 December 2018	–
Total lease liabilities recognised at 1 January 2019	51,086

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 processes meat (mainly chicken meat) into further processed or instant food (half-cooked/fully cooked) products for production and distribution.

(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 2019 and 2018 is set out below:

	Meat products		Livestock feeds		Processed foods		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Turnover from external customers	1,614,836	1,134,149	4,379,082	4,249,355	2,041,288	1,808,407	8,035,206	7,191,911
Inter-segment turnover	615,274	429,186	807,243	620,234	–	–	1,422,517	1,049,420
Total	2,230,110	1,563,335	5,186,325	4,869,589	2,041,288	1,808,407	9,457,723	8,241,331
Segment result	199,428	130,056	437,311	319,841	344,836	310,403	981,575	760,300
Unallocated operating income and expenses	–	–	–	–	–	–	(685,988)	(652,283)
Profit from operations	–	–	–	–	–	–	295,587	108,017
Finance costs	–	–	–	–	–	–	(45,860)	(35,407)
Share of (losses)/gains of equity-accounted investees	–	–	–	–	–	–	(607)	13,933
Income tax	–	–	–	–	–	–	(43,133)	(24,648)
Profit for the year	–	–	–	–	–	–	205,987	61,895
Depreciation and amortisation for the year	49,107	58,125	59,809	49,511	52,759	46,053	161,675	153,689
Reportable segment assets	957,599	1,064,034	1,359,798	1,291,498	1,103,130	828,179	3,420,527	3,183,711
Additions to non-current segment assets during the year	61,277	48,178	88,112	79,218	34,833	57,347	184,222	184,743
Reportable segment liabilities	264,301	398,439	852,251	532,351	220,590	343,220	1,337,142	1,274,010

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

	2019	2018
Turnover		
Reportable segment turnover	9,457,723	8,241,331
Elimination of inter-segment turnover	(1,422,517)	(1,049,420)
Consolidated turnover	8,035,206	7,191,911
Profit		
Reportable segment profit	981,575	760,300
Other operating income	18,706	18,054
Other net (losses)/gains	(31,190)	19,780
Distribution costs	(391,045)	(382,405)
Administrative expenses	(282,459)	(307,712)
Finance costs	(45,860)	(35,407)
Share of (losses)/gain of equity-accounted investees	(607)	13,933
Consolidated profit before taxation	249,120	86,543
Assets		
Reportable segment assets	3,420,527	3,183,711
Deferred tax assets	26,094	27,872
Cash and cash equivalents	370,102	408,721
Unallocated head office and corporate assets	231,214	282,734
Consolidated total assets	4,047,937	3,903,038
Liabilities		
Reportable segment liabilities	1,337,142	1,274,010
Income tax payable	19,417	4,526
Deferred tax liabilities	450	497
Interest-bearing borrowings	569,528	706,672
Unallocated head office and corporate liabilities	108,918	89,484
Consolidated total liabilities	2,035,455	2,075,189

(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**	
	2019	**2018**	**2019**	**2018**
Mainland China	4,739,290	3,980,333	1,283,725	1,306,404
Vietnam	2,709,935	2,671,261	379,251	323,036
Japan	407,274	490,868	–	–
Rest of Asia Pacific	178,707	49,449	9,704	9,833
	8,035,206	7,191,911	1,672,680	1,639,273

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2019	**2018**
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	41,896	35,407
Interest on lease liabilities	3,964	–
	45,860	35,407
(b) Staff costs		
Salaries, wages, bonuses and other benefits	686,999	660,217
Contributions to retirement schemes	82,803	79,202
	769,802	739,419

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 14% to 18% (2018: 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 (2018: 5 to 12 percent) of the employees' relevant income and its employees are required to make contributions to the scheme from 5 to 12 percent (2018: 5 to 12 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 (2018: 13 percent) of the eligible employees' salaries when the salaries is Malaysia Ringgit ("MYR") 5,000 or below, or based on 12 percent (2018: 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% (2018: 8.8 to 12.1%) 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

	2019	**2018**
Auditors' remuneration		
– audit services	4,990	4,877
– tax services	80	100
	5,070	4,977
Total minimum lease payments for leases previously classified as operating leases under IAS 17	–	16,242
Depreciation charge		
– owned property, plant and equipment and leased prepayments	154,186	153,689
– right-of-use assets	7,489	–
Amortisation of biological assets	3,702	8,460
(Reversal)/impairment loss of trade receivables recognised	(2,368)	20,221
Net (reversal of write down)/write down of inventory	(13,424)	6,785
Research and development costs	1,535	1,012
Cost of inventories	6,649,367	6,044,740

5 Income tax in the consolidated income statement

	2019	2018
Current tax		
Provision for the year	45,545	22,053
(Over-provision)/under-provision in respect of prior years	(4,143)	2,172
	41,402	24,225
Deferred tax		
Origination and reversal of temporary differences	1,731	423
	43,133	24,648

(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 2019, 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 2018: 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% (2018: 25%), except for Tianjin DaChan Prospect Research and Development Co., Ltd. ("TDPR") and Liaoning Great Wall Agri-Industrial Co., Ltd. ("LGW"). TDPR is subject to a preferential tax rate of 15 percent (2018: 15 percent), as it has obtained the new high-tech enterprise qualification during 2018. LGW is subject to a preferential tax rate of 15 percent (2018: 25 percent), as it has obtained the new high-tech enterprise qualification during 2019.

(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 2019 (2018: 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% (2018: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2018: 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 15% for the year ended 31 December 2019 (2018: 10%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2018: 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 2019 (2018: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2018: 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 2019 (2018: 20%).

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

	2019	**2018**
Profit before taxation	249,120	86,543
Income tax calculated at PRC's Corporate Income Tax rate of 25% (2018: 25%) *(note)*	62,280	21,636
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(12,086)	(7,393)
Tax effect of non-deductible expenses	2,129	2,262
Tax effect of non-taxable income	(19,625)	(7,365)
Tax effect of the movement of tax losses and temporary difference not recognised	14,578	13,336
(Over)/under-provision in respect of prior years	(4,143)	2,172
Actual tax expense	43,133	24,648

Note: The income tax rate of 25% (2018: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2019	**2018**
Final dividend proposed after the end of the reporting period	0	0

On 24 March 2020, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2019 (2018: No distribution).

7 Earning per share

The calculation of basic earnings per share for the year ended 31 December 2019 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB133,683 thousand (2018: approximately RMB13,135 thousand) and the weighted average of 1,016,016,767 ordinary shares (2018: 1,015,490,500) in issue during the year.

For the year ended 31 December 2019, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB133,683 thousand (2018: approximately RMB13,135 thousand) and the weighted average of 1,016,016,767 ordinary shares (2018: 1,015,490,500).

8 Trade receivables

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

	2019	**2018**
Current	214,947	215,087
1-180 days past due	78,406	96,295
181-365 days past due	7,136	8,731
More than 365 days past due	20,547	18,028
Amounts past due	106,089	123,054
Less: Provision for bad debt	(25,193)	(30,936)
	295,843	307,205

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

9 Other receivables and prepayments

	2019	**2018**
VAT recoverable	385,916	416,279
Deposits and prepayments	171,024	80,843
Advances to staff	7,671	11,281
Others	12,433	33,370
	577,044	541,773
Less: non-current VAT recoverable	97,762	84,924
	479,282	456,849

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:

	2019	2018
Current	357,418	298,783
Less than 30 days past due	123,711	137,570
31-60 days past due	16,883	24,730
61-90 days past due	8,783	14,751
More than 90 days past due	50,285	17,358
Amounts past due	199,662	194,409
	557,080	493,192

11 Other payables

	2019	2018
Sales rebate	151,179	138,253
Salaries, wages, bonuses and other benefits payable	128,169	104,426
Accrued expenses	79,462	62,175
Contract performance deposits	27,900	45,256
Payables for purchase of fixed assets	23,318	13,614
Amounts due to related parties	46,100	46,100
Others	13,966	22,740
	470,094	432,564

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2019	2018	% change
Turnover (RMB'000)	8,035,206	7,191,911	11.7
Gross profit (RMB'000)	981,575	760,300	29.1
Gross profit margin (%)	12.2	10.6	
Profit attributable to shareholders of the Company (RMB'000)	133,683	13,135	917.8

Economic Environment and Strategy Direction

In 2019, the spread of African swine fever from north to south led to a significant decrease in domestic live pigs supply as well as a significant increase in the demand for chicken meat as alternatives in the consumer market. At the same time, the update quantity and stock quantity of domestic grandfather generation breeder chickens have reached the highest level in the past three years while the production volume of commercial chickens has reached the highest level in the past four years, and domestic chicken meat supply increased by approximately 15% as compared with 2018. However, the increase in the supply of chicken meat is still not enough to fill the shortage gap in pork production. Therefore, the surge in pork prices continued to drive the prices of day-old chicks, feather chicken and chicken meat to a new high.

Limited by the current relatively small-scale breeding chickens rearing, the meat product segment was unable to obtain more profit from the thriving market of day-old chicks. However, the Group seized market opportunities and adopted various methods to strengthen cooperation with farmers. As for breeders, we cooperated with farmers and made use of the egg supply model to share profits and risks, assisted them in carrying out cage reforms, and expanded the scale of breeding. The electrical slaughtering volume of feather chicken increased by approximately 12% as compared with 2018. Meanwhile, to complement our one-stop industry chain, the Group upgraded some of its own farms. With the help of external professional management team of breeder farming, the farming scale of breeders has been expanded through cooperation, and it is expected that in 2020, 50% of day-old chicks will be provided by self-owned farms; not only can this supply model help to reduce the costs of day-old chicks, but also help to ensure the quality of day-old chicks and improve the farming efficiency of broilers.

In respect of the domestic feeds segment, faced with the changes in the feed market structure under African swine fever, the Group took responsive actions. On the one hand, the focus of research and development was promptly adjusted, the immune function of pig feeds was improved, egg-laying performance of layers was further stabilized, manufacturing costs of broiler feeds were continuously reduced while the internal production management and technological process were optimised, and the product competitiveness was steadily improved on the other hand. The total sales volume of external feeds and contracted feeds in 2019 increased by approximately 15% as compared with 2018.

The feed segment in Southeast Asia maintained its outstanding performance. Although being affected by African swine fever, sales volume slightly increased as compared with 2018 as we adjusted the product structure and sales model. With the steady advancement in planning for the industrial chain of the breeding, livestock and poultry farming industry in Southeast Asia, the capacity of the segment to resist market risks will be further enhanced.

The Group continued to unswervingly promote the food development strategy. Under the pressure of rising domestic raw meat cost, the food segment made great efforts in both domestic sales and exports. The total sales volume increased by approximately 7% as compared with 2018, and annual sales exceeded RMB2 billion. Despite the adverse effects of the factory set up in Thailand by our Japanese customer commencing production and changes in the domestic consumption patterns in Japan, we continued to optimize the food products for export and adjusted the sales structure, maintaining an average monthly export volume at above 1,000 tons while the domestic food sales volume also increased by 10%.

The Group adhered to the following operating strategies in 2019:

1. Leveraging on food as its key segment 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 baking and catering market.

2. Integrating the one-stop industrial chain of broilers, maintaining appropriate ratio for self-feeding broilers, expanding the scales of rearing feather chickens and electrical slaughtering broilers and automized production, and strengthening risk management and cost control in all aspects of the industrial chain as well as 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, integrate production and sales strategies to reduce production costs and enhance product competitiveness.

Business Review

In 2019, the operating income of the Group was approximately RMB8,035,206 thousand, representing a year-on-year increase of approximately 11.7%. The meat segment, domestic feeds segment, food segment and feed segment in Southeast Asia accounted for 20.1%, 20%, 25.4% and 34.5% of the Group's total operating income, respectively. The revenue of the food segment ranked first among the three domestic segments in the PRC.

The Group's gross profit amounted to approximately RMB981,575 thousand, representing an increase of approximately 29.1% as compared with last year. The meat segment, domestic feeds segment, food segment and feeds segment in Southeast Asia accounted for 20.3%, 13.8%, 35.1% and 30.8% of the Group's gross profit, respectively. Driven by the continuous development of food-based development strategies, the food segment has become the Group's most important and stable source of profit.

The gross profit of the Group increased by approximately RMB221,275 thousand as compared with 2018. On the other hand, due to the following:

1. the real estate project invested by the Group in Tianjin generated a profit attributable of approximately RMB17,484 thousand last year, while the profit attributable for this year is approximately RMB2,858 thousand;

2. the Group converted part of the investment funds of foreign holding companies injected into domestic subsidiaries in previous years into borrowings and repatriated them in tranches to repay foreign bank loans in US dollars to reduce exchange rate risk and control interest expenses. This arrangement resulted in a foreign exchange loss of approximately RMB19,029 thousand while there was no such loss in the same period last year;

3. the interest rates on domestic and overseas borrowings increased at various degrees as compared with last year, and the Group's financial expenses increased by approximately RMB10,453 thousand year-on-year; and

4. the Group's net impairment recognised of fixed assets for the year is approximately RMB7,036 thousand,

profit attributable to equity shareholders of the Company amounted to RMB133,683 thousand, representing an increase of RMB120,548 thousand as compared with the same period of last year.

Meat Product

	2019	2018	% change
Turnover (RMB'000)	1,614,836	1,134,149	42.4
Gross profit (RMB'000)	199,428	130,056	53.3
Gross profit margin (%)	12.3	11.5	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of "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 and recycles the grown chickens. 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 2019, due to the small scale of self-bred chicken farms, most of the breeder eggs and day-old chicks came from external breeder farms. As the cost of procurement was on the rise in line with the market situation, the meat segment failed to obtain high profit from the day-old chicks market. However, the segment continued to lower the cost and maximize the profit of breeding through measures such as optimizing the structure of farmers, strengthening the technical services of farming, supporting farmers to change the way of rearing to caging and improving feed performance. At the same time, the electric slaughterhouse continued to promote the automation transformation of equipment, lower labor and processing costs. With all these measures, the gross profit of meat segment increased by approximately RMB69,372 thousand as compared with the same period of last year, representing a growth of 53.3%.

Future Strategies

The operating strategy of "eliminating risk" adhered by the meat product segment will continue to be implemented in future, particular measures of which include: (i) achieving the provision of 50% of the day-old chicks by broiler self-breeding farms and cooperative farms in 2020, and the signing of strategic cooperation supply contracts with external broiler farms for the remaining 50% of the day-old chicks depending on the market price trend; (ii) 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; (iii) to continue promoting automation transformation projects for equipment in the electrical slaughterhouse; and (iv) to continue increasing the proportion 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)

	2019	2018	% change
Turnover (RMB'000)			
– China	1,606,821	1,604,760	0.1
– Vietnam and Malaysia	2,772,261	2,644,595	4.8
Total	4,379,082	4,249,355	3.1
Gross profit (RMB'000)			
– China	135,146	82,007	64.8
– Vietnam and Malaysia	302,165	237,834	27.0
Total	437,311	319,841	36.7
Gross profit margin (%)			
– China	8.4	5.1	
– Vietnam and Malaysia	10.9	9.0	
Total	10.0	7.5	

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 2019, under the impact of African swine fever, the domestic reproductive sow and pig inventories decreased drastically. In the face of market changes, the Group adjusted the product structure and marketing strategies in a timely manner. Although the sales volume of pig feed decreased by 1.7%, the external sales volume of poultry feed increased by 10.6%, and the proportion of external sales volume of poultry feed increased to 57.8% from 55.4% in the same period last year.

The feeds segment in Southeast Asia was also affected by African swine fever, with the sales volume of pig feed decreasing by 8.5% as compared with 2018. The Group actively adjusted the sales strategy and with the increasing efforts in the marketing of poultry feeds, the sales volume of poultry feeds increased by 31.9% year-on-year. The proportion of poultry feeds in total sales volume also increased from 30.3% in the same period last year to 37.4%.

Under the unfavorable market environment and fierce competition, the gross profit of domestic feeds and Southeast Asia feeds increased by 64.8% and 27.0% respectively, compared with 2018 as a result of the product structural adjustment and cost control of the feed segment.

Future Strategies

The feeds segment will continue to pursue the following strategies: (i) to take advantage of the intestinal immunity anti-nutrition technology 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

	2019	**2018**	**% change**
Turnover (RMB'000)			
– Mainland China	1,549,722	1,278,804	21.2
– Export	491,566	529,603	-7.2
Total	2,041,288	1,808,407	12.9
Gross profit (RMB'000)			
– Mainland China	288,198	226,173	27.4
– Export	56,638	84,230	-32.8
Total	344,836	310,403	11.1
Gross profit margin (%)			
– Mainland China	18.6	17.7	
– Export	11.5	15.9	
Total	16.9	17.2	

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 and grilled 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 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 inland regions such as northwestern and southwestern China.

Business Review

In 2019, due to the adverse impact of the commencement of operation of the factory set up in Thailand by our Japanese customer and changes in the domestic consumer patterns in Japan, the export revenue of processed food segment decreased by approximately 7.2% as compared with 2018, and the gross profit decreased by approximately 32.8% due to the increase in raw material cost. The regional sales and channel structure of domestic food segment have become increasingly perfect, and the market size is growing steadily. Under the pressure of soaring raw meat price, the Group has been actively adjusting its product structure, optimizing technical process as well as research and development formulas, which led to an increase of 21.2% in revenue and a growth of 27.4% in gross profit as compared with the same period last year.

Future Strategies

The core values of the Group's branding are assurance and traceability. Seizing the opportunities arising 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: for China market: (i) to continue to implement the professional menu integration service strategy; (ii) to accurate R&D and marketing for the six strategic channels; (iii) to strengthen the operation of e-commerce brands and deepen the combination of offline household consumption channels to build online/offline brand communication then realizes the reciprocal advantage of promoting C-end to drive B-end. For the export market, the Group will 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.

The coronavirus outbreak since early 2020 has brought about additional uncertainties in the Group's operating environment and has impacted the Group's operations and financial position.

The Group has been closely monitoring the impact of the developments of the incident on the Group's businesses and has put in place contingency measures. These contingency measures include: increasing additional cold storage locations; increasing our options for logistics movements; assessing the impact on contract farmers and liaising with high-risk farmers; developing more sales channels. The Group will keep our contingency measures under review as the situation evolves.

As far as the Group's businesses are concerned, the outbreak has caused production delays for certain subsidiaries in February 2020 and a decrease in the sales of chicken meat and processed food. The Group has initiated the above contingency measures to respond. Based on the information currently available, the management estimated that this would not result in additional impairment losses on the 31 December 2019 balances of inventories and trade receivables. The actual impacts may differ from these estimates as situation continues to evolve and further information may become available.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2019, the Group recorded other operating income of approximately RMB18,706 thousand (2018: approximately RMB18,054 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 2019, other net losses of the Group amounted to approximately RMB31,190 thousand (2018: gains of approximately RMB19,780 thousand). Other net losses mainly include net foreign exchange loss and net loss on the disposal of assets.

Distribution costs accounted for approximately 4.87% of total turnover (2018: approximately 5.32%).

Administrative expenses accounted for approximately 3.52% of turnover (2018: approximately 4.28%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2019, the Group's cash and bank deposit balances amounted to approximately RMB370,102 thousand, representing a decrease of approximately RMB38,619 thousand from 2018. The Group's interest-bearing borrowings decreased by approximately RMB252,637 thousand to approximately RMB882,622 thousand (2018: approximately RMB1,135,259 thousand). As at 31 December 2019, the interest-bearing borrowings to equity ratio was approximately 43.9% (2018: approximately 62.1%). Current ratio was maintained at a healthy level of approximately 1.41 times (2018: approximately 1.77 times).

3) Capital Expenditure

In 2019, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB184,222 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 1.47% while RMB against USD depreciated by approximately 1.65%.

5) Interest

In 2019, the Group's interest expense amounted to approximately RMB45,860 thousand (2018: approximately RMB35,407 thousand), representing an increase of approximately 29.5% from 2018. The increase in interest expenses was mainly due to the increasing borrowing rates.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2019 (2018: no distribution).

7) Charge on Assets

As at 31 December 2019, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2019, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB85,280 thousand (2018: approximately RMB89,145 thousand) and the capital expenditure authorised but not contracted for was approximately RMB90,901 thousand (2018: approximately RMB76,992 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2019, the Group had a total of 9,900 employees (31 December 2018: 10,619). 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 2020 AGM of the Company will be held on 19 June 2020 (Friday) 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 15 June 2020 (Monday) to 19 June 2020 (Friday), 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 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 12 June 2020 (Friday) (Hong Kong time).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2019, 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 2019:

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 2019), 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. Ting Yu-Shan, who are all independent non-executive directors of the Company.

On behalf of the Board
Wei Anning
Chairman

Hong Kong, 24 March 2020

As at the date of this announcement, Mr. Wei Anning (Chairman) and Mr. Han Chia-Yin are the executive directors, Mr. Harn Jia-Chen, 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. Ting Yu-Shan are the independent non-executive directors.