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## **DACHAN FOOD (ASIA) LIMITED**

**大成食品(亞洲)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3999)**

### **Announcement of Interim Results for the Six Months ended 30 June 2020**

The board of directors (the “Board”) of DaChan Food (Asia) Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2020:

#### **Highlights**

	<b>Six months ended 30 June</b>		
	<b>2020</b>	<b>2019</b>	<b>% change</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	
Turnover (RMB'000)	4,227,285	3,705,849	14.1
Gross profit (RMB'000)	474,400	392,482	20.9
Gross profit margin (%)	11.2	10.6	
Profit attributable to equity shareholders of the Company (RMB'000)	85,144	13,210	544.5
Basic earnings per share (RMB)	0.084	0.013	

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020 – not audited by auditors

(Expressed in thousands of Renminbi)

		Six months ended 30 June	
	Note	2020	2019
<b>Turnover</b>	3	4,227,285	3,705,849
Cost of sales		<u>(3,752,885)</u>	<u>(3,313,367)</u>
<b>Gross profit</b>		474,400	392,482
Other operating income	4	14,313	8,204
Other net gains/(losses)	4	762	(5,582)
Distribution costs		(184,738)	(179,741)
Administrative expenses		<u>(124,149)</u>	<u>(139,215)</u>
<b>Profit from operations</b>		180,588	76,148
Finance costs	5(a)	(17,090)	(23,734)
Share of losses of equity accounted investees		<u>(1,635)</u>	<u>(2,319)</u>
<b>Profit before taxation</b>	5	161,863	50,095
Income tax	6	<u>(26,804)</u>	<u>(12,882)</u>
<b>Profit for the period</b>		<u><u>135,059</u></u>	<u><u>37,213</u></u>
<b>Attributable to:</b>			
Equity shareholders of the Company		85,144	13,210
Non-controlling interests		<u>49,915</u>	<u>24,003</u>
<b>Profit for the period</b>		<u><u>135,059</u></u>	<u><u>37,213</u></u>
<b>Earnings per share</b>			
– Basic (RMB)	7	<u><u>0.084</u></u>	<u><u>0.013</u></u>
– Diluted (RMB)	7	<u><u>0.084</u></u>	<u><u>0.013</u></u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 – not audited by auditors

*(Expressed in thousands of Renminbi)*

	Six months ended 30 June	
	2020	2019
Profit for the period	135,059	37,213
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(2,253)</u>	<u>12,505</u>
Total comprehensive income for the period	<u><u>132,806</u></u>	<u><u>49,718</u></u>
Attributable to:		
Equity shareholders of the Company	80,816	26,346
Non-controlling interests	<u>51,990</u>	<u>23,372</u>
Total comprehensive income for the period	<u><u>132,806</u></u>	<u><u>49,718</u></u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

(Expressed in thousands of Renminbi)

	Note	At 30 June 2020 (unaudited)	At 31 December 2019 (audited)
<b>Non-current assets</b>			
Fixed assets			
– property, plant and equipment	8	1,355,841	1,370,273
– lease prepayments		216,084	215,958
Interests in equity-accounted investees		76,522	78,019
Other non-current financial assets		1,948	1,948
Deferred tax assets		28,252	26,094
Long-term tax recoverable	10	97,762	97,762
Other non-current assets		18,169	8,430
		<u>1,794,578</u>	<u>1,798,484</u>
<b>Current assets</b>			
Inventories		964,659	934,682
Biological assets		171,132	169,544
Trade receivables	9	289,042	295,843
Other receivables and prepayments	10	507,060	479,282
Cash and cash equivalents		589,591	370,102
		<u>2,521,484</u>	<u>2,249,453</u>
<b>Current liabilities</b>			
Trade payables	11	519,315	557,080
Other payables	12	432,171	470,094
Contract liabilities		19,924	10,435
Interest-bearing borrowings		522,532	531,149
Lease liabilities		6,340	6,340
Income tax payable		18,789	19,417
Dividend payable		2,551	2,511
		<u>1,521,622</u>	<u>1,597,026</u>
<b>Net current assets</b>		<u>999,862</u>	<u>652,427</u>
<b>Total assets less current liabilities</b>		<u>2,794,440</u>	<u>2,450,911</u>

	Note	At 30 June 2020 (unaudited)	At 31 December 2019 (audited)
<b>Non-current liabilities</b>			
Interest-bearing borrowings		574,289	351,473
Lease liabilities		83,174	86,506
Deferred tax liabilities		3,237	450
		<u>660,700</u>	<u>438,429</u>
<b>Net assets</b>		<u><u>2,133,740</u></u>	<u><u>2,012,482</u></u>
<b>Capital and reserves</b>			
Share capital		97,920	97,920
Reserves		916,396	920,724
Retained profits		702,047	616,903
<b>Total equity attributable to equity shareholders of the Company</b>		1,716,363	1,635,547
Non-controlling interests		417,377	376,935
<b>Total equity</b>		<u><u>2,133,740</u></u>	<u><u>2,012,482</u></u>

# NOTES TO THE FINANCIAL STATEMENTS

*(Expressed in thousands of Renminbi unless otherwise stated)*

## 1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and has complied with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It has been authorised for issue on 5 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

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

## 2 Changes in accounting policies

### (i) Overview

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

- Amendment to IFRS 3, Definition of a Business
- Amendments to IAS 1 and IAS 8, Definition of Material

These developments have had no material impact on the contents of this interim financial report.

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

### 3 Turnover and segment reporting

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

Meat products: The meat product segment carries on business of broiler farming, hatching of broiler breeder eggs, contract farming, processing and trading of chilled and frozen chicken meat under the brand of “DaChan” and “Sisters’ Kitchen”.

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

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

#### Information about reportable segments

Information regarding the Group’s reportable segments as provided for the CEO for the purposes of resource allocation and segment performance assessment for the six month periods ended 30 June 2020 and 2019 is set out below.

For the six months ended 30 June

	Meat products		Livestock feed		Processed foods		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	780,332	739,374	2,501,004	2,055,211	945,949	911,264	4,227,285	3,705,849
Inter-segment turnover (eliminated at consolidation)	246,339	267,943	494,379	335,249	–	–	740,718	603,192
<b>Total</b>	<b>1,026,671</b>	<b>1,007,317</b>	<b>2,995,383</b>	<b>2,390,460</b>	<b>945,949</b>	<b>911,264</b>	<b>4,968,003</b>	<b>4,309,041</b>
Segment gross profit	51,217	62,245	250,412	193,851	172,771	136,386	474,400	392,482

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

Six months ended 30 June  
2020 2019  
RMB'000 RMB'000

##### Other operating income

Interest income	5,522	5,225
Government grants	7,755	1,666
Rental income	1,036	1,313
	<u>14,313</u>	<u>8,204</u>

Six months ended 30 June  
2020 2019  
RMB'000 RMB'000

##### Other net gains/(losses)

Net gains/(losses) of foreign exchange	1,746	(15,627)
Net (losses)/gains on disposal of fixed assets	(1,306)	7,217
Others	322	2,828
	<u>762</u>	<u>(5,582)</u>

#### 5 Profit before taxation

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

Six months ended 30 June  
2020 2019  
RMB'000 RMB'000

##### (a) Finance costs

Interest on bank borrowings wholly repayable within five years	<u>(17,090)</u>	<u>(23,734)</u>
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(b) Other items

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Amortisation of lease prepayments	(2,700)	(3,183)
Depreciation of property, plant and equipment	(69,980)	(74,111)
Net reversal/(provision) of impairment losses on trade receivables	1,080	(5,237)
Net (write down)/reversal of write down of inventory	(18,372)	15,105

6 Income tax

	Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Current tax	(25,914)	(11,504)
Deferred taxation	(890)	(1,378)
	(26,804)	(12,882)

- (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”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. The two-tiered profits tax rate applies to the years of assessment commencing on or after 1 April 2018. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporation will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%.

For the relevant period in the six months ended 30 June 2020, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (six months ended 30 June 2019: 16.5%).

- (iii) Pursuant to the corporate income tax laws and regulations of the PRC, the Company’s subsidiaries established in the PRC for the six months ended 30 June 2020 are subject to PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2019: 25%), except for Liaoning Great Wall Agri-Industrial Co., Ltd. (“LGW”), which is subject to a preferential tax rate of 15% (six months ended 30 June 2019: 15%), as it has obtained the new high-tech enterprise qualification in 2019.
- (iv) Pursuant to the income tax laws and regulations of Malaysia, the Company’s subsidiary in Malaysia is subject to Malaysian income tax rate of 24% for the six months ended 30 June 2020 (six months ended 30 June 2019: 24%).

- (v) Pursuant to the Amended Investment Licence No. 1219/GPDC1-BKH-KCN-DN dated 23 September 2003, issued by Dong Nai Industrial Zone Authority, Asia Nutrition Technologies (VN) Co., Ltd. (“ANT-VN”) is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% for the six months ended 30 June 2020 (six months ended 30 June 2019: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2019: 20%).
- (vi) Asia Nutrition Technologies (HN) Co., Ltd. (“ANT-HN”) is subject to Corporate Income Tax of Vietnam at the rate of 10% for the first 15 years commencing from its first year of operation and 22% for the succeeding years. However, ANT-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 ANT-HN is 15% for the six months ended 30 June 2020 (six months ended 30 June 2019: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2019: 20%).
- (vii) Asia Nutrition Technologies (LA) Co., Ltd. (“ANT-LA”) is subject to Corporate Income Tax of Vietnam at the rate of 20% for the first 10 years commencing from its first year of operation and 22% for the succeeding years. However, ANT-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 ANT-LA is 20% for the six months ended 30 June 2020 (six months ended 30 June 2019: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2019: 20%).
- (viii) Pursuant to the Amended Investment Licence No. 43/2010/ND-CP dated 26 September 2012, issued by Binh Dinh Province Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. (“ANT-MV”) is subject to Vietnam Corporate Income Tax of 20% for the six-month period ended 30 June 2020 (six months ended 30 June 2019: 20%).

## **7 Earnings per share**

The calculation of basic earnings per share as at 30 June 2020 is based on the profit attributable to ordinary equity shareholders of the Company of RMB85,144 thousand (six months ended 30 June 2019: RMB13,210 thousand) and the weighted average of 1,016,189,000 ordinary shares (six months ended 30 June 2019: 1,015,860,970 shares) in issue during the reporting period.

The calculation of diluted earnings per share for the six months ended 30 June 2020 is based on profit attributable to ordinary equity shareholders of the Company of RMB13,210 thousand (six months ended 30 June 2019: RMB13,210 thousand) and the diluted weighted average number of ordinary shares in issue of 1,016,189,000 (six months ended 30 June 2019: 1,015,860,970) during the reporting period.

## **8 Fixed assets**

During the six months ended 30 June 2020, the Group acquired items of fixed assets at a cost of RMB65,471,000 (six months ended 30 June 2019: RMB79,749,000). Items of fixed assets with net book value of RMB9,122,000 were disposed of during the six months ended 30 June 2019 (six months ended 30 June 2019: RMB14,939,000), resulting in a loss on disposal of RMB1,306,000 (six months ended 30 June 2019: RMB7,217,000).

## 9 Trade receivables

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

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Current	224,534	214,947
1-180 days past due	60,851	78,406
181-365 days past due	4,902	7,136
More than 365 days past due	21,694	20,547
Amounts past due	87,447	106,089
Less: allowance of doubtful debts	(22,939)	(25,193)
	<u>289,042</u>	<u>295,843</u>

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

## 10 Other receivables and prepayments

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
VAT recoverable	373,394	385,916
Deposits and prepayments	209,791	171,024
Advances to staff	8,563	7,671
Others	13,074	12,433
	604,822	577,044
Less: non-current VAT recoverable	97,762	97,762
	<u>507,060</u>	<u>479,282</u>

## 11 Trade payables

An ageing analysis of trade payables is as follows:

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Current	350,080	357,418
Less than 30 days past due	126,095	123,711
31-60 days past due	9,520	16,883
61-90 day past due	7,816	8,783
More than 90 days past due	25,804	50,285
Amounts past due	169,235	199,662
	<u>519,315</u>	<u>557,080</u>

## 12 Other payables

	At 30 June 2020 RMB'000	At 31 December 2019 RMB'000
Sales rebate	145,303	151,179
Salaries, wages, bonuses and other benefits payable	79,346	128,169
Accrued expenses	99,574	79,462
Contract performance deposits	24,846	27,900
Payables for purchase of fixed assets	17,979	23,318
Amounts due to related parties	46,100	46,100
Others	19,023	13,966
	<u>432,171</u>	<u>470,094</u>

## 13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2020 (2019: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2020	2019	% change
Turnover (RMB'000)	4,227,285	3,705,849	14.1
Gross profit (RMB'000)	474,400	392,482	20.9
Gross profit margin (%)	11.2	10.6	
Profit attributable to shareholders of the Company (RMB'000)	85,144	13,210	544.5

At the beginning of 2020, the outbreak of COVID-19 had a material impact on economic activities in the PRC. Compared with last year, the GDP of China decreased by 6.8% in the first quarter and increased by 3.2% in the second quarter, resulting in an overall decrease of 1.6% for the first half of the year. Due to the sluggish consumption market, the demand for chicken meat plummeted whereas the supply of day-old chicks and feather chickens has gradually returned to the high level of recent years in the second quarter, which led to continued price suppressions in each segment of the production chain. For the first half of 2020, the market conditions of day-old chicks, feather chickens, and the overall price of chicken meat products decreased by approximately 55%, 21%, and 11% as compared with last year, respectively. Corn and soybean, the primary raw materials of feeds, increased by approximately 6% and 5% in price as compared with last year, respectively, due to changes in their global and domestic supply and demand. Under the dual pressures brought by lower consumption and increase in raw material costs, the Group has adjusted its operation strategies as and when appropriate and continued to promote internal organization restructuring and management optimization for enhancing its ability to mitigate risks and the overall profitability of the production chain.

The sluggish market environment had an adverse effect on the profit of the meat product segment for the first half of the year. The gross profit margin of the meat product segment decreased from 8.4% last year to 6.6% and profit recorded a year-on-year decrease of approximately RMB11,028 thousand. Nevertheless, the Group has turned crisis into opportunity through its active response to the COVID-19 pandemic. At the hardest time of controlling the COVID-19 pandemic, the Group gave full support to the contract farmers in the deployment of their day-old chicks, ensuring supply and transportation of feeds, taking up electrical slaughtered feather chickens in accordance with contracts and overcoming the difficulties with the contract farmers together. The volume of day-old chicks and the volume of chicken slaughtering had not decreased but rather increased by approximately 13% year-on-year.

The domestic feed segment faced the dual challenges of COVID-19 and African swine fever. The Group managed to organize sufficient manpower and the supply of raw materials even at the hardest time of the COVID-19 pandemic, and the Group succeeded in the timely resumption of work and production. On one hand, the Group has ensured the feed supply for existing customers, on the other hand, it also developed new customers and brought in additional sales. Meanwhile, the domestic feed segment has been focusing on the research and development of functional products, providing its customers with feed products with enhanced immune function and better cost effectiveness, together with more comprehensive animal health services, so as to assist customers to combat the African swine fever.

Under the unremitting efforts of the Group, the sales volume of feeds for the first half of the year increased approximately by 47.1% year-on-year and gross profit margin increased from 7.7% to 9.3%, with an increase of RMB45,200 thousand in gross profit year-on-year.

The feed segment in Southeast Asia has also overcome the dual challenges of COVID-19 and African swine fever and maintained its consistent and stable performance through the Group's continuous adjustments in product structure and expansion of production chain. Although the decrease in pig inventories affected the sales of pig feed, the successful expansion of the poultry feed business filled the sales gap in time such that only a slight decrease in sales volume of approximately 1.9% was recorded in the first half-year as compared with the same period of last year. Meanwhile, with the collaboration of the breeding business, the gross profit of the feed segment in Southeast Asia increased by approximately RMB11,361 thousand year-on-year.

In the first half of 2020, as affected by various adverse factors such as the delay in work resumption of customers' factories, delay in the reopening of schools, and slow recovery from a stagnant state of the catering market in each region, the processed food segment has recorded a year-on-year decrease of approximately 6.2% in sales volume, which is the first time in recent years. The Group, however, strived to explore market opportunities amid the crisis and searched for new growth areas. By way of developing household-package products meeting the demand of end-users and introducing new sales models such as community group purchase, live broadcasting online and other means, the impact of the COVID-19 pandemic on our operating results was minimized. Although the processed food segment has recorded a slight decrease in sales volume, its operating income still increased by approximately 3.8% year-on-year as a result of the adjustments in product structure and channel strategies. Meanwhile, due to the favorable effects of the decrease in raw meat cost, the gross profit margin of the processed food segment this year has increased from approximately 15% to approximately 18.3% compared with the same period last year, resulting in an increase of RMB36,385 thousand in gross profit as compared with the same period of last year.

In summary, each business segment has recorded satisfactory performance. Profit attributable to equity shareholders of the Company amounted to RMB85,144 thousand, representing an increase of RMB71,934 thousand as compared with the same period of last year.

Looking forward to the second half of 2020, the COVID-19 pandemic remains a material uncertainty impacting domestic and global economy. Control and prevention of the pandemic and safe production will continue to be the priority tasks of the Group. Apart from combating the COVID-19 pandemic, the domestic feed segment and the feed segment in Southeast Asia will continue to lower the potential threat of African swine fever by multiple means such as continuous improvement in product capabilities, adjustment of product structure, enhancement in customer service and others, in order to minimize the pressure on its growth of performance brought by African swine fever. The Group will also continuously improve its operation efficiency and enhance its overall risk resistance through multiple measures, such as organizational adjustments, management optimization, team motivation, etc.

## Meat

	Six months ended 30 June		
	2020	2019	% change
Turnover (RMB'000)	780,332	739,374	5.5
Gross profit (RMB'000)	51,217	62,245	-17.7
Gross profit margin (%)	6.6	8.4	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of “DaChan” and “Sisters 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 regions of the segment cover Northeast China, North China and East China while its sales network covers the entire nation.

Through the introduction of strategic cooperation partners, parental breeders introduced from the fourth quarter last year have entered the egg-laying period in the first half of the current year. The increase in the proportion of self-produced day-old chicks not only ensures the supply of day-old chicks, but also guarantees their quality. Meanwhile, following further development of caging reform projects, the average breeding scale of contract farmers increased significantly and the rearing cost of individual breeder decreased significantly. The continuous improvement in the quality of contract feeds also helps farmers to lower their breeding costs and improve the overall farming efficiency of broilers. At the same time, the increased extent of automation of electrical slaughterhouses has lowered the segment’s reliance on labor force and the cost of chicken meat processing, which is beneficial in building up our long-term core competitiveness.

## Livestock Feed (From External Customers)

	Six months ended 30 June		
	2020	2019	% change
Turnover (RMB'000)			
– China	1,070,626	698,055	53.4
– Vietnam and Malaysia	<u>1,430,378</u>	<u>1,357,156</u>	5.4
Total	2,501,004	2,055,211	21.7
Gross profit (RMB'000)			
– China	99,217	54,017	83.7
– Vietnam and Malaysia	<u>151,195</u>	<u>139,834</u>	8.1
Total	250,412	193,851	29.2
Gross profit margin (%)			
– China	9.3	7.7	
– Vietnam and Malaysia	<u>10.6</u>	<u>10.3</u>	
Total	10.0	9.4	

The operating income of the feed segment was primarily derived from the sale of pig, broiler and egg chicken feed to external customers in China, Vietnam and Malaysia. Corn and soybean meal are the primary raw materials of the feed segment. The main product brands of this segment are “Dr. Nupak”, “DaChan” and “SOS”. The production and sales regions of this segment cover Vietnam, Malaysia and Northeast, North, Central and Southwest China.

The sales volume of the domestic feed segment for the first half of the year has increased by approximately 47.1% as compared with the same period of last year. Among which, the sales volume of pig feed increased by approximately 119.3%. While we were actively increasing output, the research and development team has made various advance preparations in response to the new feed antibiotic-free regulations implemented as from 1 July 2020. The segment made use of the Group’s advantages in research and development to help its customers for a smooth transition, seizing this opportunity to strengthen the core competitiveness of the Group’s feed products.

In the future, the feed segment in Southeast Asia will further enhance its ability to resist market risks and further consolidate its market position following the commencement of cooperation with our parent company Great Wall Enterprises Co. Ltd. in the field of aqua feed.



## Processed Food

	<b>Six months ended 30 June</b>		
	<b>2020</b>	<b>2019</b>	<b>% change</b>
Turnover (RMB'000)			
– Mainland China	705,286	676,574	4.2
– Export	<u>240,663</u>	<u>234,690</u>	2.5
<b>Total</b>	<b>945,949</b>	<b>911,264</b>	<b>3.8</b>
Gross profit (RMB'000)			
– Mainland China	133,073	109,540	21.5
– Export	<u>39,698</u>	<u>26,846</u>	47.9
<b>Total</b>	<b>172,771</b>	<b>136,386</b>	<b>26.7</b>
Gross profit margin (%)			
– Mainland China	18.9	16.2	
– Export	<u>16.5</u>	<u>11.4</u>	
<b>Total</b>	<b><u>18.3</u></b>	<b><u>15.0</u></b>	

The processed food segment includes the production and distribution of prepared food under the “Sisters Kitchen” brand, as well as centrifuged and marinated, stewed, pre-fried, steamed, and 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 regions of the processed food segment cover Japan, Singapore, Hong Kong, Northeast, North, East, South China and a few inland regions such as Northwest and Southwest China.

Although the sales volume of the processed food segment of the internal market declined due to the impact of COVID-19 pandemic, its performance in the export market was still relatively stable. As the export products of the Group are tailored for the market demand, the export volume still recorded a slight increase of approximately 1.1% as compared with the same period of last year and a more significant increase of approximately 47.9% in gross profit despite the impact of the COVID-19 pandemic. With a relatively sluggish market condition of meat product sales, the overall gross profit of the processed food segment increased by approximately 26.7%, which clearly demonstrates that the Group’s long-term perseverance with its strategy of one-stop organic combination of meat and food products is effective.

## **Financial Review:**

### **1) Other Operating Income and Other Net Gains/(Losses)**

In the first six months of 2020, other operating income of the Group amounted to approximately RMB14,313 thousand (2019: approximately RMB8,204 thousand). Other operating income mainly comprised interest income and government grants.

In the first six months of 2020, other net gains of the Group amounted to approximately RMB762 thousand (other net gains in 2019: approximately RMB5,582 thousand). Other net gains/(losses) mainly comprised other balances derived from activities other than the Group's business operation such as net foreign exchange gains and net losses on disposals of fixed assets.

### **2) Liquidity, Financial Resources and Capital Structure**

As at 30 June 2020, the Group's cash and bank deposit balances amounted to approximately RMB589,591 thousand, representing an increase of approximately RMB219,489 thousand as compared with 31 December 2019. Interest-bearing borrowings of the Group increased by approximately RMB214,199 thousand to approximately RMB1,096,821 thousand (31 December 2019: approximately RMB882,622 thousand). The interest-bearing borrowings to equity ratio was approximately 51.4% (31 December 2019: approximately 43.9%). Current ratio was maintained at a healthy level of approximately 1.66 times (31 December 2019: approximately 1.41 times).

### **3) Capital Expenditure**

In the first six months of 2020, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB65,471 thousand. The primary source of fund of the Group's capital expenditure is long-term bank loans.

### **4) Exchange Rate**

The Group's business transactions were mainly denominated in RMB, USD and VND. During the reporting period, RMB depreciated by approximately 1.48% against USD and VND depreciated by approximately 0.33% against USD. Such change of exchange rate had no material impact on the Group's business operation.

### **5) Interest**

During the first six months in 2020, the Group's interest expense amounted to approximately RMB17,090 thousand (2019: approximately RMB23,734 thousand), representing a decrease of approximately 28.0% as compared with the same period of 2019. The decrease in interest expense was primarily due to the decrease of bank borrowings interest rates.

## **6) Pledge of Assets**

As at 30 June 2020, the Group had no assets pledged as security against bank facilities.

## **7) Capital Commitment**

As at 30 June 2020, the capital expenditure of the Group contracted for but not yet provided in the financial statements was approximately RMB8,434 thousand and the capital expenditure authorised but not contracted for was approximately RMB141,854 thousand.

## **Staff Compensation and Training**

As at 30 June 2020, the Group had a total of 10,984 staff (31 December 2019: 9,900). In order to build up a team comprised of professional staff and management to meet the development needs of the Group, the Group offers competitive remuneration packages to its staff by taking into consideration industry practice, the financial performance of the Group, and the staff's own performance. The Group places great emphasis on training and development of its staff and regards its staff as its core. With a view to continuously enhancing the job skills and industry knowledge of its management and other staff, the Group has offered them various training programs. The Group aims at promoting the quality of its staff through implementing the above programs and at the same time offering them the best opportunity for personal career development. The Group believes such programs benefit both itself and its staff.

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

## OTHER INFORMATION

### Code on Corporate Governance Practices

Throughout the six months ended 30 June 2020, the Company has complied with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that:

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

Code Provision A.5.1 stipulates that a nomination committee should comprise a majority of independent non-executive directors. In addition, Listing Rules 3.10(1) and 3.10A respectively stipulates that a listed issuer should include at least three independent non-executive directors and that non-executive directors should represent at least one-third of the board. Further, Listing Rules 3.21 and 3.25 respectively provides that the majority of the audit committee and remuneration committee members should be independent non- executive directors and Listing Rule 3.25 further stipulates that a remuneration committee should be chaired by an independent non-executive director. Mr. Wei Anning has been re-designated from an independent non-executive director to an executive director of the Company and resigned as a member of the audit committee and the chairman of the remuneration committee of the Company with effect from 1 March 2020. Immediately after such re-designation, the Company only has two independent non-executive directors with no chairman of the remuneration committee. On 2 March 2020, the Company has appointed Mr. Ting Yu-Shan as an independent non-executive director of the Company, who also acts as a member of the remuneration committee, the audit committee and the nomination committee and the chairman of the remuneration committee and since then, the Company has fully complied with the aforesaid code provision and Listing Rules.

## **Model Code for Securities Transactions by Directors**

The Company has adopted a code of conduct on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules for regulating the securities transactions of the Directors. All Directors have confirmed, following the specific enquiry by the Company, that they complied with the required standards set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions throughout the six months ended 30 June 2020.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

## **AUDIT COMMITTEE**

The audit committee of the Company was established with terms of reference in accordance with Appendix 14 to the Listing Rules. The audit committee is delegated by the Board to assess matters related to the financial statements and to provide recommendations and advice regarding the Company’s financial reporting matters, including reviewing the interim results for the six months ended 30 June 2020, and the internal control and risk management system. The audit committee has reviewed the interim results of the Company and does not have any disagreement with the accounting treatment adopted by the Company.

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

By Order of the Board  
**Wei Anning**  
*Chairman*

Hong Kong, 5 August 2020

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