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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 Annual Results For 2020

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 2020, 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 2019 as follows:

Highlights

	2020	2019	% change
Turnover (RMB'000)	9,278,864	8,035,206	15.5
Gross profit (RMB'000)	1,025,518	981,575	4.5
Gross profit margin (%)	11.1	12.2	
Profit attributable to equity shareholders of the Company (RMB'000)	202,890	133,683	51.8
Basic earnings per share (RMB)	0.20	0.13	
Dividend per share (HK cents)	0	0	

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2020	2019
Turnover	3	9,278,864	8,035,206
Cost of sales		<u>(8,253,346)</u>	<u>(7,053,631)</u>
Gross profit		1,025,518	981,575
Other operating income		30,508	18,706
Other net loss		(1,328)	(31,190)
Distribution costs		(402,690)	(391,045)
Administrative expenses		<u>(267,041)</u>	<u>(282,459)</u>
Profit from operations		384,967	295,587
Finance costs	4(a)	(31,336)	(45,860)
Share of losses of equity-accounted investees		<u>(2,609)</u>	<u>(607)</u>
Profit before taxation	4	351,022	249,120
Income tax	5	<u>(47,192)</u>	<u>(43,133)</u>
Profit for the year		<u><u>303,830</u></u>	<u><u>205,987</u></u>
Profit for the year attributable to:			
Equity shareholders of the Company		202,890	133,683
Non-controlling interests		<u>100,940</u>	<u>72,304</u>
Profit for the year		<u><u>303,830</u></u>	<u><u>205,987</u></u>
Dividends payable to shareholders of the Company attributable to the year:			
Final dividend proposed after the end of the reporting period	6	<u><u>0</u></u>	<u><u>0</u></u>
Earnings per share	7		
– Basic (RMB)		<u><u>0.20</u></u>	<u><u>0.13</u></u>
– Diluted (RMB)		<u><u>0.20</u></u>	<u><u>0.13</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2020***(Expressed in thousands of Renminbi unless otherwise stated)*

	Note	2020	2019
Non-current assets			
Fixed assets			
– property, plant and equipment		1,380,016	1,370,273
– land use rights		202,627	215,958
Interests in equity-accounted investees		80,727	78,019
Other financial assets		1,948	1,948
Deferred tax assets		29,327	26,094
Long-term tax recoverable	9	135,865	97,762
Other non-current assets		6,055	8,430
		<u>1,836,565</u>	<u>1,798,484</u>
Current assets			
Inventories		941,995	934,682
Biological assets		180,073	169,544
Trade receivables	8	301,522	295,843
Other receivables and prepayments	9	437,759	479,282
Cash and cash equivalents		631,370	370,102
		<u>2,492,719</u>	<u>2,249,453</u>
Current liabilities			
Trade payables	10	541,618	557,080
Other payables	11	513,503	470,094
Contract liabilities		39,097	10,435
Interest-bearing borrowings		477,264	531,149
Lease liabilities		8,917	6,340
Income tax payable		12,792	19,417
Dividend payable		2,349	2,511
		<u>1,595,540</u>	<u>1,597,026</u>
Net current assets		<u>897,179</u>	<u>652,427</u>

	Note	2020	2019
Total assets less current liabilities		<u>2,733,744</u>	<u>2,450,911</u>
Non-current liabilities			
Interest-bearing borrowings		327,387	351,473
Lease liabilities		130,613	86,506
Deferred tax liabilities		<u>3,441</u>	<u>450</u>
		<u>461,441</u>	<u>438,429</u>
Net assets		<u>2,272,303</u>	<u>2,012,482</u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		944,446	920,724
Retained profits		<u>799,050</u>	<u>616,903</u>
Total equity attributable to equity shareholders of the Company		1,841,416	1,635,547
Non-controlling interests		<u>430,887</u>	<u>376,935</u>
Total equity		<u>2,272,303</u>	<u>2,012,482</u>

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 2020 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 Group has applied the following amendments to IFRSs to these financial statements for the current accounting period:

- Amendments to IFRS 3, Definition of a Business
- Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8, Definition of Material
- Amendment to IFRS 16, Covid-19-Related Rent Concessions

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods 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.

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 feeds, base mix feeds and pre-mix feeds for swine, layer, broiler, duck, and breeder poultry under the brands of “Dr. Nupak”, “DaChan” and “Green Knight”.

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 2020 and 2019 is set out below:

	Meat products		Livestock feeds		Processed foods		Total	
	2020	2019	2020	2019	2020	2019	2020	2019
Turnover from external customers	1,753,326	1,614,836	5,628,834	4,379,082	1,896,704	2,041,288	9,278,864	8,035,206
Inter-segment turnover	542,707	615,274	1,143,605	807,243	-	-	1,686,312	1,422,517
Total	2,296,033	2,230,110	6,772,439	5,186,325	1,896,704	2,041,288	10,965,176	9,457,723
Segment result	82,155	199,428	529,980	437,311	413,383	344,836	1,025,518	981,575
Unallocated operating income and expenses	-	-	-	-	-	-	(640,551)	(685,988)
Profit from operations	-	-	-	-	-	-	384,967	295,587
Finance costs	-	-	-	-	-	-	(31,336)	(45,860)
Share of losses of equity-accounted investees	-	-	-	-	-	-	(2,609)	(607)
Income tax	-	-	-	-	-	-	(47,192)	(43,133)
Profit for the year	-	-	-	-	-	-	303,830	205,987
Depreciation and amortisation for the year	49,307	49,107	56,149	59,809	50,759	52,759	156,215	161,675
Reportable segment assets	1,050,782	957,599	1,515,332	1,359,798	897,340	1,103,130	3,463,454	3,420,527
Additions to non-current segment assets during the year	75,225	61,277	81,037	88,112	52,316	34,833	208,578	184,222
Reportable segment liabilities	247,410	264,301	982,732	852,251	234,770	220,590	1,464,912	1,337,142

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

	2020	2019
Turnover		
Reportable segment turnover	10,965,176	9,457,723
Elimination of inter-segment turnover	<u>(1,686,312)</u>	<u>(1,422,517)</u>
Consolidated turnover	<u><u>9,278,864</u></u>	<u><u>8,035,206</u></u>
Profit		
Reportable segment profit	<u>1,025,518</u>	<u>981,575</u>
Other operating income	30,508	18,706
Other net loss	(1,328)	(31,190)
Distribution costs	(402,690)	(391,045)
Administrative expenses	(267,041)	(282,459)
Finance costs	(31,336)	(45,860)
Share of losses of equity-accounted investees	<u>(2,609)</u>	<u>(607)</u>
Consolidated profit before taxation	<u><u>351,022</u></u>	<u><u>249,120</u></u>
Assets		
Reportable segment assets	<u>3,463,454</u>	<u>3,420,527</u>
Deferred tax assets	29,327	26,094
Cash and cash equivalents	631,370	370,102
Unallocated head office and corporate assets	<u>205,133</u>	<u>231,214</u>
Consolidated total assets	<u><u>4,329,284</u></u>	<u><u>4,047,937</u></u>
Liabilities		
Reportable segment liabilities	<u>1,464,912</u>	<u>1,337,142</u>
Income tax payable	12,792	19,417
Deferred tax liabilities	3,441	450
Interest-bearing borrowings	446,518	569,528
Unallocated head office and corporate liabilities	<u>129,318</u>	<u>108,918</u>
Consolidated total liabilities	<u><u>2,056,981</u></u>	<u><u>2,035,455</u></u>

(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	
	2020	2019	2020	2019
Mainland China	5,690,511	4,739,290	1,267,365	1,283,725
Vietnam	3,152,809	2,709,935	393,366	379,251
Japan	355,233	407,274	–	–
Rest of Asia Pacific	80,311	178,707	8,694	9,704
	<u>9,278,864</u>	<u>8,035,206</u>	<u>1,669,425</u>	<u>1,672,680</u>

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2020	2019
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	25,627	41,896
Interest on lease liabilities	<u>5,709</u>	<u>3,964</u>
	<u>31,336</u>	<u>45,860</u>
(b) Staff costs		
Salaries, wages, bonuses and other benefits	734,923	686,999
Contributions to retirement schemes	<u>49,026</u>	<u>82,803</u>
	<u>783,949</u>	<u>769,802</u>

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 14.5% to 16% (2019: 14% to 18%) 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 at 6% (2019: 6%) of the employees’ relevant income and its employees are required to make contributions to the scheme at 5% (2019: 5%) of the employees’ relevant income. Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia’s Employees Provident Fund is based on 13% (2019: 13%) of the eligible employees’ salaries.

The Group also made contribution on the statutory social security and health insurance in Vietnam at 20.5% (2019: 20.5%) 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

	2020	2019
Auditors’ remuneration		
– audit services	4,674	4,990
– tax services	–	80
	<u>4,674</u>	<u>5,070</u>
Depreciation charge		
– owned property, plant and equipment	139,804	147,013
– right-of-use assets	16,411	14,662
	<u>156,215</u>	<u>161,675</u>
Depreciation of biological assets	11,795	3,702
Impairment loss/(reversal) of trade receivables recognised	858	(2,368)
Net write down/(reversal of write down) of inventory	3,865	(13,424)
Research and development costs	9,384	1,535
Cost of inventories	<u>7,822,738</u>	<u>6,649,367</u>

5 Income tax in the consolidated income statement

	2020	2019
Current tax		
Provision for the year	48,750	45,545
Over-provision in respect of prior years	<u>(1,316)</u>	<u>(4,143)</u>
	<u>47,434</u>	<u>41,402</u>
Deferred tax		
Origination and reversal of temporary differences	<u>(242)</u>	<u>1,731</u>
	<u>47,192</u>	<u>43,133</u>

- (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 2020, 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 2019: 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% (2019: 25%), except for Liaoning Great Wall Agri-Industrial Co., Ltd. (“LGW”) and Great Wall Agri (Heilongjiang) Co., Ltd. (“GWAHLJ”). LGW is subject to a preferential tax rate of 15% (2019: 15%), as it has obtained the new high-tech enterprise qualification from 2019. GWAHLJ is subject to a preferential tax rate of 15% (2019: 25%), as it has obtained the new high-tech enterprise qualification from 2020. TDPR returns to a tax rate of 25% (2019: 15%), as it has expired the new high-tech enterprise qualification from 2020.
- (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 2020 (2019: 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% (2019: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2019: 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 2020 (2019: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2019: 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 2020 (2019: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2019: 20%).
- (viii) Pursuant to the Amended Investments Licence No. 43/2010/ND-CP dated 26 September 2012 and issued by Binh Dinh Province 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 2020 (2019: 20%).

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

	2020	2019
Profit before taxation	<u>351,022</u>	<u>249,120</u>
Income tax calculated at PRC’s Corporate Income Tax rate of 25% (2019: 25%) (note)	87,756	62,280
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(18,498)	(12,086)
Tax effect of non-deductible expenses	1,596	2,129
Tax effect of non-taxable income	(18,435)	(19,625)
Tax effect of the movement of tax losses and temporary difference not recognised	(3,911)	14,578
Over-provision in respect of prior years	<u>(1,316)</u>	<u>(4,143)</u>
Actual tax expense	<u>47,192</u>	<u>43,133</u>

Note: The income tax rate of 25% (2019: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2020	2019
Final dividend proposed after the end of the reporting period	<u>0</u>	<u>0</u>

On 24 March 2021, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2020 (2019: No distribution).

7 Earning per share

The calculation of basic earnings per share for the year ended 31 December 2020 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB202,890 thousand (2019: approximately RMB133,683 thousand) and the weighted average of 1,016,189,000 ordinary shares (2019: 1,016,016,767) in issue during the year.

For the year ended 31 December 2020, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB202,890 thousand (2019: approximately RMB133,683 thousand) and the weighted average of 1,016,189,000 ordinary shares (2019: 1,016,016,767).

8 Trade receivables

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

	2020	2019
Current	<u>245,024</u>	<u>214,947</u>
1-180 days past due	57,180	78,406
181-365 days past due	3,066	7,136
More than 365 days past due	<u>20,612</u>	<u>20,547</u>
Amounts past due	80,858	106,089
Less: Provision for bad debt	<u>(24,360)</u>	<u>(25,193)</u>
	<u><u>301,522</u></u>	<u><u>295,843</u></u>

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

9 Other receivables and prepayments

	2020	2019
VAT recoverable	355,816	385,916
Deposits and prepayments	195,596	171,024
Advances to staff	7,136	7,671
Others	<u>15,076</u>	<u>12,433</u>
	573,624	577,044
Less: non-current VAT recoverable	<u>135,865</u>	<u>97,762</u>
	<u><u>437,759</u></u>	<u><u>479,282</u></u>

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:

	2020	2019
Current	<u>382,311</u>	<u>357,418</u>
Less than 30 days past due	128,997	123,711
31-60 days past due	9,325	16,883
61-90 days past due	4,568	8,783
More than 90 days past due	<u>16,417</u>	<u>50,285</u>
Amounts past due	<u>159,307</u>	<u>199,662</u>
	<u>541,618</u>	<u>557,080</u>

11 Other payables

	2020	2019
Sales rebate	172,658	151,179
Salaries, wages, bonuses and other benefits payable	128,952	128,169
Accrued expenses	82,497	79,462
Contract performance deposits	46,143	27,900
Payables for purchase of fixed assets	20,890	23,318
Amounts due to related parties	42,600	46,100
Others	<u>19,763</u>	<u>13,966</u>
	<u>513,503</u>	<u>470,094</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2020	2019	% change
Turnover (RMB'000)	9,278,864	8,035,206	15.5
Gross profit (RMB'000)	1,025,518	981,575	4.5
Gross profit margin (%)	11.1	12.2	
Profit attributable to shareholders of the Company (RMB'000)	202,890	133,683	51.8

Economic Environment and Strategy Direction

In early 2020, the outbreak of COVID-19 severely affected the normal conduct of various domestic economic activities, the white feather meat chicken industry has also suffered a heavy blow with sluggish market consumption. Coinciding with the expansion of the production capacity of the white feather meat chicken industry, new production capacity of parent breeding farms, commercial chicken farms and slaughterhouses has been released successively, the production volume of domestic white feather meat chicken from September to October hit a record high. Although the impact of African swine fever on domestic live pigs' supply has not been eliminated, pork continues to be in short supply, and the consumer market's alternative demand for chicken products has increased. However, the growth of demand for chicken products is unable to catch up with the growth of its supply, which has led to the continued downturn in the prices of various segments of the industry chain. In 2020, the comprehensive price of day-old chicks, feather chickens and chicken meat products fell by approximately 63%, 24% and 19% year-on-year, respectively.

Under this situation, the Group actively responded to market impact in the meat segment. At the hardest time of controlling the pandemic, the Group gave full support to the contract farmers in the deployment of their day-old chicks, ensuring supply of feeds, taking up electrically slaughtered feather chickens in accordance with contracts and overcoming the difficulties with the contract farmers together; the Group continued in improving the performance of contract feeds, assisting customers in improving breeding management, and reducing meat chickens' breeding costs after the epidemic slows down; through equipment automation transformation, the Group also continued in improving production efficiency, reducing electrical slaughter processing costs while strengthening quality control to ensure the provision of safe and traceable raw meat supply for the food segment and enhancing its comprehensive competitiveness within the industry.

The COVID-19 pandemic has also created a serious impact on traditional sales channels of domestic food segment such as casual catering, group catering, takeaways, etc., consumers' consumption habits have changed accordingly to favour products from online and supermarket channels. In response to market changes, the Group timely launched family-sized products through e-commerce livestreaming, community group buying, community convenience stores, farmer's markets and other channels for precise promotion. Leveraging on the adjustment on product structure and channel strategy, the declining sales through traditional channels is compensated by the increasing sales through new channels. As the regional layout and channel construction of food business are further improving, its market scale is bound for a steady growth.

The domestic feeds segment faced the dual challenges of COVID-19 and African swine fever. The Group managed to actively organise manpower and the supply of raw materials even at the hardest time of the COVID-19 pandemic during the first half of the year, and the Group succeeded in the timely resumption of work and production. On one hand, the Group has ensured the feeds supply for existing customers, on the other hand, it also explored new customers and brought in additional sales. Meanwhile, the Group has been focusing on the research and development of functional products, providing its customers with feeds products with enhanced immunity and better cost effectiveness. It has not only completed the smooth transition to non-resistant feeds, but also brought forth more comprehensive animal health services, so as to assist customers to combat the African swine fever.

The feeds segment in Southeast Asia facing the dual challenges of COVID-19 and African swine fever has 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 stock affected the sales of pig feeds, the successful expansion of the poultry and aquatic feeds business filled the sales gap in time. 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 in resisting market risks will be further enhanced.

The Group continued to adhere to the following operating strategies in 2020:

1. Leveraging on food as its key segment in the continuous development of the Group, continuing to strengthen its product research and market development efforts in the food segment, striving for the leading position in the professional catering market.
2. Integrating the one-stop industrial chain of broilers, maintaining appropriate scale for self-breeding broilers, rearing feather chickens and electrical slaughtering broilers, and strengthening risk management and cost control in all aspects of the industrial chain as well as providing a safe and traceable raw meat supply for the food segment.
3. Maintaining a stable market share in the feeds market in Southeast Asia, actively planning for the rearing of breeding 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 feeds market in China, enhancing the research and development and marketing of poultry and various animal feeds to diversify market risks.

Business Review

In 2020, the operating income of the Group was approximately RMB9,278,864 thousand, representing a year-on-year increase of approximately 15.5%, of which, the meat segment, domestic feeds segment, food segment and feeds segment in Southeast Asia accounted for 18.9%, 26.9%, 20.4% and 33.8% of the Group's total operating income, respectively. The Group's gross profit amounted to approximately RMB1,025,518 thousand, representing an increase of approximately 4.5% as compared with last year. The meat segment, domestic feeds segment, food segment and feeds segment in Southeast Asia accounted for 8.0%, 21.3%, 40.3% and 30.4% 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 largest source of profit.

The gross profit of the Group increased by approximately RMB43,943 thousand as compared with 2019. In addition, due to the following:

1. in 2019, 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 in 2019 resulted in a foreign exchange loss of approximately RMB19,029 thousand while there was no such loss in 2020; and
2. in 2019, the Group conducted cleanup on fixed assets of domestic companies, and recorded an impairment of approximately RMB7,036 thousand for assets with signs of impairment while there was an impairment of approximately RMB10,151 thousand for assets with indications of impairment in 2020.

Profit attributable to equity shareholders of the Company amounted to RMB202,890 thousand, representing an increase of RMB69,207 thousand as compared with the same period of last year.

Meat Product

	2020	2019	% change
Turnover (RMB'000)	1,753,326	1,614,836	8.6
Gross profit (RMB'000)	82,155	199,428	-58.8
Gross profit margin (%)	4.7	12.3	

The Group mainly sells chilled and frozen chicken meat under the brand of “Sister’s Kitchen” and lightly processed tender chicken meat, it 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 takes up the grown chickens. The production region of the segment covers Northeast China, North China and East China regions while its sales network covers the entire nation.

Business Review

Despite the greater challenges posed by the external economic environment to the operation of the meat product segment, the relatively sluggish market conditions have resulted in a year-on-year decrease in gross profit by approximately RMB117,273 thousand in 2020. However, in the midst of an economic downturn, the segment was striving steadily, the Group focuses on internal management, seeking enhancement through management. Firstly, by supporting caging reforms for contract farmers to expand breeding scale, while strengthening the technical services of farming to raise the rearing and breeding efficiency of contract farmers and continuously improve feeds performance - a number of measures were coordinated and implemented so as to reduce the cost of broiler breeding. In 2020, customers who opted for caging in the meat product segment accounted for over 90% of all contract farmers, the rearing volume of day-old chicks increased by approximately 15.0% year-on-year, slaughtering volume of broilers increased by approximately 11.9% year-on-year, while due to the increase in average weight of feather chickens, the production volume of chicken meat increased by approximately 13.8% year-on-year.

Future Strategies

The operating strategy of “eliminating risk” adhered by the Group will continue to be implemented in future, particular measures of which include: (i) achieving the provision of 50% of the day-old chicks required by electrical slaughterhouses from broiler self-breeding farms and cooperative farms, 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) encouraging contract farmers to change the way of rearing from netting to caging, assisting them to strengthen management, reduce the rearing and breeding fees and raise the rearing and breeding efficiency; (iii) continuing promoting automation transformation projects for equipment in the electrical slaughterhouse; and (iv) continuing increasing the proportion of converting the Group’s chicken meat to prepared food and deeply processed food products to eliminate market risk when the meat market is on decline, etc.

Livestock Feeds (From External Customers)

	2020	2019	% change
Turnover (RMB'000)			
– China	2,498,384	1,606,821	55.5
– Vietnam and Malaysia	3,130,450	2,772,261	12.9
Total	<u>5,628,834</u>	<u>4,379,082</u>	28.5
Gross profit (RMB'000)			
– China	217,942	135,146	61.3
– Vietnam and Malaysia	312,038	302,165	3.3
Total	<u>529,980</u>	<u>437,311</u>	21.2
Gross profit margin (%)			
– China	8.7	8.4	
– Vietnam and Malaysia	10.0	10.9	
Total	<u>9.4</u>	<u>10.0</u>	

The operating income of the feeds segment was primarily derived from the sales of pig feeds, broiler feeds, egg chicken feeds and Vietnam aquatic feeds, etc. to external customers in China, Vietnam, Malaysia and Cambodia. 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 “Green Knight”. The production and sales region of this segment covered Vietnam, Malaysia, Cambodia and Northeastern, Northern, Central and Southwestern China.

Business Review

In 2020, the domestic sow and live pig stocks have gradually recovered, and the Group has seized the opportunity to fully develop the pig feeds market. Stimulated by the positive live pigs’ market, the preference of family farms and small-scale farmers for feeds has shifted from low-cost feeds to high-performance feeds. The brand advantages of sow feeds and piglet feeds in the domestic feeds segment have been fully demonstrated, which has driven the growth in medium to large pig feeds. In 2020, the total sales volume of pig feeds increased by approximately 108.4% year-on-year, and the proportion of pig feeds to total sales volume of feeds also increased from 36.6% in the same period last year to 51.9%. The total sales volume of external feeds increased by approximately 46.4% year-on-year, with a year-on-year increase in gross profit by approximately 61.3%.

Affected by the African swine fever, the recovery of live pig production capacity in Vietnam was relatively slow. In 2020, the sales volume of pig feeds in Southeast Asia's feeds segment decreased by approximately 16.1% year-on-year, and the proportion of pig feeds in total sales volume of feeds also decreased from 33.7% in the same period last year to 27.1%. The Group actively adjusted its sales strategy and increased the marketing of poultry feeds and aquatic feeds in the segment. Driven by poultry feeds and aquatic feeds, the total sales volume of external feeds still increased by approximately 6.9% year-on-year; at the same time, due to the rise in the price of pigs from Vietnam, the live pig breeding business in its infancy stage has also achieved good profits, which has led to a year-on-year increase of approximately 3.3% in the overall gross profit of the Southeast Asian feeds segment.

Future Strategies

The Group will continue to pursue the following strategies: (i) to take advantage of the biotechnology intestinal pre-digestion fermentation technology and to focus on marketing activities for sow and piglet feed products; (ii) to strengthen the research and development of poultry feeds and Vietnam aquatic feeds and build up core competitiveness in poultry feeds and Vietnam aquatic 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 the advantage of lower raw material cost.

Processed Food

	2020	2019	% change
Turnover (RMB'000)			
– Mainland China	1,470,304	1,549,722	-5.1
– Export	426,400	491,566	-13.3
Total	<u>1,896,704</u>	<u>2,041,288</u>	-7.1
Gross profit (RMB'000)			
– Mainland China	353,001	288,198	22.5
– Export	60,382	56,638	6.6
Total	<u>413,383</u>	<u>344,836</u>	19.9
Gross profit margin (%)			
– Mainland China	24.0	18.6	
– Export	14.2	11.5	
Total	<u>21.8</u>	<u>16.9</u>	

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. 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 2020, the COVID-19 not only imposed an impact on the domestic sales of the food segment, but the spread of the COVID-19 pandemic in Japan also affected the expansion of export business to Japan. At the same time, the Group also proactively eliminated unprofitable non-strategic export products and domestically marketed products, and concentrated resources on the production and sales of hit products, and the operating income decreased by approximately 7.1% compared with 2019. Benefiting from the reduction in raw material costs and the adjustment of sales structure, as well as the continuous optimization of process flow and research and development formulas, the gross profit of the food segment increased by approximately 19.9% year-on-year.

Due to the serious impact imposed by the COVID-19 pandemic on casual catering, group catering, takeaways and other channels, consumers have increased their purchase of products through the Internet and supermarket channels. In response to market changes, the Group timely launched family-sized products and utilized diversified channels to enable more consumers to reach and experience the premium products of Sisters’ Kitchen. Through livestreaming platforms, the Group created popular products such as “Kazi Crispy Chicken Chop”, “Honey Sauce Pan-fried Chicken Chop” and “Cheese Hot Dog Stick”. At the same time, the development of community group buying platforms has also achieved effective outcomes, products from Sisters’ Kitchen have been launched on all of the top ten community group buying platforms in China.

The COVID-19 has imposed a serious impact on cold chain logistics transportation and cold storage warehousing management. Under the impact of the pandemic, the Group promptly responded to various situations that appeared at any time, made every effort to maintain the normal logistics operation, and successfully met order requirements from customers.

In terms of product research and development, the Group reorganized the development process of new products with the participation of product planning team and channel planning team, assisting the research and development team to bring the research and development of new products closer to the market.

Future Strategies

The core values of the Group's brand 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 Group will continue to work out the following strategies in the processed food segment:

(i) to continue to concentrate resources on product research and development in professional catering market to improve product competitiveness and create a number of hit products; intensively cultivate the market to enlarge its market share; improve the channel structure to continuously enhance the sales force of the team; (ii) to provide key customers with a full range of services to form strategic alliances and achieve mutual growth; (iii) to continue to utilize its advantage in relation to Japanese style products for research and development 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 combine online and offline sales to build a brand advantage in retail consumption market.

In order to strengthen the Group's leading position in the production and sales of the domestic chicken meat processing food product, satisfy the production capacity needs of the food segment's development in medium and long-term, while achieving the long-term plan for the coordinated development of raw and cooked food in East China region and enhancing the core competitiveness of the one-stop supply chain, the Group plans to build a new food processing plant with a monthly production capacity of 4,000 tons in Bengbu City, Anhui Province, as well as a broiler electrical slaughter factory and a feeds processing plant. The investment of this project is approximately RMB1 billion, and the first phase is expected to be completed and put into operation by the end of 2022.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2020, the Group recorded other operating income of approximately RMB30,508 thousand (2019: approximately RMB18,706 thousand) which mainly comprised of interest income and government subsidies. The increase in other operating income was mainly due to the increase in government subsidies.

In 2020, other net loss of the Group amounted to approximately RMB1,328 thousand (2019: net losses of approximately RMB31,190 thousand). Other net loss mainly include net foreign exchange gain and net loss on the disposal of assets.

Distribution costs accounted for approximately 4.34% of total turnover (2019: approximately 4.87%).

Administrative expenses accounted for approximately 2.88% of turnover (2019: approximately 3.52%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2020, the Group's cash and bank deposit balances amounted to approximately RMB631,370 thousand, representing an increase of approximately RMB261,268 thousand from 2019. The Group's interest-bearing borrowings decreased by approximately RMB77,971 thousand to approximately RMB804,651 thousand (2019: approximately RMB882,622 thousand). As at 31 December 2020, the interest-bearing borrowings to equity ratio was approximately 35.4% (2019: approximately 43.9%). Current ratio was maintained at a healthy level of approximately 1.56 times (2019: approximately 1.41 times).

3) Capital Expenditure

In 2020, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB208,578 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 depreciated by approximately 6.95% while RMB against USD appreciated by approximately 6.47%.

5) Interest

In 2020, the Group's interest expense amounted to approximately RMB31,336 thousand (2019: approximately RMB45,860 thousand), representing a decrease of approximately 31.7% from 2019. The decrease in interest expenses was mainly due to the decreasing 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 2020 (2019: no distribution).

7) Charge on Assets

As at 31 December 2020, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2020, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB25,961 thousand (2019: approximately RMB85,280 thousand) and the capital expenditure authorised but not contracted for was approximately RMB138,298 thousand (2019: approximately RMB90,901 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2020, the Group had a total of 10,470 employees (31 December 2019: 9,900). 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 2021 AGM of the Company will be held on 29 June 2021 (Tuesday) 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 23 June 2021 (Wednesday) to 29 June 2021 (Tuesday), 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 22 June 2021 (Tuesday) (Hong Kong time).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2020, 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 2020:

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.

Under Code Provision A.5.1, 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 relating to independent non-executive directors.

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 2020), 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, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan, who are all independent non-executive directors of the Company.

On behalf of the Board
Wei, Chun-hsien
Chairman

Hong Kong, 24 March 2021

As at the date of this announcement, Mr. Wei, Chun-hsien (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, Mr. Chao Tien-Shin and Mr. Wei Anning are the non-executive directors of the Company, and Mr. Way Yung-Do, Mr. Chen Chih, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan are the independent non-executive directors of the Company.