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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 2021

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 2021:

Highlights

	Six months ended 30 June		
	2021	2020	% change
	(unaudited)	(unaudited)	
Turnover (RMB'000)	5,100,261	4,227,285	20.7
Gross profit (RMB'000)	446,551	474,400	-5.9
Gross profit margin (%)	8.8	11.2	
Profit attributable to equity shareholders of the Company (RMB'000)	71,347	85,144	-16.2
Basic earnings per share (RMB)	0.070	0.084	

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021 – not audited by auditors

(Expressed in thousands of Renminbi)

		Six months ended 30 June	
	Note	2021	2020
Turnover	3	5,100,261	4,227,285
Cost of sales		<u>(4,653,710)</u>	<u>(3,752,885)</u>
Gross profit		446,551	474,400
Other operating income	4	12,579	14,313
Other net gains	4	2,967	762
Distribution costs		(199,610)	(184,738)
Administrative expenses		<u>(142,859)</u>	<u>(124,149)</u>
Profit from operations		119,628	180,588
Finance costs	5(a)	(11,965)	(17,090)
Share of losses of equity accounted investees		<u>(648)</u>	<u>(1,635)</u>
Profit before taxation	5	107,015	161,863
Income tax	6	<u>(12,595)</u>	<u>(26,804)</u>
Profit for the period		<u>94,420</u>	<u>135,059</u>
Attributable to:			
Equity shareholders of the Company		71,347	85,144
Non-controlling interests		<u>23,073</u>	<u>49,915</u>
Profit for the period		<u>94,420</u>	<u>135,059</u>
Earnings per share			
– Basic (RMB)	7	<u>0.070</u>	<u>0.084</u>
– Diluted (RMB)	7	<u>0.070</u>	<u>0.084</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021 – not audited by auditors

(Expressed in thousands of Renminbi)

	Six months ended 30 June	
	2021	2020
Profit for the period	94,420	135,059
Exchange differences on translation of financial statements of overseas subsidiaries	<u>3,515</u>	<u>(2,253)</u>
Total comprehensive income for the period	<u><u>97,935</u></u>	<u><u>132,806</u></u>
Attributable to:		
Equity shareholders of the Company	75,407	80,816
Non-controlling interests	<u>22,528</u>	<u>51,990</u>
Total comprehensive income for the period	<u><u>97,935</u></u>	<u><u>132,806</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2021

(Expressed in thousands of Renminbi)

	Note	At 30 June 2021 (unaudited)	At 31 December 2020 (audited)
Non-current assets			
Fixed assets			
– property, plant and equipment	8	1,349,888	1,380,016
– lease prepayments		203,275	202,627
Interests in equity-accounted investees		80,013	80,727
Other non-current financial assets		1,948	1,948
Deferred tax assets		31,591	29,327
Long-term tax recoverable	10	135,865	135,865
Other non-current assets		25,897	6,055
		<u>1,828,477</u>	<u>1,836,565</u>
Current assets			
Inventories		945,401	941,995
Biological assets		186,091	180,073
Trade receivables	9	286,489	301,522
Other receivables and prepayments	10	538,601	437,759
Cash and cash equivalents		678,566	631,370
		<u>2,635,148</u>	<u>2,492,719</u>
Current liabilities			
Trade payables	11	617,100	541,618
Other payables	12	419,043	513,503
Contract liabilities		18,687	39,097
Interest-bearing borrowings		533,738	477,264
Lease liabilities		8,917	8,917
Income tax payable		11,089	12,792
Dividend payable		2,326	2,349
		<u>1,610,900</u>	<u>1,595,540</u>
Net current assets		<u>1,024,248</u>	<u>897,179</u>
Total assets less current liabilities		<u>2,852,725</u>	<u>2,733,744</u>

	Note	At 30 June 2021 (unaudited)	At 31 December 2020 (audited)
Non-current liabilities			
Interest-bearing borrowings		387,457	327,387
Lease liabilities		123,176	130,613
Deferred tax liabilities		6,093	3,441
		<u>516,726</u>	<u>461,441</u>
Net assets		<u><u>2,335,999</u></u>	<u><u>2,272,303</u></u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		948,506	944,446
Retained profits		870,397	799,050
Total equity attributable to equity shareholders of the Company		1,916,823	1,841,416
Non-controlling interests		419,176	430,887
Total equity		<u><u>2,335,999</u></u>	<u><u>2,272,303</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 3 August 2021.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2020 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2021 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:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest Rate Benchmark Reform Phase 2*
- Amendments to IFRS 16, *Covid-19-Related Rent Concessions*

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.

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.

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 “Green Knight”.

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 brands of “DaChan” and “Sisters’ Kitchen”.

Information about reportable segments

Information regarding the Group’s reportable segments as provided for the CEO for the purposes of resource allocation and segment performance assessment for the six month periods ended 30 June 2021 and 2020 is set out below.

For the six months ended 30 June

	Processed foods		Livestock feed		Meat products		Total	
	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000	2021 RMB'000	2020 RMB'000
Turnover from external customers	980,076	869,801	3,291,394	2,491,614	828,791	865,870	5,100,261	4,227,285
Inter-segment turnover (eliminated at consolidation)	–	–	649,405	494,379	273,286	246,339	922,691	740,718
Total	980,076	869,801	3,940,799	2,985,993	1,102,077	1,112,209	6,022,952	4,968,003
Segment gross profit	177,908	178,021	226,816	250,412	41,827	45,967	446,551	474,400

4 Other operating income and other net gains

Six months ended 30 June
2021 2020
RMB'000 RMB'000

Other operating income

Interest income	8,245	5,522
Government grants	1,943	7,755
Rental income	2,391	1,036
	<u>12,579</u>	<u>14,313</u>

Six months ended 30 June
2021 2020
RMB'000 RMB'000

Other net gains

(Losses)/gains of foreign exchange	(2,503)	1,746
Net gains/(losses) on disposal of fixed assets	2,368	(1,306)
Others	3,102	322
	<u>2,967</u>	<u>762</u>

5 Profit before taxation

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

Six months ended 30 June
2021 2020
RMB'000 RMB'000

(a) Finance costs

Interest on bank borrowings wholly repayable within five years	<u>(11,965)</u>	<u>(17,090)</u>
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(b) Other items

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Amortisation of lease prepayments	(2,950)	(2,700)
Depreciation of property, plant and equipment	(70,110)	(69,980)
Net reversal/(provision) of impairment losses on trade receivables	(458)	1,080
Net (write down)/reversal of write down of inventory	(1,795)	(18,372)
	<u>(76,313)</u>	<u>(89,972)</u>

6 Income tax

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current tax	(12,236)	(25,914)
Deferred taxation	<u>(359)</u>	<u>(890)</u>
	<u>(12,595)</u>	<u>(26,804)</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”) 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 2021, 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 2020: 16.5%).
- (iii) Pursuant to the corporate income tax laws and regulations of the PRC, the companies established by the Group in the PRC for the six months ended 30 June 2021 are subject to PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2020: 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% (six months ended 30 June 2020: 15%), as it has obtained the new high-tech enterprise qualification from 2019. GWAHLJ is subject to a preferential tax rate of 15% (six months ended 30 June 2020: 15%), as it has obtained the new high-tech enterprise qualification from 2020.
- (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 2021 (six months ended 30 June 2020: 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 2021 (six months ended 30 June 2020: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2020: 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 2021 (six months ended 30 June 2020: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2020: 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 2021 (six months ended 30 June 2020: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (six months ended 30 June 2020: 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 2021 (six months ended 30 June 2020: 20%).

7 Earnings per share

The calculation of basic earnings per share as of 30 June 2021 is based on the profit attributable to ordinary equity shareholders of the Company of RMB71,347 thousand (six months ended 30 June 2020: RMB85,144 thousand) and the weighted average of 1,016,189,000 ordinary shares (six months ended 30 June 2020: 1,016,189,000 shares) in issue during the reporting period.

The calculation of diluted earnings per share for the six months ended 30 June 2021 is based on profit attributable to ordinary equity shareholders of the Company of RMB71,347 thousand (six months ended 30 June 2020: RMB85,144 thousand) and the diluted weighted average number of ordinary shares in issue of 1,016,189,000 (six months ended 30 June 2020: 1,016,189,000) during the reporting period.

8 Fixed assets

During the six months ended 30 June 2021, the Group acquired items of fixed assets at a cost of RMB54,566,000 (six months ended 30 June 2020: RMB65,471,000). Items of fixed assets with net book value of RMB2,423,000 were disposed of during the six months ended 30 June 2021 (six months ended 30 June 2020: RMB9,122,000), resulting in a gain on disposal of RMB2,368,000 (six months ended 30 June 2020: loss of RMB1,306,000).

9 Trade receivables

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

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current	219,861	245,024
1-180 days past due	62,296	57,180
181-365 days past due	2,162	3,066
More than 365 days past due	19,454	20,612
Amounts past due	83,912	80,858
Less: allowance of doubtful debts	(17,284)	(24,360)
	<u>286,489</u>	<u>301,522</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 2021 RMB'000	At 31 December 2020 RMB'000
VAT recoverable	345,727	355,816
Deposits and prepayments	300,672	195,596
Advances to staff	10,092	7,136
Others	17,975	15,076
	674,466	573,624
Less: non-current VAT recoverable	135,865	135,865
	<u>538,601</u>	<u>437,759</u>

11 Trade payables

An ageing analysis of trade payables is as follows:

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Current	397,587	382,311
Less than 30 days past due	170,512	128,997
31-60 days past due	14,085	9,325
61-90 day past due	10,930	4,568
More than 90 days past due	23,986	16,417
Amounts past due	219,513	159,307
	<u>617,100</u>	<u>541,618</u>

12 Other payables

	At 30 June 2021 RMB'000	At 31 December 2020 RMB'000
Sales rebate	135,741	172,658
Salaries, wages, bonuses and other benefits payable	65,815	128,952
Accrued expenses	105,157	82,497
Contract performance deposits	33,633	46,143
Payables for purchase of fixed assets	13,279	20,890
Amounts due to related parties	42,600	42,600
Others	22,818	19,763
	<u>419,043</u>	<u>513,503</u>

13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2021 (2020: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2021	2020	% change
Turnover (RMB'000)	5,100,261	4,227,285	20.7
Gross profit (RMB'000)	446,551	474,400	(5.9)
Gross profit margin (%)	8.8	11.2	
Profit attributable to shareholders of the Company (RMB'000)	71,347	85,144	(16.2)

In the first half of 2021, Mainland China's economy prospered, with GDP grew by 12.7% year-on-year, representing a two-year average growth rate of 5.3%. The situation regarding the prevention and control of COVID-19 pandemic was generally stable, while residents' income continued its restorative growth and residents' consumption expenditure showed a restorative rebound. However, Japan and South East Asia are still suffering from the impact of the COVID-19 pandemic and the economic growth was sluggish.

As a series of “Expand Domestic Demand and Promote Consumption” (擴內需、促消費) policies in Mainland China continued to take effect, holidays factors such as the Ching Ming Festival, Labor Day and Dragon Boat Festival have led to a steady recovery in the consumer market. In the first half of the year, the national consumption expenditure per capita increased by 17.4% in real terms, representing a two-year average growth of 3.2% in real terms. With the increase in the number of travelers during holidays in the second quarter and the increase in dining out activities, catering consumption picked up significantly. In the second quarter, catering revenue increased by 29.5% quarter-on-quarter, representing a two-year average growth of 0.9%, compared to a two-year average decline of 1% in the first quarter. The scale of catering spending has basically recovered to the same level as the same period in 2019.

The Group's food segment seized the opportunity of the rebound in domestic consumption and accelerated the development of distributors in various channels. At the same time, the Group expanded its key customers such as convenience store chains through continuously carrying out product proposals, bakery classroom trainings, promotion sessions and various activities. The food segment has also continuously launched new products through national distributors' conferences and various exhibitions, striving to create more hit products. The products successively launched in the first half of the year, such as “Jambalaya styled sausage” (十三香國潮烘焙腸), “Gluten chicken meatball” (功夫肉圓), “Stuffed chicken patty with cheese and tapioca” (真珠芝士雞排) and “Fishing kitty chicken nugget” (小貓釣魚雞塊), have all achieved satisfying market performance. At the same time, the Group continued to increase the promotion of its family-sized products in e-commerce livestreaming, community group buying, community convenience stores, farmer's markets and other retail channels to further improve the channel construction and regional layout. Despite the impact of the COVID-19 outbreak in Japan and that the export sales of the food segment declined by approximately 28.2% year-on-year, the domestic sales increased by approximately 28% year-on-year, resulting in a year-on-year increase of approximately 12.7% in the overall operating revenue of the segment, with gross profit basically remained at the same level as the same period last year.

In the first half of 2021, the rising prices of bulk raw materials led to feed costs remaining at high level, resulting in continued losses for meat and egg chicken farmers and causing a decrease in inventories or even a cessation of chicken-rearing of some chicken farmers in the domestic feed segment. On the one hand, the segment actively introduces solutions to replace high-priced corn and soybean meal to help meat and egg chicken customers control costs and reduce losses; on the other hand, it firmly grasps the opportunity of recovery of domestic pig production capacity, and strives to provide customers with feed products with stronger immunity and higher cost performance. Through promotion and use of functional products and a comprehensive range of animal health services, the Group continues to enhance product strength and brand influence. The increase in sales of pig feeds made up the decrease in sales of poultry feeds. In the first half of 2021, the overall sales of the domestic feed segment increased by approximately 15% year-on-year, with gross profit increasing by approximately 18.1% year-on-year.

As the bulk raw materials used for feed processing in the Southeast Asia's feeds segment mainly rely on imports, the challenges posed by the rising prices of bulk raw materials in the international market to the segment are more severe than those in the domestic market. To alleviate the cost pressure, the Southeast Asia's feeds segment raised the selling price of its products in a timely manner on the one hand, while continuing to optimize its product mix and develop new customers by continuously improving its product strength and brand influence on the other hand. In the first half of 2021, although the gross profit of Southeast Asia's feeds segment dropped by approximately 27.5% year-on-year due to the increase in raw material costs, the feeds sales increased by approximately 20% year-on-year as the segment actively responded to the challenges brought by COVID-19 and African Swine Fever.

The National Bureau of Statistics announced that, the domestic food prices in China recorded a fall of 0.2% in the first half of 2021 as compared with an increase of 16.2% in the same period last year, as affected by a sharp drop in pork prices. As the production capacity of domestic live pigs continued to recover, pork prices fell for nine consecutive months on a year-on-year basis, with an average decrease of 19.3% in the first half of the year. Driven by the fall in pork prices, the prices of chickens and ducks also fell by 7.7% and 2.4%, respectively. However, the cost of feeds for breeding meat chickens of the Group still rose significantly year-on-year as the domestic and overseas corn and soybean meal prices remained high. The increase in feed costs and the drop in chicken meat prices have compressed the profitability of the meat product segment. On the one hand, the segment continued to promote equipment automation to reduce costs and increase efficiency, on the other hand, it actively developed customers of chain fresh food and mega store, and enhanced brand value through sales channel optimization, and therefore, the gross profit of the meat product segment decreased slightly by approximately 9% year-on-year despite the significant increase in costs.

In summary, as affected by the impact of COVID-19 pandemic in Japan and Southeast Asia as well as the rise in the international bulk raw material prices, the profit attributable to shareholders of the Company for the first half of 2021 amounted to approximately RMB71,347 thousand, representing a decrease of approximately RMB13,797 thousand or 16.2% as compared with the same period last year.

Looking forward to the second half of 2021, 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. At the same time, the Group will also continuously improve its operation efficiency and enhance its overall risk resistance through multiple measures, such as sales channels restructuring, supply chain management optimization and team motivation, etc. The Group's major investment in the Bengbu new plant is now progressing in an orderly manner, and the completion and commissioning of the project will definitely bring the Group's foodization strategy to a higher level.

Processed Food

	Six months ended 30 June		
	2021	2020	% change
Turnover (RMB'000)			
– Mainland China	820,350	629,138	30.4
– Export	<u>159,726</u>	<u>240,663</u>	(33.6)
Total	980,076	869,801	12.7
Gross profit (RMB'000)			
– Mainland China	164,911	138,323	19.2
– Export	<u>12,997</u>	<u>39,698</u>	(67.3)
Total	177,908	178,021	(0.1)
Gross profit margin (%)			
– Mainland China	20.1	22.0	
– Export	<u>8.1</u>	<u>16.5</u>	
Total	<u><u>18.2</u></u>	<u><u>20.5</u></u>	

The processed food segment includes the production and sales of prepared food under the “DaChan” and “Sisters’ Kitchen” brands, 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, major chain customers as well as the retail consumption market. The sales areas of the processed food segment cover Japan, Hong Kong, Northeast China, North China, Eastern China, South China and Central China and inland regions such as Northwest China and Southwest China.

In the first half of 2021, in the export market, the sales of food export segment fell due to the impact of the pandemic in Japan, while in the domestic market, we also faced competitors using competitive price strategy to capture the market. The food segment leveraged on R&D advantages to actively respond to the situation by developing products at different price and different flavors. The food segment provided customers with all-inclusive menu solutions to increase customer adhesion, thus achieving stable sales growth.

In addition, the food segment and the meat product segment’s collaboration advantages in terms of the supply chain and strategic customer service have further emerged. Following stationing in Costco, the Group’s processed cooked food and fresh chicken meat were once again stationed in another mega store – Metro. With the gradual establishment and improvement of the Group’s digital supply chain platform in the future, the Group’s ability to serve large customers will continue to improve, and the food segment, as the focus of the Group’s strategic development, will certainly demonstrate considerable progress.

Livestock Feed (From External Customers)

	Six months ended 30 June		
	2021	2020	% change
Turnover (RMB’000)			
– China	1,463,034	1,061,236	37.9
– Vietnam and Malaysia	1,828,361	1,430,378	27.8
Total	3,291,395	2,491,614	32.1
Gross profit (RMB’000)			
– China	117,167	99,217	18.1
– Vietnam and Malaysia	109,649	151,195	(27.5)
Total	226,816	250,412	(9.4)
Gross profit margin (%)			
– China	8.0	9.3	
– Vietnam and Malaysia	6.0	10.6	
Total	6.9	10.1	

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 segment. 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 Northeast China, North China, Central China and Southwest China regions.

The new antibiotic-free feed regulations implemented since July 2020, to which the R&D team of the feed segment has been actively responding, and the feeds processed from the antibiotic-free formula is no less effective than the original formula in terms of palatability and feed intake and has also performed well in controlling piglet diarrhea. The segment also continues to develop new customers and increase the market share of pig feeds through large-scale terminal promotion conferences and core customer empirical tests. Due to the low price of chicken eggs, the domestic egg chicken feeding industry has recorded losses for nearly a year. Now that the adjustment of capacity reduction in the egg chicken feeding industry was basically completed, the domestic feed segment has been making use of the brand advantage formed by the feeds for day-old layer chicks over the years to promote the increase of egg chicken feeds through the binding promotion with the late-stage material of the egg chickens and other modes.

Although the rising prices of bulk raw materials in the international market has put greater pressure on the profitability of the Southeast Asia's feeds segment, with the gradual expansion of the breeding business of the Southeast Asia's feeds segment and the commencement of cooperation with the parent company Great Wall Enterprise Co. Ltd. in the field of aquatic feeds, the segment's ability to withstand market risks will be further strengthened.

Meat

	Six months ended 30 June		
	2021	2020	% change
Turnover (RMB'000)	828,791	865,870	(4.3)
Gross profit (RMB'000)	41,827	45,967	(9.0)
Gross profit margin (%)	5.0	5.3	

The Group mainly sells chilled and frozen chicken meat under the brand of "Sisters' 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.

Through the introduction of strategic cooperation partners, the Group stabilizes the supply of day-old chicks while guaranteeing 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 effectively 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 to a certain extent and the cost of chicken meat processing is lowered. The Group will continue to drive various reforms to build its core competitiveness in the meat segment.

Financial Review:

1) Other Operating Income and Other Net Gains

In the first six months of 2021, other operating income of the Group amounted to approximately RMB12,579 thousand (2020: approximately RMB14,313 thousand). Other operating income mainly comprised interest income and government grants.

In the first six months of 2021, other net gains of the Group amounted to approximately RMB2,967 thousand (other net gains in 2020: approximately RMB762 thousand). Other net gains mainly comprised other balances derived from activities other than the Group's business operation such as net foreign exchange gains and net gains on disposals of fixed assets.

2) Liquidity, Financial Resources and Capital Structure

As of 30 June 2021, the Group's cash and bank deposit balances amounted to approximately RMB678,566 thousand, representing an increase of approximately RMB47,196 thousand as compared with 31 December 2020. Interest-bearing borrowings of the Group increased by approximately RMB116,544 thousand to approximately RMB921,195 thousand (31 December 2020: approximately RMB804,651 thousand). The interest-bearing borrowings to equity ratio was approximately 39.4% (31 December 2020: approximately 35.4%). Current ratio was maintained at a healthy level of approximately 1.64 times (31 December 2020: approximately 1.56 times).

3) Capital Expenditure

In the first six months of 2021, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB54,566 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 appreciated by approximately 1.00% against USD and VND depreciated by approximately 0.82% 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 2021, the Group's interest expense amounted to approximately RMB11,965 thousand (2020: approximately RMB17,090 thousand), representing a decrease of approximately 30.0% as compared with the same period of 2020. The decrease in interest expense was primarily due to the decrease of bank borrowings interest rates.

6) Pledge of Assets

As of 30 June 2021, the Group had no assets pledged as security against bank facilities.

7) Capital Commitment

As of 30 June 2021, the capital expenditure of the Group contracted for but not yet provided in the financial statements was approximately RMB27,371 thousand and the capital expenditure authorised but not contracted for was approximately RMB241,888 thousand.

Staff Compensation and Training

As at 30 June 2021, the Group had a total of 10,590 staff (31 December 2020: 10,470). 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 2021, 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.

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 2021.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, 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 2021, 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, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan, who are independent non-executive directors of the Company.

By Order of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 3 August 2021

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