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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 2022

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 2022:

Highlights

	Six months ended 30 June		
	2022	2021	% change
	(unaudited)	Restated* (unaudited)	
Turnover – Continuing operations (RMB’000)	2,796,884	3,271,901	-14.5
Gross profit – Continuing operations (RMB’000)	306,405	336,915	-9.1
Gross profit margin – Continuing operations (%)	11.0	10.3	
Profit attributable to equity shareholders of the Company – Continuing operations (RMB’000)	33,802	52,415	-35.5
Basic earnings per share – Continuing operations (RMB)	0.033	0.052	
Profit attributable to equity shareholders of the Company (RMB’000)	33,802	71,347	-52.6
Basic earnings per share (RMB)	0.033	0.070	

Restated*: During the fourth quarter of 2021, the Group disposed of its subsidiaries operating in Vietnam and Malaysia to focus on the development of its business in Mainland China. Accordingly, the financial results of these disposed subsidiaries prior to disposal are presented as “discontinued operations” in the consolidated financial statements in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Comparative information for the six months ended 30 June 2021 has been restated in this regard.

CONSOLIDATED INCOME STATEMENT**For the six months ended 30 June 2022***(Expressed in RMB'000 unless stated otherwise)*

		Six months ended 30 June	
		2022	2021
	Note	(unaudited)	Restated* (unaudited)
Continuing operations			
Turnover	3	2,796,884	3,271,901
Cost of sales		<u>(2,490,479)</u>	<u>(2,934,986)</u>
Gross profit		306,405	336,915
Other operating income	4	19,192	7,849
Other net (losses)/gains	4	(1,559)	2,616
Distribution costs		(143,795)	(148,422)
Administrative expenses		<u>(118,246)</u>	<u>(121,108)</u>
Profit from operations		61,997	77,850
Finance costs	5(a)	(4,300)	(6,241)
Share of loss of equity-accounted investees		<u>(1,077)</u>	<u>(388)</u>
Profit before taxation	5	56,620	71,221
Income tax	6	<u>(7,857)</u>	<u>(4,434)</u>
Profit from continuing operations		48,763	66,787
Profit from discontinued operations		<u>–</u>	<u>27,633</u>
Profit for the period		<u><u>48,763</u></u>	<u><u>94,420</u></u>
Attributable to:			
Equity shareholders of the Company		33,802	71,347
Non-controlling interests		<u>14,961</u>	<u>23,073</u>
Profit for the period		<u><u>48,763</u></u>	<u><u>94,420</u></u>
Earnings per share			
– Basic and diluted (RMB)	7	<u><u>0.033</u></u>	<u><u>0.070</u></u>
Earnings per share-continuing operations			
– Basic and diluted (RMB)	7	<u><u>0.033</u></u>	<u><u>0.052</u></u>

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

(Expressed in RMB'000 unless stated otherwise)

	Six months ended 30 June	
	2022 (unaudited)	2021 (unaudited)
Profit for the period	48,763	94,420
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(9,726)</u>	<u>3,515</u>
Total comprehensive income for the period	<u><u>39,037</u></u>	<u><u>97,935</u></u>
Attributable to:		
Equity shareholders of the Company	23,370	75,407
Non-controlling interests	<u>15,667</u>	<u>22,528</u>
Total comprehensive income for the period	<u><u>39,037</u></u>	<u><u>97,935</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 30 June 2022***(Expressed in RMB'000 unless stated otherwise)*

		At 30 June 2022	At 31 December 2021
	Note	(unaudited)	(audited)
Non-current assets			
Fixed assets			
– Property, plant and equipment	8	1,025,942	1,019,618
– Land use rights		137,336	139,841
– Investment property		54,987	56,381
Interests in equity-accounted investees		68,719	69,796
Other financial assets		1,948	1,948
Deferred tax assets		6,497	4,274
Long-term tax recoverable	10	118,230	139,778
Other non-current assets		78,503	31,734
		<u>1,492,162</u>	<u>1,463,370</u>
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Current assets			
Inventories		612,841	608,153
Biological assets		166,464	143,647
Trade receivables	9	236,819	213,087
Other receivables and prepayments	10	370,166	387,945
Cash and cash equivalents		599,347	625,059
		<u>1,985,637</u>	<u>1,977,891</u>
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Current liabilities			
Trade payables	11	385,881	397,655
Other payables	12	288,402	293,094
Contract liabilities		15,424	26,195
Interest-bearing borrowings		139,939	133,640
Lease liabilities		3,387	3,387
Income tax payable		9,023	10,215
		<u>842,056</u>	<u>864,186</u>
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Net current assets		<u>1,143,581</u>	<u>1,113,705</u>
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	At 30 June 2022 (unaudited)	At 31 December 2021 (audited)
Note		
Total assets less current liabilities	<u>2,635,743</u>	<u>2,577,075</u>
Non-current liabilities		
Interest-bearing borrowings	300,627	273,852
Lease liabilities	27,634	30,579
Deferred tax liabilities	<u>7,936</u>	<u>3,097</u>
	<u>336,197</u>	<u>307,528</u>
Net assets	<u>2,299,546</u>	<u>2,269,547</u>
Capital and reserves		
Share capital	97,920	97,920
Reserves	939,192	949,624
Retained profits	<u>983,873</u>	<u>950,071</u>
Total equity attributable to equity shareholders of the Company	2,020,985	1,997,615
Non-controlling interests	<u>278,561</u>	<u>271,932</u>
Total equity	<u>2,299,546</u>	<u>2,269,547</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 4 August 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 Group has applied the following amendments to IFRSs to these financial statements for the current accounting period:

- Amendments to IFRS 16, *Covid-19-related Rent Concessions beyond 30 June 2021*
- Amendments to IAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*
- Annual Improvements to IFRSs 2018-2020 Cycle
- Amendments to IFRS 3, *Reference to the Conceptual Framework*

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 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 foods 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 brand 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 2022 and 2021 is set out below.

For the six months ended 30 June

	Processed foods		Livestock feeds				Meat products		Total	
	2022	2021	2022		2021		2022	2021	2022	2021
			Continuing operations	Discontinued operations	Continuing operations	Discontinued operations				
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Turnover from external customers	1,003,973	980,076	1,032,902	-	1,463,034	1,828,360	760,009	828,791	2,796,884	5,100,261
Inter-segment turnover (eliminated at consolidation)	-	-	603,544	-	649,405	-	230,440	273,286	833,984	922,691
Total	1,003,973	980,076	1,636,446	-	2,112,439	1,828,360	990,449	1,102,077	3,630,868	6,022,952
Segment gross profit	197,280	177,908	65,124	-	117,180	109,636	44,001	41,827	306,405	446,551

4 Other operating income and other net gains

Six months ended 30 June
2022 2021
RMB'000 RMB'000
Restated*

Other operating income

Interest income	4,890	3,515
Government grants	10,442	1,943
Rental income	3,860	2,391
	<u>19,192</u>	<u>7,849</u>

Six months ended 30 June
2022 2021
RMB'000 RMB'000
Restated*

Other net (losses)/gains

Gains/(losses) of foreign exchange	165	(2,299)
Net (losses)/gains on disposal of fixed assets	(476)	2,271
Others	(1,248)	2,644
	<u>(1,559)</u>	<u>2,616</u>

5 Profit before taxation

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

Six months ended 30 June
2022 2021
RMB'000 RMB'000
Restated*

(a) Finance costs

Interest on bank borrowings wholly repayable within five years	<u>(4,300)</u>	<u>(6,241)</u>
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(b) Other items

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
		Restated*
Amortisation of lease prepayments	(2,172)	(1,979)
Depreciation of property, plant and equipment	(59,258)	(58,557)
Net reversal/(provision) of impairment losses on trade receivables	(1,056)	(20)
Net reversal of write down/(write down) of inventory	3,469	(1,795)
	<u>3,469</u>	<u>(1,795)</u>

6 Income tax

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
		Restated*
Current tax	(5,241)	(4,075)
Deferred taxation	(2,616)	(359)
	<u>(7,857)</u>	<u>(4,434)</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) In March 2018, Inland Revenue (Amendment)(No. 3) Ordinance 2018 (the “Ordinance”) was enacted to implement a two-tiered profits tax rate regime. Under the two-tiered profits tax rate regime, the first HK\$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018/2019. For the relevant period in the six months ended 30 June 2022, 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 2021: 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 2022 are subject to PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2021: 25%), except for Great Wall Agri (Heilongjiang) Co., Ltd. (“GWAHLJ”) and Great Wall Agri (Yingkou) Co., Ltd. (“GWAYK”). GWAHLJ and GWAYK are subject to a preferential tax rate of 15% (six months ended 30 June 2021: 15%), as they have obtained the new high-tech enterprise qualification from 2020. The tax rate of Liaoning Great Wall Agri-Industrial Co., Ltd. was restored to 25% (six months ended 30 June 2021: 15%) as its new high-tech enterprise qualification expired in 2021.

7 Earnings per share

The calculation of basic earnings per share as at 30 June 2022 is based on the profit attributable to ordinary equity shareholders of the Company of RMB33,802 thousand (six months ended 30 June 2021: RMB71,347 thousand) and the weighted average of 1,016,189,000 ordinary shares (six months ended 30 June 2021: 1,016,189,000 shares) in issue during the reporting period.

The calculation of the basic earnings per share from continuing operations as at 30 June 2022 is based on the profit attributable to ordinary equity shareholders of the Company from continuing operations of RMB33,802 thousand (six months ended 30 June 2021: RMB52,415 thousand) and the weighted average number of 1,016,189,000 ordinary shares (six months ended 30 June 2021: 1,016,189,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021. Therefore, there is no difference between the diluted earnings per share and the basic earnings per share.

8 Fixed assets

During the six months ended 30 June 2022, the Group acquired items of fixed assets at a cost of RMB73,466 thousand (six months ended 30 June 2021: RMB54,566 thousand). Items of fixed assets with net book value of RMB5,643 thousand were disposed of during the six months ended 30 June 2022 (six months ended 30 June 2021: RMB2,324 thousand), resulting in a loss on disposal of RMB476 thousand (six months ended 30 June 2021: an earning of RMB2,271 thousand).

9 Trade receivables

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

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current	223,905	187,740
1-180 days past due	14,322	25,953
181-365 days past due	219	386
More than 365 days past due	6,269	6,316
Amounts past due	20,810	32,655
Less: allowance for doubtful debts	(7,896)	(7,308)
	<u>236,819</u>	<u>213,087</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 2022 RMB'000	At 31 December 2021 RMB'000
VAT recoverable	300,969	346,096
Deposits and prepayments	176,622	168,964
Advances to staff	4,596	3,885
Others	6,209	8,778
	<u>488,396</u>	<u>527,723</u>
Less: non-current VAT recoverable	<u>118,230</u>	<u>139,778</u>
	<u><u>370,166</u></u>	<u><u>387,945</u></u>

11 Trade payables

An ageing analysis of trade payables is as follows:

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Current	222,560	221,812
Less than 30 days past due	116,690	119,659
31-60 days past due	17,141	36,002
61-90 day past due	11,004	5,651
More than 90 days past due	18,486	14,531
Amounts past due	<u>163,321</u>	<u>175,843</u>
	<u><u>385,881</u></u>	<u><u>397,655</u></u>

12 Other payables

	At 30 June 2022 RMB'000	At 31 December 2021 RMB'000
Sales rebate	15,286	32,839
Salaries, wages, bonuses and other benefits payable	50,809	99,669
Accrued expenses	97,740	50,688
Contract performance deposits	54,712	39,622
Payables for purchase of fixed assets	11,296	11,291
Amounts due to related parties	42,600	42,600
Others	15,959	16,385
	<u>288,402</u>	<u>293,094</u>

13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2022 (2021: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2022	2021 <i>restated*</i>	% change
Turnover – Continuing operations (RMB'000)	2,796,884	3,271,901	(14.5)
Gross profit – Continuing operations (RMB'000)	306,405	336,915	(9.1)
Gross profit margin – Continuing operations (%)	11.0	10.3	
Profit attributable to equity shareholders of the Company – Continuing operations (RMB'000)	33,802	52,415	(35.5)
Profit attributable to shareholders of the Company (RMB'000)	33,802	71,347	(52.6)

In the first half of 2022, the international situation was severe and complicated. The global supply chain was severely affected by the epidemic and geopolitical conflicts. The prices of food and energy were soaring, the risk of global economic stagnation was increasing, and the economic development of the PRC was facing with greater challenges. In the first half of the year, although the GDP of the PRC grew by 2.5% year on year, its food and beverage income decreased by 7.7% year on year. In the year 2021, the domestic pig production capacity resumed at a rate higher than expected, but the price of live pigs continued to remain sluggish. The deep loss of aquaculture has forced some swine farms to cut their production capacity from the fourth quarter of last year. As a result, the market supply of live pigs in the second quarter of this year declined from the preceding quarter and the price of pigs has rebounded. The decrease in food and beverage income in the PRC and the decrease in pig stocks coupled with a rise in the prices of raw materials have imposed more challenges to the Group.

In view of the severe situation, the Group has not blindly pursued expansion of scale, instead it tended to maintain stability, held a number of seminars to reach the consensus of “strengthening its fundamentals, retaining customers and keeping sufficient cash” within the Group to unify thinking for implementation so as to enhance its competitiveness. In the first half of 2022, the Group’s operating revenue was RMB2,796,884 thousand, representing a decrease of approximately 14.5% as compared to the restated figure for the corresponding period of last year. Profit attributable to shareholders decreased by approximately 52.6% from the same period of last year to approximately RMB33,802 thousand. When, excluding the profit from the feed business in Southeast Asia for the same period of last year, the profit attributable to shareholders of various business segments in the PRC would have decreased by approximately 35.5% as compared with the same period last year to approximately RMB52,415 thousand. The decline in profit was mainly due to the fact that the customers of the feed business in the PRC were mostly small and medium-sized farms, and the prolonged downturn in the business environment had created difficulty in cash flow and reduced breeding. Despite the year-on-year profit decline in the feed segment, benefiting from the stable growth of the foods segment, the overall results performance of the Group was comparable to most of its peers.

As a leading business in the Group's strategic development, gross profit from the foods segment in the first half of 2022 increased by approximately 10.9% on a year-on-year basis amid the unfavorable market conditions. Despite the economic downturn in Japan and the fact that Thailand lowered its export price to Japan for market competition, leading to a decrease of about 18.6% in food export income in the first half of the year, the gross profit margin of our food export was higher due to research and development innovation, product optimization and automation in production, as well as benefited from the appreciation of the US dollar, gross profit from food export increased by approximately 55.7% as compared with the same period last year. As for domestic sales, the foods segment responded actively to the challenges posed by the sporadic outbreak of COVID-19 in different parts of Mainland China to seek for business opportunities from potential customers who were less affected by the epidemic, such as those who were able to break through the logistics control in different places through the provision of food in the course of epidemic prevention, community group purchases, and so on to minimize the negative impact of the pandemic to our results, and the gross profit of domestic sales of food also grew by approximately 7.4% over the same period of last year.

In the first half of 2022, following a double-click attack from the rise in raw material costs and a decrease in the breeding volume of customers, the gross profit of the feeds business in the PRC decreased by approximately 44.4% year-on-year. As affected by the international situation, there had been an increase in the prices of bulk raw materials in the PRC and the cost of live pig farming has increased. At the same time, the consumer market was constrained by the epidemic, and the situation continued to remain sluggish, resulting in losses in the breeding of live pigs for extended period of time. Compared to large-scale regulatory and modular-type pig breeding enterprises with relatively more vertical integration, our feed segment clients, mostly small and medium-sized farms, are relatively more vulnerable to risk. They have no alternative but to reduce the amount of stacks or even cease to breed under prolonged losses. As a result of the decline in the number of live pigs kept by customers, the sales volume of feeds products for pigs has decreased and so did the profit therefrom.

In the first half of 2022, as affected by the international market, the prices of corn and soybean meal continued to stand at high level, the cost of feeds for breeding meat chickens increased by approximately 11.3% on a year-on-year basis, while the prices of feather chicken and chicken meat recorded a decrease of approximately 1.7% and 2.8% respectively. To cope with such unfavorable situation, the meat segment speeded up the pace of transformation and re-structure its supply chain. On one hand, it strategically eliminated the cooperative breeding farms for parental broods and chicken farmers who have not performed well and planned to cut the scale of breeding and electrical slaughtering; on the other hand, it has also actively developed fresh food chains and mega stores to attract customers who value product quality, eliminated price-sensitive customers, and enhanced our brand value through optimization of sales channels. The meat segment overcame the adverse effects of the external environment and achieved a year-on-year growth of approximately 5.2% in gross profit.

Looking forward to the second half of 2022, the Russia-Ukraine war and the COVID-19 pandemic will continue to be the major uncertainties affecting the global and domestic economies, and the market turbulence caused by the financial policies adopted to stimulate economic recovery may still exist. The Group will continue to look for new sources of growth led by its foods segment and with feeds as foundation to maintain stable sales volume, and at the same time diversify its market risks by product diversification. The Group will improve the operational structure of the meat business, appropriately adjusting the proportion of its upstream business, focusing on end-market development and strengthening its cash flow management. With the synergy of foods segment, feeds segment and meat segment, the Group's overall industrial competitiveness and counter-cyclical ability shall be enhanced through increasing investment in talents and teams, initiating digital transformation, optimizing supply chain management, restructuring sales channels and increasing operational efficiency.

Processed Foods

	Six months ended 30 June		
	2022	2021	% change
Turnover (RMB'000)			
– Mainland China	873,914	820,350	6.5
– Export	<u>130,059</u>	<u>159,726</u>	(18.6)
Total	1,003,973	980,076	2.4
Gross profit (RMB'000)			
– Mainland China	177,042	164,911	7.4
– Export	<u>20,238</u>	<u>12,997</u>	55.7
Total	197,280	177,908	10.9
Gross profit margin (%)			
– Mainland China	20.3	20.1	
– Export	<u>15.6</u>	<u>8.1</u>	
Total	<u><u>19.6</u></u>	<u><u>18.2</u></u>	

The processed foods segment includes the production and sales of prepared foods 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 foods segment are mainly group catering, bakery, casual catering, banquet, international customers, major chain customers as well as the retail consumption market. The sales areas of the processed foods segment cover Japan, China Hong Kong, Northeastern, Northern, Eastern, Southern and Central China and inland regions such as Northwestern and Southwestern China.

The Group continued to increase its efforts in developing direct sales customers, and identified more strategic customers through joint research and development of customized products and comprehensive supply chain services. Focus was put on key regions and key channels, helping distributors to carry out various publicity and promotion activities so as to increase coverage rate. As for retail business, the Group has focused its resources on enhancing the continued promotion of family-sized products in e-commerce platforms, community group purchase, community convenience stores, farmers' markets and other retail channels to further improve the channel construction and regional network. As for product innovation, the Group kept abreast of market demand, explored new production technologies and expanded its product range, striving to create more products that hit the market. Meanwhile, in response to the low-price strategy adopted by its competitors for gaining more market share, the foods segment has made use of its advantages to develop more products with different prices and different flavors. It also provided customers with all-inclusive menu solutions to increase customer adhesion, thus achieving stable sales growth.

Livestock Feeds (From External Customers)

	Six months ended 30 June		
	2022	2021 Restated*	% change
Turnover (RMB'000)	1,032,902	1,463,034	(29.4)
Gross profit (RMB'000)	65,124	117,180	(44.4)
Gross profit margin (%)	6.3	8.0	

The operating income of the feeds segment was primarily derived from the sales of pig feeds, broiler feeds and egg chicken feeds, etc. to external customers in China. Corn and soybean are the primary raw materials for the feeds segment, and the main product brands of this segment are “Dr. Nupak” and “Green Knight”. The production and sales regions of this segment cover Northeastern, Northern, Central and Southwestern China.

In face of the severe market conditions, the feeds segment increased investment in research and development, providing customers with feed products with stronger immunity and better value for money; actively developed new customers through the promotion of the use of functional products and comprehensive animal protection services, on the other hand, optimized production technology and lowered processing cost, enhancing the contract production scale of feeds; meanwhile, continued to put more resources into research and development as well as market development of niche products such as ruminant feeds, actively expanded markets beyond pig feeds, increased products categories, so as to diversify market risks.

Meat Products

	Six months ended 30 June		
	2022	2021	% change
Turnover (RMB'000)	760,009	828,791	(8.3)
Gross profit (RMB'000)	44,001	41,827	5.2
Gross profit margin (%)	5.8	5.0	

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 regions covers Northeastern, Northern and Eastern China regions while its sales network covers the entire nation.

Since the fourth quarter of last year, the meat segment has gradually adjusted its mode of operation, focusing on the development of differentiated products and large customers. By appropriately scaling down the breeding of parental broods and meat chickens and further improving the performance of contract feeds, the meat segment managed to achieve results comparable to its peers under the unfavourable market conditions during the first half of this year.

Financial Review:

1) Other Operating Income and Other Net Gains

In the first six months of 2022, other operating income of the Group amounted to approximately RMB19,192 thousand (2021: approximately RMB7,849 thousand). Other operating income mainly comprised interest income and government grants.

In the first six months of 2022, other net losses of the Group amounted to approximately RMB1,559 thousand (net gains in 2021: approximately RMB2,616 thousand). Other net losses mainly comprised other balances derived from activities other than the Group’s business operation such as net foreign exchange losses and net losses on disposal of fixed assets.

2) Liquidity, Financial Resources and Capital Structure

As at 30 June 2022, the Group’s cash and bank deposit balances amounted to approximately RMB599,347 thousand, representing a decrease of approximately RMB25,712 thousand as compared with 31 December 2021. Interest-bearing borrowings of the Group increased by approximately RMB33,074 thousand to approximately RMB440,566 thousand (31 December 2021: approximately RMB407,492 thousand). The interest-bearing borrowings to equity ratio was approximately 19.2% (31 December 2021: approximately 18.0%). Current ratio was maintained at a healthy level of approximately 2.36 times (31 December 2021: approximately 2.29 times).

3) Capital Expenditure

In the first six months of 2022, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB73,466 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 and USD. During the reporting period, RMB depreciated by approximately 5.00% 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 2022, the Group's interest expense amounted to approximately RMB4,300 thousand (2021: approximately RMB6,241 thousand), representing a decrease of approximately 31.1% as compared with the same period of 2021. The decrease in interest expense was primarily due to the decrease of bank borrowings.

6) Pledge of Assets

As at 30 June 2022, the Group had no assets pledged as security against bank facilities.

7) Capital Commitment

As at 30 June 2022, the capital expenditure of the Group contracted for but not yet provided in the financial statements was approximately RMB440,508 thousand and the capital expenditure authorised but not contracted for was approximately RMB294,283 thousand.

Staff Compensation and Training

As at 30 June 2022, the Group had a total of 8,071 staff (31 December 2021: 8,099). 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 its permanent staff.

OTHER INFORMATION

Corporate Governance Code

Throughout the six months ended 30 June 2022, 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 C.6.1 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, head of the legal department of the Company, as the contact person with Ms. Cho. As Ms. Cho is a practicing solicitor in 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 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 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 2022.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2022, 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 2022, 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, 4 August 2022

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.