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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 Results for the Nine Months ended 30 September 2023

The board of directors (the “Board”) of DaChan Food (Asia) Limited (the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the nine months ended 30 September 2023:

Highlights

	Nine months ended 30 September		
	2023	2022	% change
	(unaudited)	(unaudited)	
Turnover (RMB'000)	4,834,221	4,512,433	7.1
Gross profit (RMB'000)	520,850	504,235	3.3
Gross profit margin (%)	10.8	11.2	
Profit attributable to equity shareholders of the Company (RMB'000)	66,604	65,830	1.2
Basic earnings per share (RMB)	0.066	0.065	

CONSOLIDATED STATEMENT OF PROFIT OR LOSS**For the nine months ended 30 September 2023***(Expressed in RMB'000 unless stated otherwise)*

	Nine months ended 30 September	
	2023	2022
	(unaudited)	(unaudited)
Turnover	4,834,221	4,512,433
Cost of sales	<u>(4,313,371)</u>	<u>(4,008,198)</u>
Gross profit	520,850	504,235
Other operating income	20,759	33,673
Other net losses	(2,853)	(3,762)
Distribution costs	(249,012)	(230,859)
Administrative expenses	<u>(177,073)</u>	<u>(187,141)</u>
Profit from operations	112,671	116,146
Finance costs	(10,963)	(7,886)
Share of profit/(loss) of equity accounted investees	<u>458</u>	<u>(1,408)</u>
Profit before taxation	102,166	106,852
Income tax	<u>(10,077)</u>	<u>(12,663)</u>
Profit for the period	<u><u>92,089</u></u>	<u><u>94,189</u></u>
Attributable to:		
Equity shareholders of the Company	66,604	65,830
Non-controlling interests	<u>25,485</u>	<u>28,359</u>
Profit for the period	<u><u>92,089</u></u>	<u><u>94,189</u></u>
Earnings per share		
– Basic and diluted (RMB)	<u><u>0.066</u></u>	<u><u>0.065</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 30 September 2023***(Expressed in RMB'000 unless stated otherwise)*

	At 30 September 2023 (unaudited)	At 31 December 2022 (audited)
Non-current assets		
Property, plant and equipment	1,594,159	1,240,947
Land use rights	122,416	125,499
Investment property	51,847	53,889
Interests in equity-accounted investees	69,244	68,786
Other financial assets	1,948	1,948
Deferred tax assets	5,831	6,071
Long-term tax recoverable	112,497	112,497
Other non-current assets	38,577	59,598
	<u>1,996,519</u>	<u>1,669,235</u>
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Current assets		
Inventories	577,195	671,019
Biological assets	190,166	149,077
Trade receivables	306,695	239,110
Other receivables and prepayments	305,692	310,562
Cash and cash equivalents	479,962	532,274
	<u>1,859,710</u>	<u>1,902,042</u>
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Current liabilities		
Trade payables	537,497	472,025
Other payables	349,596	328,568
Contract liabilities	12,847	20,756
Interest-bearing borrowings	162,077	107,448
Lease liabilities	2,001	2,001
Income tax payable	8,686	9,928
	<u>1,072,704</u>	<u>940,726</u>
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Net current assets	<u>787,006</u>	<u>961,316</u>
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	At 30 September 2023 (unaudited)	At 31 December 2022 (audited)
Total assets less current liabilities	<u>2,783,525</u>	<u>2,630,551</u>
Non-current liabilities		
Interest-bearing borrowings	345,139	269,792
Lease liabilities	26,790	29,716
Deferred tax liabilities	<u>8,490</u>	<u>7,936</u>
	<u>380,419</u>	<u>307,444</u>
Net assets	<u><u>2,403,106</u></u>	<u><u>2,323,107</u></u>
Capital and reserves		
Share capital	97,920	97,920
Reserves	938,967	944,706
Retained profits	<u>1,095,374</u>	<u>1,028,770</u>
Total equity attributable to equity shareholders of the Company	2,132,261	2,071,396
Non-controlling interests	<u>270,845</u>	<u>251,711</u>
Total equity	<u><u>2,403,106</u></u>	<u><u>2,323,107</u></u>

RESULTS SUMMARY

For the first three quarters of 2023, turnover of the Company amounted to RMB4,834,221 thousand, representing an increase of 7.1% over the corresponding period of last year. Profit attributable to shareholders amounted to RMB66,604 thousand, representing an increase of 1.2% over the corresponding period of last year. During the third quarter, the Company's domestic sales of food products continued its steady growth trend in the first half of the year, with operating income and gross profit increasing by 14.6% and 16.7% respectively year-on-year. However, due to the fact that the prices of feather chicken and chicken meat in the domestic market drop to a new low for the year, while the cost of feeds was still at a high level, as affected by such unusual market condition, the performance of the meat business declined, resulting in a decrease in the Company's overall turnover and profit attributable to shareholders by 1.4% and 19.3% respectively compared to the same period of last year.

For the first three quarters of 2023, operating income and gross profit of the foods segment increased 10% and 14.5% respectively year-on-year. Overall operating income and gross profit of the foods segment for the third quarter increased by 6.8% and 15.5% respectively year-on-year. The growth in the foods business was primarily driven by the steady growth in sales of domestic food products, which result in the third quarter operating income and gross profit to increase by 14.6% and 16.7% respectively year-on-year. The domestic food team continued to increase the development of direct sales customers and developed more strategic customers with the help of joint research and development of customized products and comprehensive supply chain services; the continued increase in investment of resources in the retail channel helped to increase customer stickiness through consumer-side brand exposure; with increased investment in application research and development, the Company could keep abreast of the market demand, continue to explore new processes, broaden its product categories, and strive to create more single products in large scale; and with the aid of digital transformation in improving supply chain efficiency, the Company could better serve the future growth needs of large customers. The building of all these foundations has provided a strong assurance for the expansion of production capacity of the new Bengbu food plant, which was put into operation in the third quarter of this year. Export performance of foods declined year-on-year in the third quarter due to the depreciation of the Japanese yen and low-price competition from Thailand for exports to Japan. The international food business will continue to focus on the Japanese market, while more efforts will be put in the development of export markets other than Japan to diversify the risk of over-concentration of export markets and customers.

For the first three quarters of 2023, operating income and gross profit of the feeds segment increased by 1.1% and 1.8% respectively compared to the same period of last year. The operating income and gross profit of the feeds segment for the third quarter declined 9.4% and 1.3% respectively year-on-year. Affected by African swine fever and continued losses on the farming side, small and medium-sized pig farms reduced their inventories or stopped their breeding businesses, resulting in lower feeds sales over the same period of last year. To reduce the impact of cyclical fluctuations in pig prices on its performance, the feeds business invested resources to increase the research and development strength of niche products such as ruminant feeds and market development, and actively explored markets other than pig feeds and poultry feeds to enrich product categories and product diversification to diversify its market risks. The strategy of product diversification began to bear fruit in the third quarter, with ruminant feeds growing 21% year-on-year, which to a certain extent diversified the risks of the swine cycle. Meanwhile, the feeds business accelerated the pace of integration of middle office functions, strengthened cross-functional collaboration in product research and development, raw material procurement, production processes, quality control and technical services, and promoted the use of diversified raw materials to reduce feeds costs and increase the relative competitiveness of its products and services.

For the first three quarters of 2023, operating income of the meat segment increased by 11.6% while gross profit decreased by 34.1% over the same period of last year. The overall operating income and gross profit of the meat segment for the third quarter decreased by 0.4% and 73.8% respectively over the same period of last year. The recovery of domestic consumption was limited in the third quarter, and the year-on-year increase in the production of feather chickens resulted in an oversupply in the market and a decline in the market for both feather chickens and chicken meat, while the market for bulk raw materials used in broiler feed remained relatively high due to the influence of the international market, resulting in a loss in the breeding industry, which weighed on the overall performance of the meat segment. As such unfavorable market situation may continue in the fourth quarter, the meat segment has accelerated the pace of business model transformation, timely adjusted the cooperation model with farmers, and based on the existing contractual model of guaranteed profit, increased the use of profit-sharing and risk-sharing model, improved the price flexibility of the supply of feather chickens to better cope with the market risk. On the other hand, the Company will also continue to adjust its operating model of the meat segment to focus on the fine processing of meat products and differentiated products, actively develop customers such as fresh produce chains and member stores that value quality products, eliminate price-sensitive customers, and enhance the brand value through optimizing its sales channels.

The Company's newly built food plant, electric slaughtering plant and feeds plant in Bengbu, Anhui Province were successfully completed and put into operation in the third quarter of this year. The commencement of production of the project will help consolidate and expand the Company's market position in the Yangtze River Delta region, and at the same time enable the Company to implement its food strategy at a higher level. The Company will continue to actively expand its food production capacity and accelerate the scale of food products to smooth out the risk of abnormal fluctuations in the meat market with stable profits from the food business.

Looking ahead to the fourth quarter, the Russian-Ukrainian war and the situation in the Middle East will be major uncertainties affecting the global economy, and the impact of the US dollar interest rate hike on the global financial system may persist for a certain period. As for China, contradictions between economic activities in the external environment and the lack of domestic demand have not been fundamentally alleviated, further consolidation is needed for building a solid foundation for economic recovery. At the same time, competition in the agriculture, livestock and food industry is expected to become more and more intense. The Company will take the foods segment as the lead to drive its overall development and keep looking for new sources of growth; take the feeds segment as the foundation to stabilize the sales volume and at the same time diversify its market risks by product diversification; improve the operating structure of meat products, focus on the development of valued customers, increase the output value of meat products and strengthen the cash flow management. With the synergy of foods scaling, feeds diversification and meat value-adding working in tandem, the Company has been progressing steadily on digital transformation and supply chain management optimization to improve operational efficiency and enhance its overall industrial competitiveness and anti-cyclicality.

The Group maintains a healthy financial structure. As at 30 September 2023, net assets of the Group amounted to approximately RMB2,403,106 thousand; cash and cash equivalents represented approximately 12.4% of total assets. As at 30 September 2023, current ratio of the Group was approximately 1.73, representing a slight decrease over the ratio of approximately 2.02 as at 31 December 2022. The interest-bearing borrowings to equity ratio as at 30 September 2023 was approximately 21.1%, representing an increase over the relevant ratio (approximately 16.2%) as at 31 December 2022.

OTHERS

As at the date of this announcement, the Company is a subsidiary of Great Wall Enterprise Co. Ltd. (“Great Wall Enterprise”, the shares of which are listed on Taiwan Stock Exchange Corporation (the “Taiwan Stock Exchange”)), which indirectly holds approximately 53.05% of the entire issued shares of the Company; therefore, the operating results of the Group will be consolidated into the financial statements of Great Wall Enterprise. In accordance with the Taiwan Securities and Exchange Act and the listing rules of the Taiwan Stock Exchange, Great Wall Enterprise is required to prepare its own consolidated quarterly financial reports and publish its quarterly operating results on its website.

This announcement is made for the purpose of disclosing the financial information of the Company to its shareholders and potential investors in a timely manner in compliance with the requirements of Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

PURCHASES, SALE OR REDEMPTION OF SECURITIES

For the nine months ended 30 September 2023, the Company and any of its subsidiaries have not purchased, redeemed or sold any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the Group’s consolidated financial statements for the nine months ended 30 September 2023 which have not been audited by the independent auditor.

On behalf of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 2 November 2023

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. Ting Yu-Shan, Mr. Hsia, Li-Yan, Ms. Lee Tsai, Yu-Ling and Mr. Kao Koong-Lian are the independent non-executive directors of the Company.