DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement of Annual Results for 2013

The board of directors (the "Board") of DaChan Food (Asia) Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2013, prepared in conformity with the basis of presentation as stated in note 2 below, together with the comparative figures of the year ended 31 December 2012 as follows:

Highlights

	2013	2012	% change
Turnover (RMB'000)	11,751,905	11,435,455	+2.8
Gross profit (RMB'000)	695,207	727,868	-4.5
Gross profit margin (%)	5.9	6.4	
(Loss)/profit attributable to equity shareholders of the Company (RMB'000)	(8,730)	72,044	-112.1
Basic (loss)/earnings per share (RMB)	(0.01)	0.07	
Dividend per share (HK cents)	0	0	

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013
(Expressed in thousands of Renminbi unless otherwise stated)

	Note	**2013**	**2012**
Turnover	3	11,751,905	11,435,455
Cost of sales		(11,056,698)	(10,707,587)
Gross profit		695,207	727,868
Change in fair value of biological assets less costs to sell		4,804	(6,544)
Fair value of agricultural produce on initial recognition		22,888	31,645
Reversal of fair value of agricultural produce due to sales and disposals		(22,989)	(32,987)
Other operating income		37,096	23,977
Other net (losses)/gains		(6,828)	1,857
Distribution costs		(381,145)	(328,471)
Administrative expenses		(287,783)	(260,691)
Profit from operations		61,250	156,654
Finance costs	4(a)	(18,822)	(20,477)
Share of losses of equity-accounted investees		(5,861)	(2,259)
Profit before taxation	4	36,567	133,918
Income tax	5	(5,498)	(22,331)
Profit for the year		31,069	111,587
Attributable to:			
Equity shareholders of the Company		(8,730)	72,044
Non-controlling interests		39,799	39,543
Profit for the year		31,069	111,587
Dividends payable to shareholders of the Company attributable to the year:			
Final dividend proposed after the end of the reporting period	6	0	0
(Loss)/earnings per share	7		
– Basic (RMB)		(0.01)	0.07
– Diluted (RMB)		(0.01)	0.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2013	2012
Non-current assets			
Fixed assets			
– property, plant and equipment		1,171,853	1,122,632
– lease prepayments		174,888	155,617
Interests in equity-accounted investees		118,356	54,635
Deferred tax assets		36,857	29,701
		1,501,954	1,362,585
Current assets			
Inventories		1,073,219	990,192
Biological assets		11,608	7,154
Trade receivables	8	364,251	341,003
Other receivables	9	405,976	384,035
Income tax recoverable		558	183
Cash and cash equivalents		590,126	610,411
		2,445,738	2,332,978
Current liabilities			
Trade payables	10	740,321	678,244
Other payables	11	382,364	368,324
Interest-bearing borrowings		212,398	257,921
Income tax payable		19,975	21,541
		1,355,058	1,326,030
Net current assets		1,090,680	1,006,948
Total assets less current liabilities		2,592,634	2,369,533
Non-current liabilities			
Interest-bearing borrowings		607,980	380,892
Deferred tax liabilities		359	563
		608,339	381,455
Net assets		1,984,295	1,988,078
Capital and reserves			
Share capital		97,349	97,685
Reserves		910,523	894,375
Retained profits		693,238	718,215
Total equity attributable to equity shareholders of the Company		1,701,110	1,710,275
Non-controlling interests		283,185	277,803
Total equity		1,984,295	1,988,078

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 General information

DaChan Food (Asia) Limited (the "Company") 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 consolidated financial statements for the year ended 31 December 2013 comprise the Company and its subsidiaries (collectively referred to as the "Group" and individually as "Group entity") and the Group's interest in jointly controlled entities and associates. The Group is 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

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as 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").

(b) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost except that the following assets:

– derivative financial instruments are measured at fair value; and

– biological assets are measured at fair value less costs to sell.

(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 IASB has issued several amendments to 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 IAS 1, *Presentation of Financial Statements – Presentation of items of other comprehensive income*

– IFRS 10, *Consolidated Financial Statement*

– IFRS 11, *Joint Arrangements*

– IFRS 12, *Disclosure of Interests in Other Entities*

– IFRS 13, *Fair Value Measurement*

– Amendments to IFRS 7, Financial Instruments: *Disclosure – offsetting financial assets and financial liabilities*.

These developments have had no material impact on these financial statements.

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 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 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 breeding and hatching of broiler breeder eggs, contract farming, processing and trading of chilled and frozen chicken meat marketed under the brand of "DaChan".
Livestock feeds:	The livestock feeds segment manufactures and distributes complete feed, base mix and pre-mix for swine, layer, broiler, duck, and breeder poultry.
Processed foods:	The processed foods segment produces and distributes pickled, pre-fried, and ready-to-eat foods, and further processed chilled and frozen chicken meat marketed under the brand of "Sisters' Kitchen".

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between 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 payables and accruals attributable to the manufacturing and sales activities of the individual segments.

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 2013 and 2012 is set out below:

	Meat products		**Livestock feeds**		**Processed foods**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Turnover from external customers	5,064,118	5,000,702	4,888,405	4,690,681	1,799,382	1,744,072	11,751,905	11,435,455
Inter-segment turnover	707,167	923,732	1,679,757	1,693,242	–	–	2,386,924	2,616,974
Total	5,771,285	5,924,434	6,568,162	6,383,923	1,799,382	1,744,072	14,138,829	14,052,429
Segment result	24,648	48,334	439,831	433,558	230,728	245,976	695,207	727,868
Unallocated operating income and expenses							(633,957)	(571,214)
Profit from operations							61,250	156,654
Finance costs							(18,822)	(20,477)
Share of losses of equity-accounted investees							(5,861)	(2,259)
Income tax							(5,498)	(22,331)
Profit for the year							31,069	111,587
Depreciation and amortisation for the year	61,130	62,230	43,522	40,388	23,325	22,128	127,977	124,746
Reportable segment assets	1,052,157	993,424	1,518,125	1,387,782	500,606	496,739	3,070,888	2,877,945
Reportable segment liabilities	278,761	280,370	670,159	597,010	144,622	134,093	1,093,542	1,011,473

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

	2013	2012
Turnover		
Reportable segment turnover	14,138,829	14,052,429
Elimination of inter-segment turnover	(2,386,924)	(2,616,974)
Consolidated turnover	11,751,905	11,435,455
Profit		
Reportable segment profit	695,207	727,868
Change in fair value of biological assets less costs to sell	4,804	(6,544)
Fair value of agricultural produce on initial recognition	22,888	31,645
Reversal of fair value of agricultural produce due to sales and disposals	(22,989)	(32,987)
Other operating income	37,096	23,977
Other net (losses)/gains	(6,828)	1,857
Distribution costs	(381,145)	(328,471)
Administrative expenses	(287,783)	(260,691)
Finance costs	(18,822)	(20,477)
Share of losses of equity-accounted investees	(5,861)	(2,259)
Consolidated profit before taxation	36,567	133,918
Assets		
Reportable segment assets	3,070,888	2,877,945
Deferred tax assets	36,857	29,701
Income tax recoverable	558	183
Cash and cash equivalents	590,126	610,411
Unallocated head office and corporate assets	249,263	177,323
Consolidated total assets	3,947,692	3,695,563
Liabilities		
Reportable segment liabilities	1,093,542	1,011,473
Income tax payable	19,975	21,541
Deferred tax liabilities	359	563
Interest-bearing borrowings	820,378	638,813
Unallocated head office and corporate liabilities	29,143	35,095
Consolidated total liabilities	1,963,397	1,707,485

(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**	
	2013	**2012**	**2013**	**2012**
Mainland China	9,462,675	9,321,876	1,173,187	1,071,849
Vietnam	1,745,804	1,575,966	106,766	93,425
Japan	443,519	445,538	–	–
Rest of Asia Pacific	99,907	92,075	10,256	11,993
	11,751,905	11,435,455	1,290,209	1,177,267

4 Profit before taxation

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

	2013	**2012**
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	18,822	20,477
(b) Staff costs		
Salaries, wages, bonuses and other benefits	678,375	621,581
Contributions to retirement schemes	72,708	53,691
Equity-settled share-based payment	649	2,117
	751,732	677,389

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 18% to 22% (2012: 18% to 22%) 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 annual contributions described above.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group and its employees are each required to make contributions to the scheme at 5%

of the employees' relevant income. The monthly relevant income of contribution is subject to a cap of HKD 25,000. Contributions to the scheme vest to employees immediately.

Contribution made to Malaysia's Employees Provident Fund is based on 13% (2012: 13%) of the eligible employees' salaries.

The Group also made contribution on the statutory social security and health insurance in Vietnam at 17% (2012: 17%) 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*

	2013	**2012**
Auditors' remuneration		
– audit services	4,629	4,561
– tax services	31	44
	4,660	4,605
Amortisation of lease prepayments	4,043	4,138
Depreciation of property, plant and equipment	123,934	120,608
Net impairment losses on trade receivables	7,558	345
Net write-down of inventory	44,378	7,353
Operating lease charges		
– plant and machinery	29,296	22,083
– others	8,528	6,741
Research and development costs	2,307	2,420

5 Income tax in the consolidated income statement

	2013	**2012**
Current tax		
Provision for the year	30,213	23,933
Over provision in respect of prior years	(17,355)	(2,500)
	12,858	21,433
Deferred tax		
Origination and reversal of temporary differences	(7,360)	898
	5,498	22,331

(i) Pursuant to the rules and regulations of the Cayman Islands, British Virgin Islands ("BVI") and Samoa, the Group is not subject to any income tax in the Cayman Islands, BVI and Samoa.

(ii) The Company is regarded as a Hong Kong resident taxpayer by Hong Kong Inland Revenue Department and subject to the income tax rate of 16.5%.

(iii) Pursuant to the income tax laws and regulations of the PRC, the companies comprising the Group in the PRC are liable to PRC Corporate Income Tax at a rate of 25%.

Greatwall Gourmet (Shanghai) Co., Ltd. and Hunan Greatwall Technologies & Feeds Co., Ltd. were entitled to a full exemption from the PRC Corporate Income Tax for the two years beginning from 2008, their first profit-making year after offsetting all tax losses carried forward from the previous years, followed by a 50% reduction in the PRC Corporate Income Tax for the next three years. The applicable tax rate for both subsidiaries for the years ended 31 December 2013 is 25% (2012: 12.5%).

(iv) Pursuant to the income tax laws and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 25% for the year ended 31 December 2013 (2012: 25%).

(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. ("ANT-VN") is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% (2012: 15%).

(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 25% 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. Therefore, the applicable tax rate of ANT-HN is 10% for the year ended 31 December 2013 (2012: 5%).

(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 25% 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. Therefore, the applicable tax rate of ANT-LA is 20% for the year ended 31 December 2013 (2012: 10%).

(viii) Pursuant to the Amended Investments Licence No. 43/2010/ND-CP dated 26 September 2012 and issued by Binh Dinh Provice Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. ("ANT-MV") is subject to Vietnam Corporate Income Tax of 25% for the year ended 31 December 2013.

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

	2013	**2012**
Profit before taxation	36,567	133,918
Income tax using PRC's Corporate Income Tax rate of 25% (2012: 25%) (note)	9,142	33,480
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(13,645)	(23,312)
Tax effect of non-deductible expenses	4,711	1,664
Tax effect of non-taxable income	(39,848)	(24,820)
Tax effect of unused tax losses not recognised	78,469	44,134
Utilisation of tax losses previously not recognised	(15,976)	(4,054)
Effect of tax exemptions granted to subsidiaries	–	(2,261)
Over provision in respect of prior years	(17,355)	(2,500)
Actual tax expense	5,498	22,331

Note: The income tax rate of 25% (2012: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2013	**2012**
Final dividend proposed after the end of the reporting period: No distribution in 2013 (2012: No distribution)	0	0

On 21 March 2014, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2013 (2012: No distribution).

7 Earnings (Loss) per share

The calculation of basic loss per share for the year ended 31 December 2013 is based on the loss attributable to ordinary equity shareholders of the Company of RMB8,730,000 (2012: profit of RMB72,044,000) and the weighted average of 1,010,977,805 ordinary shares (2012: 1,011,403,200) in issue during the year.

The calculation of diluted loss per share for the year ended 31 December 2013 does not assume the exercise of the Company's share options and the vesting of shares under restricted share award scheme as the effect is anti-dilutive. The calculation of diluted earnings per share for the year ended 31 December 2012 is based on the profit attributable to ordinary equity shareholders of the Company of RMB72,044,000 and the weighted average of 1,012,925,918 ordinary shares.

8 Trade receivables

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

	2013	2012
Current	258,627	265,089
Less than 30 days past due	63,706	55,039
31–60 days past due	20,477	8,136
61–90 days past due	12,842	4,080
More than 90 days past due	18,433	13,107
Amounts past due	115,458	80,362
Less: Provision for bad debt	(9,834)	(4,448)
	364,251	341,003

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

9 Other receivables

	2013	2012
VAT recoverable	259,573	219,141
Deposits and prepayments	74,371	94,550
Amounts due from related parties	48,469	33,184
Advances to staff	6,977	4,732
Others	16,586	32,428
	405,976	384,035

All other receivables are expected to be recovered within one year.

10 Trade payables

An ageing analysis of the trade payables is analysed as follows:

	2013	2012
Within 30 days	635,770	582,944
31 days to 60 days	38,508	38,990
61 days to 90 days	28,164	17,901
91 days to 180 days	37,879	38,409
	740,321	678,244

11 Other payables

	2013	2012
Salaries, wages, bonuses and other benefits payable	65,724	60,206
Accrued expenses	84,423	82,980
Contract performance deposits	45,928	43,820
Receipts in advance	21,568	21,054
Payables for acquisition of fixed assets	15,690	15,363
Amounts due to related parties	1,867	9,509
Others	147,164	135,392
	382,364	368,324

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2013	2012	% change
Turnover (RMB'000)	11,751,905	11,435,455	2.8%
Gross profit (RMB'000)	695,207	727,868	-4.5%
Gross profit margin (%)	5.9	6.4	
(Loss)/Profit attributable to shareholders of the Company (RMB'000)	(8,730)	72,044	-112.1%

Economic Overview and Group Strategies

In 2013, the growth of catering industry decelerated as (i) China's economic growth continued the trend of deceleration starting from the previous year; (ii) the household consumption was weak and (iii) the new government exerted strict control over consumption with public funds. With regard to the production business, pork prices have languished near the bottom throughout the year as the production volume of pigs stood high. Chicken prices were also affected incidentally and the costs of feeds remained at the high level. The recurring incidence of H7N9 flu epidemic further increased the industrial fluctuation and continued to exert pressure on the breeding and rearing industry. Under the challenging environment in 2013 mentioned above, the Group adhered to its overall strategy of "preparing to reform, devoting to adjustment" as devised in the previous year, and continually committed to the progress of de-risking, food productization and brand building. Against the background of overall depression of the poultry and livestock industries, the risk resistent capability of the Group was further strengthened, and its branding and channel building capacity for the end market were gradually strengthened.

Business Review

The Group's overall turnover increased moderately in 2013. The feed segment continued to be the key growth driver mainly because of its robust growth in the Southeast Asian market as both the sales volume and market share of the Group's products further enhanced. However, affected by the downward economic trend, weak consumption demand and the frequent outbreak of epidemics, the growth of the processed food segment decelerated. Despite the overall depression of the breeding and rearing industries, the meat product business has managed to maintain its level of revenue due to its effective implementation and progress on de-risking. Meat and feeds segments were still the major sources of income in 2013 and accounted for 43.1% and 41.6% of the Group's total turnover respectively. However, given the rising material cost of feeds, the effect of fierce competition on selling price and sales structure, the risks in respect of breeding and rearing and feed costs of the meat segment was enlarged and the demand from the end-market for food was lowered, the gross profit and gross profit margin of the business were affected, which resulted in a moderate loss in the overall results of the Group in 2013.

In 2013, compared with the Group's level of turnover, both distribution and administration expenses also increased mainly due to: (1) advancement of establishing sales channels and development of new departments and businesses; (2) increase in average salary of employees and reinforcement of protection under employee welfare insurance policies provided by the Group in compliance with government policies; and (3) rising inspection expenses arising from the introduction of exmaination process and technologies regarding many types of important substances in respect of food safety and quality assurance by the Group.

Nowadays, food safety has already been a prime concern of consumers in China. Moreover, consumers have developed an increasingly scientific and strict attitude towards food safety. Any negligence and slack may lead to inestimable losses. These factors pose greater challenges to quality assurance. In 2013, in respect of responsibility and mission on food safety, the entire Group insisted that the enterprise be the first responsible party for food safety and continued to seek opportunities to improve quality and strived to continually strengthen itself. A specific example included that the Food Safety Centre of DaChan Food (Asia) Limited commenced its operation in 2013 after comprehensive restructuring, to better fulfil its role as the driving force and navigator for food safety of the Group.

Meat Product

	2013	**2012**	**% change**
Turnover (RMB'000)	5,064,118	5,000,702	1.3%
Gross profit (RMB'000)	24,648	48,334	-49.0%
Gross profit margin (%)	0.5	1.0	

The business of the meat product segment includes the production and sales of chilled and frozen chicken meat, the supply of contract feed and contract day-old chicks to contract farmers. The products of the meat segment were mainly supplied to fast food restaurants, both internal and external food processors and the service providers for processed food. The production regions of the segment covered Northeast China, North China and East China.

Review of Results

Among the main sources of turnover in 2013, turnover derived from sale of feed and day-old chicks to contract farmers had a significant growth because of the aggressive business expansion, improved product performance, increased incubation efficiency and consistent pricing strategies. Owing to the weak market demand and meat prices, the sales volume and average price of the meat products were affected. Therefore, turnover derived from the sales of chilled and frozen chicken meat, which accounted for the largest source of the turnover, recorded moderate decline. As such, turnover of overall meat product business remained stable throughout the year.

In respect of the self-supplied day-old chicks, as the volume of successful incubation increased and the price of a growing number of contracts for day-old chicks were determined with reference to market price, the efficiency of breeding and rearing were continually enhanced and the costs of a day-old chick was lowered and the gross profit and gross profit margin of the sales of day-old chick increased significantly. Benefited from the growth of the success rate of incubation and the self-supplied day-old chick of the Group and the continuing improvement of the functions of the feeds, the gross profit and the gross profit margin from the sales of feeds for contract farmer increased to the same extent despite the slight decrease in sales volume. Unit cost of fresh frozen meat increased because of rising prices of raw materials of feed. However, the increased costs was unable to be transferred to consumers as the outbreak of the influenza epidemic and the limited understanding of the disease caused a certain level of market panic. Further, the professional catering markets, being the high value-added sales channel of the Group and include schools, factories and institutions, reduced their chicken purchases in compliance with the uniform policy, and thus the sales volume was significantly affected. As a whole, since the sales of fresh frozen chicken accounted for a great proportion of the meat product segment, the overall gross profit of the segment still declined significantly whereas the gross profit margin decreased.

Operational Highlights

Slowdown in economic growth and outbreak of H7N9 epidemic gave another heavy blow to the breeding and rearing industry which showed a sign of slight recovery in the first quarter of 2013. Fortunately, the main operational strategy of the meat business in 2013 continued to be "de-risking + enhancement of breeding capability", which have been implemented since 2012. The strategy succeeded in protecting the Group against greater risk exposure in 2013. Major operating measures implemented by the Group included: effective control of risks resulting from price fluctuation of day-old chick through determining contract prices with reference to the changing market price; effective improvement of the utilization of incubation capacity and cost control; effective control in the segments of day-old chick and feed, improvement of feed conversion ratio, and significant enhancement of breeding and rearing performance and mutual cooperation with farmers to achieve mutual benefits; and further improvement in the conversion rate from chicken to food products, including the increase of volume of chicken used by the Group's internal cooked food factories and increase the production and sales volume of prepared food.

Future Strategies

Given the frequent fluctuation in the breeding and rearing industry in recent years, and the resultant rising level of pressure and increasing effect on breeding and rearing enterprises, the Group will continue to adopt the following approach in a prudent manner: (1) to maximize the pace of the food productization and to improve conversion rate from meat to food products, including increasing the use of internal processed food factories for conversion purpose and increasing the production and sales volume of processed food; (2) maximize the value chain of breeding and rearing, raise the awareness of contracted farmers in enhancing breeding performance and share profits with them; and (3) continually increase the resources allocated to the high value-added sales channels and improve product profitability.

Feeds to External Customers

	2013	2012	% change
Turnover (RMB'000)			
– China	3,089,777	3,066,506	0.8%
– Vietnam and Malaysia	1,798,628	1,624,175	10.7%
Total	4,888,405	4,690,681	4.2%
Gross profit (RMB'000)			
– China	255,014	277,327	-8.0%
– Vietnam and Malaysia	184,817	156,231	18.3%
Total	439,831	433,558	1.4%
Gross profit margin (%)			
– China	8.3	9.0	
– Vietnam and Malaysia	10.3	9.6	
Total	9.0	9.2	

The turnover of this segment was primarily derived from the sales of piglet, sow, hog and poultry feeds in China, Vietnam and Malaysia. Corn and soybean are the primary raw materials of the Group's feeds. The brands of the products are "Dr. Nupak", "Green Knight", and "SOS" with production and sales areas covering Northeast China, North China, Central China, Southwest China and Southeast Asia overseas.

Review of Results

In 2013, the feed segment continued its trend of steady growth both in sales volume and price in the overseas market as it did over the previous years. Particularly, the sales growth of highly value-added pig feeds promoted the mild growth of the overall feed turnover. In the domestic market, the growth of sale volume of pig feeds was inhibited and the sales volume of chicken feeds declined to a certain extent due to the depression of the downstream sector of the breeding and rearing industry, heated competition and reshuffling and upgrade of competitors in the industry. However, benefited from the improvement of the sales structure of the products and the effective progress of high value-added premix (SOS) service for professional hoggery, the overall sales volume of the feed segment remained generally stable.

In Mainland China, whilst the sales volume of pig feeds was generally stable, the sales structure of the products gradually improved and the high value-added premix accounted for an increasing proportion of the sales volume. In respect of cost control of raw materials, the average market price of corns decreased by 2% compared with the previous year whereas that of the soybean increased by 12% compared to the previous year. The growth rate of total cost still exceeded that of the selling price in of our products and resulted in a slight reduction in gross profit and gross profit margin. Along with the significant enhancement of the sales volume and proportion of pig feed in Vietnam subsidiaries in the fierce competition, the improvement of products structure and the continuing enhancement of competitiveness of the Group's brand in Vietnam, the gross profit and the gross profit margin of the overseas feed business increased in 2013.

Operational Highlights

In 2013, the overall strategy of the feed segment was "full-scale upgrade and emphasis on key products". During the period, the feed segment enhanced both of its R&D capacity and end-user marketing capacity, had a full upgrade of the feed service system and product lines, emphasized the strategic cooperation with high value-added customers and dealers and actively improved its growth pace and profitability. With the further improved product line, the Group was capable of competing with its major rivals in all kinds of products. Meanwhile, the feed department positioned sow and piglet as its core product line and proposed the "920" breeding and rearing model and scientifically designed proposals for breeding and rearing material mix. In the end-market, the direct marketing team of scale hoggery in the feed segment was fully launched and had begun to provide and improve special products (premix: SOS) and high value-added service for professional hoggery. Focusing on the interaction between R&D and marketing, the feed segment customised the products for professional hoggery and satisfied their demand for service through the research and development of core biological pre-digestion technology platform and the "920" plans for sows in order to focus on providing premix feeds with best biological efficiency and to promote feeds in small packages and with special functions. Besides, the feed segment organized several international forums and roadshows nationwide on sow nutrition and breeding management, in an effort to lead the market and improve product recognition through technology promotion.

Future Strategies

The feed segment, being the constant strength of the Group, is completing its gradual transformation from a traditional feed producer to a breeding and sales partner and will focus more on the functional upgrade of front-end business cooperation and back-end R&D of technologies. Through the biological pre-digestion technology and other effective and low residue nutrition technologies, the feed segment will commit to assist its customers to reduce the discharge of faeces and waste generated from the process of breeding and rearing and comply with the national environmental requirements coming into operation in 2014 in respect of the breeding and rearing industry and consolidate the basis of cooperation with breeders in respect of environmentally friendly breeding and rearing practices. The feed business will use its technologies based on the biological pre-digestion technology platform, concentrate on the development of high value-added sow and piglet feeds, further enhance its product performance, expand its market share and brand publicity and actively explore the business cooperation model to maximize benefits for the distributors and the Group.

Processed Food

	2013	2012	% Change
Turnover (RMB'000)			
– Mainland China	1,333,993	1,285,548	3.8%
– Export	465,389	458,524	1.5%
Total	1,799,382	1,744,072	3.2%
Gross profit (RMB'000)			
– Mainland China	173,795	183,146	-5.1%
– Export	56,933	62,830	-9.4%
Total	230,728	245,976	-6.2%
Gross profit margin (%)			
– Mainland China	13.0	14.2	
– Export	12.2	13.7	
Total	12.8	14.1	

The processed food business included the production and distribution of chilled and frozen meat and marinated food under the "Sister's Kitchen" brand, as well as stewed, pre-fried, steamed and ready-to-eat food. The processed products of the Group were not only sold in the PRC market but also exported to overseas markets like Japan. Customer groups included end-consumer markets and professional markets. Sales channels were mainly professional catering, casual catering, international customers, major customers and retail consumption market. Production and sales areas covered Northeast China, North China, East China, South China, and have expanded to the inland regions of Northwest China and Southwest China in 2013.

Review of Results

The processed food business faced severe challenges in 2013. Affected by the epidemic and slow economic growth, the consumption demand for chicken meat reduced and therefore the sales quantity of domestic processed food only recorded a slight growth in 2013. Despite the significant increase in sales volume in the international market, the average selling price of processed products dropped as a result of the price war in international trade initiated by other domestic competitors, and led to a limited growth in revenue.

Despite the low meat price, the improved product structure in domestic market and the rise in average selling price, the overall gross profit of the processed food business in domestic market was affected by the supressed demand from end-market consumers and the relatively great proportion of sales volume of marinated food. In international market, although the cost control on production improved, the gross profit was seriously affected by price war. In order to maintain its leading market position, the Group's low value-added products accounted for a greater proportion of the sales volume and this resulted in the reduction of gross profit and gross profit margin. Both the gross profit and gross profit margin of the food segment decreased slightly.

Operational Highlights

During the period, the Group continued to utilize the Group's resources to develop its business of food production and brand construction and gradually optimized the sales platforms of food suppliers. Specific measures regarding marketing channels are described as follows:

Professional catering market focused on provision of food products to professional organisations which supplied catering service for end-consumers. The target markets are canteens and catering companies run by schools and factories, casual-dining restaurants, countryside kitchens and city restaurants, with distributors as the main sales channel. Regions of operations are concentrated on coastal first-tier cities and are now gradually extending to major consumption cities inland in Mainland China.

In 2013, processed food segment achieved remarkable progress in implementing the strategy of product focus in professional catering market. Both the sales volume and earnings of important products such as Taiwanese Style Fried Chicken and hamburger were better than ever and helped the Group to consolidate its leading market position. In view of the great fluctuations of consumption demand for poultry products, the processed food segment also developed the "Ocean Temptation" series to optimize non-chicken meat product line. With our key food products in professional catering business, the Group joined 2014 Shanghai International Food & Beverage and Catering Equipment Exhibition, and the professional catering market division successfully promoted the brand image of DaChan and Sister's Chicken to its counterparts in the catering industry.

The key accounts business supplied customised products such as chicken nuggets, popcorn chicken and Kantoni to well-known fast food chains. During the year, the business channel successfully became an important supplier of major Chinese fast-food brands and established a comprehensive market service team for Western fast-food restaurants, Chinese fast-food restaurants, convenience stores and other chain customers. Meanwhile, in face of the market condition, the processed food department also proactively and efficiently marketed and promoted non-chicken meat products. With regard to customised products and service market, the processed food segment actively promoted the implementation and marketing of regular and specialized proposals, and made proposals and conducted marketing activities with famous seasoning suppliers, so as to improve customer experience and marketing effectiveness.

International customer channel mainly focus on steady export of skewers and fried products to Japanese market, and gained greater brand influence and market share in Japan. Our major customers include Japan's major retail chains and fast-food chains. During 2013, the sales volume of processed food of the Group in international market reached a new peak, the production capacity is utilised fully and the Group maintained its leading market position. The Group further enhanced its production efficiency, optimized its production flow and effectively controlled its production cost.

The retail consumption and market channels are directly facing end-customers, and such channels included supermarkets, online stores, groceries and the casual food chains like OMYG, and marketing platforms in miniblog and WeChat. The exploration of this new channel is still underway. Considering from the perspective of market influence of the brand and promotion, such channel confirmed its use of black as the only colour for identification in 2013 and tried to develop new products which could be stored in room temperature, such as the sugar-smoked marinated series and Alashan water saving millet gift box. The new products received critical acclaim in the market and successfully entered the sales channel of chain convenience stores. The marketing platforms of miniblog and WeChat have also been established. In the future, food product business will explore the possibilities of integrating e-commerce, online store and new media marketing initiatives and continue to increase the influence of the brand in end-consumer market.

Future Strategies

Regarding professional food market segment, it will focus on end consumers and emphasize on the promotion of proposed menus to promote the business. Based on the focused development of important products and the reinforcement of its market leading advantages, the Group will actively explore non-chicken meat products, and plans to develop and promote processed pork and beef products. The Group also plans to establish DaChan Catering College to enhance business team training and improve its customers' marketing capability.

Regarding major customer markets segment, it will focus on domestic fast-food chain, especially Chinese fast-food shops in the future. The segment will, by way of strategic alliance, launch joint proposals and establish information sharing system in order to improve marketing effectiveness of customised service proposals.

Regarding international business market segment, such business plans to develop more high value-added products so as to avoid direct price competition. Moreover, the Group will actively develop products catering for tastes of domestic consumption market and plan to introduce more excellent products and techniques sold or used for exports. The food factories will also maintain its consistently high production quality and stringent cost control.

Lastly, regarding retail consumption and marketing channel, the Group will continue to develop retail food products meeting consumer tastes and to promote the brand and develop more efficient retail model to control the distribution cost.

Outlook and Prospects

Looking into 2014, the Chinese economy will, under the leadership of the new government, enter into a new phase of development where opportunities and challenges coexist. The visions and due considerations of the new government in the various social and economic aspects were fully embodied in the major work plans and conference documents at the beginning of the year. Although the Chinese economy is facing the challenge of structural transformation and upgrade in its development pattern, and its growth pace is under pressure after years of rapid development, the government has great confidence to undergo reforms and maintain the stable economic performance without excessive intervention of resources allocation in the liberalisation of market economy. The primary task of the government included continuation of the urbanization as well as the rural land and financial reforms as stipulated in the No.1 Central Document. In the fields of agriculture and consumption, favourable and stable policies will still be a powerful protection and driving force for the development of the industry.

After the boom in 2011, the breeding and rearing industry has been under pressure for two consecutive years in the midst of the ever-surging prices of wheat and soybean meal and was hard hit by incidents of the dead pigs in the Huangpu River, fast-grown chicken and H7N9, the balance of supply and demand has yet to resume and the industry is still in the doldrums. Competition among major enterprises intensifies and effective corporate operation and correct business strategy are of crucial importance for the survival and growth of the enterprise. Looking forward, supported by a series of preferential policies for the farmers, the nation's stable economic growth target and improvements of the enterprise's own operational efficiency, the industry is expected to revive gradually. Perfection of the food safety monitoring mechanism and better logistics efficiency for the transportation of agricultural products will also support the healthy and efficient development of the industry. Moreover, reforms in rural land and rural finance system will be the decisive factors in favour of the mutual long-term development of both the agricultural and livestock enterprises and farmers in the industry.

DaChan Food adopts a stable operational strategy with stringent risk control to cope with the situation, and has been rewarded through the process of de-risking and food productization. The Group will continue to endeavour in the aspect of risk and scale control of the entire breeding and rearing segment, research and development of feeds and food, as well as the building up of the end-consumer market to gain better return in the future.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2013, other operating income of the Group amounted to RMB37,096 thousand (2012: RMB23,977 thousand) which mainly comprised interest income and government subsidies. The increase in other operating income was mainly due to the increase in government subsidies.

In 2013, other net loss of RMB6,828 thousand (2012: gain of RMB1,857 thousand) was recorded. Other net (loss)/gains mainly includes other non-operating net income such as net foreign exchange gain and net gain and loss on the disposal of fixed assets, etc.

Distribution costs accounted for 3.24% of total turnover, up from 2.87% in 2012.

Administrative expenses accounted for 2.45% of turnover (2012: 2.28%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2013, the Group's cash and bank deposit balances amounted to RMB590,126 thousand, representing an decrease of RMB20,285 thousand from 2012. Bank loans increased by RMB181,565 thousand to RMB820,378 thousand (2012: RMB638,813 thousand). Debt to equity ratio was 41.3% (2012: 32.2%). Current ratio was maintained at a healthy level of 1.80 times (2012: 1.76 times).

3) Capital Expenditure

In 2013, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to RMB230,577 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 4.31% while RMB against USD appreciated 3%.

5) Interest

In 2013, the Group's interest expense amounted to RMB18,822 thousand (2012: RMB20,477 thousand), a decrease of 8.1% from 2012. The decrease in interest expense was primarily due to bank loans changed from RMB bank loans of higher interest rates to US dollar bank loans of lower interest rates.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any final dividend for the year ended 31 December 2013 (2012: No distribution).

7) Charge on Assets

As at 31 December 2013, the Group pledged assets worth RMB8,071 thousand in land, property, plant and equipment as security against bank facilities of RMB3,951 thousand, of which RMB2,543 thousand had been utilized as at 31 December 2013.

8) Capital Commitment

As at 31 December 2013, the capital expenditure of the Group contracted for but not provided in the financial statements was RMB96,044 thousand (2012: RMB221,323 thousand) and the capital expenditure authorised but not contracted for was RMB102,867 thousand (2012: RMB123,817 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2013, the Group had a total of 14,774 employees (31 December 2012: 14,220). The Group pays remuneration to its staff with reference to industry practice, the financial performance of the Group and the employee's individual 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 its core competitiveness. With a view to further enhancing their job skills and industry knowledge, the Group has offered various training programs to its management staff and other employees. The Group believes that these programs will not only enhance the quality of its staff, but also give best chances for development of their personal career. The Group believes these programs benefit both itself and its employees. 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 provided to retain loyal employees.

OTHER INFORMATION

Annual General Meeting ("AGM")

The 2013 AGM of the Company will be held on 25 June 2014 (Wednesday) and the Notice of AGM will be published and dispatched to shareholders in the manner as required by the Listing Rules.

Closing of Register of Members

The register of members of the Company will be closed from 24 June 2014 (Tuesday) to 25 June 2014 (Wednesday), 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 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 19 June 2014 (Thursday).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2013, 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, transparency and accountability to its shareholders. Except for such non-material deviations, it has also complied with the Corporate Governance Code as stated in Appendix 14 to the Listing Rules throughout the year ended 31 December 2013. Details of those immaterial deviations will be disclosed in the 2013 Annual Report of the Company to be published soon.

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 advices 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 2013, 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), Dr. Chen Chih and Mr. Liu Fuchun who are all Independent Non-executive Directors of the Company.

On behalf of the Board
Han Jia-Hwan
Chairman

Hong Kong, 21 March 2014

As at the date of this announcement, Mr. Han Jia-Hwan (Chairman) and Mr. Han Chia-Yin are the executive Directors, Mr. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Nicholas William Rosa and Mr. Chao Tien-Shin are the non-executive Directors, and Mr. Liu Fuchun, Dr. Chen Chih and Mr. Way Yung-Do are the independent non-executive Directors.