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## **DACHAN FOOD (ASIA) LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 3999)**

### **Announcement of Interim Results for the six months ended 30 June 2014**

The board of directors (the “Board”) of DaChan Food (Asia) Ltd (the “Company”) is pleased to announce 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 2014.

#### **Highlights**

	<b>Six months ended 30 June</b>		
	<b>2014</b>	<b>2013</b>	<b>% change</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>	
Turnover (RMB'000)	5,557,891	5,429,049	+2.4
Gross profit (RMB'000)	351,157	310,596	+13.1
Gross profit margin (%)	6.3	5.7	
Profit/(loss) attributable to equity shareholders of the Company (RMB'000)	6,648	(50,996)	+113.0
Basic earnings/(loss) per share (RMB)	0.01	(0.05)	

**CONSOLIDATED INCOME STATEMENT****For the six months ended 30 June 2014 – unaudited***(Expressed in thousands of Renminbi)*

		<b>Six months ended 30 June</b>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
<b>Turnover</b>	3	5,557,891	5,429,049
Cost of sales		(5,206,734)	(5,118,453)
<b>Gross profit</b>		351,157	310,596
Change in fair value of biological assets less cost to sell		4,665	7,055
Fair value of agricultural produce on initial recognition		12,792	8,424
Reversal of fair value of agricultural produce due to sales and disposals		(12,202)	(8,332)
Other operating income		5,622	9,627
Other net losses		(8,836)	(7,268)
Distribution costs		(182,528)	(186,032)
Administrative expenses		(125,001)	(150,951)
<b>Profit/(loss) from operations</b>		45,669	(16,881)
Finance costs	4(a)	(13,143)	(8,429)
Share of losses of equity accounted investees		(322)	(4,123)
<b>Profit/(loss) before taxation</b>	4	32,204	(29,433)
Income tax	5	(14,518)	(4,665)
<b>Profit/(loss) for the period</b>		17,686	(34,098)
<b>Attributable to:</b>			
Equity shareholders of the Company		6,648	(50,996)
Non-controlling interests		11,038	16,898
		17,686	(34,098)
<b>Earnings/(loss) per share</b>			
– Basic (RMB)	6	0.01	(0.05)
– Diluted (RMB)	6	0.01	(0.05)

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****For the six months ended 30 June 2014 – unaudited***(Expressed in thousands of Renminbi)*

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
Profit/(loss) for the period	17,686	(34,098)
Exchange differences on translation of financial statements of overseas subsidiaries	2,134	(13,955)
	<hr/>	<hr/>
Total comprehensive income/(loss) for the period	<b>19,820</b>	<b>(48,053)</b>
	<hr/> <hr/>	<hr/> <hr/>
Attributable to:		
Equity shareholders of the Company	9,503	(66,074)
Non-controlling interests	10,317	18,021
	<hr/>	<hr/>
Total comprehensive income/(loss) for the period	<b>19,820</b>	<b>(48,053)</b>
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**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****At 30 June 2014***(Expressed in thousands of Renminbi)*

	Note	At 30 June 2014 (unaudited)	At 31 December 2013 (audited)
<b>Non-current assets</b>			
Fixed assets			
– property, plant and equipment		1,197,461	1,171,853
– lease prepayments		175,498	174,888
Interests in equity-accounted investees		118,022	118,356
Deferred tax assets		36,094	36,857
Other non-current assets		12,815	–
		<u>1,539,890</u>	<u>1,501,954</u>
<b>Current assets</b>			
Inventories		979,913	1,073,219
Biological assets		16,074	11,608
Trade receivables	7	398,267	364,251
Other receivables	8	480,224	405,976
Income tax recoverable		562	558
Cash and cash equivalents		566,932	590,126
		<u>2,441,972</u>	<u>2,445,738</u>
<b>Current liabilities</b>			
Trade payables	9	614,320	740,321
Other payables	10	336,543	382,364
Interest-bearing borrowings		559,240	212,398
Income tax payable		9,780	19,975
		<u>1,519,883</u>	<u>1,355,058</u>
<b>Net current assets</b>		<u>922,089</u>	<u>1,090,680</u>
<b>Total assets less current liabilities</b>		<u>2,461,979</u>	<u>2,592,634</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		457,347	607,980
Deferred tax liabilities		399	359
		<u>457,746</u>	<u>608,339</u>
<b>Net assets</b>		<u>2,004,233</u>	<u>1,984,295</u>
<b>Capital and reserves</b>			
Share capital		97,396	97,349
Reserves		913,449	910,523
Retained profits		699,886	693,238
<b>Total equity attributable to equity shareholders of the Company</b>		<u>1,710,731</u>	<u>1,701,110</u>
Non-controlling interests		293,502	283,185
<b>Total equity</b>		<u>2,004,233</u>	<u>1,984,295</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 was authorised for issue on 7 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 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 on a year to date basis. Actual results may differ from these estimates.

### 2 Changes in accounting policies

#### (i) Overview

The IASB has issued a number of 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 IFRS10, *Consolidated financial statements*, IFRS12, *Disclosure of interests in other entities* and IAS27, *Investment entities*
- Amendments to IAS32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS36, *Recoverable amount disclosures for non-financial assets*
- Amendments to IAS39, *Novation of derivatives and continuation of hedge accounting*
- IFRIC21, *Levies*

These developments have had no material impact on the contents of this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

### 3 Turnover and segment reporting

The Group manages its businesses by divisions, sorted by different business lines. 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:	The meat segment carries on business of breeding and hatching of broiler breeder eggs, contract farming, processing and marketing of chilled and frozen chicken meat 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, roasted foods, and sells further processed chilled and frozen chicken meat under the brand of “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 assessment of segment performance for the periods ended 30 June 2014 and 2013 is set out below.

For the six months ended 30 June

	Meat		Livestock feeds		Processed foods		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Turnover from external customers	2,604,298	2,341,899	2,224,606	2,216,249	728,987	870,901	5,557,891	5,429,049
Inter-segment turnover (eliminated at consolidation)	322,793	287,236	856,638	792,425	–	–	1,179,431	1,079,661
<b>Total</b>	<b>2,927,091</b>	<b>2,629,135</b>	<b>3,081,244</b>	<b>3,008,674</b>	<b>728,987</b>	<b>870,901</b>	<b>6,737,322</b>	<b>6,508,710</b>
Segment gross profit	6,497	14,129	245,446	198,789	99,214	97,678	351,157	310,596

### 4 Profit before taxation

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

	Six months ended 30 June	
	2014	2013
	RMB’000	RMB’000
(a) <i>Finance costs</i>		
Interest on bank borrowings wholly repayable within five years	13,143	8,429

(b) *Other items*

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Amortisation of lease prepayments	2,206	1,973
Depreciation of property, plant and equipment	52,481	61,553
Net (reversal)/provision of impairment losses on trade receivables	(487)	3,664
(Reversal)/writing down of inventories	(31,892)	37,480
	<u>22,308</u>	<u>104,670</u>

**5 Income tax**

	<b>Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Current tax	13,714	4,376
Deferred taxation	804	289
	<u>14,518</u>	<u>4,665</u>

- (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 imposed the Hong Kong income tax rate of 16.5%.
- (iii) Pursuant to the corporate 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%.
- (iv) Pursuant to the income tax laws and regulations of Malaysia, the subsidiary in Malaysia is liable to Malaysian income tax rate of 25% for the six months ended 30 June 2014 (six months ended 30 June 2013: 25%).
- (v) Pursuant to the Amended Investment Licence No. 1219/GPDC1-BKH-KCN-DN dated 23 September 2003, issued by Dong Nai Industrial Zone Authority, Asia Nutrition Technologies (VN) Co., Ltd. (“ANT-VN”) is subject to Corporate Income Tax of Vietnam at a preferential rate of 15%.
- (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 six months ended 30 June 2014 (six months ended 30 June 2013: 10%).

(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 six months ended 30 June 2014 (six months ended 30 June 2013: 20%).

(viii) Pursuant to the Amended Investment Licence No. 43/2010/ND-CP dated 26 September 2012, issued by Binh Dinh Province Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. (“ANT-MV”) is subject to Vietnam Corporate Income Tax of 25% for the six-month period ended 30 June 2014 (six months ended 30 June 2013: 25%).

## 6 Earnings/(loss) per share

The calculation of basic earnings per share as at 30 June 2014 is based on the profit attributable to ordinary equity shareholders of the Company of RMB6,648 thousand (six months ended 30 June 2013: loss of RMB50,996 thousand) and the weighted average of 1,009,471,691 ordinary shares (six months ended 30 June 2013: 1,012,777,567) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2014 is based on profit attributable to ordinary equity shareholders of the Company of RMB6,648 thousand and the diluted weighted average number of ordinary shares of 1,009,471,691 during the period. The calculation of diluted loss per share for the six months ended 30 June 2013 does not assume the exercise of the Company’s share options as the effect is anti-dilutive.

## 7 Trade receivables

### *Ageing analysis*

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

	<b>At 30 June 2014 RMB’000</b>	<b>At 31 December 2013 RMB’000</b>
Current	278,678	258,627
Less than 30 days past due	70,446	63,706
31-60 days past due	23,171	20,477
61-90 days past due	11,686	12,842
More than 90 days past due	23,219	18,433
Amounts past due	128,522	115,458
Less: Provision for bad debt	(8,933)	(9,834)
	<u>398,267</u>	<u>364,251</u>



## 8 Other receivables

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
VAT recoverable	295,372	259,573
Deposits and prepayments	108,614	74,371
Amounts due from related parties	55,565	48,469
Advances to staff	8,769	6,977
Others	11,904	16,586
	<u>480,224</u>	<u>405,976</u>

## 9 Trade payables

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

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Within 30 days	465,300	635,770
31 days to 60 days	48,211	38,508
61 days to 90 days	25,453	28,164
91 days to 180 days	75,356	37,879
	<u>614,320</u>	<u>740,321</u>

## 10 Other payables

	At 30 June 2014 RMB'000	At 31 December 2013 RMB'000
Salaries, wages, bonuses and other benefits payable	39,102	65,724
Accrued expenses	110,500	84,423
Contract performance deposits	38,132	45,928
Receipts in advance	25,612	21,568
Payables for purchase of fixed assets	15,288	15,690
Amounts due to related parties	2,630	1,867
Others	105,279	147,164
	<u>336,543</u>	<u>382,364</u>

## 11 Dividends

No payment of an interim dividend of the six months period ended 30 June 2014 (2013: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2014	2013	% change
Turnover (RMB'000)	5,557,891	5,429,049	2.4%
Gross profit (RMB'000)	351,157	310,596	13.1%
Gross profit margin (%)	6.3	5.7	
Profit/(loss) attributable to shareholders of the Company (RMB'000)	6,648	(50,996)	113.0%

During the first half of 2014 (the “Period Under Review”), the business environment of the Group improved slightly while net profit rose significantly compared with the same period of last year. During the first and second quarters this year, although the growth rate of China’s GDP slightly declined compared with that of the same period last year, the economic trend gradually stabilised. Meat price in breeding and rearing industry, including broiler breeding, rebounded from a trough in the latter part of the second quarter. Although the consumer prices of pork and chicken meat had not recovered to the average price level of the same period last year, the demand and supply of the breeding and rearing industry and its overall prospect improved. However, the prices of corn and soybean meal, the primary ingredients of feeds, also maintained at a high level and exerted high pressure to the raw material costs.

The de-risking, food processing and brand building strategies adopted by the Group during the first half of the year was highly effective. The overall revenue of the Group increased steadily and all operating indicators have shown marked improvement. The revenue from feed segment and meat segment increased steadily, whilst sales volume of international food business under the processed food segment was affected by the price competition pressure exerted by competitors in the first half of the year and the volume of export decreased. Meanwhile, the domestic key customer market also recorded a decline in revenue. Nevertheless, domestic professional catering segment recorded a significant growth in revenue compared with the same period last year, which avoided greater decline in the overall revenue of food processing segment.

Due to the recovering demand for products in the market, the improvement of selling price, and the relative stable cost of raw material, both gross profit and gross profit margin improved. Profit attributable to equity shareholders of the Company also changed from loss to profit.

### MEAT

	Six Months ended 30 June		
	2014	2013	% change
Turnover (RMB'000)	2,604,298	2,341,899	11.2%
Gross profit (RMB'000)	6,497	14,129	-54.0%
Gross profit margin (%)	0.2	0.6	

The business of meat segment includes production and sale of chilled and frozen broiler chicken meat, and the supply of feed and day-old chicks to contract farmers. Meat segment mainly supplies meat products to fast food restaurants, internal and external food processors and services providers for processed food. The production regions of the meat segment are located in Northeast China, Northern China and Eastern China.

During the Period Under Review, since the Group successfully lowered the inventories level of meat products, its operating income increased. Although meat price in the market increased, as the overall market only started to improve at the end of the second quarter, the average market price was still lower than that of the last year, the overall gross profit and gross profit margin of the meat segment decreased as a result. Benefited from the decrease in cost of primary ingredients, gross profit per unit of contract feeds improved, the present level of gross profit margin of the food segment was therefore promoted.

China White Feather Broiler Alliance, set up in early 2014, endeavoured to eliminate consumers' misunderstandings towards H7N9 and has made positive and effective contribution to the broiler industry. Besides, demand and supply of the industry has been improved, and chicken meat price and chicken breeds price increased steadily. Under the circumstances with increasing favourable factors, the meat segment followed the strategies of "coping with industry risk" and "improving product value" and carried out a number of works more concretely, which have yielded the following results: (1) sales of fresh meat raised to 50% of the total sales of meat, maximizing meat's product value, and also effectively lowered the stock. At present, the Group has firmly secured the largest market share in the sales of fresh meat in the four major cities in China; (2) the risks in breeding and rearing were controlled by raising the proportion of fixed price contracts with price-assurance mechanisms for purchasing feather broilers, and fixing the contract revenue to protect the interest of contract farmers and the stability of cooperation relationship with them; (3) efficiency of broiler breeding and rearing continued to rise, with improving survival rate, average weight and feed-to-meat conversion ratio; (4) electronization of breeding data and digitalization of breeding report enhanced the efficiency of breeding analysis and the scientificity of such figures, which laid down the foundation to enhance the overall breeding efficiency; (5) continued to establish a stringent quality control system on breeding and rearing and the traceability system, and the authentication and the promotion works of the traceability system was in the final preparation stage during the first half of 2014.

The work of meat segment in the second half of the year and in the future will focus on: cooperating with the governments and farmers in the various operational regions through maintaining and expanding the Group's edges in the economies of scale and standardization of breeding and rearing technology; raising the scale and efficiency of broiler breeding under the safety traceability system and quality control system; and enhancing the product value of meat products through raising the proportion of fresh meat sales. At the same time, the meat segment will continue to optimize the structure of farming contracts to reduce risks.

## FEEDS TO EXTERNAL CUSTOMERS

	Six months ended 30 June		
	2014	2013	% change
Turnover (RMB'000)	2,224,606	2,216,249	0.4%
Gross profit (RMB'000)	245,446	198,789	23.5%
Gross profit margin (%)	11.0	9.0	
Turnover (RMB'000)			
– China	1,260,530	1,374,567	-8.3%
– Vietnam and Malaysia	964,076	841,682	14.5%
Total	2,224,606	2,216,249	0.4%
Gross profit (RMB'000)			
– Mainland China	139,209	118,220	17.8%
– Vietnam and Malaysia	106,237	80,569	31.9%
Total	245,446	198,789	23.5%
Gross profit margin (%)			
– Mainland China	11.0	8.6	
– Vietnam and Malaysia	11.0	9.6	
Total	11.0	9.0	

The revenue of this segment was primarily derived from the sales of piglet, sow, hog and poultry feeds in China, Vietnam and Malaysia. Corn and soybean meal are the primary raw materials of the Group's feeds. The brands of the products are "Dr. Nupak" (補克博士), "Green Knight" (綠騎士) and "TSOS" (天鑰). The manufacturing and sales areas covered Northeast China, North China, Central China and Southwest China, as well as Southeast Asia.

During the first half of 2014, overseas business of feeds segment continued its trend of steady growth both in terms of sales volume and sales price as it did over the previous years, which guaranteed a stable growth in the overall feeds business, and operational performance also enhanced significantly. During the first half of the year, the sales volume of all factories in Vietnam achieved positive growth and the overseas sale volume of feeds increased significantly by 18% as a result. Besides, due to the appropriate cost control on raw material, especially the drop in the price of corn, both gross profit and gross profit margins increased significantly. As for mainland feed business, sale volume was substantially the same as that of last year against the background of serious loss in overall hog rearing industry in the first half of the year. Average selling price decreased slightly following the slight decrease in raw material price. However, with lowered cost, and increased proportion of high value products, despite the building up of the new feeds mill and upgrading of the facilities in certain old mills resulted in an increase in fixed expenses, the overall gross profit still increased by 17.8%, with the level of gross profit margins increased significantly.

As for overseas feeds business, its main strategy is to enrich product mix and tighten cost-control. The work focus includes: firstly, the types of pig feeds products was diversified to satisfy needs of different customers from different classes. Secondly, the sales proportions of products which have significant increase in profit level due to cost improvement have been increased to a certain extent, which has driven the increase in overall profits. Besides, since the newly built feeds mill has the advantage in cost control, it has rapidly achieved outstanding sales performance in feeds in the regions it covered and has achieved operation profits immediately in the year. Other mills also have imposed effective cost control measures on raw materials, and thus continued to enhance their profitability.

As for Mainland China, major strategies used in the first half of the year was enriching product mix, targeting market demand and reinforcing research and development of products. Details are as follows: (1) the full launch and marketing of “920” breeding and rearing model has a strong response and recognition among large scale hoggeries and the industry; (2) Bio Value series of the TSOS system based on the MPT pre-digestion technology combines premix products and “Bao” series functional products was promoted together to provide a full nutrition and health solutions for middle-sized and large-sized hoggeries; (3) prospective experiment base was officially put into use, the first batch of purebred swine was introduced, and the first domestic demonstration base in China with eco-zero emissions and planting organic recycling utilization was officially built.

In the second half of the year, feeds business will actively grasp the opportunities which arise from the revival of swine farming industry, which include: (1) fully utilising the benefit from the prospective experiment base, strengthening the research and development of products, continuing to increase product quality and competitiveness and providing the concept of ecological environmental protection farming service model concept for important customers; (2) continuing the fine operation of “920” breeding and rearing model through international sow nutrition forums and other certification methods; (3) identifying and selecting key-value customers and continuing to increase customers’ loyalty and contribution through providing them with full scale products and technology support, and a series of professional service such as Animal Health Technology; (4) establishing and utilising a platform for cooperative purchase and for resources and information research and development sharing between Mainland China, Vietnam, Malaysia and Taiwan, to achieve cost-saving and quick promotion of new technology or new products. In the second half of the year, it is planned that Vietnam feeds mill will continue the optimization of product mix through specific marketing plan, so as to consolidate market position, and actively explore a variety of transportation channels, effectively lower the comparatively high transportation cost at present.

## PROCESSED FOOD

	Six months ended 30 June		
	2014	2013	% change
Turnover (RMB'000)			
– Mainland China	575,744	631,183	-8.8%
– Export	153,243	239,718	-36.1%
Total	728,987	870,901	-16.3%
Gross profit (RMB'000)			
– Mainland China	84,683	67,316	25.8%
– Export	14,531	30,362	-52.1%
Total	99,214	97,678	1.6%
Gross profit margin (%)			
– Mainland China	14.7	10.7	
– Export	9.5	12.7	
Total	13.6	11.2	

The processed food business included the production and distribution of chilled and frozen meat and marinated food, as well as stewed, pre-fried, steamed and ready-to eat food under the “Sister’s Kitchen” brand. 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 inland regions of Northwest China and Southwest China.

During the Period Under Review, the growth in processed food business of the Group slowed down, overall turnover decreased by 16.3%. Although growth in the professional catering market was solid and its sales volume increased, international business of the Group was affected by competitors’ low-price strategy, which had lead to decreased sales volume. As for the domestic key customer market, during the first half of the year, some key customers have upgraded their menus and adjusted their products. Also, there were some strategical change for some cooperation contract projects during bidding, all had resulted in the decrease in sales volume. Comparatively, it is expected that sales volume of this section will have a significant growth in the second half of the year. In addition, benefited from continued improvement of products’ sales structure, control of sales expenses and comparatively low meat price, gross profits and gross profit margins of key customers and professional catering market have increased to a certain extent.

During the Period Under Review, facing intensified market competition, the processed food business adopted the following strategies: (1) as for international business, effectively increasing working efficiency and utilization rate of minced meat which lowered the costs; (2) as for important major key customers, focus on raising the sales proportion of products with high profit margins and actively forming sale teams to enhance the satisfaction of important major key customers towards customized products and services; (3) as for professional catering market, expanding new sale location into Central China and Southern China, and also establishing sales districts in certain inland China operational locations. It is estimated that there were 36 new dealers, who will made positive contribution to margin; and (4) lowering cooked food factory costs, and increasing efficiency to act as a powerful drive of profit growth.

In the second half of the year, the focus will be: (1) for international business, it will soon expand into non-Japan market, so as to diverse the operation risk of relying on a single market; (2) for important major key customers, development of different kinds of products and adopt customized marketing, and putting more focus for sales of processed food on Chinese fast food and convenient stores to fully enrich the business varieties and proactivity of profits; (3) for professional catering market, reinforcement of new districts and dealers added in the first half of the year will continue to be strengthened, and also through enhancing research and development advantages of products to drive product sale and marketing of brands; and (4) as for consumer food business, different kinds of marketing channels and platform including supermarket and E-business will be developed and established, to effectively carry out promotions and marketing to consumers, and to shorten the distance with them.

## **AWARDS AND RECOGNITION**

During the year, as a leading large-scale agricultural and livestock enterprise in Mainland China, the Group was awarded the 3rd “Advanced Enterprise of Agricultural and Livestock in China” by China Animal Agricultural Association. Also, as the Group actively contributed in areas such as green farming, safety farming and sustainable farming, the Group was once again awarded “Top 100 Green Companies of China” in 2014. Such award was awarded by China Entrepreneur Club, which is the first comprehensive evaluation of enterprises’ sustainable competitiveness across industries in Mainland China.

Due to the high quality and outstanding technology of its feeds products, the Group’s Vietnam company was recognized by the Vietnam government once again during the year, awarded the Vietnam Quality Merit Award by the Vietnam government. It is the fourth time the Group receives this award.

## **PROSPECT & OUTLOOK**

Mainland China’s economy was basically stable during the first half of 2014, and the government will continue to promote work such as optimization of economic structure and balanced development of the regions. After the promulgation of No.1 Document of the Central Government at the beginning of the year, which sets out a series of favourable policies for agriculture and rural development, the Department of Agriculture was guided by the spirit of that document and announced 50 specific policies to subsidize farmers in May 2014. The policies provide definite support and subsidies for quality professional farms, family farmers, live hog breeding and rearing industries and the establishment of farm product traceability system.

The domestic economy became stable, with economic structure being optimized, people's income level and consumption power are expected to increase, which will support the stable development of the consumer market. Although the food and beverage consumption industry is affected by national policies which strictly control the use of public funds for dining and emphasise anti-corruption and the consumption in high-end market hence decrease sharply, the flourish development of public food and beverage sectors shows the actual consumption power of people and the demand for meat products were increasing.

In the future, as live hog breeding industry gradually recovers, the feeds industry will be revitalised, and middle and high end feeds enterprises with strong technology background and good animal health check services will stand out. In the future, under the guidance of the industry alliance and under the upward cycle for the breeding industry, revenue from meat segments will grow more steadily.

### **Explanation of Special Incidents**

In May 2014, large-scale anti-China demonstrations broke out in Vietnam. Foreign enterprises such as China-invested companies and Taiwan-invested companies in Vietnam were adversely affected, some of which have suffered severe losses. In this incident, the mills of the Group in Vietnam were not damaged. In contrast, with the Group's good and reliable operations in Vietnam, as well as its stable and good relationships with the government, staff and the community, the sentiment of Vietnamese staff was relieved in a timely manner, and personnel and economic damage brought from the anti-China incident was prevented.

In July, media discovered and reported on the unqualified production behaviours of the factories of Shanghai Hushi Food, the fast-food industry which mainly sells chicken and meat-related products was also affected. Government increased effort to investigate on various food processing factories of chicken meat and meat products, while some consumers stop purchasing related products due to the loss of confidence on product quality. Government investigation is still in progress, however, up to the date of this announcement, for all production factories of the Group which were under investigation by the relevant government authorities, no unreasonable production behaviours and unsafety products were found. The Group adheres to the principle of safety food and strictly controls each part of the traceable industrial chains to ensure the food safety for consumers.

### **Financial Review:**

#### **1) Other Income and Operating Expenses**

In the first six months of 2014, other operating income of the Group amounted to RMB5,622 thousand (2013: RMB9,627 thousand). Other income mainly comprised interest income and government subsidies.

In the first six months of 2014, other net losses of the Group amounted to RMB8,836 thousand (net losses in 2013: RMB7,268 thousand) was recorded. Other net losses mainly comprised net loss on disposal of fixed assets and net foreign exchange losses, etc.



Distribution costs accounted for 3.28% of total turnover, decrease from 3.43% in the same period of 2013.

Administrative expenses accounted for 2.25% of turnover (2013: 2.78%).

## **2) Liquidity, Financial Resources and Capital Structure**

As at 30 June 2014, the Group's cash and bank deposit balances amounted to RMB566,932 thousand, representing a decrease of RMB23,194 thousand from 31 December 2013. Bank loans increased by RMB196,209 thousand to RMB1,016,587 thousand (31 December 2013: RMB820,378 thousand). Debt to equity ratio was 51.0% (31 December 2013: 41.3%). Current ratio was maintained at a healthy level of 1.61 times (31 December 2013: 1.80 times).

## **3) Capital Expenditure**

In the first six months of 2014, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to RMB94,261 thousand which was primarily paid from long-term bank loans.

## **4) Exchange Rate**

The Group's business transactions were mainly denominated in RMB, USD and VND. During the Period Under Review, RMB against USD depreciated by 0.92% and VND against USD depreciated by 1.07%. There is no material impact on the Group.

## **5) Interest Rate**

During the first six months in 2014, the Group's interest expense amounted to RMB13,143 thousand (2013: RMB8,429 thousand), an increase of 55.9% from the corresponding period in 2013. The increase in interest expense was primarily due to the increase of bank borrowings.

## **6) Pledge of Assets**

As at 30 June 2014, the Group pledged assets of approximately RMB37,096 thousand in land, property, plant and equipment as security against bank facilities of RMB28,680 thousand, of which RMB26,831 thousand was utilised as at 30 June 2014.

## **7) Capital Commitment**

As at 30 June 2014, the capital expenditure of the Group contracted for but not provided in the financial statements was RMB94,116 thousand and the capital expenditure authorised but not contracted for was RMB97,852 thousand.

## **Staff Compensation and Training**

As at 30 June 2014, the Group had a total of 14,235 staff (31 December 2013: 14,774). In order to build up a team of professional staff and management to meet the development needs of the Group, the Group offers competitive remuneration packages to its staff taking into consideration of 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 them as its most valuable asset. With a view to further 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 offering the best opportunity for personal career development. The Group believes such programs benefit both itself and its staff.

The Group regularly review its compensation and benefit policies according to industry standards, the Group's financial results, as well as the individual performance of the staff so as to offer competitive compensation packages to the staff. Other fringe benefit, such as insurance, medical benefits and provider fund, are provided for existing staff to enhance their loyalty.

The Group regularly reviews its compensation and benefit policies according to industry standards, the Group's financial results, as well as the individual performance of the staff so as to offer fair and competitive compensation packages to the staff.

Other fringe benefits, such as insurance, medical benefits and provident fund, are provided for existing staff to enhance their loyalty.

## **OTHER INFORMATION**

### **Code on Corporate Governance Practices**

Throughout the six months ended 30 June 2014, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

Code Provision F.1.1 stipulates that the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company's affairs. The company secretary of the Company, Ms. Pang Siu Yin, is a partner of the Company's legal adviser, Cheung Tong & Rosa Solicitors. Ms. Pang has been appointed as the company secretary of the Company since February 2008. The Company has also assigned a member of the senior management, Ms. Feng Yuxia, head of legal department of the Company as the contact person with Ms. Pang. Information in relation to the performance, financial position and other major developments and affairs of the Group (including but not limited to the management monthly report to the Board) are speedily delivered to Ms. Pang through the contact persons assigned, Ms. Pang is very familiar with the operations and management of the Group. Having in place a mechanism that enables Ms. Pang to keep abreast of the Group's development promptly without material delay and with the expertise and experience of Ms. Pang, the Board is confident that having Ms. Pang as the company secretary is beneficial to the Group's compliance of the relevant board procedures, applicable laws, rules and regulations.

## **Model Code for Securities Transactions by Directors**

The Company has adopted its own code of conduct on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules for regulating the securities transactions of the Directors. All Directors have confirmed, following the specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

During the six months ended 30 June 2014, 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 advices regarding the Company’s financial reporting matters, including the review of the interim results for the six months ended 30 June 2014, the internal control and risk management system. There was no disagreement from the audit committee 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 independent non-executive directors of the Company.

By Order of the Board

**Han Jia-Hwan**

*Chairman*

Hong Kong, 7 August 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.*