DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement of Annual Results for 2015

The board of directors (the "Board") of DaChan Food (Asia) Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2015, 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 2014 as follows:

Highlights

	2015	**2014**	**% change**
Turnover (RMB'000)	8,899,047	11,406,166	-22.0
Gross profit (RMB'000)	708,203	647,411	9.4
Gross profit margin (%)	8.0	5.7	
Loss attributable to equity shareholders of the Company (RMB'000)	(153,549)	(108,464)	41.6
Basic loss per share (RMB)	(0.15)	(0.11)	
Dividend per share (HK cents)	0	0	

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2015

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2015	2014
Turnover	3	8,899,047	11,406,166
Cost of sales		(8,190,844)	(10,758,755)
Gross profit		708,203	647,411
Change in fair value of biological assets less costs to sell		(9,915)	5,292
Fair value of agricultural produce on initial recognition		28,032	39,348
Reversal of fair value of agricultural produce due to sales and disposals		(28,610)	(39,109)
Other operating income		6,605	15,775
Other net losses		(132,065)	(12,513)
Distribution costs		(371,048)	(393,564)
Administrative expenses		(250,328)	(290,818)
Loss from operations		(49,126)	(28,178)
Finance costs	4(a)	(25,620)	(25,746)
Share of losses of equity-accounted investees		(2,855)	(1,311)
Loss before taxation	4	(77,601)	(55,235)
Income tax	5	(33,488)	(38,328)
Loss for the year		(111,089)	(93,563)
(Loss)/profit for the year attributable to:			
Equity shareholders of the Company		(153,549)	(108,464)
Non-controlling interests		42,460	14,901
Loss for the year		(111,089)	(93,563)
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 per share	7		
– Basic (RMB)		(0.15)	(0.11)
– Diluted (RMB)		(0.15)	(0.11)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2015	2014
Non-current assets			
Fixed assets			
– property, plant and equipment		1,221,483	1,283,687
– lease prepayments		171,095	173,231
Interests in equity-accounted investees		116,018	116,609
Deferred tax assets		24,251	26,621
Long-term tax recoverable		73,391	–
Other non-current assets		12,666	21,357
		1,618,904	1,621,505
Current assets			
Inventories		825,963	989,102
Biological assets		4,241	16,346
Trade receivables	8	322,296	354,586
Other receivables	9	423,021	486,886
Income tax recoverable		–	565
Cash and cash equivalents		530,151	459,443
		2,105,672	2,306,928
Current liabilities			
Trade payables	10	516,427	690,470
Other payables	11	452,581	468,469
Provisions		12,452	–
Interest-bearing borrowings		319,947	110,100
Income tax payable		10,402	10,840
		1,311,809	1,279,879
Net current assets		793,863	1,027,049
Total assets less current liabilities		2,412,767	2,648,554
Non-current liabilities			
Interest-bearing borrowings		707,932	783,863
Deferred tax liabilities		314	364
		708,246	784,227
Net assets		1,704,521	1,864,327
Capital and reserves			
Share capital		97,502	97,396
Reserves		929,096	922,723
Retained profits		428,933	583,036
Total equity attributable to equity shareholders of the Company		1,455,531	1,603,155
Non-controlling interests		248,990	261,172
Total equity		1,704,521	1,864,327

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 General information

DaChan Food (Asia) Limited 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 Company and its subsidiaries primarily is 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

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations 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"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements for the year ended 31 December 2015 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

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 19, Employee benefits: Defined benefit plans: Employee contributions

– Annual Improvements to IFRSs 2010-2012 Cycle

– Annual Improvements to IFRSs 2011-2013 Cycle

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 chief executive officer of the Company 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 broiler farming, hatching of broiler breeder eggs, contract farming, processing and marketing 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 feed and pre-mix feed for swine, layer, broiler, duck, and breeder poultry under the brands of "Dr. Nupak", "DaChan", "Green Knight" and "SOS".

Processed foods: The processed foods segment produces and distributes pickled, pre-fried, and instant food, 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 trade creditors and accruals attributable to the manufacturing and sales activities of the individual segments and bank borrowings managed directly by the segment.

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 2015 and 2014 is set out below:

	Meat products		Livestock feeds		Processed foods		Total	
	2015	2014	2015	2014	2015	2014	2015	2014
Turnover from external customers	3,324,272	5,375,850	4,493,446	4,921,879	1,081,329	1,108,437	8,899,047	11,406,166
Inter-segment turnover	413,834	710,164	869,353	1,701,598	–	–	1,283,187	2,411,762
Total	3,738,106	6,086,014	5,362,799	6,623,477	1,081,329	1,108,437	10,182,234	13,817,928
Segment result	(10,167)	(27,980)	488,999	504,541	229,371	170,850	708,203	647,411
Unallocated operating income and expenses							(757,329)	(675,589)
Loss from operations							(49,126)	(28,178)
Finance costs							(25,620)	(25,746)
Share of losses of equity-accounted investees							(2,855)	(1,311)
Income tax							(33,488)	(38,328)
Loss for the year							(111,089)	(93,563)
Depreciation and amortisation for the year	65,863	63,586	48,933	28,899	33,102	26,252	147,898	118,737
Reportable segment assets	1,164,256	1,235,725	1,254,166	1,472,317	422,310	428,838	2,840,732	3,136,880
Additions to non-current segment assets during the year	95,338	180,770	55,724	50,890	19,153	16,993	170,215	248,653
Reportable segment liabilities	211,445	286,383	738,745	793,956	79,163	103,257	1,029,353	1,183,596

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

	2015	2014
Turnover		
Reportable segment turnover	10,182,234	13,817,928
Elimination of inter-segment turnover	(1,283,187)	(2,411,762)
Consolidated turnover	8,899,047	11,406,166
Profit		
Reportable segment profit	708,203	647,411
Change in fair value of biological assets less costs to sell	(9,915)	5,292
Fair value of agricultural produce on initial recognition	28,032	39,348
Reversal of fair value of agricultural produce due to sales and disposals	(28,610)	(39,109)
Other operating income	6,605	15,775
Other net losses	(132,065)	(12,513)
Distribution costs	(371,048)	(393,564)
Administrative expenses	(250,328)	(290,818)
Finance costs	(25,620)	(25,746)
Share of losses of equity-accounted investees	(2,855)	(1,311)
Consolidated loss before taxation	(77,601)	(55,235)
Assets		
Reportable segment assets	2,840,732	3,136,880
Deferred tax assets	24,251	26,621
Income tax recoverable	–	565
Cash and cash equivalents	530,151	459,443
Unallocated head office and corporate assets	329,442	304,924
Consolidated total assets	3,724,576	3,928,433
Liabilities		
Reportable segment liabilities	1,029,353	1,183,596
Income tax payable	10,402	10,840
Deferred tax liabilities	314	364
Interest-bearing borrowings	885,617	813,408
Unallocated head office and corporate liabilities	94,369	55,898
Consolidated total liabilities	2,020,055	2,064,106

(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**	
	2015	**2014**	**2015**	**2014**
Mainland China	6,210,639	8,982,923	1,340,254	1,444,509
Vietnam	2,389,359	2,111,207	170,305	140,119
Japan	257,669	274,923	–	–
Rest of Asia Pacific	41,380	37,113	8,755	10,256
	8,899,047	11,406,166	1,519,314	1,594,884

4 Loss before taxation

Loss before taxation is arrived at after charging:

	2015	**2014**
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	25,620	25,746
(b) Staff costs		
Salaries, wages, bonuses and other benefits	583,731	689,317
Contributions to retirement schemes	73,339	71,593
Equity-settled share-based payment	3,416	173
	660,486	761,083

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% (2014: 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 Mandatory Provident Fund Schemes Ordinance of Hong Kong for employees employed under the Employment Ordinance of Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group is required to make contributions to the scheme at 6 percent of the employees' relevant income and its employees are required to make contributions to the scheme at 5 percent of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HKD") 25,000 for the period before 1 June 2014 and HKD30,000 for the period on or after 1 June 2014. Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia's Employees Provident Fund is based on 13 percent (2014: 13 percent) of the eligible employees' salaries when the salaries is Malaysia Ringgit ("MYR") 5,000 or below, or based on 12 percent (2014: 12 percent) of the eligible employees' salaries when the salaries is above MYR5,000.

The Group also made contribution on the statutory social security and health insurance in Vietnam at 22% (2014: 22%) 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*

	2015	**2014**
Auditors' remuneration		
– audit services	4,443	4,322
– tax services	158	91
	4,601	4,413
Amortisation of lease prepayments	4,714	4,832
Depreciation of property, plant and equipment	143,184	113,905
Net impairment loss (reversed)/recognised		
– trade receivables	(3,912)	2,209
– fixed assets	79,354	–
Net reversal of inventory	(13,539)	(32,036)
Operating lease charges		
– plant and machinery	18,370	20,346
– others	11,283	10,884
Research and development costs	908	5,979

5 Income tax in the consolidated income statement

	2015	2014
Current tax		
Provision for the year	32,396	28,712
Over provision in respect of prior years	(1,228)	(625)
	31,168	28,087
Deferred tax		
Reversal of temporary differences	2,320	10,241
	33,488	38,328

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

(ii) The Company carries on business in Hong Kong and shall pay Hong Kong profits tax at 16.5 percent in respect of its non-exempt Hong Kong sourced profits.

(iii) Pursuant to the income tax rules and regulations of the PRC, the Group entities incorporated in the PRC are liable to PRC Corporate Income Tax at a rate of 25% during the periods.

(iv) Pursuant to the income tax rules and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 25% for the year ended 31 December 2015 (2014: 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. ("ANTC-VN") is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% (2014: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 22% (2014: 22%).

(vi) Asia Nutrition Technologies (HN) Co., Ltd. ("ANTC-HN") is subject to Corporate Income Tax of Vietnam at the rate of 10% for the first 15 years commencing from its first year of operation and 22% for the succeeding years. However, ANTC-HN is entitled to a full tax exemption for four years starting from 2005, its first profit-making year pursuant to the Minutes of Inspection by Tax Department of Hai Duong Province dated 24 November 2006 and a 50% reduction in tax rate for the next four years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-HN is 10% for the year ended 31 December 2015 (2014: 10%). The above tax reduction is not applicable to other income which is taxed at a rate of 22% (2014: 22%).

(vii) Asia Nutrition Technologies (LA) Co., Ltd. ("ANTC-LA") is subject to Corporate Income Tax of Vietnam at the rate of 20% for the first 10 years commencing from its first year of operation and 22% for the succeeding years. However, ANTC-LA is entitled to a full tax exemption for 2 years starting from 2008, its first profit-making year and a 50% reduction in tax rate for the next three years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-LA is 20% for the year ended 31 December 2015 (2014: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 22% (2014: 22%).

(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. ("ANTC-MV") is subject to Vietnam Corporate Income Tax of 22% for the year ended 31 December 2015 (2014: 22%).

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

	2015	**2014**
Loss before taxation	(77,601)	(55,235)
Income tax using PRC's Corporate Income Tax rate of 25% (2014: 25%) (note)	(19,400)	(13,809)
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(14,068)	(19,014)
Tax effect of non-deductible expenses	1,794	4,846
Tax effect of non-taxable income	–	(6,851)
Tax effect of the movement of tax losses and temporary difference not recognised	66,390	73,781
Over provision in respect of prior years	(1,228)	(625)
Actual tax expense	33,488	38,328

Note: The income tax rate of 25% (2014: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2015	**2014**
Final dividend proposed after the end of the reporting period	0	0

On 29 March 2016, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2015 (2014: No distribution).

7 Loss per share

The calculation of basic loss per share for the year ended 31 December 2015 is based on the loss attributable to ordinary equity shareholders of the Company of approximately RMB153,549 thousand (2014: approximately RMB108,464 thousand) and the weighted average of 1,010,649,805 ordinary shares (2014: 1,009,693,151) in issue during the year.

For the years ended 31 December 2015 and 2014, basic and diluted loss per share are the same as the effect of the potential ordinary shares (including those potential ordinary shares under the Company's share options and restricted share award scheme) are anti-dilutive.

8 Trade receivables

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

	2015	2014
Current	239,145	258,627
Less than 30 days past due	49,124	55,686
31-60 days past due	11,898	27,469
61-90 days past due	9,512	8,302
More than 90 days past due	21,271	17,265
Amounts past due	91,805	108,722
Less: Provision for bad debt	(8,654)	(12,763)
	322,296	354,586

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

9 Other receivables

	2015	2014
VAT recoverable	367,159	314,307
Deposits and prepayments	52,141	74,973
Export VAT refund	1,466	39,467
Amounts due from related parties	60,671	35,111
Advances to staff	7,709	6,084
Others	7,266	16,944
	496,412	486,886
Less: non-current VAT recoverable	73,391	–
	423,021	486,886

Except for non-current VAT recoverable, 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:

	2015	**2014**
Current	286,439	382,251
Less than 30 days past due	131,257	206,390
31-60 days past due	41,896	43,876
61-90 days past due	11,341	19,728
More than 90 days past due	45,494	38,225
Amounts past due	229,988	308,219
	516,427	690,470

11 Other payables

	2015	**2014**
Sales rebate	128,492	117,761
Salaries, wages, bonuses and other benefits payable	73,775	93,864
Accrued expenses	77,863	83,062
Contract performance deposits	30,812	47,039
Receipts in advance	16,468	20,638
Payables for acquisition of fixed assets	11,843	22,464
Amounts due to related parties	43,926	38,223
Dividends payable	33,590	–
Others	33,978	45,418
	450,747	468,469
Derivative financial instrments – interest rate swaps	1,834	–
	452,581	468,469

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2015	2014	% change
Turnover (RMB'000)	8,899,047	11,406,166	-22.0
Gross profit (RMB'000)	708,203	647,411	9.4
Gross profit margin (%)	8.0	5.7	
Loss attributable to shareholders of the Company (RMB'000)	(153,549)	(108,464)	41.6

Economic Environment and Strategy Direction

2015 was a year of sea change in agriculture, livestock and food market. As (i) the economic development and stock market in the PRC both went downward, (ii) over 20 million farmers migrant rural workers returned to their hometowns and (iii) the consumption in food and catering market contracted, the demand for white-feather broiler, mainly for the take-out restaurants, continuously decreased. Meanwhile, the day-old chick suppliers, which are at the source of the industry production chain, sustained great losses. However, since the government gave support to the breeder farms, the breeder market adjusted relatively slowly and caused a long-term oversupply. As a result, the price of chicken meat has dropped for four consecutive years. On the other hand, as the number of pigs being raised in the market plummeted, the pork price has surged since 2015 following the depression for three consecutive years. The price of swine also achieved a rapid growth.

Facing the great change in the market, the management of the Group has implemented the following specific strategies:

(1) Continuously expands its market shares and profits in the feed market in Vietnam and Malaysia, which are relatively stable;

(2) Effectively reduces losses under the unfavourable market condition by reducing the scale of electrical slaughtering of broilers in the PRC market and strengthening the risk management and cost control;

(3) Grasps the chance arising from the significant drop of cost of chicken meat, leverages more greatly the advantages of brand, quality and safety of the Group's food business so as to enable the Group to become a leader in professional restaurant business market;

(4) Focuses on the sales of functional feeds of higher added value in the feed market in the PRC.

Business Review

In 2015, while the operating revenue of the Group declined by approximately 22% over the past year due to strategic contraction of the meat product segment, as the business segment is still in negative margin, the contraction of business effectively lowered the operational loss of the business segment. Meanwhile, benefited from the positive effect arising from the falling raw material prices, the gross profit for the food processing business increased substantially. These two factors drove up the gross profit of the Group by approximately 9.4%.

Nevertheless, the Group has suffered considerable exchange losses from its domestic US dollar lending portfolio as a result of the depreciation of the RMB against the US dollar during the reporting period. Meanwhile, in view of the overcapacity of the chicken electrical slaughtering industry in PRC and the limited profitability of the chicken meat processing industry, the Group has made timely adjustments to the business structure by reducing the electrical slaughtering capacity, closing down a part of electric slaughtering factories and making provision for asset impairment as a result of the shutdown of electrical slaughtering facilities. The combined effect of the above factors caused the Group's loss attributable to shareholders for 2015 to rise by approximately 41.6% over last year but had any adverse impact on current cash flow. Taking no account of those factors, the Group benefited from the increase of gross profit margin and gross profit and achieved better operating profit of the Group in 2015 than in 2014.

Facing the severe challenges brought about by the prevailing international exchange rate market and the PRC operating environment, the Group has insisted its operating strategies of maintaining its pledge of ensuring the safety of the food products and strengthening its brand building exercise, and will closely monitor the market conditions and enhance the earning capacity of the Company through strengthening its management of operational and exchange rate risks.

Meat Product

	2015	2014	% change
Turnover (RMB'000)	3,324,272	5,375,850	-38.2%
Gross loss (RMB'000)	10,167	27,980	-63.7%
Gross loss margin (%)	0.3	0.5	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of "Sister's Kitchen", and lightly processed tender chicken meat to fast food shops, internal and external food processors and food processing service providers and supplies feeds and day-old-chicks to contract farmers. The production region of the segment covers Northeast China, North China and East China while its sales network covers the entire nation.

Business Review

Due to the trough of chicken meat domestic market in 2015, the meat segment assertively cut the volume of day-old chicks raised by the Group and the volume of electrical chicken slaughtering in the end of the first quarter of 2015 and effectively suppressed the increase in losses in the processed food products. In order to avoid the risk arising from the day-old chick market, the Group has gradually suspended a part of the day-old chick breeding operation and lowered the proportion of day-old chicks raised by the Group in the whole supply chain of the Group in 2015. Meanwhile, the mode of cooperation of the meat segment and external chicken farms has also changed from the original "high minimum guarantee plus profit sharing" based to market-price based. The above measures effectively reduced the losses under the trough of meat business in 2015 and the gross profit reduced by approximately RMB 17,813 thousand as compared to the previous year.

Future Strategies

Adhering to the operating strategy of "eliminating risk" of meat product business in 2015 has saved the Group from greater market risks. Such measures will also continue to be implemented in the future, including:

(i) to adjust the terms of contracts between the Group and external chicken farms pursuant to the market price trend of day-old chicks and enter into supply contracts which accommodate market fluctuations when fixing prices;

(ii) to assist contract farmers to adjust and test their equipment and optimize their management and to improve the feed-to-meat ratio and to raise the rearing efficiency;

(iii) to continue to enhance the rate of utilization of incubation capacity in order to improve cost control;

(iv) to continue to increase the ratio of sales through the valued distribution channels of chicken meat, including the Safe and Fresh Shops franchised or directly operated by the Group at wet markets as well as commercial supermarkets and converting the Group's chicken meat to prepared food and deeply processed food products, etc; and

(v) to flexibly adjust the electrical slaughtering capacity in accordance with the market situation and the structures of the sales distribution channels.

Livestock Feeds (From External Customers)

	2015	**2014**	**% change**
Turnover (RMB'000)			
– China	2,123,952	2,827,347	-24.9%
– Vietnam and Malaysia	2,369,494	2,094,532	13.1%
Total	4,493,446	4,921,879	-8.7%
Gross profit (RMB'000)			
– China	239,160	285,324	-16.2%
– Vietnam and Malaysia	249,839	219,217	14.0%
Total	488,999	504,541	-3.1%
Gross profit margin (%)			
– China	11.3	10.1	
– Vietnam and Malaysia	10.5	10.5	
Total	10.9	10.3	

The operating income of the feeds segment was primarily derived from the sales of piglet, sow, hog, broiler and egg chicken feeds to external customers in China, Vietnam and Malaysia. Corn and soybean are the primary raw materials of feeds sold by the Group. The main product brands of this segment are "Dr Nupak", "Green Knight" and "SOS". The production and sales region of this segment covered Vietnam, Malaysia and northeastern, northern, central and southwestern China.

Business Review

In 2015, the feeds segment continued to expand its scale of operation in the Southeast Asian region. As a result of effective distribution of sales channels and accurate positioning of brand identity, the segment's operating income and gross profit recorded a substantial increase over the previous year. Nevertheless, the feeds market in China has been adversely affected by dwindling sow inventories as well as fierce competition among industry players from the northeastern region, sales, operating income and gross profit recorded a notable decline. Benefiting from lowering raw material prices and the use of substitute products by the research and development department, the overall gross profit margin of the feeds segment rose by approximately 0.6% compared to that of the previous year.

Future Strategies

As a result of notable declines in sow inventories in China, the hog market is expected to experience shortage of supply, and the rearing industry may bottom out. The domestic feeds segment will continue to pursue the following strategies:

(i) to actively consolidate the brand's competitive position in northeastern China, to take advantage of the fermentation technique for pre-digestion in intestines in biotechnology, and to focus on marketing activities for sow and piglet feeds products for developing the number one brand of "mother and son" feeds in China;

(ii) to select valued customers and offer them products, technical and service support so as to enhance their loyalty and level of contribution to the Group;

(iii) to focus our resources in developing emission-free pig rearing and breeding and rearing organic cycle demonstration base at our advanced research centre, and to provide customers with a comprehensive pig breeding and rearing programme, in order to realize a 100% sustainable and environmentally-friendly rearing system.

Processed Food

	2015	2014	% Change
Turnover (RMB'000)			
– Mainland China	793,227	805,804	-1.6%
– Export	288,102	302,633	-4.8%
Total	1,081,329	1,108,437	-2.4%
Gross profit (RMB'000)			
– Mainland China	181,826	139,494	30.3%
– Export	47,545	31,356	51.6%
Total	229,371	170,850	34.3%
Gross profit margin (%)			
– Mainland China	22.9	17.3	
– Export	16.5	10.4	
Total	21.2	15.4	

The processed food segment includes the production and distribution of prepared food under the "Sister's Kitchen" brand, as well as centrifuged and marinated, stewed, pre-fried, steamed, grilled and ready-to-eat consumer food items. The processed food products of the Group were not only sold in the PRC market, but were also exported to overseas markets like Japan. Customer groups of the processed food segment included customers at end-consumer markets and professional markets. The sales channels of the processed food segment were mainly group catering, bakery, casual catering, takeaways, international customers, key customers as well as the retail consumption market. The sales areas of the processed food segment covered Japan, Singapore, Hong Kong, northeastern, northern, eastern and southern China and a few inland regions in northwestern and southwestern China.

Business Review

In 2015, through the implementation of effective marketing strategies for its key products, the processed food segment achieved approximately 3% growth in terms of sales volume in China in the midst of the market depression, and the professional restaurant business market achieved 16% growth in terms of sales volume. Nevertheless, affected by the weak chicken meat consumption price in China and the continuing adverse effect of food safety incident on the export to Japan, the operating income for the business segment dropped slightly as compared to that of the previous year. During the reporting period, benefiting from declining cost for chicken meat products, the gross profit for the processed food business rose by approximately 34.3% over the previous year.

Future Strategies

Our brand's core values are "assurance and traceability". The Group has seized the opportunities that arise from Chinese nationals' concerns over food safety and developed the brand's unique edge. The processed food segment will continue to follow the following strategies:

Professional restaurant business market: to continue to concentrate its resources on key products and focus its efforts on developing the next star product.

Important customer markets: to strengthen research and development services, and to continue to increase marketing efforts on Chinese fast food customers so as to diversify from the risk of an over concentration on western fast food customers.

International markets: to continue to utilize its favourable research resources for Japanese-style products to continue the development of customer base in as Singapore and Hong Kong in order to diversify from the risk of relying on a single Japanese market.

Retail consumer markets: while cutting its product lines, the Group will focus its resources on developing key products for major commercial supermarkets in strategic cities in order to build up a competitive position for the brand.

Financial Review:

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

In 2015, the Group recorded other operating income of approximately RMB6,605 thousand (2014: approximately RMB15,775 thousand) which mainly comprised of interest income and government subsidies. The decrease in other operating income was mainly due to the decrease in government subsidies.

In 2015, other net losses of the Group amounted to approximately RMB132,065 thousand (2014: approximately RMB12,513 thousand). Other net losses mainly includes net foreign exchange loss, impairment loss of fixed assets and net loss on the disposal of fixed assets.

Distribution costs accounted for approximately 4.17% of total turnover, up from approximately 3.45% in 2014.

Administrative expenses accounted for approximately 2.81% of turnover (2014: approximately 2.55%).

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

As at 31 December 2015, the Group's cash and bank deposit balances amounted to approximately RMB530,151 thousand, representing an increase of approximately RMB70,708 thousand from 2014. The Group's bank loans increased by approximately RMB133,916 thousand to approximately RMB1,027,879 thousand (2014: approximately RMB893,963 thousand). As at 31 December 2015, the bank loans to equity ratio was approximately 60.3% (2014: approximately 48.0%). Current ratio was maintained at a healthy level of approximately 1.61 times (2014: approximately 1.80 times).

3) **Capital Expenditure**

In 2015, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB170,215 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 appreciated by approximately 2.40% while RMB against USD depreciated by approximately 6.12%.

5) Interest

In 2015, the Group's interest expense amounted to approximately RMB25,620 thousand (2014: approximately RMB25,746 thousand), representing a decrease of approximately 0.5% from 2014. The decrease in interest expense was primarily due to increase of low interest rate bank loans.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2015 (2014: no distribution).

7) Charge on Assets

As at 31 December 2015, the Group pledged assets of approximately RMB28,318 thousand including land, property, plant and equipment as security against bank facilities of approximately RMB29,179 thousand, of which the credit amount of approximately RMB23,853 thousand had been utilised as at 31 December 2015.

8) Capital Commitment

As at 31 December 2015, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB82,429 thousand (2014: approximately RMB90,167 thousand) and the capital expenditure authorised but not contracted for was approximately RMB37,181 thousand (2014: approximately RMB52,141 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2015, the Group had a total of 10,951 employees (31 December 2014: 13,756). The Group has paid remuneration to its staff with reference to industry practice, the financial performance of the Group and the employee's 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 members of management and other employees. The Group implemented these programs not only to enhance the quality of its staff, but also to give best chances for development of their personal career. 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 2016 AGM of the Company will be held on 24 June 2016 (Friday) and the notice of AGM will be published and dispatched to shareholders in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Closing of Register of Members

The Company will close its register of members from 22 June 2016 (Wednesday) to 24 June 2016 (Friday), 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 21 June 2016 (Tuesday).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2015, 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, high 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 2015. Details of those immaterial deviations will be disclosed in the 2015 Annual Report of the Company to be published soon.

Audit Committee

The audit committee of the Company ("Audit Committee") was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. The Audit Committee is authorised by the Board to assess matters relating 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 2015), 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), Mr. Chen Chih and Mr. Wei Anning who are all independent non-executive directors of the Company.

On behalf of the Board
Han Jia-Hwan
Chairman

Hong Kong, 29 March 2016

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