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## DACHAN FOOD (ASIA) LIMITED

大成食品(亞洲)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

### ANNOUNCEMENT OF THE INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

The board of directors (the “Board”) of DaChan Food (Asia) Limited (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 2009. The consolidated interim financial report for the six months ended 30 June 2009 is unaudited, but has been reviewed by KPMG<sup>(1)</sup> as well as the Company’s audit committee.

#### Financial Highlights

	Six months ended 30 June			Six months ended 31
	2009	2008	% change	December
	(unaudited)	(unaudited)		2008
				(unaudited)
Turnover (USD’000)	560,563	639,748	-12.4	654,247
Gross profit (USD’000)	41,722	57,563	-27.5	37,728
Gross profit margin (%)	7.4	9.0		5.8
Profit attributable to equity shareholders of the Company (USD’000)	6,962	16,179	-57.0	3,496
Basic earnings per share (US cents)	0.69	1.60	-56.9	0.35

Note:<sup>(1)</sup> The consolidated interim financial report has been reviewed by KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants whose unmodified review report is included in the consolidated interim financial report to be sent to shareholders.

**CONSOLIDATED INCOME STATEMENT****For the six months ended 30 June 2009 – unaudited**

		<b>Six months ended 30 June</b>	
		<b>2009</b>	<b>2008</b>
		(unaudited)	(unaudited)
	Note	USD'000	USD'000
<b>Turnover</b>	4	560,563	639,748
Cost of sales		(518,841)	(582,185)
		<hr/>	<hr/>
<b>Gross profit</b>		41,722	57,563
Change in fair value of biological assets			
less estimated point-of-sale costs		470	(220)
Fair value of agricultural produce on initial recognition		1,722	5,752
Reversal of fair value of agricultural produce			
due to sales and disposals		(1,961)	(5,675)
Other income	5	1,937	6,655
Distribution costs		(14,311)	(15,320)
Administrative expenses		(16,549)	(18,944)
Other operating expenses		(987)	(3,874)
		<hr/>	<hr/>
<b>Profit from operations</b>		12,043	25,937
Finance costs	6(a)	(1,254)	(3,304)
Share of losses of jointly controlled entities		–	(989)
		<hr/>	<hr/>
<b>Profit before taxation</b>	6	10,789	21,644
Income tax	7	(1,866)	(3,104)
		<hr/>	<hr/>
<b>Profit for the period</b>		<u>8,923</u>	<u>18,540</u>
<b>Attributable to:</b>			
Equity shareholders of the Company		6,962	16,179
Minority interests		1,961	2,361
		<hr/>	<hr/>
<b>Profit for the period</b>		<u>8,923</u>	<u>18,540</u>
<b>Earnings per share</b>			
– Basic (cents)	8	<u>0.69</u>	<u>1.60</u>
– Diluted (cents)	8	<u>0.69</u>	<u>1.60</u>

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009 – unaudited

	Six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
	USD'000	USD'000
Profit for the period	8,923	18,540
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	1,188	4,668
<b>Total comprehensive income for the period</b>	<b>10,111</b>	<b>23,208</b>
<b>Attributable to:</b>		
Equity shareholders of the Company	8,029	20,487
Minority interests	2,082	2,721
<b>Total comprehensive income for the period</b>	<b>10,111</b>	<b>23,208</b>

**CONSOLIDATED BALANCE SHEET AT 30 JUNE 2009 – UNAUDITED**

	Note	At 30 June 2009 (unaudited) USD'000	At 31 December 2008 (audited) USD'000
<b>Non-current assets</b>			
Fixed assets			
– property, plant and equipment		149,725	145,593
– lease prepayments		18,627	17,999
Deferred tax assets		1,691	759
		<u>170,043</u>	<u>164,351</u>
<b>Current assets</b>			
Inventories		81,753	73,825
Biological assets		2,445	1,841
Trade and other receivables	9	71,834	66,377
Income tax recoverable		526	979
Pledged bank deposits		3,075	1,253
Cash and cash equivalents		49,729	60,505
		<u>209,362</u>	<u>204,780</u>
<b>Current liabilities</b>			
Interest-bearing borrowings		18,433	23,145
Trade and other payables	10	102,857	91,364
Amounts due to related parties		526	867
Income tax payable		3,478	3,332
		<u>125,294</u>	<u>118,708</u>
<b>Net current assets</b>		<u>84,068</u>	<u>86,072</u>
<b>Total assets less current liabilities</b>		<u>254,111</u>	<u>250,423</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		4,432	6,145
Deferred tax liabilities		21	22
		<u>4,453</u>	<u>6,167</u>
<b>Net assets</b>		<u>249,658</u>	<u>244,256</u>
<b>Capital and reserves</b>			
Share capital		12,957	12,957
Reserves		207,279	203,959
<b>Total equity attributable to equity shareholders of the Company</b>		<u>220,236</u>	<u>216,916</u>
Minority interests		29,422	27,340
<b>Total equity</b>		<u>249,658</u>	<u>244,256</u>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 1 GENERAL INFORMATION

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 interim financial report for the six months ended 30 June 2009 comprises the Company and its subsidiaries (collectively referred to as the “Group”). The interim financial report for the six months ended 30 June 2008 comprised the Group and its interests in jointly controlled entities.

## 2 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 (the “Listing Rules”), including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 21 August 2009.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009 annual financial statements. Details of these changes in accounting policies are set out in note 3.

## 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued one new International Financial Reporting Standard (“IFRS”), a number of amendments to IFRSs and new interpretations 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:

- IFRS 8, *Operating Segments*
- IAS 1 (revised 2007), *Presentation of Financial Statements*
- Amendments to IFRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
- Improvements to IFRSs (2008)
- Amendments to IAS 27, *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IAS 23 (revised 2007), *Borrowing Costs*
- Amendments to IFRS 2, *Share-based Payment – Vesting Conditions and Cancellations*

The adoption of IFRS 8 and amendments to IFRS 2 have had no material impact on the Group's financial statements as the new IFRS and amendments were consistent with policies already adopted by the Group. In addition, the amendments to IFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report is as follows:

- As a result of the adoption of IAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.
- The “Improvements to IFRSs (2008)” comprises a number of minor and non-urgent amendments to a range of IFRSs which the IASB has issued as an omnibus batch of amendments. The adoption of these amendments has no significant impact on the Group's results of operations and financial position.
- The amendments to IAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009, all dividends receivable from subsidiaries, associates and jointly controlled entities, whether out of pre-or post-acquisition profits, will be recognised in the Company's income statement and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognised dividend income in income statement, the Company would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.
- IAS 23 (revised 2007) requires that, as effective from 1 January 2009, borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset form part of the cost of that asset and has eliminated the option of immediate recognition of such borrowing costs as an expense. Before 1 January 2009, the Group has adopted the latter option as its accounting policy. The Group will apply the new standard prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on and after the effective date.

#### 4 SEGMENT REPORTING

The Group manages its business by divisions, which are organised business lines. In accordance with IFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment. The Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

Chicken meat:	The chicken meat segment carries on business of breeding and hatching of broiler breeder eggs, contract farming, processing and marketing of chicken meat products.
Livestock feeds:	The livestock feeds segment manufactures and distributes complete feed, base mix and pre-mix for swine, layer, broiler, dairy, duck, and breeder poultry.
Processed foods:	The processed foods segment produces and distributes pickled, pre-fried, and roasted foods.

Information regarding the Group's reportable segments for the period is set out below.

**For the six months ended 30 June 2009**

	<b>Chicken meat</b> (unaudited) USD'000	<b>Livestock feeds</b> (unaudited) USD'000	<b>Processed foods</b> (unaudited) USD'000	<b>Inter- segment elimination</b> (unaudited) USD'000	<b>Consolidated</b> (unaudited) USD'000
Revenue from external customers	288,000	244,386	28,177	–	560,563
Inter-segment revenue	14,366	73,715	–	(88,081)	–
Reportable segment revenue	<u>302,366</u>	<u>318,101</u>	<u>28,177</u>	<u>(88,081)</u>	<u>560,563</u>
Reportable segment (loss)/profit	(3,863)	16,390	3,406	–	15,933
Interest income from bank deposit					665
Finance costs					(1,254)
Unallocated corporate income and expenses					<u>(4,555)</u>
Profit before tax for the period					<u>10,789</u>

**For the six months ended 30 June 2008**

	<b>Chicken meat</b> (unaudited) USD'000	<b>Livestock feeds</b> (unaudited) USD'000	<b>Processed foods</b> (unaudited) USD'000	<b>Inter- segment elimination</b> (unaudited) USD'000	<b>Consolidated</b> (unaudited) USD'000
Revenue from external customers	321,712	291,419	26,617	–	639,748
Inter-segment revenue	1,675	75,389	–	(77,064)	–
Reportable segment revenue	<u>323,387</u>	<u>366,808</u>	<u>26,617</u>	<u>(77,064)</u>	<u>639,748</u>
Reportable segment profit/(loss)	18,429	12,587	(3,251)	–	27,765
Interest income from bank deposit					847
Finance costs					(3,304)
Share of losses of jointly controlled entities					(989)
Unallocated corporate income and expenses					<u>(2,675)</u>
Profit before tax for the period					<u>21,644</u>

## 5 OTHER INCOME

	Six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
	USD'000	USD'000
Interest income	665	847
Realised gain on commodity derivative contracts	472	–
Foreign exchange gain	188	5,355
Compensation received	60	–
Management fees	–	123
Gain on disposals of fixed assets	–	12
Recognition of negative goodwill	–	109
Others	552	209
	<u>1,937</u>	<u>6,655</u>

## 6 PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
	USD'000	USD'000
<b>(a) Finance costs:</b>		
Interest on bank borrowings wholly repayable within five years	<u>1,254</u>	<u>3,304</u>
<b>(b) Other items:</b>		
Amortisation of lease prepayments	219	167
Depreciation of property, plant and equipment	7,296	5,318
Impairment losses on trade and other receivables	76	58
Net foreign exchange loss	414	3,381
Net realised (gain)/loss on commodity derivative contracts	(472)	166
(Reversal of)/making write-down of inventories	<u>(1,875)</u>	<u>859</u>



## 7 INCOME TAX

### Taxation in the consolidated income statement represents:

	<b>Six months ended 30 June</b>	
	<b>2009</b>	<b>2008</b>
	(unaudited) USD'000	(unaudited) USD'000
<b>Current tax-overseas</b>		
Provision for the period	2,799	2,915
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(933)	189
	<u>1,866</u>	<u>3,104</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) No provision has been made for Hong Kong Profits Tax as the Group did not earn any income subject to Hong Kong Profits Tax during the periods.
- (iii) Pursuant to the income tax rules and regulations of the People’s Republic of China (“PRC”), the companies comprising the Group in the PRC are liable to PRC Corporate Income Tax at a rate of 25% during the periods, except for the following:
- (a) DaChan Wanda (Tianjin) Co., Ltd. and Greatwall Agri (Heilongjiang) Co., Ltd. are entitled to a full exemption from the PRC Corporate Income Tax for the two years beginning from 2006, 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 six months periods ended 30 June 2008 and 2009 respectively is 12.5%.
  - (b) Dongbei Agri (Changchun) Co., Ltd. is entitled to a full exemption from the PRC Corporate Income Tax for the two years beginning from 2007, its 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 the six months period ended 30 June 2009 is 12.5% (2008: Nil).
  - (c) Greatwall Gourmet (Shanghai) Co., Ltd. and Hunan Greatwall Technologies & Feeds Co., Ltd. are 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 six months periods ended 30 June 2008 and 2009 respectively is nil.
- (iv) Pursuant to the income tax rules and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 26% for the year ended 31 December 2008. In September 2008, the Malaysian government announced a reduction in the income tax rate from 26% to 25% for the year of assessment in 2009. Accordingly, the provision for Malaysian income tax for the period ended 30 June 2009 is calculated at 25% of the estimated assessable profit for the period (2008: 26%).
- (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. 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 being the 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. The first profitable year of ANT-HN is year 2005. Therefore, the applicable tax rate of ANT-HN is nil and 5% for the six months periods ended 30 June 2008 and 2009 respectively.
- (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 28% for the succeeding years. However, ANT-LA is entitled to a full tax exemption for 2 years starting from 2008 being the 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 nil for the six months periods ended 30 June 2008 and 2009 respectively.

## 8 EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to equity shareholders of the Company of USD6,962,000 and the weighted average number of 1,010,662,000 ordinary shares in issue during the period.

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to equity shareholders of the Company of USD16,179,000 and the weighted average number of 1,010,662,000 ordinary shares in issue during the period.

The outstanding share options have no dilutive effects on the basic earnings per share, as their adjusted exercise prices were above the average market price of the shares during the six months period ended 30 June 2009. There were no potential dilutive shares at the prior period end.

## 9 TRADE AND OTHER RECEIVABLES

	<b>At 30 June 2009 (unaudited) USD'000</b>	<b>At 31 December 2008 (audited) USD'000</b>
Trade receivables	29,866	27,787
VAT recoverable (Note)	26,381	25,524
Deposits and prepayments	7,071	7,895
Amounts due from related parties	3,072	1,452
Deposits paid for purchase of fixed assets	2,208	1,012
Advances to staff	757	648
Other receivables	2,479	2,059
	<hr/>	<hr/>
	<b>71,834</b>	<b>66,377</b>
	<hr/> <hr/>	<hr/> <hr/>

Note: The VAT recoverable represents the unutilised input VAT eligible for offsetting against future output VAT. The unutilised input VAT arose mainly due to the insufficient output VAT on sales of chicken meat to offset the input VAT on purchases of live chicken from contract farmers. The directors of the Company are of the opinion that the VAT recoverable as at 30 June 2009 will be utilised progressively in accordance with the Group’s future plan.

All of the trade and other receivables (including amounts due from related parties), apart from the VAT recoverable are expected to be recovered within one year.

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

### Ageing analysis

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	<b>At 30 June 2009</b> (unaudited) USD'000	<b>At 31 December 2008</b> (audited) USD'000
Current	26,378	24,582
Less than 30 days past due	2,802	2,668
31-60 days past due	318	198
61-90 days past due	82	77
More than 90 days past due	286	262
	<hr/>	<hr/>
Total	<b>29,866</b>	<b>27,787</b>
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## 10 TRADE AND OTHER PAYABLES

	<b>At 30 June 2009</b> (unaudited) USD'000	<b>At 31 December 2008</b> (audited) USD'000
Trade payables	63,007	52,268
Bills payable	798	97
Amounts due to related parties	847	527
Receipts in advance	2,521	3,180
Other payables and accruals	35,684	35,292
	<hr/>	<hr/>
	<b>102,857</b>	<b>91,364</b>
	<hr/> <hr/>	<hr/> <hr/>

All of the trade and other payables are expected to be settled within one year.

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

	<b>At 30 June 2009</b> (unaudited) USD'000	<b>At 31 December 2008</b> (audited) USD'000
Within 30 days	61,720	50,762
31 days to 60 days	626	938
61 days to 90 days	319	229
91 days to 180 days	342	339
	<u>63,007</u>	<u>52,268</u>

(b) Bills payable are normally issued with a maturity date ranging from 30 to 90 days.

(c) An analysis of the other payables and accruals is analysed as follows:

	<b>At 30 June 2009</b> (unaudited) USD'000	<b>At 31 December 2008</b> (audited) USD'000
Salaries, wages, bonuses and other benefits payable	13,552	13,648
Payables for purchase of fixed assets	1,588	1,276
Security deposits (Note (i))	5,584	5,333
Accrued expenses (Note (ii))	4,887	5,281
Other payables	10,073	9,754
	<u>35,684</u>	<u>35,292</u>

Notes:

(i) Security deposits referred mainly to deposits received from contract farmers in respect of performance of contracts entered into with these farmers.

(ii) Accrued expenses comprised mainly accruals for advertising and marketing costs, utilities charges and transportation costs.

## 11 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period:

	<b>Six months ended 30 June 2009</b> (unaudited) USD'000	<b>2008</b> (unaudited) USD'000
Dividends approved and paid of HK3.77 cents per share (2008: Nil)	<u>4,885</u>	<u>—</u>

The directors do not recommend the payment of an interim dividend of the six months ended 30 June 2009 (2008: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overall Operating Results

	Six months ended 30 June			Six months ended 31 December
	2009 (unaudited)	2008 (unaudited)	% change	2008 (unaudited)
Turnover (USD'000)	560,563	639,748	-12.4	654,247
Gross profit (USD'000)	41,722	57,563	-27.5	37,728
Gross profit margin (%)	7.4	9.0		5.8%
Profit attributable to equity shareholders of the Company (USD'000)	6,962	16,179	-57.0	3,496
Basic earnings per share (US cents)	0.69	1.6	-56.9	0.35

The global financial crisis that began in 2008 has slowed the pace of China's economic growth in the first half of 2009. The Group's turnover for the six months ended 30 June 2009 was down by 12.4% to USD560.6 million year on year. Slower demand and oversupply in the PRC led to a decrease in the average selling price of chicken meat. Turnover from the feeds segment declined partly as a result of the decrease in pork prices in the second quarter caused by the H1N1 flu scare. Under pressure, gross profit margin was down at 7.4% (2008: 9.0%). Exchange rate gain and fair value gain from agricultural produce for the first six months of 2009 were also lower than a year earlier. Profit attributable to equity shareholders of the Company was down by 57.0% year on year to USD7.0 million as a result of the above factors. Basic earnings per share were US0.69 cents (2008: US 1.60 cents), representing a decrease of 56.9% year on year.

When compared with the six months ended 31 December 2008, our results improved noticeably with profit attributable to equity shareholders rebounded strongly by 99.1%.

### Results by Business Segment

#### Chicken meat

	Six months ended 30 June			Six months ended 31 December
	2009 (unaudited)	2008 (unaudited)	% change	2008 (unaudited)
Turnover (USD'000)	288,000	321,712	-10.5	340,234
Gross profit (USD'000)	5,777	27,509	-79.0	8,493
Gross profit margin (%)	2.0	8.6		2.5

As a result of lower average selling price of chicken meat, turnover of the segment for the first six months of 2009 fell by 10.5% year on year to USD288.0 million. The segment accounts for 51.4% of the Group's total turnover.

The average selling price of chilled and frozen chicken meat for the first six months of 2009 decreased by 15.4% to USD1,352 per tonne (2008: USD1,599 per tonne). Price of chicken meat in the second quarter was under enormous pressure as a result of the H1N1 flu.

### Feeds to external customers

	Six months ended 30 June			Six months ended 31 December
	2009 (unaudited)	2008 (unaudited)	% change	2008 (unaudited)
Turnover (USD'000)	244,386	291,419	-16.1	292,645
Gross profit (USD'000)	30,988	28,104	10.3	30,311
Gross profit margin (%)	<u>12.7</u>	<u>9.6</u>	<u></u>	<u>10.4</u>

Corn and soybean meal are the key ingredients for our feeds. Their prices were down considerably in the first half of 2009, which was one of the main reasons for a profit margin improvement in the segment. Nutrition formula enhancement and increased direct sale have also contributed to the improved results. Thus, gross profit margin was up at 12.7% (2008: 9.6%) while gross profit rose by 10.3% to USD31.0 million (2008: USD28.1 million). For each of the six months periods since the beginning of 2008, there was consistent improvement in gross margin and gross profit of the segment.

Turnover for the first six months of 2009 decreased to USD244.4 million, representing a decline of 16.1% compared with the same period last year. The decrease was primarily due to lower average selling price, as a result of lower raw material cost.

### Processed foods

	Six months ended 30 June			Six months ended 31 December
	2009 (unaudited)	2008 (unaudited)	% change	2008 (unaudited)
Turnover (USD'000)				
– Mainland China	16,104	15,560	3.5	16,655
– Export	12,073	11,057	9.2	4,713
Total	<u>28,177</u>	<u>26,617</u>	<u>5.9</u>	<u>21,368</u>
Gross profit (USD'000)				
– Mainland China	2,975	2,266	31.3	2,449
– Export	1,982	(316)	n/a	(3,525)
Total	<u>4,957</u>	<u>1,950</u>	<u>154.2</u>	<u>(1,076)</u>
Gross profit margin (%)				
– Mainland China	18.5	14.6		14.7
– Export	16.4	-2.9		-74.8
Overall	17.6	7.3		-5.0

The Group's processed foods business relates to the production and distribution of pickled, pre-fried and roasted foods. During the period under review, the export business began to recover and we were able to improve from the previous year's unsatisfactory performance. Turnover for export business rose by 9.2% to USD12.1 million from USD11.1 million a year earlier. Gross profit was higher at USD2.0 million. Gross profit margin jumped to 16.4% from a negative 2.9% for the same period last year.

The processed foods market in the PRC is still relatively an untapped market and we have been capitalizing on the development of the market. We are beginning to harvest from our previous efforts made in the channel reconstruction and the brand building program for the "Sisters' Kitchen" brand. The brand building program is supported by our effective product traceability system in response to growing public concern over food safety. The program was a success with customers and it is reflected in improved turnover, gross profit and gross profit margin of the business.

Gross profit from the sales of processed foods in the mainland China for the six months ended 30 June 2009 increased by 31.3% to USD3.0 million. Gross profit margin rose to 18.5% from 14.6% in the same period of the previous year and 14.7% in the second half of 2008. This improved performance was attributable to our marketing efforts, higher production volume and a better product mix.

## **OUTLOOK & FUTURE PLANS**

The world economy is showing initial signs of recovery in the second half of 2009. The PRC, where our major production facilities and market are situated and which accounted for over 80% of our turnover, is expected to maintain a staggering economic growth rate of about 8% in 2009. The living standards in the PRC are expected to continue to rise along with the insatiable demand for meat products. In July 2009, we entered into a long-term agreement with KFC, one of our major customers. The agreement highlights not only the quality of our products but also enables us to lay out a more defined capital expenditure plan to satisfy future demand.

To improve its profit margin, the Group has allocated more resources to promote the processed foods business in China in view of the economic recovery. We have also restructured and optimized our sales channels to increase its cost and operational efficiencies for faster expansion in the next three years. Our raw chicken meat and processed foods products are now available at major supermarkets and hypermarkets such as Tesco, Auchan, Trustmart, E-Mart and Wal-mart in Beijing, Tianjin and Shanghai.

The Group will continue to expand its production capacity prudently. It is also committed to maintaining the best product quality while improving operating efficiency and enhancing brand value in the market. Through the improved capabilities, we have every confidence in achieving stable and respectable growth for our business in the PRC and in other Asian markets.

## **Financial Review**

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

For the first six months of 2009, the Group has recorded USD1.9 million from other income (2008: 6.7 million). Other income mainly comprises exchange gain on appreciation of RMB, and interest income.

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

As at 30 June 2009, the Group's cash and bank balance amounted to USD49.7 million, representing a decrease of USD10.8 million from 31 December 2008. Our bank loans decreased by USD6.4 million to USD22.9 million (31 December 2008: USD29.3 million). Debt to equity ratio was 9.3% (31 December 2008: 12.8%). The current ratio was maintained at a healthy level of 1.7 (31 December 2008: 1.7)

### **3) Capital Expenditure**

For the first six months of 2009, the Group invested USD11.9 million to purchase property, plant and equipment. Planned capital expenditure for 2009 is USD51.0 million which will be mainly funded by the Group's internal resources. The amount will mainly be used for the construction of integrated production facilities in Shandong and Hebei, and a processed foods plant in Tianjin as well as the expansion of our existing facilities.

### **4) Exchange Rate**

The Group transacts its businesses mainly in USD, RMB and Vietnamese Dong. The exchange rates of the three currencies were relatively stable in the first half of 2009.

### **5) Dividends**

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2009.

### **6) Charge on assets**

As at 30 June 2009, bank deposits of USD3.1 million and fixed assets equating to approximately USD6.4 million were pledged as security against bank facilities of USD47.0 million, of which USD6.9 million was drawn as at 30 June 2009.

### **7) Capital commitment and Contingent liabilities**

As at 30 June 2009, total capital commitment amounted to USD10.0 million. The Group is not aware of any material contingent liabilities or off-balance sheet obligations as at 30 June 2009.



## **Employee compensation and training**

As at 30 June 2009, the Group had a total of 14,178 employees (31 December 2008: 13,105). The Group's employees are remunerated in accordance with industry practices, the financial performance of the Group and their work performance. Other fringe benefits, such as insurance, medical benefits and provident fund, are provided to retain loyal employees.

We place great emphasis on the training and development of our employees. We have invested in various training programs for our management staff and other employees with a view to constantly upgrading their skills and knowledge. We implement these programs with a view to enhancing the quality of our employees and providing them with the best opportunities for career development. We believe that these programs will be mutually beneficial to the Group and its employees.

## **OTHER INFORMATION**

### **Compliance with the Code on Corporate Governance Practices**

The Company is committed to good corporate governance practices and procedures including a quality board, sound internal control, transparency and accountability to its shareholders. It has also complied with the Code on Corporate Governance Practices as stated in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2009.

### **Compliance with Model Code**

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules regarding securities transactions by directors on terms more stringent than the required standard set out in the Model Code. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions for the six months ended 30 June 2009.

### **Purchase, Redemption or Sale of Listed Securities of the Company**

During the six months ended 30 June 2009, 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 the Company's financial reporting matters, including the review of the interim results for the six months ended 30 June 2009, the internal control and risk management system. There was no disagreement by 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, 21 August 2009

As at the date of this announcement, Mr. Han Jia-Hwan (Chairman), Mr. Chang Tiew-Shen (Chief Executive Officer) and Mr. Chen Fu-Shih 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.