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

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

**(Stock Code: 3999)**

### **Announcement of Annual Results for 2017**

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 2017, prepared in conformity with the basis of presentation as stated in note 2 below, together with the comparative figures for the year ended 31 December 2016 as follows:

#### **Highlights**

	<b>2017</b>	<b>2016</b>	<b>% change</b>
Turnover (RMB'000)	8,507,477	8,124,053	4.7
Gross profit (RMB'000)	815,942	754,510	8.1
Gross profit margin (%)	9.6	9.3	
Profit attributable to equity shareholders of the Company (RMB'000)	29,120	53,899	-46.0
Basic earnings per share (RMB)	0.03	0.05	
Dividend per share (HK cents)	0	0	

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2017	2016
Turnover	3	8,507,477	8,124,053
Cost of sales		<u>(7,691,535)</u>	<u>(7,369,543)</u>
<b>Gross profit</b>		815,942	754,510
Change in fair value of biological assets			
less costs to sell		2,028	(512)
Fair value of agricultural produce on initial recognition		9,556	14,113
Reversal of fair value of agricultural produce due to sales and disposals		(8,498)	(14,016)
Other operating income		13,142	31,561
Other net (losses)/gains		(14,595)	72,520
Distribution costs		(399,313)	(384,471)
Administrative expenses		<u>(261,452)</u>	<u>(280,735)</u>
<b>Profit from operations</b>		156,810	192,970
Finance costs	4(a)	(42,183)	(44,852)
Share of losses of equity-accounted investees		<u>(1,313)</u>	<u>(2,196)</u>
<b>Profit before taxation</b>	4	113,314	145,922
Income tax	5	<u>(21,445)</u>	<u>(28,573)</u>
<b>Profit for the year</b>		<u>91,869</u>	<u>117,349</u>
<b>Profit for the year attributable to:</b>			
Equity shareholders of the Company		29,120	53,899
Non-controlling interests		<u>62,749</u>	<u>63,450</u>
<b>Profit for the year</b>		<u>91,869</u>	<u>117,349</u>
<b>Dividends payable to shareholders of the Company attributable to the year:</b>			
Final dividend proposed after the end of the reporting period	6	<u>0</u>	<u>0</u>
<b>Earnings per share</b>	7		
– Basic (RMB)		<u>0.03</u>	<u>0.05</u>
– Diluted (RMB)		<u>0.03</u>	<u>0.05</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****At 31 December 2017***(Expressed in thousands of Renminbi unless otherwise stated)*

	Note	2017	2016
<b>Non-current assets</b>			
Fixed assets			
– property, plant and equipment		1,341,398	1,175,531
– lease prepayments		191,477	189,374
Interests in equity-accounted investees		58,747	85,169
Other non-current financial assets		1,948	1,948
Deferred tax assets		28,134	29,551
Long-term tax recoverable	9	90,806	91,508
Other non-current assets		10,111	13,053
		<u>1,722,621</u>	<u>1,586,134</u>
<b>Current assets</b>			
Inventories		892,039	939,174
Biological assets		9,677	5,797
Trade receivables	8	396,412	385,222
Other receivables and prepayments	9	451,480	416,269
Cash and cash equivalents		526,568	327,539
		<u>2,276,176</u>	<u>2,074,001</u>
<b>Current liabilities</b>			
Trade payables	10	701,696	601,357
Other payables	11	529,459	462,926
Provisions		3,719	6,776
Interest-bearing borrowings		300,740	560,147
Dividend payables		–	14,221
Income tax payable		2,209	9,355
		<u>1,537,823</u>	<u>1,654,782</u>
<b>Net current assets</b>		<u>738,353</u>	<u>419,219</u>
<b>Total assets less current liabilities</b>		<u>2,460,974</u>	<u>2,005,353</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings		600,072	243,636
Deferred tax liabilities		336	322
		<u>600,408</u>	<u>243,958</u>
<b>Net assets</b>		<u>1,860,566</u>	<u>1,761,395</u>
<b>Capital and reserves</b>			
Share capital		97,920	97,920
Reserves		923,857	901,466
Retained profits		519,369	489,729
<b>Total equity attributable to equity shareholders of the Company</b>		<u>1,541,146</u>	<u>1,489,115</u>
Non-controlling interests		319,420	272,280
<b>Total equity</b>		<u>1,860,566</u>	<u>1,761,395</u>

## 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 are primarily involved in the manufacturing and trading of livestock feeds, poultry and chilled meat and processed food.

The Company publicly offered its shares on the Main Board of The Stock Exchange of Hong Kong Limited on 4 October 2007.

### 2 Basis of preparation

The annual results have been reviewed by the audit committee of the Company.

#### *(a) Statement of compliance*

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 2017 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 items:

- 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 a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. However, additional disclosure has been included in note 19 to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 ("VAT") 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 ("CEO") for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

**Meat products:** The meat products segment carries on business of 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 among 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 2017 and 2016 is set out below:

	Meat products		Livestock feeds		Processed foods		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Turnover from external customers	2,382,142	2,172,759	4,498,662	4,672,269	1,626,673	1,279,025	8,507,477	8,124,053
Inter-segment turnover	414,415	410,393	652,111	523,342	–	–	1,066,526	933,735
<b>Total</b>	<b>2,796,557</b>	<b>2,583,152</b>	<b>5,150,773</b>	<b>5,195,611</b>	<b>1,626,673</b>	<b>1,279,025</b>	<b>9,574,003</b>	<b>9,057,788</b>
Segment result	82,214	59,650	415,416	442,710	318,312	252,150	815,942	754,510
Unallocated operating income and expenses	–	–	–	–	–	–	(659,132)	(561,540)
Profit from operations	–	–	–	–	–	–	156,810	192,970
Finance costs	–	–	–	–	–	–	(42,183)	(44,852)
Share of losses of equity-accounted investees	–	–	–	–	–	–	(1,313)	(2,196)
Income tax	–	–	–	–	–	–	(21,445)	(28,573)
Profit for the year	–	–	–	–	–	–	91,869	117,349
Depreciation and amortisation for the year	60,731	63,691	49,621	47,377	33,380	33,821	143,732	144,889
Reportable segment assets	1,229,340	1,009,075	1,339,740	1,387,403	602,992	576,901	3,172,072	2,973,379
Additions to non-current segment assets during the year	119,960	40	102,447	109,379	115,811	11,360	338,218	120,779
Reportable segment liabilities	257,692	101,620	878,176	936,936	223,006	141,282	1,358,874	1,179,838

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

	2017	2016
<b>Turnover</b>		
Reportable segment turnover	9,574,003	9,057,788
Elimination of inter-segment turnover	<u>(1,066,526)</u>	<u>(933,735)</u>
Consolidated turnover	<u><u>8,507,477</u></u>	<u><u>8,124,053</u></u>
<b>Profit</b>		
Reportable segment profit	<u>815,942</u>	<u>754,510</u>
Change in fair value of biological assets less costs to sell	2,028	(512)
Fair value of agricultural produce on initial recognition	9,556	14,113
Reversal of fair value of agricultural produce due to sales and disposals	(8,498)	(14,016)
Other operating income	13,142	31,561
Other net (losses)/gains	(14,595)	72,520
Distribution costs	(399,313)	(384,471)
Administrative expenses	(261,452)	(280,735)
Finance costs	(42,183)	(44,852)
Share of losses of equity-accounted investees	<u>(1,313)</u>	<u>(2,196)</u>
Consolidated profit before taxation	<u><u>113,314</u></u>	<u><u>145,922</u></u>
<b>Assets</b>		
Reportable segment assets	<u>3,172,072</u>	<u>2,973,379</u>
Deferred tax assets	28,134	29,551
Cash and cash equivalents	526,568	327,539
Unallocated head office and corporate assets	<u>272,023</u>	<u>329,666</u>
Consolidated total assets	<u><u>3,998,797</u></u>	<u><u>3,660,135</u></u>
<b>Liabilities</b>		
Reportable segment liabilities	<u>1,358,874</u>	<u>1,179,838</u>
Income tax payable	2,209	9,355
Deferred tax liabilities	336	322
Interest-bearing borrowings	745,751	619,549
Unallocated head office and corporate liabilities	<u>31,061</u>	<u>89,676</u>
Consolidated total liabilities	<u><u>2,138,231</u></u>	<u><u>1,898,740</u></u>

(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	
	2017	2016	2017	2016
Mainland China	5,297,101	5,043,124	1,321,920	1,222,862
Vietnam	2,697,100	2,738,645	271,068	231,437
Japan	469,730	299,399	–	–
Rest of Asia Pacific	43,546	42,885	8,745	8,828
	<u>8,507,477</u>	<u>8,124,053</u>	<u>1,601,733</u>	<u>1,463,127</u>

**4 Profit before taxation**

Profit before taxation is arrived at after charging:

	2017	2016
(a) <i>Finance costs</i>		
Interest on bank borrowings wholly repayable within five years	<u>42,183</u>	<u>44,852</u>
(b) <i>Staff costs</i>		
Salaries, wages, bonuses and other benefits	646,408	600,179
Contributions to retirement schemes	82,454	80,882
Equity-settled share-based payment expenses	<u>430</u>	<u>2,269</u>
	<u>729,292</u>	<u>683,330</u>

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 20% (2016: 18% to 20%) 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 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 (2016: 6 percent) of the employees’ relevant income and its employees are required to make contributions to the scheme at 5 percent (2016: 5 percent) of the employees’ relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar (“HKD”) 30,000 (2016:HKD 30,000). Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia’s Employees Provident Fund is based on 13 percent (2016: 13 percent) of the eligible employees’ salaries when the salaries is Malaysia Ringgit (“MYR”) 5,000 or below, or based on 12 percent (2016: 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 21% (2016: 21%) 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*

	<b>2017</b>	<b>2016</b>
Auditors’ remuneration		
– audit services	4,557	4,474
– tax services	128	228
	<u>4,685</u>	<u>4,702</u>
Amortisation of lease prepayments	5,243	5,157
Depreciation of property, plant and equipment	138,489	139,732
Net impairment loss of trade receivables recognised	3,245	11,099
Net recognise of impairment loss of inventory	9,510	1,602
Operating lease charges		
– plant and machinery	24,286	17,623
– others	8,142	9,552
Research and development costs	3,573	1,894
Cost of inventories	<u>7,321,954</u>	<u>6,997,102</u>

## 5 Income tax in the consolidated income statement

	2017	2016
<b>Current tax</b>		
Provision for the year	19,382	33,428
Under provision in respect of prior years	<u>632</u>	<u>437</u>
	----- 20,014	----- 33,865
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<u>1,431</u>	<u>(5,292)</u>
	<u><u>21,445</u></u>	<u><u>28,573</u></u>

- (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% (2016: 25%), except for Tianjin DaChan Prospect Research and Development Co., Ltd. (“TDPR”), which is subject to a preferential tax rate of 15 percent (2016: 15 percent), as it has obtained the new high-tech enterprise qualification during 2016.
- (iv) Pursuant to the income tax rules and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 24% for the year ended 31 December 2017 (2016: 24%).
- (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% (2016: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2016: 20%).
- (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 2017 (2016: 10%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2016: 20%).
- (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 2017 (2016: 17%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2016: 20%).

(viii) Pursuant to the Amended Investments Licence No. 43/2010/ND-CP dated 26 September 2012 and issued by Binh Dinh Province Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. (“ANTC-MV”) is subject to Vietnam Corporate Income Tax of 20% for the year ended 31 December 2017 (2016: 20%).

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

	<b>2017</b>	<b>2016</b>
Profit before taxation	<u>113,314</u>	<u>145,922</u>
Income tax calculated at PRC’s Corporate Income Tax rate of 25% (2016: 25%) (note)	28,329	36,481
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(3,193)	(15,755)
Tax effect of non-deductible expenses	2,927	3,081
Tax effect of non-taxable income	(14,352)	(9,286)
Tax effect of the movement of tax losses and temporary difference not recognised	8,211	12,513
Effect on deferred tax balances resulting from a change in tax rate	(1,109)	1,102
Under provision in respect of prior years	<u>632</u>	<u>437</u>
Actual tax expense	<u>21,445</u>	<u>28,573</u>

*Note:* The income tax rate of 25% (2016: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

**6 Dividends**

	<b>2017</b>	<b>2016</b>
Final dividend proposed after the end of the reporting period	<u>0</u>	<u>0</u>

On 20 March 2018, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2017 (2016: No distribution).

**7 Earning per share**

The calculation of basic earnings per share for the year ended 31 December 2017 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB29,120 thousand (2016: approximately RMB53,899 thousand) and the weighted average of 1,014,581,504 ordinary shares (2016: 1,012,461,692) in issue during the year.

For the year ended 31 December 2017, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB29,120 thousand (2016: approximately RMB53,899 thousand) and the weighted average of 1,015,489,500 ordinary shares (2016: 1,014,763,359).

## 8 Trade receivables

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

	<b>2017</b>	<b>2016</b>
Current	306,193	303,399
Less than 30 days past due	59,369	54,453
31-60 days past due	14,797	11,890
61-90 days past due	8,108	9,591
More than 90 days past due	21,018	19,620
Amounts past due	103,292	95,554
Less: Provision for bad debt	(13,073)	(13,731)
	<u>396,412</u>	<u>385,222</u>

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

## 9 Other receivables and prepayments

	<b>2017</b>	<b>2016</b>
VAT recoverable	439,409	383,660
Deposits and prepayments	79,053	101,377
Advances to staff	6,681	11,317
Others	17,143	11,423
	542,286	507,777
Less: non-current VAT recoverable	90,806	91,508
	<u>451,480</u>	<u>416,269</u>

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 as follows:

	2017	2016
Current	379,814	353,764
Less than 30 days past due	215,088	175,978
31-60 days past due	62,385	30,293
61-90 days past due	12,367	6,501
More than 90 days past due	32,042	34,821
Amounts past due	321,882	247,593
	<u>701,696</u>	<u>601,357</u>

## 11 Other payables

	2017	2016
Sales rebate	151,214	163,786
Salaries, wages, bonuses and other benefits payable	87,506	93,436
Accrued expenses	99,399	81,116
Contract performance deposits	40,008	32,437
Receipts in advance	14,760	14,317
Payables for purchase of fixed assets	58,593	6,728
Amounts due to related parties	54,100	42,600
Others	23,879	28,506
	<u>529,459</u>	<u>462,926</u>

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

## MANAGEMENT DISCUSSION AND ANALYSIS

	2017	2016	% change
Turnover (RMB'000)	8,507,477	8,124,053	4.7
Gross profit (RMB'000)	815,942	754,510	8.1
Gross profit margin (%)	9.6	9.3	
Profit attributable to shareholders of the Company (RMB'000)	29,120	53,899	-46.0

### Economic Environment and Strategy Direction

In 2017, the domestic chicken consumption market in China was shrinking due to influenza outbreak, and the chicken consumption in households and school canteens declined particularly significantly. Although with the Chinese government's strengthening of environmental protection inspections in 2017, implementation of strict environmental protection measures in many places, setting up livestock and poultry banned areas, and forced closure of processing enterprises that did not meet pollution emission standards, the breeding and rearing amount of cultured feather chickens and supply of chicken meat were reduced to a certain extent, the high production capacity of the white feather broiler industry led to the fact that, for most of the time in 2017, the broiler industry was in an oversupply competitive situation, and both the feather chicken price and the chicken price fell to the lowest level for the past 10 years. At the same time, with the continued withdrawal of small and medium-sized processing plants and farmers, the concentration of white feather broilers industry has been further increased.

In response to changes in the economic environment and competitive landscape, the Group has been actively engaged in food productization planning in order to enhance its competitiveness in the industry. In respect of the export market, the food export business of the Dalian Gongchan Factory was restarted; in respect of domestic sales market, the Bangbu Food Factory was officially put into operation in October 2017 and provided a strong guarantee for the continued and rapid growth of the food segment. Driven by both domestic sales and export, the food productization development of the Group reached a new milestone.

The Group invariably adhered to the following operating strategies in 2017:

- (1) Levering food as a leading factor in the continuous development of the Group, continuing to strengthen its product and market development efforts in the food segment, making it a leader in the professional catering market.
- (2) Maintaining a proper scale of electrical slaughtering of broilers and strengthening risk management and cost control of day-old chicks, feather chickens and meat products, providing a safe traceable raw meat supply for the food segment.
- (3) Continuously increasing its market shares and profits in the feed market in Vietnam and Malaysia and, at the same time, beginning to prepare for the Cambodia market.
- (4) Focusing on the sales of functional feeds of higher added value in the feed market in the PRC.

Providing consumers with safe and traceable products is always the solemn commitment of the Group. The Group will continue to strengthen its internal management to improve operational efficiency. With the steady increase in the proportion of food productization, the one-stop supply chain's resilience to market risks will continue to increase, and profitability will also be improved in the long term.

## Business Review

In 2017, the meat product segment continued to adjust the supply structure of day-old chicks, the structure of feather chicken breeding and rearing, the supply and sales structure of chicken, which enhanced production efficiency and reduced various expenses. Under adverse market conditions, gross profit achieved growth of 37.8% as compared with the same period of last year. After the resumption of export business of Dalian Gongchan, sales of the export food segment grew by 45.1%, and gross profit also grew by 16.1% as compared with the same period of last year. While sales volume of domestic food segment rose by 9.9%, gross profit increased by 29.7% as compared with the same period of last year.

The increase in profits of the meat product and food segments mitigated the impact on the overall profitability of the Group from the decline in performance of the feeds segment in Vietnam and the domestic market resulting from changes in market conditions.

In 2017, although due to the fluctuation of the exchange rate between the US dollar and the RMB, the Group incurred a foreign exchange loss of approximately RMB 37,614 thousand (exchange gain of approximately RMB 32,274 thousand for the same period in 2016), because the overall gross profit of the Group increased by RMB 61,432 thousand as compared with the same period of last year, the profit attributable to shareholders of the Company only decreased by RMB 24,779 thousand as compared with the same period of last year.

## Meat Product

	2017	2016	% change
Turnover (RMB'000)	2,382,142	2,172,759	9.6%
Gross profit (RMB'000)	82,214	59,650	37.8%
Gross profit margin (%)	3.5	2.7	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of “Sister’s Kitchen” and lightly processed tender chicken meat, sells chicken 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

In 2017, although constantly sluggish market conditions affected the profitability of the meat product segment, due to: the reduction of the breeding and rearing costs due to the continuing enhancement of breeding and rearing performance; the reduction of the electrical slaughter costs due to the continuing enhancement of production efficiency; the reduction of indirect costs of meat products due to the reduction and integration of supporting departments; the increase in the proportion of food productization improving profitability of meat products, the gross profit of the meat product segment in 2017 increased by RMB22,564 thousand as compared with the same period of last year.

## Future Strategies

The operating strategy of eliminating risk adhered by the meat product business 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 with minimum guarantee when the price is low and profit sharing when the price is high according to the market fluctuations of the price of day-old chicks; (ii) to encourage contract farmers to change the way of rearing from netting to caging, to assist them to optimize their management, to improve the feed-to-meat ratio and to raise the rearing and breeding 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 sales channels of chicken meat; and (v) to continue to increase the proportion of converting the Group's chicken meat to prepared food and deeply processed food products, etc.

## Livestock Feeds (From External Customers)

	2017	2016	% change
Turnover (RMB'000)			
– China	1,823,810	1,955,284	-6.7%
– Vietnam and Malaysia	<u>2,674,852</u>	<u>2,716,985</u>	-1.6%
Total	<u><u>4,498,662</u></u>	<u><u>4,672,269</u></u>	-3.7%
Gross profit (RMB'000)			
– China	139,889	157,657	-11.3%
– Vietnam and Malaysia	<u>275,527</u>	<u>285,053</u>	-3.3%
Total	<u><u>415,416</u></u>	<u><u>442,710</u></u>	-6.2%
Gross profit margin (%)			
– China	7.7	8.1	
– Vietnam and Malaysia	<u>10.3</u>	<u>10.5</u>	
Total	<u><u>9.2</u></u>	<u><u>9.5</u></u>	

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 2017, affected by fierce market competition, revenue from domestic feeds segment decreased by 6.7% as compared with the same period of last year. However, the segment continued to expand in the market, continuously improved customer service, focused resources on the research, development and promotion of high-end feeds and pre-feeds, and achieved significant growth. The Group also actively discussed cooperation with large-scale farms in order to expand market share as soon as possible. At the same time, due to the fact that the price of pigs in Vietnam has remained at a level below cost for a long time during the reporting period, the significant decline in large and medium pig stocks in Vietnam affected the gross profit of the feed business in Southeast Asia. The segment actively responded to the unfavorable market environment, adjusted product strategies and customer strategies in a timely manner, and sales volume grew by approximately 3%.

## Future Strategies

The domestic feeds segment will continue to pursue the following strategies: (i) 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 sow and piglet 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; and (iii) to actively expand feed sub-processing business and form strategic alliances with large-scale breeding and rearing enterprises.

## Processed Food

	2017	2016	% Change
Turnover (RMB'000)			
– Mainland China	1,125,708	948,875	18.6%
– Export	<u>500,965</u>	<u>330,150</u>	51.7%
Total	<u><u>1,626,673</u></u>	<u><u>1,279,025</u></u>	27.2%
Gross profit (RMB'000)			
– Mainland China	244,060	188,214	29.7%
– Export	<u>74,252</u>	<u>63,936</u>	16.1%
Total	<u><u>318,312</u></u>	<u><u>252,150</u></u>	26.2%
Gross profit margin (%)			
– Mainland China	21.7	19.8	
– Export	<u>14.8</u>	<u>19.4</u>	
Total	<u><u>19.6</u></u>	<u><u>19.7</u></u>	

The processed food segment includes the production and sales 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 include customers at end-consumer markets and professional markets. The sales channels of the processed food segment are 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 cover Japan, Singapore, Hong Kong, northeastern, northern, eastern and southern China and a few inland regions such as northwestern and southwestern China.

## **Business Review**

In 2017, processed food segment was hit by influenza outbreak in the first half of the year. However, with adjustment in the proportion of non-broiler products in the product mix, supplemented by more aggressive marketing strategies and intensive cultivation of major cities, key products and key channels grew significantly. Sales volume increased by approximately 9.9% as compared with the same period of last year. As for the export market, Dalian Gongchan restarted its export business. With the joint efforts of the two export factories, export sales volume of the Group achieved growth of approximately 45.1% as compared with the same period of last year.

## **Future Strategies**

The Group’s brand’s core values are assurance and traceability. The Group has seized the opportunities that arise from Chinese nationals’ concerns over food safety and has developed the brand’s unique edge. The processed food segment will continue to follow the following strategies: (i) to continue to concentrate its resources on research and development of products in the professional catering market, improve product competitiveness, create various key products, refine the market, increase market share, improve channel structure, and continuously improve sales ability of teams; (ii) to provide important customers with all-round service, form strategic alliances with them, and achieve common growth; (iii) to continue to utilize its advantageous research resources for Japanese-style products to continue the development of customer base in regions such as Singapore and Hong Kong in order to diversify risks in the export market; (iv) to combine online sales with offline sales to build a brand advantage in the retail consumer market.

## **Financial Review:**

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

In 2017, the Group recorded other operating income of approximately RMB13,142 thousand (2016: approximately RMB31,561 thousand) which mainly comprised of processing income, interest income and government subsidies. The decrease in other operating income was mainly due to the decrease in processing income.

In 2017, other net losses of the Group amounted to approximately RMB14,595 thousand (2016: gains of approximately RMB72,520 thousand). Other net losses mainly include net foreign exchange loss and net loss on the disposal of fixed assets.

Distribution costs accounted for approximately 4.69% of total turnover, representing a decrease from approximately 4.73% of 2016.

Administrative expenses accounted for approximately 3.07% of turnover (2016: approximately 3.46%).

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

As at 31 December 2017, the Group's cash and bank deposit balances amounted to approximately RMB526,568 thousand, representing an increase of approximately RMB199,029 thousand from 2016. The Group's interest-bearing borrowings increased by approximately RMB97,029 thousand to approximately RMB900,812 thousand (2016: approximately RMB803,783 thousand). As at 31 December 2017, the interest-bearing borrowings to equity ratio was approximately 48.4% (2016: approximately 45.6%). Current ratio was maintained at a healthy level of approximately 1.48 times (2016: approximately 1.25 times).

### **3) Capital Expenditure**

In 2017, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB338,218 thousand which was primarily paid from internal resources and bank borrowings.

### **4) Exchange Rate**

The Group's business transactions are mainly denominated in RMB, USD and VND. During the year under review, VND against RMB depreciated by approximately 5.89% while RMB against USD appreciated by approximately 5.81%.

## **5) Interest**

In 2017, the Group's interest expense amounted to approximately RMB42,183 thousand (2016: approximately RMB44,852 thousand), representing a decrease of approximately 6.0% from 2016. The decrease in interest expenses was mainly due to the change from high interest rate RMB interest-bearing borrowings to low interest rate USD interest-bearing borrowings.

## **6) Dividends**

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2017 (2016: no distribution).

## **7) Charge on Assets**

As at 31 December 2017, the Group had no security against bank facilities.

## **8) Capital Commitment**

As at 31 December 2017, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB104,591 thousand (2016: approximately RMB51,885 thousand) and the capital expenditure authorised but not contracted for was approximately RMB246,591 thousand (2016: approximately RMB90,718 thousand).

## **EMPLOYEE COMPENSATION AND TRAINING**

As at 31 December 2017, the Group had a total of 10,655 employees (31 December 2016: 9,815). 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 the Group's core competitiveness. With a view to constantly 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 also provided to retain loyal employees.

## **OTHER INFORMATION**

### **Annual General Meeting (“AGM”)**

The 2018 AGM of the Company will be held on 29 June 2018 (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 25 June 2018 (Tuesday) to 29 June 2018 (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 22 June 2018 (Friday) (Hong Kong time).

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

During the year ended 31 December 2017, 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 and risk management, high transparency and accountability to its shareholders. Except for the following immaterial deviations, it has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2017:

#### *Code Provision A.6.7*

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders.

Mr. Han Chia-Yau, Mr. Harn Jia-Chen and Mr. Chao Tien-Shin, non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 23 June 2017 due to other prearranged business commitments which must be attended by them.

#### *Code Provision F.1.1*

Under Code Provision F.1.1, the company secretary should be an employee of the Company and have the day-to-day knowledge of the Company’s affairs.

Ms. Cho Yi Ping (“Ms. Cho”), a partner of the Company’s legal advisers, Cheung Tong & Rosa Solicitors, has been appointed as the company secretary of the Company (the “Company Secretary”) with effect from 8 August 2016.

The Company has assigned a member of the senior management, Ms. Feng Yuxia, the head of legal department of the Company as the contact person with Ms. Cho. Ms. Cho is a practicing solicitor of Hong Kong with understanding of the Listing Rules, her qualifications meet the requirements of the Listing Rules in terms of a company secretary of a listed issuer. Further, whenever necessary, the contact person assigned will promptly deliver information regarding the performance, financial positions and other major development and affairs of the Group to Ms. Cho. Having in place a mechanism that enables Ms. Cho to get hold of the Group’s development promptly without material delay and with her expertise and experience, the Board is confident that having Ms. Cho as the Company Secretary is beneficial to the Group’s compliance with the relevant board procedures, applicable laws, rules and regulations.

### **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 advice on matters 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 2017), 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, 20 March 2018

*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 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.*