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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 Annual Results For 2021

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 2021, 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 2020 as follows:

Highlights

	2021	2020 Restated*	% change
Turnover (RMB'000)	6,530,905	6,148,414	6.2
Gross profit (RMB'000)	661,784	714,084	-7.3
Gross profit margin (%)	10.1	11.6	
Profit attributable to equity shareholders of the Company (RMB'000)	155,473	202,890	-23.4
Basic earnings per share (RMB)	0.15	0.20	
Dividend per share (HK cents)	0	0	

Restated*: In the fourth quarter of 2021, the Group sold its subsidiaries operated in Vietnam and Malaysia to focus on developing business operations in Mainland China. Accordingly, the financial results of these disposed subsidiaries before disposal were presented as “Discontinued operations” in the consolidated financial statements in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Prior year comparative information has also been restated to conform with the current year presentation.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2021	2020 Restated*
Continuing operations			
Turnover	3	6,530,905	6,148,414
Cost of sales		<u>(5,869,121)</u>	<u>(5,434,330)</u>
Gross profit		661,784	714,084
Other operating income		16,708	22,094
Other net gain/(loss)		12,059	(3,915)
Distribution costs		(301,704)	(303,716)
Administrative expenses		<u>(240,237)</u>	<u>(223,833)</u>
Profit from operations		148,610	204,714
Finance costs	4(a)	(12,575)	(19,318)
Share of losses of equity-accounted investees		<u>(1,529)</u>	<u>(1,842)</u>
Profit before taxation	4	134,506	183,554
Income tax	5	<u>(9,909)</u>	<u>(20,049)</u>
Profit from continuing operations		124,597	163,505
Profit from discontinued operations		<u>75,405</u>	<u>140,325</u>
Profit for the year		<u><u>200,002</u></u>	<u><u>303,830</u></u>
Profit for the year attributable to:			
Equity shareholders of the Company		155,473	202,890
Non-controlling interests		<u>44,529</u>	<u>100,940</u>
Profit for the year		<u><u>200,002</u></u>	<u><u>303,830</u></u>
Dividends payable to shareholders of the Company attributable to the year:			
Final dividend proposed after the end of the reporting period	6	<u><u>0</u></u>	<u><u>0</u></u>
Earnings per share	7		
– Basic and diluted (RMB)		<u><u>0.15</u></u>	<u><u>0.20</u></u>
Earnings per share-continuing operations			
– Basic and diluted (RMB)	7	<u><u>0.09</u></u>	<u><u>0.11</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2021	2020
Non-current assets			
Fixed assets			
– Property, plant and equipment		1,019,618	1,347,787
– Land use rights		139,841	181,699
– Investment property		56,381	53,157
Interests in equity-accounted investees		69,796	80,727
Other financial assets		1,948	1,948
Deferred tax assets	、	4,274	29,327
Long-term tax recoverable	9	139,778	135,865
Other non-current assets		31,734	6,055
		<u>1,463,370</u>	<u>1,836,565</u>
Current assets			
Inventories		608,153	941,995
Biological assets		143,647	180,073
Trade receivables	8	213,087	301,522
Other receivables and prepayments	9	387,945	437,759
Cash and cash equivalents		625,059	631,370
		<u>1,977,891</u>	<u>2,492,719</u>
Current liabilities			
Trade payables	10	397,655	541,618
Other payables	11	293,094	513,503
Contract liabilities		26,195	39,097
Interest-bearing borrowings		133,640	477,264
Lease liabilities		3,387	8,917
Income tax payable		10,215	12,792
Dividend payable		–	2,349
		<u>864,186</u>	<u>1,595,540</u>
Net current assets		<u>1,113,705</u>	<u>897,179</u>

	Note	2021	2020
Total assets less current liabilities		<u>2,577,075</u>	<u>2,733,744</u>
Non-current liabilities			
Interest-bearing borrowings		273,852	327,387
Lease liabilities		30,579	130,613
Deferred tax liabilities		<u>3,097</u>	<u>3,441</u>
		<u>307,528</u>	<u>461,441</u>
Net assets		<u>2,269,547</u>	<u>2,272,303</u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		949,624	944,446
Retained profits		<u>950,071</u>	<u>799,050</u>
Total equity attributable to equity shareholders of the Company		1,997,615	1,841,416
Non-controlling interests		<u>271,932</u>	<u>430,887</u>
Total equity		<u>2,269,547</u>	<u>2,272,303</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 foods.

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 2021 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 for the following items:

- derivative financial instruments are measured at fair value.

(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 Group has applied the following amendments to IFRSs to these financial statements for the current accounting period:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, *Interest rate benchmark reform*
- Amendment to IFRS 16, *Covid-19-related rent concessions beyond 30 June 2021*

None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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.

Processed foods: The processed foods segment processes meat (mainly chicken meat) into further processed or instant food (half-cooked/fully cooked) products for production and distribution.

Livestock feeds: The livestock feeds segment manufactures and distributes complete feeds, base mix feeds and pre-mix feeds for swine, layer, broiler, duck, and breeder poultry under the brands of “Dr. Nupak”, “DaChan” and “Green Knight”.

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” and “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 2021 and 2020 is set out below:

	Processed foods		Livestock feeds				Meat products		Total	
	2021	2020	2021		2020		2021	2020	2021	2020
			Continuing	Discontinued	Continuing	Discontinued				
Turnover from external customers	2,124,152	1,896,704	2,811,014	2,819,560	2,498,384	3,130,450	1,595,739	1,753,326	9,350,465	9,278,864
Inter-segment turnover	—	—	1,355,930	—	1,143,605	—	546,022	542,707	1,901,952	1,686,312
Total	2,124,152	1,896,704	4,166,944	2,819,560	3,641,989	3,130,450	2,141,761	2,296,033	11,252,417	10,965,176
Segment result	388,545	413,383	220,418	157,264	218,548	311,432	52,821	82,155	819,048	1,025,518
Unallocated operating income and expenses	—	—	—	—	—	—	—	—	(574,248)	(640,551)
Profit from operations	—	—	—	—	—	—	—	—	244,800	384,967
Finance costs	—	—	—	—	—	—	—	—	(21,684)	(31,336)
Share of losses of equity-accounted investees	—	—	—	—	—	—	—	—	(2,819)	(2,609)
Income tax	—	—	—	—	—	—	—	—	(20,295)	(47,192)
Profit for the year	—	—	—	—	—	—	—	—	200,002	303,830
Depreciation and amortisation for the year	52,079	50,759	22,327	19,221	21,615	34,534	62,929	49,307	156,556	156,215
Reportable segment assets	882,609	897,340	585,571	—	598,645	916,687	1,115,983	1,050,782	2,584,163	3,463,454
Additions to non-current segment assets during the year	42,564	52,316	20,110	19,278	8,814	72,223	96,063	75,225	178,015	208,578
Reportable segment liabilities	228,312	234,770	268,746	—	313,075	669,657	192,680	247,410	689,738	1,464,912

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

	2021	2020
Turnover		
Reportable segment turnover	11,252,417	10,965,176
Elimination of inter-segment turnover	(1,901,952)	(1,686,312)
Elimination of discontinued operations	(2,819,560)	(3,130,450)
	<u>6,530,905</u>	<u>6,148,414</u>
Profit before tax		
Total profit before tax for reportable segment	178,824	351,022
Elimination of discontinued operations	(44,318)	(167,468)
	<u>134,506</u>	<u>183,554</u>
Assets		
Reportable segment assets	2,584,163	3,463,454
Deferred tax assets	4,274	29,327
Cash and cash equivalents	625,059	631,370
Unallocated head office and corporate assets	227,765	205,133
	<u>3,441,261</u>	<u>4,329,284</u>
Liabilities		
Reportable segment liabilities	689,738	1,464,912
Income tax payable	10,215	12,792
Deferred tax liabilities	3,097	3,441
Interest-bearing borrowings	362,527	446,518
Unallocated head office and corporate liabilities	106,137	129,318
	<u>1,171,714</u>	<u>2,056,981</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	
	2021	2020	2021	2020
Mainland China	6,210,328	5,712,870	1,260,989	1,267,365
Vietnam and Malaysia	2,819,560	3,130,450	–	393,366
Japan	270,756	355,233	–	–
Rest of Asia Pacific	49,821	80,311	–	8,694
	<u>9,350,465</u>	<u>9,278,864</u>	<u>1,260,989</u>	<u>1,669,425</u>

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2021	2020 Restated*
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	10,718	17,922
Interest on lease liabilities	<u>1,857</u>	<u>1,396</u>
	<u>12,575</u>	<u>19,318</u>
(b) Staff costs		
Salaries, wages, bonuses and other benefits	633,444	634,722
Contributions to retirement schemes	<u>29,738</u>	<u>10,283</u>
	<u>663,182</u>	<u>645,005</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 a rate of 16% (2020: 14.5% to 16%) 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% (2020: 6%) of the employees’ relevant income and its employees are required to make contributions to the scheme at 5% (2020: 5%) of the employees’ relevant income. Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia’s Employees Provident Fund is based on 13% (2020: 13%) of the eligible employees’ salaries.

The Group also made contribution on the statutory social security and health insurance in Vietnam at 20.5% (2020: 20.5%) 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

	2021	2020 Restated*
Auditors’ remuneration		
– audit services	4,752	4,674
– other services	790	–
	<u>5,542</u>	<u>4,674</u>
Depreciation charge		
– owned property, plant and equipment	117,278	109,312
– right-of-use assets	7,983	6,724
– investment property	2,790	2,411
	<u>128,051</u>	<u>118,447</u>
Depreciation of biological assets	7,476	11,795
Impairment loss of trade receivables recognised	4,742	589
(Net reversal of write-down)/write down of inventory	(4,975)	3,865
Research and development costs	1,361	9,384
Cost of inventories	<u>5,139,859</u>	<u>4,706,845</u>

5 Income tax in the consolidated income statement

	2021	2020 Restated*
Current tax		
Provision for the year	10,518	19,174
Over-provision in respect of prior years	<u>(2,014)</u>	<u>(1,453)</u>
	<u>8,504</u>	<u>17,721</u>
Deferred tax		
Origination and reversal of temporary differences	<u>1,405</u>	<u>2,328</u>
Tax expense on continuing operations	<u><u>9,909</u></u>	<u><u>20,049</u></u>

- (i) ‘Tax expense on continuing operations’ excludes the Group’s share of the tax expense of equity-accounted investees, which has been included in share of profit of equity-accounted investees, net of tax. The amount also excludes the tax expense from the discontinued operation of RMB10 million (2020: RMB27 million) which have been included in profit from discontinued operation, net of tax.
- (ii) 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.
- (iii) In March 2018, Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the “Ordinance”) was enacted to implement a two-tiered profits tax rate regime. Under the two-tiered profits tax rate regime, the first HK\$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The Ordinance is effective from the year of assessment 2018/2019. The provision for Hong Kong Profits Tax for 2021 is calculated at 16.5% (2020: 16.5%) of the estimated assessable profits for the year, except for subsidiaries of the group which are qualifying corporations under the two-tiered Profits Tax rate regime. For these subsidiaries, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2020.
- (iv) 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% (2020: 25%), except for Liaoning Great Wall Agri-Industrial Co., Ltd. (“LGW”), Great Wall Agri (Heilongjiang) Co., Ltd. (“GWAHLJ”) and Great Wall Agri (Yingkou) Co., Ltd. (“GWAYK”). LGW is subject to a preferential tax rate of 15% (2020: 15%), as it has obtained the new high-tech enterprise qualification from 2019. GWAHLJ and GWAYK are subject to a preferential tax rate of 15% (2020: 15%), as they have obtained the new high-tech enterprise qualification from 2020.
- (v) 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 2021 (2020: 24%).
- (vi) 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. is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% (2020: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2020: 20%).

- (vii) Asia Nutrition Technologies (HN) Co., Ltd. (“ANTC-HN”) is subject to Corporate Income Tax of Vietnam at a tax rate of 15% since 2019 pursuant to tax reduction document No. 12/2015/ND-CP dated 12 February 2015. Therefore, the applicable tax rate of ANTC-HN is 15% for the year ended 31 December 2021 (2020: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2020: 20%).
- (viii) Asia Nutrition Technologies (LA) Co., Ltd. is subject to Corporate Income Tax of Vietnam at the rate of 20% for the year ended 31 December 2021 (2020: 20%).
- (ix) 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. is subject to Vietnam Corporate Income Tax of 20% for the year ended 31 December 2021 (2020: 20%).

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

	2021	2020 Restated*
Profit before taxation	<u>134,506</u>	<u>183,554</u>
Income tax calculated at PRC’s Corporate Income Tax rate of 25% (2020: 25%) <i>(note)</i>	33,627	45,889
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(4,426)	(4,567)
Tax effect of non-deductible expenses	400	1,008
Tax effect of non-taxable income	(6,247)	(18,435)
Tax effect of the movement of tax losses and temporary difference not recognised	(11,431)	(2,393)
Over-provision in respect of prior years	<u>(2,014)</u>	<u>(1,453)</u>
Actual tax expense	<u>9,909</u>	<u>20,049</u>

Note: The income tax rate of 25% (2020: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2021	2020
Final dividend proposed after the end of the reporting period	<u>0</u>	<u>0</u>

On 23 March 2022, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2021 (2020: No distribution).

7 Earning per share

The calculation of basic earnings per share for the year ended 31 December 2021 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB155,473 thousand (2020: approximately RMB202,890 thousand) and the weighted average of 1,016,189,000 ordinary shares (2020: 1,016,189,000) in issue during the year.

The calculation of basic earnings per share-continuing operations for the year ended 31 December 2021 is based on the profit from continuing operations attributable to ordinary equity shareholders of the Company of approximately RMB90,700 thousand (2020: approximately RMB109,665 thousand) and the weighted average of 1,016,189,000 ordinary shares (2020: 1,016,189,000) in issue during the year.

The Group has no dilutive ordinary shares outstanding for the year ended 31 December 2021 and 2020. Therefore, there was no difference between basic and diluted earnings per share.

8 Trade receivables

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

	2021	2020
Current	187,740	245,024
1-180 days past due	25,953	57,180
181-365 days past due	386	3,066
More than 365 days past due	6,316	20,612
Amounts past due	32,655	80,858
Less: Provision for bad debt	(7,308)	(24,360)
	<u>213,087</u>	<u>301,522</u>

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

9 Other receivables and prepayments

	2021	2020
VAT recoverable	346,096	355,816
Deposits and prepayments	168,964	195,596
Advances to staff	3,885	7,136
Others	8,778	15,076
	527,723	573,624
Less: non-current VAT recoverable	139,778	135,865
	<u>387,945</u>	<u>437,759</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:

	2021	2020
Current	<u>221,812</u>	<u>382,311</u>
Less than 30 days past due	119,659	128,997
31-60 days past due	36,002	9,325
61-90 days past due	5,651	4,568
More than 90 days past due	<u>14,531</u>	<u>16,417</u>
Amounts past due	<u>175,843</u>	<u>159,307</u>
	<u><u>397,655</u></u>	<u><u>541,618</u></u>

11 Other payables

	2021	2020
Sales rebate	32,839	172,658
Salaries, wages, bonuses and other benefits payable	99,669	128,952
Accrued expenses	50,688	82,497
Contract performance deposits	39,622	46,143
Payables for purchase of fixed assets	11,291	20,890
Amounts due to related parties	42,600	42,600
Others	<u>16,385</u>	<u>19,763</u>
	<u><u>293,094</u></u>	<u><u>513,503</u></u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2021	2020	% change
Turnover (RMB'000)	9,350,465	9,278,864	0.8 (note)
Gross profit (RMB'000)	819,048	1,025,518	-20.1 (note)
Gross profit margin (%)	8.8	11.1	
Profit attributable to shareholders of the Company (RMB'000)	155,473	202,890	-23.4

Note: These turnover and gross profit include the financial results of discontinued operations.

Economic Environment and Strategy Direction

In 2021, food and beverage revenue in Mainland China increased 18.6% as compared with 2020, while it decreased 1.1% as compared with 2019, with a decrease of 0.5% on average in two years. Against the increasingly complicated and severe international economic environment caused by the COVID-19 epidemic, China has withstood pressures from sluggish demands, supply shocks and weakened market expectations, with its GDP increasing 8.1% year on year, and recording an increase of 5.1% on average in two years, which allowed it to maintain a leading position in economic development and epidemic prevention and control around the world. However, due to the sporadic spread of the COVID-19 epidemic in many parts of Mainland China, the strict epidemic control measure of “dynamic zero-case” implemented by the Chinese government has made face-to-face consumption, such as catering, unable to resume to pre-epidemic levels.

On one hand, the consumer demand is relatively low, and on the other hand the market supply is relatively excessive. In 2021, the production volume of live pigs reached 670 million across the country, representing an increase of 27.4% over the previous year, and pork production was 52.96 million tons, representing an increase of 28.8% over the previous year. At the end of the year, the inventories of live pigs reached 450 million across the country, representing a year-on-year increase of 10.5%, of which the reproductive sow inventories were 43.29 million, representing a year-on-year increase of 4.0%, and they reached 101.7% and 96.8% of the respective figure at the end of 2017. The production capacity of live pigs has gradually recovered, while the market demand is relatively sluggish, which resulted in a decrease of 30.3% in pork prices compared with an increase of 49.7% in the previous year. The decline in pig price has reduced the consumption demand of poultry products. Meanwhile, the production capacity of white feather meat chicken was further released in 2021 with its production volume reaching 5.38 billion, representing a year-on-year increase of 7.8% and reaching a record high in the past ten years. Oversupply has caused the price of chicken meat to hover at low levels.

As the COVID-19 epidemic was still spreading, the recovery pace of global economy was slowed down and the supply chain crisis of commodity escalated, which resulted in an overall rising in inflation level. The rising inflation and deteriorating food supply problem has driven the global food prices up sharply, and also kept the price of domestic corn and soybean meal at a high level, resulting in a significant year-on-year increase in feed costs of livestock and poultry.

In 2021, faced with the severe and complex economic environment in domestic and overseas, the Group did not blindly pursue scale expansion, but adopted a stable development strategy. Although the profit attributable to shareholders decreased by approximately 23.4% year-on-year, a profit of approximately RMB 155,473 thousand was achieved, being the second highest in the past ten years. The year-on-year decline in profits was mainly due to the economic downturn in the Southeast Asian and Japanese markets and the sluggish domestic livestock and poultry market, which caused the decrease in profits generated from feeds segment in Southeast Asia, the export business of the foods segment to Japan and the meat segment.

As Japan, being our major export destination, remained beset by the COVID-19 epidemic and economic growth was sluggish, the export volume to Japan of the Group declined. Coupled with the impact of the appreciation of Renminbi and soaring shipping costs, these factors resulted in the operating income and gross profit of the export food business decreased by 27.4% and 43.8% year-on-year respectively. Despite the unsatisfactory performance of food products for export, the Group has actively responded to the severe situation of slowing demand growth in terms of domestic food products. Although gross profit of the domestic food products was basically flat year-on-year, operating income has increased by approximately 23.4% year-on-year. The Group has continued to identify direct sales customers, and identified more strategic customers through joint research and development of customized products and comprehensive supply chain services. The Group has invested more resources in key sales regions and channels to help distributors to carry out various publicity and promotion activities so as to increase coverage rate. As for product innovation, the Group has devoted more efforts in new product research and development, and made use of distributor conferences and various exhibitions to launch new products and strive to create more products that hit the market. As for retail business, the Group has focused its resources on increasing the promotion of its family-sized products in e-commerce platform, community group purchase, community convenience stores, farmers' markets and other retail channels to further improve the channel construction and regional network.

In order to allocate more resources on the development of domestic food, feeds and meat segments, the Group disposed the equity interest in the feeds business in Southeast Asia in the fourth quarter of 2021 (for details please refer to the Company's announcement dated 26 August 2021 and circular dated 24 September 2021), and hence the Group's consolidated operating income and gross profit only include the amounts of feeds segment in Southeast Asia before disposal, which decreased by approximately 9.9% and 49.5%, respectively compared with those of the whole year of 2020. The proceeds from the equity interest disposal would be mainly used for investment and construction of a new plant in Bengbu, Anhui Province, to consolidate and expand the Group's market share in the Yangtze River Delta. The construction of the new plant in Bengbu is expected to be funded by the aforesaid proceeds, the Company's internal resources and/or banking facilities in the coming year. It is now progressing well, and the completion and commissioning of the project will bring the Group's food strategy to a new level. For latest development of the project, please refer to the Company's announcements.

With domestic feeds segment seizing the opportunity arising from the rapid recovery of the pig inventories in the market, operating income increased approximately 12.5% year-on-year. Although plagued by a sharp rise in raw material costs, due to relatively strong product competitiveness of domestic feeds segment, timely price adjustment, and reliance on the use of alternative feed raw materials as the supplementary measure, the gross profit of the domestic feeds segment was basically flat year-on-year. The Group firmly grasped the opportunity of the accelerated recovery of the hog breeding market, and devoted greater effort to the research and development of pig feed products, striving to provide customers with feed products with stronger immunity and better value for money, helping customers to enhance their ability to resist epidemics through the promotion of the use of functional products and comprehensive animal protection services, and actively identifying new distribution customers and directly operated pig farms. More efforts have been devoted to the R&D and market development of niche products such as ruminantia, to appropriately disperse risks in the pig and poultry markets.

As a result of the increased feed costs and continued low chicken meat prices, gross profit of the meat segment dropped approximately 35.7% year-on-year. On the one hand, the Group strategically eliminated farmers with poor breeding performance and planned to cut the scale of breeding and electrical slaughtering; on the other hand, the Group continued to improve the performance of contract feeds, and reduce the cost of meat chickens breeding by adjusting the contract policy with farmers to reasonably allocate the profits and losses of breeding; meanwhile, the Group has also been actively identifying chain fresh food and mega stores to attract customers who value product quality, eliminate price-sensitive customers, and enhance brand value through sales channel optimization.

Looking forward to 2022, the impact of the COVID-19 pandemic on the global economy is likely to diminish and the inflationary threat posed by financial policies adopted by countries to stimulate economic recovery is likely to remain. The Group will continue to take the foods segment as the lead for constantly exploring new sources of growth; diversify the market risk by product diversification based on the feeds segment; strengthen cash flow management, and reduce one-stop operating cost with the meat segment as its safeguard. With the synergy of foods segment, feeds segment and meat segment, the Group's overall industrial competitiveness and anti-risk ability shall be enhanced through increasing investment in talents and teams, initiating digital transformation, optimizing supply chain management, and restructuring sales channels.

Business Review

In 2021, the operating income of the Group was approximately RMB 9,350,465 thousand, representing a year-on-year increase of approximately 0.8%. The total operating income of domestic segments amounted to approximately RMB 6,530,905 thousand, net of the operating income of the feeds segment in Southeast Asia, representing a year-on-year increase of approximately 6.2%, of which, the foods segment, feeds segment and meat segment accounted for 32.5%, 43.1% and 24.4% of the total operating income of domestic segments, respectively. The Group's gross profit amounted to approximately RMB 819,048 thousand, representing a year-on-year decrease of approximately 20.1%. The total gross profit of domestic segments, net of the gross profit of the feeds segment in Southeast Asia, amounted to approximately RMB 661,784 thousand, representing a year-on-year decrease of approximately 7.3%, of which, the foods segment, feeds segment and meat segment accounted for 58.7%, 33.3% and 8.0% of the total gross profit of domestic segments, respectively. The foods segment has become the Group's largest source of profit.

Processed Foods

	2021	2020	% change
Turnover (RMB'000)			
– Mainland China	1,814,716	1,470,304	23.4
– Export	309,436	426,400	-27.4
Total	<u>2,124,152</u>	<u>1,896,704</u>	12.0
Gross profit (RMB'000)			
– Mainland China	354,613	353,001	0.5
– Export	33,932	60,382	-43.8
Total	<u>388,545</u>	<u>413,383</u>	-6.0
Gross profit margin (%)			
– Mainland China	19.5	24.0	
– Export	11.0	14.2	
Total	<u>18.3</u>	<u>21.8</u>	

The processed foods segment includes the production and sales of prepared foods under the “DaChan” and “Sisters’ Kitchen” brand, as well as centrifuged and marinated, stewed, pre-fried, steamed and grilled food items. Customer groups include customers at end-consumer markets and professional markets. The sales channels of the processed foods segment are mainly group catering, bakery, casual catering, takeaways, international customers, major chain customers as well as the retail consumption market. The sales areas of the processed foods segment cover Japan, Hong Kong, Northeastern, Northern, Eastern, Southern and Central China and inland regions such as Northwestern and Southwestern China.

Business Review

In 2021, in the export market, the fall in the sales of food export segment was due to the impact of the pandemic in Japan; while in the domestic market, we also faced competitors using competitive price strategy to capture the market. The foods segment leveraged on R&D advantages to actively respond to the situation by developing products with different price and different flavors. The foods segment provided customers with all-inclusive menu solutions to increase customer adhesion, thus achieving stable sales growth.

In addition, the foods segment and the meat segment’s collaboration advantages in terms of the supply chain and strategic customer service have further emerged. Following stationing in Costco, the Group’s processed cooked food and fresh chicken meat were once again stationed in another mega store – Metro.

Future Strategies

The core values of the Group’s branding are assurance and traceability. Seizing the opportunities arising from concerns over food safety of the Chinese people, the Group has developed a unique edge for its brand. The processed foods segment will continue to execute the following strategies:

(i) to continue to concentrate resources on product research and development in the professional catering market, improve product competitiveness, and create a series of competitive products; (ii) to develop the market and increase the market share; (iii) to optimize the channel structure and continuously improve the performance of the sales team; (iv) to provide a full range of services to important customers, to form strategic alliances with them for achieving mutual growth; (v) to continue to apply the edges in R&D resources for Japanese products to solicit customers in Singapore, Hong Kong and other regions, so as to diversify export market risks; (vi) to combine online sales with offline sales so as to build a brand advantage in the retail consumer market; and (vii) to further promote digital transformation and improve supply chain operation efficiency.

Livestock Feeds (From External Customers)

	2021	2020	% change
Turnover (RMB'000)			
– China	2,811,014	2,498,384	12.5
– Vietnam and Malaysia	2,819,560	3,130,450	-9.9
Total	<u>5,630,574</u>	<u>5,628,834</u>	0.0
Gross profit (RMB'000)			
– China	220,418	218,548	0.9
– Vietnam and Malaysia	157,264	311,432	-49.5
Total	<u>377,682</u>	<u>529,980</u>	-28.7
Gross profit margin (%)			
– China	7.8	8.7	
– Vietnam and Malaysia	5.6	9.9	
Total	<u>6.7</u>	<u>9.4</u>	

The operating income of the feeds segment was primarily derived from the sales of pig feeds, broiler feeds, egg chicken feeds and Vietnam aquatic feeds, etc. to external customers in China, Vietnam, Malaysia and Cambodia. Corn and soybean are the primary raw materials of feeds sold by the Group. The main product brands of this segment are “Dr. Nupak” and “Green Knight”. The production and sales region of this segment covered Vietnam, Malaysia, Cambodia and Northeastern, Northern, Central and Southwestern China.

After the Group has completed the equity transfer of the feeds segment in Southeast Asia in the fourth quarter of 2021, the operating income of the feeds segment was primarily derived from the sales of pig feeds, broiler and egg chicken feeds to external customers in Mainland China. Corn and soybean are the primary raw materials of feeds sold by the Group. The main product brands of this segment are “Dr. Nupak” and “Green Knight”. The production and sales region of this segment covered the northeastern, northern, central and southwestern China.

Business Review

Our R&D team of the feeds segment has been actively responding to the new antibiotic-free feed regulations implemented since July 2020, and the feeds processed from the antibiotic-free formula is no less effective than the original formula in terms of palatability and feed intake and has also performed well in controlling piglet diarrhea. The segment also continues to promote and identify new customers and increase the market share of pig feeds through large-scale terminal promotion conferences and core customer empirical tests. Meanwhile, in response to the rising cost of bulk raw materials and the sluggish pig market, the feeds segment, on the one hand, adjusted the price of feeds in a timely manner, and on the other hand, actively developed and promoted the application of alternative feed raw materials to reduce feeds costs.

Future Strategies

The feeds segment will continue to pursue the following strategies: (i) to take advantage of the fermentation technology for intestinal predigestion in biotechnology and to focus on marketing activities for sow and piglet functional feeds products; (ii) to devote more efforts in the research and development of poultry feeds, ruminant feeds and niche market products such as donkey feeds and meat goose feeds and build up our core competitiveness in poultry feeds and ruminant feeds; (iii) to select valued customers and offer them products, technical and service support so as to enhance their loyalty and contribution to the Group; and (iv) to strengthen the management of bulk raw materials procurement systems to create raw material cost advantages.

Meat Product

	2021	2020	% change
Turnover (RMB'000)	1,595,739	1,753,326	-9.0
Gross profit (RMB'000)	52,821	82,155	-35.7
Gross profit margin (%)	3.3	4.7	

The Group mainly sells chilled and frozen chicken meat under the brand of “Sisters’ Kitchen” and lightly processed tender chicken meat, it sells 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 and takes up the grown chickens. The production region of the segment covers Northeastern, Northern and Eastern China regions while its sales network covers the entire nation.

Business Review

Through the introduction of strategic cooperation partners in the breeding of parental broods, the meat segment is able to stabilize the supply of day-old chicks while guaranteeing their quality. Meanwhile, following continuous progress of caging reform projects, the average breeding scale of contract farmers increased significantly and the rearing cost of individual breeder decreased significantly. The continuous improvement in the performance of contract feeds also helped farmers to lower their breeding costs effectively and improved the overall farming efficiency of broilers. The increased extent of automation of electrical slaughterhouses has lowered the segment’s reliance on labor force to a certain extent and the cost of chicken meat processing is lowered. The meat segment also actively identified the customers of chain fresh food and mega stores, and enhanced brand value through sales channel optimization, and the Group will continue to drive various reforms to build its core competitiveness in the meat segment.

Future Strategies

The meat segment will continue to adhere to and implement the operating strategy of “eliminating risk” in future, particular measures of which include: (i) to achieve the provision of around 50% of the day-old chicks by broiler self-breeding farms and cooperative farms, and to sign strategic cooperation supply contracts with external broiler farms for the remaining around 50% of the day-old chicks depending on the market price trend, through which we will be able to diversify the market risk while ensuring the quality of day-old chicks; (ii) to persistently improve the performance of contract feeds, strengthen animal protection immunization and epidemic prevention services, assist farmers to strengthen the rearing and breeding management, reduce the rearing and breeding costs, and improve the rearing and breeding performance; (iii) to continue promoting automation projects for equipment in the electrical slaughterhouses; and (iv) to continue increasing the proportion of converting the Group’s chicken meat to prepared foods and deeply processed foods products and eliminate the market risk when the meat market is on decline, etc.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2021, the Group recorded other operating income of approximately RMB16,708 thousand (2020: approximately RMB22,094 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 2021, other net gain of the Group amounted to approximately RMB12,059 thousand (2020: net losses of approximately RMB3,915 thousand). Other net income mainly includes net gain on the disposal of assets and impairment reverse of fixed assets.

Distribution costs accounted for approximately 4.62% of total turnover (2020: approximately 4.94%).

Administrative expenses accounted for approximately 3.68% of turnover (2020: approximately 3.64%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2021, the Group's cash and bank deposit balances amounted to approximately RMB625,059 thousand, representing a decrease of approximately RMB6,311 thousand from 2020. The Group's interest-bearing borrowings decreased by approximately RMB397,159 thousand to approximately RMB407,492 thousand (2020: approximately RMB804,651 thousand). As at 31 December 2021, the interest-bearing borrowings to equity ratio was approximately 18.0% (2020: approximately 35.4%). Current ratio was maintained at a healthy level of approximately 2.29 times (2020: approximately 1.56 times).

3) Capital Expenditure

In 2021, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB178,015 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 0.85% while RMB against USD appreciated by approximately 2.34%.

5) Interest

In 2021, the Group's interest expense amounted to approximately RMB12,575 thousand (2020: approximately RMB19,318 thousand), representing a decrease of approximately 34.9% from 2020. The decrease in interest expenses was mainly due to the average borrowing balances fall.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2021 (2020: no distribution).

7) Charge on Assets

As at 31 December 2021, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2021, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB36,668 thousand (2020: approximately RMB25,961 thousand) and the capital expenditure authorised but not contracted for was approximately RMB471,566 thousand (2020: approximately RMB138,298 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2021, the Group had a total of 8,099 employees (31 December 2020: 10,470). The Group has paid remuneration to its staff with reference to the 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 benchmarks, 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 2022 AGM of the Company will be held on 29 June 2022 (Wednesday) and the notice of AGM will be published and dispatched to shareholders in the manner as required by the Listing Rules.

Closing of Register of Members

The Company will close its register of members from 23 June 2022 (Thursday) to 29 June 2022 (Wednesday), both dates inclusive, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 54/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 22 June 2022 (Wednesday) (Hong Kong time).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2021, 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 (version date: up to 31 December 2021) as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2021:

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, Wong & Tang 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 2021), 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, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan, who are all independent non-executive directors of the Company.

On behalf of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 23 March 2022

As at the date of this announcement, Mr. James Chun-Hsien Wei (Chairman) and Mr. Han Chia-Yin are the executive directors of the Company, Mr. Harn Jia-Chen, Mr. Han Chia-Yau, Mr. Han Jia-Hwan, Mr. Chao Tien-Shin and Mr. Wei Anning are the non-executive directors of the Company, and Mr. Way Yung-Do, Mr. Chen Chih, Mr. Ting Yu-Shan and Mr. Hsia, Li-Yan are the independent non-executive directors of the Company.