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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 Interim Results for the Six Months ended 30 June 2023

The board of directors (the “Board”) of DaChan Food (Asia) Limited (the “Company”) hereby announces the unaudited consolidated interim results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2023:

Highlights

	Six months ended 30 June		
	2023	2022	% change
	(unaudited)	(unaudited)	
Turnover (RMB'000)	3,142,785	2,796,884	12.4
Gross profit (RMB'000)	338,920	306,405	10.6
Gross profit margin (%)	10.8	11.0	
Profit attributable to equity shareholders of the Company (RMB'000)	40,757	33,802	20.6
Basic earnings per share (RMB)	0.040	0.033	

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2023
(Expressed in RMB'000 unless stated otherwise)

		Six months ended 30 June	
	Note	2023 (unaudited)	2022 (unaudited)
Turnover	3	3,142,785	2,796,884
Cost of sales		<u>(2,803,865)</u>	<u>(2,490,479)</u>
Gross profit		338,920	306,405
Other operating income	4	10,735	19,192
Other net gains/(losses)	4	141	(1,559)
Distribution costs		(163,933)	(143,795)
Administrative expenses		<u>(115,502)</u>	<u>(118,246)</u>
Profit from operations		70,361	61,997
Finance costs	5(a)	(7,103)	(4,300)
Share of gains/(losses) of equity-accounted investees		<u>66</u>	<u>(1,077)</u>
Profit before taxation	5	63,324	56,620
Income tax	6	<u>(7,088)</u>	<u>(7,857)</u>
Profit for the period		<u><u>56,236</u></u>	<u><u>48,763</u></u>
Attributable to:			
Equity shareholders of the Company		40,757	33,802
Non-controlling interests		<u>15,479</u>	<u>14,961</u>
Profit for the period		<u><u>56,236</u></u>	<u><u>48,763</u></u>
Earnings per share			
– Basic and diluted (RMB)	7	<u><u>0.040</u></u>	<u><u>0.033</u></u>

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2023

(Expressed in RMB'000 unless stated otherwise)

	Six months ended 30 June	
	2023 (unaudited)	2022 (unaudited)
Profit for the period	56,236	48,763
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(6,035)</u>	<u>(9,726)</u>
Total comprehensive income for the period	<u><u>50,201</u></u>	<u><u>39,037</u></u>
Attributable to:		
Equity shareholders of the Company	34,012	23,370
Non-controlling interests	<u>16,189</u>	<u>15,667</u>
Total comprehensive income for the period	<u><u>50,201</u></u>	<u><u>39,037</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 30 June 2023***(Expressed in RMB'000 unless stated otherwise)*

		At 30 June 2023	At 31 December 2022
	Note	(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	8	1,445,571	1,240,947
Land use rights		123,333	125,499
Investment property		52,585	53,889
Interests in equity-accounted investees		68,852	68,786
Other financial assets		1,948	1,948
Deferred tax assets		5,831	6,071
Long-term tax recoverable	10	112,497	112,497
Other non-current assets		49,444	59,598
		<u>1,860,061</u>	<u>1,669,235</u>
Current assets			
Inventories		528,779	671,019
Biological assets		150,634	149,077
Trade receivables	9	269,049	239,110
Other receivables and prepayments	10	285,071	310,562
Cash and cash equivalents		529,677	532,274
		<u>1,763,210</u>	<u>1,902,042</u>
Current liabilities			
Trade payables	11	385,264	472,025
Other payables	12	310,281	328,568
Contract liabilities		24,574	20,756
Interest-bearing borrowings		147,248	107,448
Lease liabilities		2,001	2,001
Income tax payable		9,449	9,928
		<u>878,817</u>	<u>940,726</u>
Net current assets		<u>884,393</u>	<u>961,316</u>

	Note	At 30 June 2023 (unaudited)	At 31 December 2022 (audited)
Total assets less current liabilities		<u>2,744,454</u>	<u>2,630,551</u>
Non-current liabilities			
Interest-bearing borrowings		341,777	269,792
Lease liabilities		27,765	29,716
Deferred tax liabilities		<u>8,490</u>	<u>7,936</u>
		<u>378,032</u>	<u>307,444</u>
Net assets		<u><u>2,366,422</u></u>	<u><u>2,323,107</u></u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		938,677	944,706
Retained profits		<u>1,068,811</u>	<u>1,028,770</u>
Total equity attributable to equity shareholders of the Company		2,105,408	2,071,396
Non-controlling interests		<u>261,014</u>	<u>251,711</u>
Total equity		<u><u>2,366,422</u></u>	<u><u>2,323,107</u></u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and has complied with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It has been authorised for issue on 7 August 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of these changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses based on the current situation. Actual results may differ from these estimates.

2 Changes in accounting policies

(i) Overview

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

- IFRS 17, *Insurance contracts*
- Amendments to IAS 1, *Presentation of financial statements* and IFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*
- Amendments to IAS 8, *Definition of accounting estimates*
- Amendments to IAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*
- Amendments to IAS 12, *International tax reform- Pillar Two Model Rules*

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 reporting

The Group manages its businesses by divisions, sorted by different business lines. The Group has presented the following three reportable segments, and no operating segments have been aggregated to form each of the 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 feed segment manufactures and distributes complete feed, base mix feed and premix feed for swine, layer, broiler, duck, and breeder poultry under the brands of “Dr. Nupak”, “DaChan” and “Green Knight”.
Meat products:	The meat product segment carries on business of broiler farming, hatching of broiler breeder eggs, contract farming, processing and trading of chilled and frozen chicken meat under the brand of “DaChan” and “Sisters’ Kitchen”.

Information about reportable segments

Information regarding the Group’s reportable segments as provided for the CEO for the purposes of resource allocation and segment performance assessment for the six month periods ended 30 June 2023 and 2022 is set out below.

For the six months ended 30 June

	Processed foods		Livestock feeds		Meat products		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	1,123,488	1,003,973	1,114,113	1,032,902	905,184	760,009	3,142,785	2,796,884
Inter-segment turnover (eliminated at consolidation)	—	—	585,652	603,544	211,239	230,440	796,891	833,984
Total	1,123,488	1,003,973	1,699,765	1,636,446	1,116,423	990,449	3,939,676	3,630,868
Segment gross profit	224,891	197,280	67,595	65,124	46,434	44,001	338,920	306,405

4 Other operating income and other net gains

Six months ended 30 June
2023 2022
RMB'000 RMB'000

Other operating income

Interest income	4,615	4,890
Government grants	3,229	10,442
Rental income	2,891	3,860
	<u>10,735</u>	<u>19,192</u>

Six months ended 30 June
2023 2022
RMB'000 RMB'000

Other net gains/(losses)

Losses/(gains) of foreign exchange	(261)	165
Net (losses)/gains on disposal of fixed assets	(1,383)	(476)
Others	1,784	(1,248)
	<u>141</u>	<u>(1,559)</u>

5 Profit before taxation

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

Six months ended 30 June
2023 2022
RMB'000 RMB'000

(a) Finance costs

Interest on bank borrowings wholly repayable within five years	<u>(7,103)</u>	<u>(4,300)</u>
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(b) Other items

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Amortisation of lease prepayments	(2,160)	(2,172)
Depreciation of property, plant and equipment	(55,842)	(59,258)
Net reversal/(provision) of impairment losses on trade receivables	716	(1,056)
Net (write down)/reversal of write down of inventory	(676)	3,469
	<u>(60,962)</u>	<u>(18,617)</u>

6 Income tax

	Six months ended 30 June	
	2023	2022
	RMB'000	RMB'000
Current tax	(6,294)	(5,241)
Deferred taxation	(794)	(2,616)
	<u>(7,088)</u>	<u>(7,857)</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) 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. For the relevant period in the six months ended 30 June 2023, Hong Kong profits tax of the qualifying corporation in the Group is calculated in accordance with the two-tiered profits tax rates regime. The profits of other corporations in the Group which are not qualified for the two-tiered profits tax rates regime will continue to be taxed at the rate of 16.5% (six months ended 30 June 2022: 16.5%).
- (iii) Pursuant to the corporate income tax laws and regulations of the PRC, the companies established by the Group in the PRC for the six months ended 30 June 2023 are subject to PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2022: 25%), except for Dongbei Agri (Changchun) Co., Ltd.. Dongbei Agri (Changchun) Co., Ltd. is subject to a preferential tax rate of 15% (six months ended 30 June 2022: 15%), as it has obtained the new high-tech enterprise qualification from 2022. The tax rate of Great Wall Agri (Heilongjiang) Co., Ltd. and Great Wall Agri (Yingkou) Co., Ltd. were restored to 25% (six months ended 30 June 2022: 15%) as their new high-tech enterprise qualification expired in 2022.

7 Earnings per share

The calculation of basic earnings per share as at 30 June 2023 is based on the profit attributable to ordinary equity shareholders of the Company of RMB40,757 thousand (six months ended 30 June 2022: RMB33,802 thousand) and the weighted average of 1,016,189,000 ordinary shares (six months ended 30 June 2022: 1,016,189,000 shares) in issue during the reporting period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2023 and 2022. Therefore, there is no difference between the diluted earnings per share and the basic earnings per share.

8 Fixed assets

During the six months ended 30 June 2023, the Group acquired items of fixed assets at a cost of RMB263,525 thousand (six months ended 30 June 2022: RMB73,466 thousand). Items of fixed assets with net book value of RMB2,258 thousand were disposed of during the six months ended 30 June 2023 (six months ended 30 June 2022: RMB5,643 thousand), resulting in a loss on disposal of RMB1,383 thousand (six months ended 30 June 2022: a loss of RMB476 thousand).

9 Trade receivables

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

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current	257,423	228,312
1-180 days past due	12,443	11,767
181-365 days past due	1,304	2,841
More than 365 days past due	6,463	5,582
Amounts past due	20,210	20,190
Less: allowance for doubtful debts	(8,584)	(9,392)
	<u>269,049</u>	<u>239,110</u>

The Group generally grants a credit period of 30 days to 60 days to its customers.

10 Other receivables and prepayments

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
VAT recoverable	253,479	269,948
Deposits and prepayments	132,953	140,830
Advances to staff	3,831	5,327
Others	7,305	6,954
	<u>397,568</u>	<u>423,059</u>
Less: non-current VAT recoverable	<u>112,497</u>	<u>112,497</u>
	<u><u>285,071</u></u>	<u><u>310,562</u></u>

11 Trade payables

An ageing analysis of trade payables is as follows:

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Current	189,924	275,325
Less than 30 days past due	135,449	146,867
31-60 days past due	36,187	28,525
61-90 day past due	9,643	8,700
More than 90 days past due	<u>14,061</u>	<u>12,608</u>
Amounts past due	<u>195,340</u>	<u>196,700</u>
	<u><u>385,264</u></u>	<u><u>472,025</u></u>

12 Other payables

	At 30 June 2023 RMB'000	At 31 December 2022 RMB'000
Sales rebate	53,076	23,353
Salaries, wages, bonuses and other benefits payable	50,395	108,912
Accrued expenses	70,945	61,174
Contract performance deposits	78,629	53,110
Payables for purchase of fixed assets	7,536	14,535
Amounts due to related parties	43,500	43,500
Others	6,200	23,984
	<u>310,281</u>	<u>328,568</u>

13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2023 (2022: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2023	2022	% change
Turnover (RMB'000)	3,142,785	2,796,884	12.4
Gross profit (RMB'000)	338,920	306,405	10.6
Gross profit margin (%)	10.8	11.0	
Profit attributable to shareholders of the Company (RMB'000)	40,757	33,802	20.6

For the first half of 2023, the operating income of the Group amounted to RMB3,142,785 thousand, representing an increase of 12.4% over the corresponding period of last year. Profit attributable to shareholders amounted to RMB40,757 thousand, representing an increase of 20.6% over the corresponding period of last year. The main reason for the year-on-year increase in profit was that the Group's overall development strategy led by its foods segment had been effective. The foods segment achieved double-digit growth in both operating income and gross profit, leading to a continuous improvement in the overall performance of the Group.

Since 2023, the international political, economic, technological, cultural and security landscape has continued to undergo in-depth adjustments. The uncertainty in global economic policies and the overlapping effects of various factors such as the energy crisis, inflation, population trends, climate change and carbon emissions have further aggravated the global systemic risks. The Chinese economy continued to face the three-fold pressure of shrinking demand, supply shock and weakening expectations. Although domestic food and beverage income increased by 21.4% year-on-year in the first half of the year, the year-on-year growth in June fell to 16.1% from 43.8% in April, indicating that the current basis for demand recovery is not yet fully resumed.

In the face of the complicated and changing international environment and the domestic economic situation featured with shrinking demand, the Group managed to make progress in a stable and steady manner, restructured its supply chain with a customer-centric approach, continued to optimise its business model, and continuously enhanced its relative competitiveness in an effort to counter the uncertainties of the economic environment with high-quality development. Operating income and profit increased in the second quarter as compared to the same period last year and as compared to the first quarter. The construction of the Group's new food plant, electric slaughtering plant and feeds plant in Bengbu, Anhui Province is progressing smoothly and production is expected to commence in the third quarter. The commencement of production of the project, after the completion of its construction, will help consolidate and expand the Group's market position in the Yangtze River Delta region, and at the same time enable the Group to implement its food strategy at a higher level.

Looking forward to the second half of the year, the Russia-Ukraine War will remain a major uncertainty affecting the global economy, while the domestic economic recovery foundation is still not solid enough and the pressure of economic restructuring remains strong. The Group will continue to seek new sources of growth by taking the foods segment as the lead to drive the overall development; to maintain stable sales volume with its feeds segment as a foundation, and at the same time diversify its market risks by product diversification; continuously improving the operating structure of meat products, appropriately adjusting the proportion of the upstream breeding industry, focusing on the development of end-customer markets, and strengthening cash flow management. With the synergy of achieving economy of scale of its foods segment, diversification of feeds products and value adding in its meat business working in tandem, the Group has been progressing steadily on digital transformation and supply chain management optimisation to improve operational efficiency and enhance its overall industrial competitiveness and anti-cyclicality.

Business Review

For the first half of 2023, the Group's operating income amounted to RMB3,142,785 thousand, representing an increase of 12.4% over the corresponding period of last year. Among them, the foods segment, feeds segment and meat segment accounted for 35.8%, 35.4% and 28.8% respectively of the Group's total operating income. The Group's gross profit was RMB338,920 thousand, representing an increase of 10.6% over the corresponding period of last year. The foods segment, feeds segment and meat segment accounted for 66.4%, 19.9% and 13.7% of the Group's total gross profit respectively. The foods segment has been the largest source of profit for the Group.

Processed Foods

	Six months ended 30 June		
	2023	2022	% change
Turnover (RMB'000)			
– Mainland China	985,955	873,914	12.8
– Export	<u>137,533</u>	<u>130,059</u>	5.7
Total	1,123,488	1,003,973	11.9
Gross profit (RMB'000)			
– Mainland China	199,861	177,042	12.9
– Export	<u>25,030</u>	<u>20,238</u>	23.7
Total	224,891	197,280	14.0
Gross profit margin (%)			
– Mainland China	20.3	20.3	
– Export	<u>18.2</u>	<u>15.6</u>	
Total	<u><u>20.0</u></u>	<u><u>19.6</u></u>	

For the first half of 2023, the operating income and gross profit of foods segment increased by 11.9% and 14.0% respectively year-on-year. Operating income and gross profit of the foods segment for the second quarter increased by 14.9% and 13.6% respectively over the corresponding period of last year. The growth in operating income was primarily driven by the continued growth in domestic food sales.

The domestic food sales team persistently invested more resources in direct sales customers and worked closely with strategic customers (such as large member shops and large restaurant chains) in product research and development and supply chain to enhance the stickiness of major customers to achieve win-win cooperation. At the same time, the Group has also focused its resources on increasing the promotion of its family-sized products in e-commerce platforms, supermarket chains, community convenience stores, farmers' markets and other consumer retail channels to further improve the channel construction and regional network. The Group have been increasing its investment in research and development and keeping abreast of market demand so as to explore new production technologies and expand its product range, striving to create more hit products. The Group also leverage the steady progression of digital transformation to improve supply chain efficiency and better serve the needs of customers. The consolidation of these fundamentals has provided a strong assurance for the utilization of production capacity of the new Bengbu foods plant, which is expected to commence production in the third quarter of this year.

For the export business, despite severe domestic inflation in Japan, and the impact of low-price competition from Thailand's exports to Japan, revenue from exported food products increased only by 5.7% year-on-year. However, benefiting from continuous research and development, product mix optimization and production efficiency enhancement and the depreciation of Renminbi, gross profit from exports increased by 23.7% year-on- year.

Livestock Feeds (From External Customers)

	Six months ended 30 June		
	2023	2022	% change
Turnover (RMB'000)	1,114,113	1,032,902	7.9
Gross profit (RMB'000)	67,595	65,124	3.8
Gross profit margin (%)	6.1	6.3	

For the first half of 2023, the operating income and gross profit of the feeds segment increased by 7.9% and 3.8% respectively over the corresponding period of last year. The operating income and gross profit of the feeds segment in the second quarter increased by 6.3% and 41.6% respectively compared to the corresponding period of last year. The growth in operating income was mainly driven by the growth in feeds sales and the optimisation of the product mix.

In the first half of 2023, domestic live pig production increased by 2.6% year-on-year, with the overall market performance showing that supply exceeded demand. Small and medium scale farms, like free-range farmers and family farms suffered heavy losses due to the impact of African swine fever and low live pig prices, and were strained in their working capital. Vertically integrated large-scale breeding enterprises with strong capital backup have taken this opportunity to expand against the trend and take up an increasing share of the live pig industry. Small and medium-sized farms are relatively more vulnerable to risk. They were forced to reduce their inventories or even cease to breed under prolonged losses.

In the face of a shrinking target customer base, the feeds business has stepped up its co-operation with medium and large-scale farms to secure market share through the OEM model. At the same time, to mitigate the impact of cyclical fluctuations in the pig price on our operating results, the feeds segment put more resources into research and development as well as market development products such as poultry feeds and ruminant feeds, actively expanded markets beyond pig feeds, increased products categories, so as to diversify market risks. Besides, in response to rising raw material prices, the feeds research and development team actively developed alternative raw material formulations, effectively controlled cost inflation and improved the relative competitiveness of the products.

Meat Products

	Six months ended 30 June		
	2023	2022	% change
Turnover (RMB'000)	905,184	760,009	19.1
Gross profit (RMB'000)	46,434	44,001	5.5
Gross profit margin (%)	5.1	5.8	

For the first half of 2023, the operating income and gross profit of the meat segment increased by 19.1% and 5.5% respectively over the corresponding period of last year. The operating income of the meat segment in the second quarter increased by 10.2% year-on-year. Affected by the continuous low pig price, the year-on-year increase in chicken meat price was not as high as the increase in the cost of raising feather chickens, gross profit decreased by 17.8% year-on-year. The growth in operating income was mainly attributable to the increase in chicken meat prices and a modest increase in the slaughtering volume of feather chickens.

In the first half of 2023, the import of white feather meat chicken grandparent breeders resumed and the number of grandparent breeders increased year-on-year; some parent breeders were forced to be phased out or moult before the Chinese New Year due to disease problems, resulting in a slight year-on-year decrease in the supply of commercial day-old chicks and the production of feather chickens in the first quarter, and the prices of day-old chicks, feather chickens and chicken meat rose from the beginning of the year. Afterwards, as the inventory of parent breeders rebounded from a low level, coupled with sluggish market consumption, the prices of day-old chickens, feather chickens and chicken meat began to fall from the beginning of April and basically returned to the level at the beginning of the year by the end of June. During this process, some small-scale broiler farms ceased operation due to persistent losses, leading to further consolidation of the broiler industry.

The meat segment accelerated the pace of business re-modeling, restructured the supply chain, and enhanced the relative competitiveness of industry chain of the meat segment. In the upstream of the industry chain, the Group improved the performance of contract feeds to reduce the risk of broods and broiler breeding. On the one hand, the Group strategically eliminated poorly performing parent broods farms and broiler farmers, and on the other hand, provided comprehensive breeding services to long-term contract farmers, establishing a win-win ecosphere for both the Company and the farmers. In the downstream of the meat industry, the Group will focus on the development of differentiated products and sales to major customers in order to increase the meat gross margin; by joining hands with the foods segment, actively develop customers, such as membership shops and supermarket chains, that attach importance to product quality, and eliminate price-sensitive customers, so as to continuously enhance the brand value through the optimisation of sales channels.

Financial Review:

1) Other Operating Income and Other Net Gains

In the first six months of 2023, other operating income of the Group amounted to RMB10,735 thousand (2022: RMB19,192 thousand). Other operating income mainly comprised interest income and government grants.

In the first six months of 2023, other net gains of the Group amounted to RMB141 thousand (net losses in 2022: RMB1,559 thousand). Other net gains mainly comprised other balances derived from activities other than the Group's business operation such as net foreign exchange gains and net losses on disposal of fixed assets.

2) Liquidity, Financial Resources and Capital Structure

As at 30 June 2023, the Group's cash and bank deposit balances amounted to RMB529,677 thousand, representing a decrease of RMB2,597 thousand as compared with 31 December 2022. Interest-bearing borrowings of the Group increased by RMB111,785 thousand to RMB489,025 thousand (31 December 2022: RMB377,240 thousand). The interest-bearing borrowings to equity ratio was 20.7% (31 December 2022: 16.2%). Current ratio was maintained at a healthy level of 2.01 times (31 December 2022: 2.02 times).

3) Capital Expenditure

In the first six months of 2023, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to RMB263,525 thousand. The primary source of fund of the Group's capital expenditure is long-term bank loans.

4) Exchange Rate

The Group's business transactions were mainly denominated in RMB and USD. During the reporting period, RMB depreciated by 3.61% against USD. Such change of exchange rate had no material impact on the Group's business operation.

5) Interest

During the first six months in 2023, the Group's interest expense amounted to RMB7,103 thousand (2022: RMB4,300 thousand), representing an increase of 65.2% as compared with the same period of 2022. The increase in interest expense was primarily due to the rising interest rates on USD borrowings.

6) Pledge of Assets

As at 30 June 2023, the Group had no assets pledged as security against bank facilities.

7) Capital Commitment

As at 30 June 2023, the capital expenditure of the Group contracted for but not yet provided in the financial statements was RMB390,799 thousand and the capital expenditure authorised but not contracted for was RMB59,591 thousand.

Staff Compensation and Training

As at 30 June 2023, the Group had a total of 7,896 staff (31 December 2022: 7,936). In order to build up a team comprised of professional staff and management to meet the development needs of the Group, the Group offers competitive remuneration packages to its staff by taking into consideration industry practice, the financial performance of the Group and the staff's own performance. The Group places great emphasis on staff training and development and regards its staff as its core. With a view to continuously enhancing the job skills and industry knowledge of its management and other staff, the Group has offered them various training programs. The Group aims at promoting the quality of its staff through implementing the above programs and at the same time offering them the best opportunity for personal career development. The Group believes such programs benefit both itself and its staff.

The Group regularly reviews its remuneration and benefit policies according to industry standards, the Group's financial results, as well as the individual performance of its staff so as to offer fair and competitive compensation packages to its staff. Other fringe benefits, such as insurance, medical benefits and provident fund, are also provided for its permanent staff.

OTHER INFORMATION

Corporate Governance Code

Throughout the six months ended 30 June 2023, the Company has complied with the Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except that:

Code Provision C.2.1 stipulates that, the roles of chairman and chief executive should be separate and should not be performed by the same individual. With effect from 1 September 2022, Mr. Sun Teh Hong has resigned from the position of Chief Executive Officer due to retirement, and Mr. James Chun-Hsien Wei (who has been an executive Director and the Chairman) has assumed an additional position of Chief Executive Officer. Upon the appointment of Mr. James Chun-Hsien Wei as the Chief Executive Officer, Mr. James Chun-Hsien Wei performs both of the roles as the Chairman and the Chief Executive Officer. The Board considers that this structure would not impair the balance of power and authority between the Board and the management of the Company. The Board currently comprises two executive Directors (including Mr. James Chun-Hsien Wei), five non-executive Directors and four independent non-executive Directors and therefore has a fairly strong independence in its composition and they meet regularly to discuss issues relating to the operation of the Company in order to provide adequate safeguards and protect the interests of the Company and its shareholders. In addition, after taking into account the past experience of Mr. James Chun-Hsien Wei, the Board is of the opinion that vesting the roles of the Chairman and the Chief Executive Officer in Mr. James Chun-Hsien Wei could facilitate the execution of the Group’s business strategies and enhance the effectiveness of its operation. Hence, the aforesaid deviation is appropriate and is in the best interest of the Company at the present stage.

Code Provision C.6.1 stipulates that the company secretary should be an employee of the Company and have day-to-day knowledge of the Company’s affair. Ms. Cho Yi Ping (“Ms. Cho”) has been appointed as the company secretary of the Company (the “Company Secretary”) since 8 August 2016. She is now a partner of the Company’s legal adviser, Wong & Tang Solicitors. The Company has also assigned a member of the senior management, Ms. Feng Yuxia, head of the legal department of the Company, as the contact person with Ms. Cho. As Ms. Cho is a practicing solicitor in 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, information in relation to the performance, financial position and other major developments and affairs of the Group are speedily delivered to Ms. Cho through the contact person assigned. Having in place a mechanism that enables Ms. Cho to keep abreast of the Group’s development promptly without material delay and with the expertise and experience of Ms. Cho, the Board is confident that having Ms. Cho as the Company Secretary is beneficial to the Group’s compliance with the relevant board procedures and applicable laws, rules and regulations.

Model Code for Securities Transactions by Directors

The Company has adopted a code of conduct on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules for regulating the securities transactions of Directors. All Directors have confirmed, following the specific enquiry by the Company, that they complied with the required standards set out in the Model Code and the Company’s code of conduct regarding directors’ securities transactions throughout the six months ended 30 June 2023.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2023, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee of the Company was established with terms of reference in accordance with Appendix 14 to the Listing Rules. The audit committee is delegated by the Board to assess matters related to the financial statements and to provide recommendations and advice regarding the Company’s financial reporting matters, including reviewing the interim results for the six months ended 30 June 2023, and the internal control and risk management system. The audit committee has reviewed the interim results of the Company and does not have any disagreement with the accounting treatment adopted by the Company.

The members of the audit committee comprises Mr. Ting Yu-Shan (chairman), Mr. Hsia, Li-Yan, Ms. Lee Tsai, Yu-Ling and Mr. Kao Koong-Lian who are independent non-executive directors of the Company.

By Order of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 7 August 2023

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. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Han Jia-Hwan, Mr. Chao Tien-Shin and Mr. Wei Anning are the non-executive directors of the Company, and Mr. Ting Yu-Shan, Mr. Hsia, Li-Yan, Ms. Lee Tsai, Yu-Ling and Mr. Kao Koong-Lian are the independent non-executive directors of the Company.