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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 2023

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 2023, 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 2022 as follows:

Highlights

	2023	2022	% change
Turnover (RMB'000)	6,418,966	6,195,175	3.6
Gross profit (RMB'000)	662,690	680,906	-2.7
Gross profit margin (%)	10.3	11.0	
Profit attributable to equity shareholders of the Company (RMB'000)	47,024	91,852	-48.8
Basic earnings per share (RMB)	0.046	0.090	

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2023	2022
Turnover	3	6,418,966	6,195,175
Cost of sales		<u>(5,756,276)</u>	<u>(5,514,269)</u>
Gross profit		662,690	680,906
Other operating income		25,192	46,463
Other net gain/(loss)		317	(5,921)
Distribution costs		(337,792)	(307,598)
Administrative expenses		<u>(248,739)</u>	<u>(264,290)</u>
Profit from operations		101,668	149,560
Finance costs	4(a)	(17,738)	(11,278)
Share of profits/(losses) of equity-accounted investees		<u>2,120</u>	<u>(1,010)</u>
Profit before taxation	4	86,050	137,272
Income tax	5	<u>(10,670)</u>	<u>(14,792)</u>
Profit for the year		<u><u>75,380</u></u>	<u><u>122,480</u></u>
Attributable to:			
Equity shareholders of the Company		47,024	91,852
Non-controlling interests		<u>28,356</u>	<u>30,628</u>
Profit for the year		<u><u>75,380</u></u>	<u><u>122,480</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>0.046</u></u>	<u><u>0.090</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 31 December 2023***(Expressed in thousands of Renminbi unless otherwise stated)*

	Note	2023	2022
Non-current assets			
Property, plant and equipment		1,636,588	1,240,947
Land use rights		119,451	125,499
Investment property		54,356	53,889
Intangible assets		9,917	–
Interests in equity-accounted investees		70,906	68,786
Other financial assets		1,948	1,948
Deferred tax assets		5,608	6,071
Long-term tax recoverable	9	88,149	112,497
Other non-current assets		58,616	59,598
		<u>2,045,539</u>	<u>1,669,235</u>
Current assets			
Inventories		526,849	671,019
Biological assets		129,957	149,077
Trade receivables	8	275,569	239,110
Other receivables and prepayments	9	276,647	310,562
Cash and cash equivalents		526,940	532,274
Restricted deposits		2,449	–
		<u>1,738,411</u>	<u>1,902,042</u>
Current liabilities			
Trade payables	10	506,995	472,025
Other payables	11	308,744	328,568
Contract liabilities		10,285	20,756
Interest-bearing borrowings		276,269	107,448
Lease liabilities		1,687	2,001
Income tax payable		7,319	9,928
		<u>1,111,299</u>	<u>940,726</u>
Net current assets		<u>627,112</u>	<u>961,316</u>
Total assets less current liabilities		<u>2,672,651</u>	<u>2,630,551</u>

	Note	2023	2022
Non-current liabilities			
Interest-bearing borrowings		253,810	269,792
Lease liabilities		29,338	29,716
Deferred tax liabilities		8,490	7,936
		<u>291,638</u>	<u>307,444</u>
Net assets		<u><u>2,381,013</u></u>	<u><u>2,323,107</u></u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		947,254	944,706
Retained profits		1,070,140	1,028,770
		<u>1,070,140</u>	<u>1,028,770</u>
Total equity attributable to equity shareholders of the Company		2,115,314	2,071,396
Non-controlling interests		265,699	251,711
		<u>265,699</u>	<u>251,711</u>
Total equity		<u><u>2,381,013</u></u>	<u><u>2,323,107</u></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 primarily is 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 2023 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 basis except that the following assets and liabilities are stated at their fair value. Further details will be explained in the accounting policies set out below:

- 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 consolidated financial statements are presented in Renminbi (“RMB”) (“presentation currency”), which is different from the functional currency of the Company. The Company’s functional currency is United States dollars (“USD”). The functional currency of those subsidiaries in People’s Republic of China (“PRC”) is RMB. As its principal subsidiaries are located in PRC, the directors of the Company consider that it is appropriate to present the consolidated financial statements in RMB. All financial information presented in RMB has been rounded to the nearest thousand except when 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:

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

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.

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 2023 and 2022 is set out below:

	Processed foods		Livestock feeds		Meat products		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Turnover from external customers	2,322,970	2,151,768	2,263,279	2,340,369	1,832,717	1,703,038	6,418,966	6,195,175
Inter-segment turnover	<u>-</u>	<u>-</u>	<u>1,275,751</u>	<u>1,326,020</u>	<u>459,754</u>	<u>499,434</u>	<u>1,735,505</u>	<u>1,825,454</u>
Total	<u>2,322,970</u>	<u>2,151,768</u>	<u>3,539,030</u>	<u>3,666,389</u>	<u>2,292,471</u>	<u>2,202,472</u>	<u>8,154,471</u>	<u>8,020,629</u>
Segment result	477,886	421,752	153,597	147,817	31,207	111,337	662,690	680,906
Unallocated operating income and expenses	-	-	-	-	-	-	<u>(561,022)</u>	<u>(531,346)</u>
Profit from operations	-	-	-	-	-	-	101,668	149,560
Finance costs	-	-	-	-	-	-	(17,738)	(11,278)
Share of profit/(loss) of equity-accounted investees	-	-	-	-	-	-	2,120	(1,010)
Income tax	-	-	-	-	-	-	<u>(10,670)</u>	<u>(14,792)</u>
Profit for the year	-	-	-	-	-	-	<u>75,380</u>	<u>122,480</u>
Depreciation and amortisation for the year	48,904	51,781	19,258	20,694	62,098	62,348	130,260	134,823
Reportable segment assets	1,017,323	960,817	457,458	574,415	1,579,173	1,248,919	3,053,954	2,784,151
Additions to non-current segment assets during the year	225,864	158,016	23,394	21,964	280,900	172,137	530,158	352,117
Reportable segment liabilities	322,018	304,195	167,726	241,503	470,518	328,149	960,262	873,847

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

	2023	2022
Turnover		
Total turnover for segments	8,154,471	8,020,629
Elimination of inter-segment turnover	<u>(1,735,505)</u>	<u>(1,825,454)</u>
Consolidated turnover	<u><u>6,418,966</u></u>	<u><u>6,195,175</u></u>
Profit before tax		
Total profit before tax for reportable segment	<u>86,050</u>	<u>137,272</u>
Consolidated profit before tax	<u><u>86,050</u></u>	<u><u>137,272</u></u>
Assets		
Reportable segment assets	<u>3,053,954</u>	<u>2,784,151</u>
Deferred tax assets	5,608	6,071
Cash and cash equivalents	529,389	532,274
Unallocated head office and corporate assets	<u>194,999</u>	<u>248,781</u>
Consolidated total assets	<u><u>3,783,950</u></u>	<u><u>3,571,277</u></u>
Liabilities		
Reportable segment liabilities	<u>960,262</u>	<u>873,847</u>
Income tax payable	7,319	9,928
Deferred tax liabilities	8,490	7,936
Interest-bearing borrowings	240,308	352,440
Unallocated head office and corporate liabilities	<u>186,558</u>	<u>4,019</u>
Consolidated total liabilities	<u><u>1,402,937</u></u>	<u><u>1,248,170</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 were 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	
	2023	2022	2023	2022
The PRC	6,157,786	5,883,960	1,885,561	1,494,830
Japan	217,388	248,082	–	–
Rest of Asia Pacific	43,792	63,133	–	–
	<u>6,418,966</u>	<u>6,195,175</u>	<u>1,885,561</u>	<u>1,494,830</u>

4 Profit before taxation

Profit before taxation is arrived at after charging:

	2023	2022
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	16,234	9,716
Interest on lease liabilities	<u>1,504</u>	<u>1,562</u>
	<u>17,738</u>	<u>11,278</u>
(b) Staff costs		
Salaries, wages, bonuses and other benefits	666,861	637,853
Contributions to retirement schemes	<u>34,763</u>	<u>34,017</u>
	<u>701,624</u>	<u>671,870</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% (2022: 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 Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the Hong Kong Employment Ordinance. 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% (2022: 6%) of the employees’ relevant income and its employees are required to make contributions to the scheme at 5% (2022: 5%) of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the MPF Scheme vest to the employees immediately.

Save for the above schemes, the Group has no other material obligation for payment of retirement benefits beyond the contributions.

(c) Other items

	2023	2022
Auditors’ remuneration		
– audit services	3,700	3,700
– other services	120	700
	<u>3,820</u>	<u>4,400</u>
Depreciation charge		
– owned property, plant and equipment	121,635	123,413
– right-of-use assets	5,877	8,688
– investment property	2,748	2,722
	<u>130,260</u>	<u>134,823</u>
Depreciation of biological assets	8,192	12,312
(Reversal of impairment losses)/impairment losses of trade receivables recognised	(1,252)	2,638
Write-down /(net reversal of of write-down) of inventory	8,057	(4,838)
Research and development costs	798	721
Cost of inventories	<u>5,743,386</u>	<u>5,446,132</u>

5 Income tax in the consolidated income statement

	2023	2022
Current tax		
Provision for the year	9,912	11,523
(Over)/under-provision in respect of prior years	(259)	227
	<u>9,653</u>	<u>11,750</u>
Deferred tax		
Origination and reversal of temporary differences	<u>1,017</u>	<u>3,042</u>
Tax expense	<u><u>10,670</u></u>	<u><u>14,792</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 provision for Hong Kong Profits Tax for 2023 is calculated at 16.5% (2022: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is the qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, 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 2022.

The provision for Hong Kong Profits Tax for 2023 takes into account a reduction granted by the Hong Kong SAR Government of 100% of the tax payable for the year of assessment 2022/23 subject to a maximum reduction of HK\$6,000 for each business (2022: a maximum reduction of HK\$10,000 was granted for the year of assessment 2021/22 and was taken into account in calculating the provision for 2022).

- (iii) Pursuant to the income tax rules and regulations of the PRC, the Group entities incorporated in the PRC are liable to PRC Corporate Income Tax at a rate of 25% during the year (2022: 25%), except for Dongbei Agri (Changchun) Co., Ltd. (“DBC-CC”). DBC-CC is subject to a preferential tax rate of 15% (2022: 25%), as it has obtained the new high-tech enterprise qualification since 2022.

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

	2023	2022
Profit before taxation	<u>86,050</u>	<u>137,272</u>
Income tax calculated at PRC's Corporate Income Tax rate of 25% (2022: 25%) (note)	21,513	34,318
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	1,021	2,357
Tax effect of non-deductible expenses	1,213	537
Tax effect of non-taxable income	(25,832)	(25,172)
Tax effect of the movement of tax losses and temporary difference not recognised	13,014	2,525
(Over)/under-provision in respect of prior years	<u>(259)</u>	<u>227</u>
Actual tax expense	<u>10,670</u>	<u>14,792</u>

Note: The income tax rate of 25% (2022: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2023	2022
Final dividend proposed after the end of the reporting period	<u>0</u>	<u>0</u>

On 8 March 2024, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2023 (2022: No distribution).

7 Earning per share

The calculation of basic earnings per share for the year ended 31 December 2023 is based on the profit attributable to ordinary equity shareholders of the Company of RMB47,024 thousand (2022: RMB91,852 thousand) and the weighted average of 1,016,189,000 ordinary shares (2022: 1,016,189,000) in issue during the year.

The Group has no dilutive ordinary shares outstanding for the years ended 31 December 2023 and 2022. Therefore, there was no difference between basic and diluted earnings per share.

8 Trade receivables

As of the end of the reporting period, the ageing analysis of trade receivables is as follows:

	2023	2022
Current	<u>263,074</u>	<u>228,312</u>
1-180 days past due	14,598	11,767
181-365 days past due	306	2,841
More than 365 days past due	<u>4,838</u>	<u>5,582</u>
Amounts past due	19,742	20,190
Less: allowance of doubtful debts	<u>(7,247)</u>	<u>(9,392)</u>
	<u><u>275,569</u></u>	<u><u>239,110</u></u>

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

9 Other receivables and prepayments

	2023	2022
VAT recoverable	259,039	269,948
Deposits and prepayments	94,318	140,830
Advances to staff	4,174	5,327
Others	<u>7,265</u>	<u>6,954</u>
	364,796	423,059
Less: non-current VAT recoverable	<u>88,149</u>	<u>112,497</u>
Balance at the end of the period	<u><u>276,647</u></u>	<u><u>310,562</u></u>

Except for non-current VAT recoverable, all other receivables are expected to be recovered within one year.

10 Trade payables

As of the end of the reporting period, the ageing analysis of the trade payables is as follows:

	2023	2022
Current	<u>221,009</u>	<u>275,325</u>
Less than 30 days past due	169,074	146,867
31-60 days past due	46,042	28,525
61-90 days past due	34,738	8,700
More than 90 days past due	<u>36,132</u>	<u>12,608</u>
Amounts past due	<u>285,986</u>	<u>196,700</u>
	<u><u>506,995</u></u>	<u><u>472,025</u></u>

11 Other payables and amounts due to related parties

	2023	2022
Sales rebate	22,554	23,353
Salaries, wages, bonuses and other benefits payable	102,689	108,912
Accrued expenses	60,810	61,174
Contract performance deposits	57,450	53,110
Payables for purchase of property, plant and equipment	5,276	14,535
Amounts due to related parties	42,600	43,500
Others	<u>17,365</u>	<u>23,984</u>
	<u><u>308,744</u></u>	<u><u>328,568</u></u>

All of other payables and amount due to related parties are expected to be settled within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

	2023	2022	% change
Turnover (RMB'000)	6,418,966	6,195,175	3.6
Gross profit (RMB'000)	662,690	680,906	-2.7
Gross profit margin (%)	10.3	11.0	
Profit attributable to equity shareholders of the Company (RMB'000)	47,024	91,852	-48.8

Economic Environment and Strategy Direction

In 2023, the international political, economic, technological, cultural and security landscape has continued to undergo profound changes with the Russian-Ukrainian war persisting, while the Middle East region rekindled armed conflicts, uncertainty in global economic policies and the overlapping consequences 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 was at a critical stage of recovery, facing difficulties and challenges such as inadequate effective demand, overcapacity in certain industries, as well as weak social expectation, yet the underlying trend of recovery remained intact.

In 2023, the domestic volume of white feather meat chicken increased by 10.5% year-on-year. Due to the downturn in the market for day-old chicks at the end of 2022, forced molting was seen in some parent breeding farms, resulting in a decrease in the supply of day-old chicks and feather chickens in the first quarter, causing an increase in feather chicken's prices. In the second quarter, there was an increase in willingness to breed chickens in farms, but breeding performance was poor due to chicken diseases and high temperature resulted in a smaller increase in the output of feather chickens. After August, with the increase in day-old chicks supply and improved feather chickens breeding performance, feather chickens' volume surged to near historical highs in recent years. Meanwhile, with limited growth in market consumer demand, the oversupply of feather chickens intensified, and the continuous slump in feather chickens and chicken meat prices resulted in severe losses for the breeders.

In 2023, domestic food and beverage revenue grew by 20.4% year-on-year, with the impact of a lower base in the fourth quarter of 2022 during the management and control measures period of COVID-19. Compared with the period before the outbreak of COVID-19 in 2019, domestic food and beverage revenue grew by 13.2%, indicating that the food and beverage industry is gradually showing signs of recovery in a market environment where the overall demand is insufficient. The Group has been cultivating in the food and beverage channels for many years, in the face of the complicated and volatile external environment and the industry pattern of oversupply, the Group has insisted on food processing business as the leading sector to drive the overall integrated development. Benefiting from this core strategy, when the domestic meat chicken market experienced a sharp downturn in the fourth quarter, the Group was able to avoid further losses by hedging the risks between its processed foods segment and meat segment.

The Group's newly built food plant, electrical slaughterhouse and feeds plant in Bengbu, Anhui Province had completed smoothly and been put into operation in the fourth quarter of 2023. The commencement of production of the project will help consolidate and expand the Company's market position in the Yangtze River Delta region, and at the same time enable the Company to implement its food strategy towards a higher level. The Group will continue to actively expand its food production capacity and accelerate the scale of food products to smooth out the risk of abnormal fluctuations in the meat market with stable profits from the food business.

Looking ahead to 2024, the Russian-Ukrainian war and the situation in the Middle East region will be the major uncertainties affecting the global economy and the structural overcapacity and insufficient demand in the domestic economic operation have not been basically resolved, further consolidation is needed for building a solid foundation for economic recovery. At the same time, competition in the agriculture, livestock and food industry is to become more and more intense. The Company will continue (i) taking the foods segment as the lead to drive its overall development and keep looking for new sources of growth; (ii) taking the feeds segment as the foundation to stabilize the sales volume and at the same time diversify its market risks by product diversification; and (iii) optimizing the operating business of meat products, focusing on the development of valued customers, increasing the output value of meat products and strengthening the cash flow management. With the synergy of increasing economy of scale of food production, diversification of feeds and meat value-adding working in tandem, the Company has been progressing steadily on digital transformation and supply chain management optimization to improve operational efficiency and enhance its overall industrial competitiveness and anti-cyclicality.

Business Review

In 2023, turnover of the Group amounted to RMB 6,418,966 thousand, representing an increase of 3.6% over the corresponding period of last year. Profit attributable to shareholders amounted to RMB47,024 thousand, representing a decrease of 48.8% over the corresponding period of last year. The main reason for the year-on-year decline in profit was the oversupply in the feather chickens' market in the fourth quarter, leading to continued decline in chicken and poultry prices, hence incurring relatively significant losses in the meat business. However, the domestic food business maintained steady growth, with operating income and gross profit increasing by 10.8% and 14.1% year-on-year, respectively.

In 2023, the processed foods business, feeds business, and meat business accounted for 36.2%, 35.3%, and 28.5% of the Group's total operating income, and 72.1%, 23.2%, and 4.7% of total gross profit of the Group, respectively. Food processing was the Group's largest source of revenue and profit. Taking the food processing segment as the lead to drive the continuous growth of the Group had been effective.

For the fourth quarter of 2023, the Group's operating income was RMB 1,584,745 thousand, a decrease of 5.8% over the corresponding period of last year, and the profit attributable to shareholders was a loss of RMB 19,580 thousand, a decrease of 175.2% from the same period last year.

Processed Foods

	2023	2022	% change
Turnover (RMB'000)			
– Mainland China	2,063,168	1,861,742	10.8
– Export	<u>259,802</u>	<u>290,026</u>	-10.4
Total	<u><u>2,322,970</u></u>	<u><u>2,151,768</u></u>	8.0
Gross profit (RMB'000)			
– Mainland China	423,389	371,158	14.1
– Export	<u>54,497</u>	<u>50,594</u>	7.7
Total	<u><u>477,886</u></u>	<u><u>421,752</u></u>	13.3
Gross profit margin (%)			
– Mainland China	20.5	19.9	
– Export	<u>21.0</u>	<u>17.4</u>	
Total	<u><u>20.6</u></u>	<u><u>19.6</u></u>	

In 2023, the operating income and gross profit of processed foods increased by 8.0% and 13.3% respectively over the corresponding period of last year. The operating income and gross profit of processed foods in the fourth quarter increased by 2.1% and 10.0% respectively compared to the corresponding period of last year. The increase in operating income and gross profit was driven by the steady growth in sales of domestic food products.

The domestic food sales team persistently invested more resources in direct sales customers and worked closely with strategic customers (such as large membership stores 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 on e-commerce platforms, supermarket chains, community convenience stores, farmers' markets and other consumer retail channels to increase customer stickiness through consumer-side brand exposure. The Group has 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 leveraged the steady progression of digital transformation to improve supply chain efficiency and better serve the needs of customers.

For the export business, despite the depreciation of Japanese Yen and the impact of low-price competition from the domestic exports to Japan which squeezed revenue from exported processed food products by 10.4% year-on-year, gross profit from exports increased by 7.7% year-on-year as a result of benefiting from continuous research and development, product mix optimization, production efficiency enhancement and the depreciation of Renminbi. The export sales team will leverage the advantages of new product development to continuously expand into new product categories, new channels, and new customers for further cultivation of the Japanese market. At the same time, they will also increase efforts in developing export markets outside of Japan to diversify the risks of over-concentration in export markets.

Livestock Feeds (From External Customers)

	2023	2022	% change
Turnover (RMB'000)	2,263,279	2,340,369	-3.3
Gross profit (RMB'000)	153,597	147,817	3.9
Gross profit margin (%)	6.8	6.3	

In 2023, the operating income of the feeds business decreased by 3.3% year-on-year and gross profit increased by 3.9% year-on-year. In the fourth quarter, the operating income of the feeds business decreased by 14.9% over the corresponding period of last year, while the gross profit increased by 9.9%. The growth in gross profit was mainly attributed to timely adjustments in raw material procurement strategies and cost reduction and efficiency improvement brought by research and development, quality assurance, and procurement.

Due to the historical high supply in the live pig market and slow consumption recovery, market 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. Facing difficulties in cash flow, they were forced to reduce their stocks or even cease to breed. In the face of a shrinking target customer base, the feeds team continued to increase efforts in the research and development of ruminant feeds and small-category feed products, as well as channel development, actively expanded markets beyond pig feeds for diversification of product categories to mitigate market risks. On the other hand, the feeds team has strengthened co-operation with medium and large scale farms to secure market share through the OEM model. To address the rising raw material prices, the research and development team actively developed alternative raw material formulations, effectively controlled cost inflation and improved the relative competitiveness of the products.

Meat Product

	2023	2022	% change
Turnover (RMB'000)	1,832,717	1,703,038	7.6
Gross profit (RMB'000)	31,207	111,337	-72.0
Gross profit margin (%)	1.7	6.5	

In 2023, the operating income of the meat segment increased by 7.6% over the corresponding period of last year while gross profit decreased by 72.0%. Due to oversupply in the broiler industry, the operating income and the gross profit of the meat segment in the fourth quarter decreased by 2.8% and 214.3% respectively over the corresponding period of last year.

In the second half of 2023, the Group's contract breeding businesses incurred relatively large loss due to continuous increase in the production of feather chickens, coupled with sluggish market consumption, as well as the continuous decline in the market for both feather chickens and chicken meat which fell to a three-year low in the fourth quarter. In response to the unfavourable market situation, the meat team accelerated the pace of business model transformation and restructured its supply chain with a customer-centric approach, in an effort to enhance its relative competitiveness. In the upstream of the industry chain, the Group improved the performance of contract feeds to adjust its co-operation with the long-term contract farmers, and to realize the benefit-sharing and risks-sharing mechanism between the contract customers and the Group, establishing a win-win ecosphere for both the Group and the farmers. In the downstream of the industry, the Group focused on the fine processing of differentiated products, extending the added values of its products continuously; working together with the foods business, actively developed customers such as membership shops and supermarket chains which are more concerned for product quality, eliminated price-sensitive customers, and enhanced the brand value through optimizing its sales channels.

Financial Review:

1) Other Operating Income and Operating Expenses

In 2023, the Group recorded other operating income of RMB25,192 thousand (2022: RMB46,463 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 2023, other net gains of the Group amounted to RMB317 thousand (2022: net loss of RMB5,921 thousand). Other net gains mainly includes net loss on the disposal of assets and impairment reverse of fixed assets.

Distribution costs accounted for 5.26% of total turnover (2022: 4.97%).

Administrative expenses accounted for 3.88% of turnover (2022: 4.27%).

2) Liquidity, Financial Resources and Capital Structure

As at 31 December 2023, the Group's cash and bank deposit balances amounted to RMB526,940 thousand, representing a decrease of RMB5,334 thousand from 2022. In 2023, the Group's net cash generated from operations amounted to RMB407,252 thousand, representing an increase of RMB66,088 thousand from 2022. The Group's interest-bearing borrowings increased by RMB152,839 thousand to RMB530,079 thousand (2022: RMB377,240 thousand). As at 31 December 2023, the interest-bearing borrowings to equity ratio was 22.3% (2022: 16.2%). Current ratio was maintained at a healthy level of 1.56 times (2022: 2.02 times).

3) Capital Expenditure

In 2023, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to RMB529,018 thousand which was primarily paid from internal resources and bank borrowings.

4) Exchange Rate

The Group's business transactions are mainly denominated in RMB and USD. During the year under review, RMB against USD depreciated by 1.67%.

5) Interest

In 2023, the Group's interest expense amounted to RMB17,738 thousand (2022: RMB11,278 thousand), representing an increase of 57.3% from 2022. The increase in interest expenses was mainly due to the increase in the average outstanding borrowings and the rising interest rates on borrowings.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2023 (2022: no distribution).

7) Charge on Assets

As at 31 December 2023, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2023, the capital expenditure of the Group contracted for but not provided in the financial statements was RMB70,827 thousand (2022: RMB531,809 thousand) and the capital expenditure authorised but not contracted for was RMB227,107 thousand (2022: RMB98,555 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2023, the Group had a total of 7,972 employees (31 December 2022: 7,936). 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 2024 AGM of the Company will be held on 28 June 2024 (Friday) and the notice of AGM will be published and, if necessary, dispatched to shareholders in the manner as required by the Listing Rules.

Closing of Register of Members

The Hong Kong branch register of members of the Company will be closed from 24 June 2024 (Monday) to 28 June 2024 (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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by no later than 4:30 p.m. (Hong Kong time) on 21 June 2024 (Friday).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2023, 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 two immaterial deviations, the Company has complied with the Code provisions (the “Code Provisions”) set out in Part II of Appendix 14 (restructured as Appendix C1 since 31 December 2023) the Listing Rules throughout the year ended 31 December 2023:

Under Code Provision C.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual.

In 2023, Mr. James Chun-Hsien Wei performed 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 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 in the best interest of the Company at the present stage.

In addition, under Code Provision C.6.1, 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 (the "Audit Committee") was established with written terms of reference in accordance with 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 2023), 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. Ting Yu-Shan (chairman of the Audit Committee), Mr. Hsia Li-Yan, Ms. Lee Tsai, Yu-Ling and Mr. Kao Koong-Lian, who are all independent non-executive directors of the Company.

On behalf of the Board
James Chun-Hsien Wei
Chairman

Hong Kong, 8 March 2024

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. 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.