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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 2024

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 2024:

Highlights

	Six months ended 30 June		
	2024	2023	% change
	(unaudited)	(unaudited)	
Turnover (RMB'000)	2,794,444	3,142,785	-11.1
Gross profit (RMB'000)	362,471	338,920	6.9
Gross profit margin (%)	13.0	10.8	
Profit attributable to shareholders of the Company (RMB'000)	31,575	40,757	-22.5
Basic earnings per share (RMB)	0.031	0.040	

CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2024
(Expressed in RMB'000 unless stated otherwise)

		Six months ended 30 June	
	Note	2024	2023
		(unaudited)	(unaudited)
Turnover	3	2,794,444	3,142,785
Cost of sales		<u>(2,431,973)</u>	<u>(2,803,865)</u>
Gross profit		362,471	338,920
Other operating income	4	10,717	10,735
Other net gains/(losses)	4	755	141
Distribution costs		(170,839)	(163,933)
Administrative expenses		<u>(134,838)</u>	<u>(115,502)</u>
Profit from operations		68,266	70,361
Finance costs	5(a)	(13,008)	(7,103)
Share of gains/(losses) of equity-accounted investees		<u>1,394</u>	<u>66</u>
Profit before taxation	5	56,652	63,324
Income tax	6	<u>(8,624)</u>	<u>(7,088)</u>
Profit for the period		<u><u>48,028</u></u>	<u><u>56,236</u></u>
Attributable to:			
Shareholders of the Company		31,575	40,757
Non-controlling interests		<u>16,453</u>	<u>15,479</u>
Profit for the period		<u><u>48,028</u></u>	<u><u>56,236</u></u>
Earnings per share			
– Basic and diluted (RMB)	7	<u><u>0.031</u></u>	<u><u>0.040</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2024

(Expressed in RMB'000 unless stated otherwise)

	Six months ended 30 June	
	2024 (unaudited)	2023 (unaudited)
Profit for the period	48,028	56,236
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(1,246)</u>	<u>(6,035)</u>
Total comprehensive income for the period	<u><u>46,782</u></u>	<u><u>50,201</u></u>
Attributable to:		
Shareholders of the Company	30,197	34,012
Non-controlling interests	<u>16,585</u>	<u>16,189</u>
Total comprehensive income for the period	<u><u>46,782</u></u>	<u><u>50,201</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**At 30 June 2024***(Expressed in RMB'000 unless stated otherwise)*

		At 30 June 2024	At 31 December 2023
	Note	(unaudited)	(audited)
Non-current assets			
Property, plant and equipment	8	1,650,982	1,636,588
Land use rights		117,312	119,451
Investment property		52,775	54,356
Intangible assets		9,417	9,917
Interests in equity-accounted investees		72,301	70,906
Other financial assets		1,948	1,948
Deferred tax assets		5,441	5,608
Long-term tax recoverable	10	88,149	88,149
Other non-current assets		112,565	58,616
		<u>2,110,890</u>	<u>2,045,539</u>
Current assets			
Inventories		488,946	526,849
Biological assets		102,596	129,957
Trade receivables	9	258,695	275,569
Other receivables and prepayments	10	269,653	276,647
Cash and cash equivalents		504,106	526,940
Restricted deposits		2,449	2,449
		<u>1,626,445</u>	<u>1,738,411</u>
Current liabilities			
Trade payables	11	340,923	506,995
Other payables	12	298,065	308,744
Contract liabilities		10,824	10,285
Interest-bearing borrowings		347,979	276,269
Lease liabilities		1,687	1,687
Income tax payable		10,039	7,319
		<u>1,009,517</u>	<u>1,111,299</u>
Net current assets		<u>616,928</u>	<u>627,112</u>

	Note	At 30 June 2024 (unaudited)	At 31 December 2023 (audited)
Total assets less current liabilities		<u>2,727,818</u>	<u>2,672,651</u>
Non-current liabilities			
Interest-bearing borrowings		261,524	253,810
Lease liabilities		27,956	29,338
Deferred tax liabilities		<u>10,543</u>	<u>8,490</u>
		<u>300,023</u>	<u>291,638</u>
Net assets		<u><u>2,427,795</u></u>	<u><u>2,381,013</u></u>
Capital and reserves			
Share capital		97,920	97,920
Reserves		945,876	947,254
Retained profits		<u>1,101,715</u>	<u>1,070,140</u>
Total equity attributable to shareholders of the Company		2,145,511	2,115,314
Non-controlling interests		<u>282,284</u>	<u>265,699</u>
Total equity		<u><u>2,427,795</u></u>	<u><u>2,381,013</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 8 August 2024.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2023 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2024 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 the 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:

- Amendments to IAS 1, *Non-current liabilities with covenants*
- Amendments to IAS 1, *Classification of liabilities as current or non-current*
- Amendments to IFRS 16, *Lease liability in a sale and leaseback*
- Amendments to IAS 7 and IFRS 7, *Supplier finance arrangements*

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 feeds 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 products 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 brands of “DaChan” and “Sisters’ Kitchen”.

Information about reportable segments

Information regarding the Group’s reportable segments as provided for the chief executive officer for the purposes of resource allocation and segment performance assessment for the six month periods ended 30 June 2024 and 2023 is set out below.

For the six months ended 30 June

	Processed foods		Livestock feeds		Meat products		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000	RMB’000
Turnover from external customers	1,249,661	1,123,488	827,086	1,114,113	717,697	905,184	2,794,444	3,142,785
Inter-segment turnover (eliminated at consolidation)	—	—	434,930	585,652	201,041	211,239	635,971	796,891
Total	<u>1,249,661</u>	<u>1,123,488</u>	<u>1,262,016</u>	<u>1,699,765</u>	<u>918,738</u>	<u>1,116,423</u>	<u>3,430,415</u>	<u>3,939,676</u>
Segment gross profit	268,719	224,891	69,205	67,595	24,547	46,434	362,471	338,920

4 Other turnover and other net gains

Six months ended 30 June
2024 2023
RMB'000 RMB'000

Other turnover

Interest income	4,441	4,615
Government grants	2,509	3,229
Rental income	3,767	2,891
	<u>10,717</u>	<u>10,735</u>

Six months ended 30 June
2024 2023
RMB'000 RMB'000

Other net gains/(losses)

Gains/(losses) of foreign exchange	1,858	(261)
Net (losses)/gains on disposal of fixed assets	(1,738)	(1,383)
Others	635	1,785
	<u>755</u>	<u>141</u>

5 Profit before taxation

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

Six months ended 30 June
2024 2023
RMB'000 RMB'000

(a) Finance costs

Interest on bank borrowings wholly repayable within five years	<u>(13,008)</u>	<u>(7,103)</u>
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(b) Other items

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Amortisation of lease prepayments	(2,163)	(2,160)
Depreciation of property, plant and equipment	(78,822)	(55,842)
Net (provision)/reversal of impairment on trade receivables	(619)	716
Net reversal/(confirmation) of write down of inventory	13,111	(676)
	<u>13,111</u>	<u>(676)</u>

6 Income tax

	Six months ended 30 June	
	2024	2023
	RMB'000	RMB'000
Current tax	(6,404)	(6,294)
Deferred taxation	<u>(2,220)</u>	<u>(794)</u>
	<u>(8,624)</u>	<u>(7,088)</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands (the “BVI”), the Group is not subject to any income tax in the Cayman Islands and the BVI.
- (ii) The provision for Hong Kong Profits Tax for the relevant period in the six months ended 30 June 2024 is calculated at 16.5% (six months ended 30 June 2023: 16.5%) of the estimated assessable profits for the period, 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 such subsidiary was calculated at the same basis in 2023.

- (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 2024 are subject to the PRC Corporate Income Tax at a rate of 25% (six months ended 30 June 2023: 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 2023: 15%), as it has obtained the new high-tech enterprise qualification from 2022.

7 Earnings per share

The calculation of basic earnings per share as at 30 June 2024 is based on the profit attributable to ordinary equity holders of the Company of RMB31,575 thousand (six months ended 30 June 2023: RMB40,757 thousand) and the weighted average of 1,016,189,000 ordinary shares (six months ended 30 June 2023: 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 2024 and 2023. 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 2024, the Group acquired fixed assets at a cost of RMB98,284 thousand (six months ended 30 June 2023: RMB263,525 thousand). Items of fixed assets with net book value of RMB1,145 thousand (six months ended 30 June 2023: RMB2,258 thousand) were disposed of during the six months ended 30 June 2024, resulting in a loss on disposal of RMB1,738 thousand (six months ended 30 June 2023: a loss of RMB1,383 thousand).

9 Trade receivables

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

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Current	245,050	263,074
1-180 days past due	13,727	14,598
181-365 days past due	3,108	306
More than 365 days past due	4,454	4,838
Amounts past due	21,289	19,742
Less: allowance for doubtful debts	(7,644)	(7,247)
	<u>258,695</u>	<u>275,569</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 2024 RMB'000	At 31 December 2023 RMB'000
VAT recoverable	247,426	259,039
Deposits and prepayments	92,422	94,318
Advances to staff	4,470	4,174
Others	13,484	7,265
	<hr/>	<hr/>
	357,802	364,796
Less: non-current VAT recoverable	88,149	88,149
	<hr/>	<hr/>
	269,653	276,647
	<hr/> <hr/>	<hr/> <hr/>

11 Trade payables

An ageing analysis of trade payables is as follows:

	At 30 June 2024 RMB'000	At 31 December 2023 RMB'000
Current	168,617	221,009
Less than 30 days past due	136,254	169,074
31-60 days past due	23,398	46,042
61-90 day past due	5,671	34,738
More than 90 days past due	6,983	36,132
	<hr/>	<hr/>
Amounts past due	172,306	285,986
	<hr/> <hr/>	<hr/> <hr/>
	340,923	506,995
	<hr/> <hr/>	<hr/> <hr/>

12 Other payables

	At 30 June 2024	At 31 December 2023
	RMB'000	RMB'000
Sales rebate	15,383	22,554
Salaries, wages, bonuses and other benefits payable	51,016	102,689
Accrued expenses	104,092	60,810
Contract performance deposits	59,998	57,450
Payables for purchase of fixed assets	21,678	5,276
Amounts due to related parties	42,600	42,600
Others	3,298	17,365
	<u>298,065</u>	<u>308,744</u>

13 Dividends

No payment of an interim dividend of the six months period ended 30 June 2024 (2023: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

	Six months ended 30 June		
	2024	2023	% change
Turnover (RMB'000)	2,794,444	3,142,785	-11.1
Gross profit (RMB'000)	362,471	338,920	6.9
Gross profit margin (%)	13.0	10.8	
Profit attributable to shareholders of the Company (RMB'000)	31,575	40,757	-22.5

For the first half of 2024, the operating income of the Company amounted to RMB2,794,444 thousand, representing a decrease of 11.1% over the corresponding period of last year. Profit attributable to shareholders amounted to RMB31,575 thousand, representing a decrease of 22.5% over the corresponding period of last year. The main reason for the year-on-year decrease in results was: the rapid development of the broiler industry in recent years led to a significant increase in the domestic supply of chicken meat, but the growth rate of consumer demand was weak, resulting in an imbalance between market supply and demand, and the prices of chicken meat fell year-on-year. However, the domestic processed food business of the Company continued to maintain solid growth in the first half of the year, with the operating income and gross profit increasing by 11.9% and 21% year-on-year respectively. Benefiting from proper cash flow management measures, the net cash inflow from operating activities of the Company in the first half of the year amounted to RMB124 million, which provided financial support for the continued expansion of food production capacity.

In the first half of 2024, the international environment became more complex, severe and uncertain, with the simultaneous emergence of impacts of structural adjustment of the domestic economy, effective demand remained insufficient. In the first half of the year, domestic food and beverage revenue increased by 7.9% year-on-year, of which domestic food and beverage revenue in June only increased by 5.4% year-on-year, indicating that the foundation for the recovery of current consumer demand was not firm enough.

In the face of the complex and changeable external environment and the industrial pattern of oversupply, the Company made steady progress, continuously optimized its business model, reconstructed the supply chain with customers as the center, and continuously improved its relative competitiveness by reducing costs and increasing efficiency through refined management. Due to the continuous oversupply in the broiler and live pig breeding markets in China, the Company took initiative to adjust its operating structure, focused on investment in processed food production capacity, research and development, supply chain and marketing, reduced investment of resources in broiler breeding, slaughtering and feed processing, and committed to driving the Group's results to continue to grow with processed foods as the lead.

Looking ahead to the second half of the year, the global economy may be in the process of moderate recovery, but the timing of the interest rate cut by the US Federal Reserve, trade protectionism, geopolitical conflicts, elections in Europe and the U.S. and other complex factors will still generate great uncertainty. The conflict between structural overcapacity and insufficient demand in the domestic

economic operation has not been fundamentally resolved, and the pressure of economic restructuring will remain high. At the same time, competition in the agricultural, livestock and food industry will become increasingly fierce. The Company will continue with the foods segment as the lead to drive its overall development and keep looking for new sources of growth; with the feeds segment as the foundation to increase the sales volume and simultaneously mitigate its market risks by product diversification and channel diversification; 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 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

For the first half of 2024, the Group's operating income amounted to RMB2,794,444 thousand, representing a decrease of 11.1% over the corresponding period of last year. The foods segment, feeds segment and meat segment accounted for 44.7%, 29.6% and 25.7% respectively of the Company's total operating income. The Company's gross profit was RMB362,471 thousand, representing an increase of 6.9% over the corresponding period of last year. The foods segment, feeds segment and meat segment accounted for 74.1%, 19.1% and 6.8% of the Company's total gross profit respectively. The foods segment has been the largest source of profit for the Company.

Processed Foods

	Six months ended 30 June		
	2024	2023	% change
Turnover (RMB'000)			
– Mainland China	1,103,468	985,955	11.9
– Export	146,193	137,533	6.3
Total	1,249,661	1,123,488	11.2
Gross profit (RMB'000)			
– Mainland China	241,896	199,861	21.0
– Export	26,823	25,030	7.2
Total	268,719	224,891	19.5
Gross profit margin (%)			
– Mainland China	21.9	20.3	
– Export	18.3	18.2	
Total	21.5	20.0	

For the first half of 2024, the operating income and gross profit of the foods segment increased by 11.2% and 19.5% respectively year-on-year. Operating income and gross profit of the foods segment for the second quarter increased by 3.6% and 8.3% respectively over the corresponding period of last year. The growth in results of the foods segment was primarily driven by the continued growth in domestic food sales.

The domestic food sales team continuously invested more resources in major 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 of supermarket chains, community convenience stores, e-commerce platforms and other consumer retail channels to increase customer stickiness through consumer-side brand exposure.

The Company 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 successful products. The Company also leveraged the steady progression of digital transformation to improve supply chain efficiency and better serve the needs of customers.

For the export business, the food export sales team overcame the negative impacts of the depreciation of Japanese Yen and the low-price competition of domestic exports to Japan, and achieved year-on-year growth of 6.3% and 7.2% in revenue and gross profit respectively. The Company will continue to 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, it will also increase efforts in developing export markets outside of Japan to mitigate the risks of over-concentration in export markets.

In the future, the Company will further 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.

Livestock Feeds (From External Customers)

	Six months ended 30 June		
	2024	2023	% change
Turnover (RMB'000)	827,086	1,114,113	-25.8
Gross profit (RMB'000)	69,205	67,595	2.4
Gross profit margin (%)	8.4	6.1	

For the first half of 2024, the operating income of the feeds segment decreased by 25.8% over the corresponding period of last year, and its gross profit increased by 2.4% over the corresponding period of last year. The operating income and gross profit of the feeds segment in the second quarter decreased by 27.9% and 16.8% respectively compared to the corresponding period of last year.

Continuous losses incurred from the breeding operation for more than a year accelerated the reduction of the excess production capacity of the domestic pig industry. Small and medium scale farms, such as free-range farmers and family farms suffered heavy losses. Facing difficulties in cash flow, they were forced to reduce their stocks or even cease to breed, resulting in a year-on-year decline in the Company's pig feeds sales. 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 feeds products, as well as channel development, actively expanded markets beyond pig feeds and diversified product categories to mitigate market risks. On the other hand, the Company has strengthened cooperation with medium and large scale farms to secure market share through the OEM model. At the same time, we speeded up the pace of integration of the middle office functions, strengthened product research and development, raw material procurement, production technology, quality control, technical services and other cross-functional collaborations, promoted the diversification of raw material use, reduced feed costs, and increased the relative competitiveness of products and services.

Meat Products

	Six months ended 30 June		
	2024	2023	% change
Turnover (RMB'000)	717,697	905,184	-20.7
Gross profit (RMB'000)	24,547	46,434	-47.1
Gross profit margin (%)	3.4	5.1	

For the first half of 2024, the operating income and gross profit of the meat segment decreased by 20.7% and 47.1% respectively over the corresponding period of last year. The operating income and gross profit of the meat segment in the second quarter decreased by 20.1% and 52% year-on-year.

Due to the limited consumption recovery of the domestic market, the white feather broiler industry, from the grandparent breeders, parent breeders and commercial broilers as a whole is in an oversupply situation. For the first half of the year, the prices of day-old chicks, feather chickens and chicken meat showed different scales of decline as compared with the same period of last year. Other than the breeders in the broiler industry chain which could still make a profit, broiler breeding and slaughtering business were suffering from losses. Although domestic live pig prices rebounded in the second quarter of the year and pig breeding turned loss into profit, it failed to significantly boost the market of white feather broilers which was still in excess capacity. During this process, some small-scale broiler farms ceased operation due to persistent losses, leading to further consolidation of the broiler industry.

In response to the unfavorable market situation, the meat team accelerated the pace of business model transformation, from production and supply oriented to customer demand-driven live poultry supply and slaughter business model, increasing supply chain flexibility and enhancing relative competitiveness. In the upstream of the industrial chain, the meat team adjusted the cooperation mode with contract farmers, so that the cost of the Company's feather chicken can be as close to the market as possible, and established a good ecosphere of benefit and risk sharing between the contract farmers and the Company. In the downstream of the industry, the meat team focused on the fine processing of differentiated products and increasing the added values of its products continuously. By working together with the foods business, actively developing customers such as membership stores and supermarket chains who value product quality, eliminating price-sensitive customers, and optimizing its sales channels, the Company has continuously enhanced its brand value.

Financial Review:

1) Other Turnover and Other Net Gains

In the first six months of 2024, other turnover of the Group amounted to RMB10,717 thousand (2023: RMB10,735 thousand). Other turnover mainly comprised interest income and government grants.

In the first six months of 2024, other net gains of the Group amounted to RMB755 thousand (net gains in 2023: RMB141 thousand). Other net gains mainly comprised other net 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 2024, the Group's cash and bank deposit balances amounted to RMB504,106 thousand, representing a decrease of RMB22,834 thousand as compared with 31 December 2023. Interest-bearing borrowings of the Group increased by RMB79,424 thousand to RMB609,503 thousand (31 December 2023: RMB530,079 thousand). The interest-bearing borrowings to equity ratio was 25.1% (31 December 2023: 22.3%). The current ratio was maintained at a healthy level of 1.61 times (31 December 2023: 1.56 times).

3) Capital Expenditure

In the first six months of 2024, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to RMB98,284 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, the RMB depreciated by 0.62% against the USD. Such change of exchange rate had no material impact on the Group's business operation.

5) Interest

During the first six months in 2024, the Group's interest expense amounted to RMB13,008 thousand (2023: RMB7,103 thousand), representing an increase of 83.1% as compared with the same period of 2023. The increase in interest expense was primarily due to part of the interest expenses in 2023 was capitalised as the borrowings were used for the construction of the new plant in Bengbu, whilst the interest expenses on the borrowings related to the commencement of production of the new plant in the current period were expensed.

6) Pledge of Assets

As at 30 June 2024, the Group had no assets pledged as security against bank facilities.

7) Capital Commitment

As at 30 June 2024, the capital expenditure of the Group contracted for but not yet provided in the financial statements was RMB265,068 thousand and the capital expenditure authorised but not contracted for was RMB113,246 thousand.

Staff Compensation and Training

As at 30 June 2024, the Group had a total of 8,229 staff (31 December 2023: 7,972). In order to build up a team who will be 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 dedicated staff who remain on the job.

OTHER INFORMATION

Corporate Governance Code

Throughout the six months ended 30 June 2024, the Company has complied with the Corporate Governance Code (the “Code”) as set out in Appendix C1 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 officer should be separate and should not be performed by the same individual. Mr. James Chun-Hsien Wei has performed both of the roles as the Chairman and the Chief Executive Officer since 1 September 2022. 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 affairs. 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 C3 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 2024.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2024, 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 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 2024, 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, 8 August 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. Han Chia-Yau, Mr. Harn Jia-Chen, Mr. Han Jia-Hwan, Mr. Chao Tien-Shin and Mr. Wei Anning are the non-executive directors, 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.