DACHAN FOOD (ASIA) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3999)

Announcement of Annual Results for 2016

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 2016, prepared in conformity with the basis of presentation as stated in note 2 below, together with the comparative figures of the year ended 31 December 2015 as follows:

Highlights

	2016	2015	% change
Turnover (RMB'000)	8,124,053	8,899,047	-8.7
Gross profit (RMB'000)	754,510	708,203	6.5
Gross profit margin (%)	9.3	8.0	
Profit/(loss) attributable to equity shareholders of the Company (RMB'000)	53,899	(153,549)	N/A
Basic earnings/(loss) per share (RMB)	0.05	(0.15)	
Dividend per share (HK cents)	0	0	

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016
(Expressed in thousands of Renminbi unless otherwise stated)

	Note	**2016**	**2015**
Turnover	3	8,124,053	8,899,047
Cost of sales		(7,369,543)	(8,190,844)
Gross profit		754,510	708,203
Change in fair value of biological assets less costs to sell		(512)	(9,915)
Fair value of agricultural produce on initial recognition		14,113	28,032
Reversal of fair value of agricultural produce due to sales and disposals		(14,016)	(28,610)
Other operating income		31,561	6,605
Other net gains/(losses)		72,520	(132,065)
Distribution costs		(384,471)	(371,048)
Administrative expenses		(280,735)	(250,328)
Profit/(loss) from operations		192,970	(49,126)
Finance costs	4(a)	(44,852)	(25,620)
Share of losses of equity-accounted investees		(2,196)	(2,855)
Profit/(loss) before taxation	4	145,922	(77,601)
Income tax	5	(28,573)	(33,488)
Profit/(loss) for the year		117,349	(111,089)
Profit/(loss) for the year attributable to:			
Equity shareholders of the Company		53,899	(153,549)
Non-controlling interests		63,450	42,460
Profit/(loss) for the year		117,349	(111,089)
Dividends payable to shareholders of the Company attributable to the year:			
Final dividend proposed after the end of the reporting period	6	0	0
Earnings/(loss) per share	7		
– Basic (RMB)		0.05	(0.15)
– Diluted (RMB)		0.05	(0.15)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2016
(Expressed in thousands of Renminbi unless otherwise stated)

	Note	2016	2015
Non-current assets			
Fixed assets			
– property, plant and equipment		1,175,531	1,221,483
– lease prepayments		189,374	171,095
Interests in equity-accounted investees		85,169	116,018
Other non-current financial assets		1,948	1,948
Deferred tax assets		29,551	24,251
Long-term tax recoverable		91,508	73,391
Other non-current assets		13,053	10,718
		1,586,134	1,618,904
Current assets			
Inventories		939,174	825,963
Biological assets		5,797	4,241
Trade receivables	8	385,222	322,296
Other receivables	9	416,269	423,021
Cash and cash equivalents		327,539	530,151
		2,074,001	2,105,672
Current liabilities			
Trade payables	10	601,357	516,427
Other payables	11	462,926	418,991
Provisions		6,776	12,452
Interest-bearing borrowings		560,147	319,947
Dividend payables		14,221	33,590
Income tax payable		9,355	10,402
		1,654,782	1,311,809
Net current assets		419,219	793,863
Total assets less current liabilities		2,005,353	2,412,767
Non-current liabilities			
Interest-bearing borrowings		243,636	707,932
Deferred tax liabilities		322	314
		243,958	708,246
Net assets		1,761,395	1,704,521
Capital and reserves			
Share capital		97,920	97,502
Reserves		901,466	929,096
Retained profits		489,729	428,933
Total equity attributable to equity shareholders of the Company		1,489,115	1,455,531
Non-controlling interests		272,280	248,990
Total equity		1,761,395	1,704,521

SUPPLEMENTARY NOTES TO THE FINANCIAL STATEMENTS

(Expressed in thousands of Renminbi unless otherwise stated)

1 General information

DaChan Food (Asia) Limited was incorporated in the Cayman Islands on 18 May 2007 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries are primarily involved in the manufacturing and trading of livestock feeds, poultry and chilled meat and processed food.

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

2 Basis of preparation

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

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company.

Note 2(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

The consolidated financial statements for the year ended 31 December 2016 comprise the Company and its subsidiaries and the Group's interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost except that the following assets:

– derivative financial instruments are measured at fair value; and

– biological assets are measured at fair value less costs to sell.

(c) Functional and presentation currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("functional currency"). The financial statements are presented in Renminbi ("RMB") ("presentation currency"). All financial information presented in RMB has been rounded to the nearest thousand of RMB unless otherwise indicated.

(d) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

Meat products:	The meat products segment carries on business of broiler farming, hatching of broiler breeder eggs, contract farming, processing and marketing of chilled and frozen chicken meat marketed under the brand of "DaChan".
Livestock feeds:	The livestock feeds segment manufactures and distributes complete feed, base mix feed and pre-mix feed for swine, layer, broiler, duck, and breeder poultry under the brands of "Dr. Nupak", "DaChan", "Green Knight" and "SOS".
Processed foods:	The processed foods segment produces and distributes pickled, pre-fried, and instant food, and further processed chilled and frozen chicken meat marketed under the brand of "Sisters' Kitchen".

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between 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 2016 and 2015 is set out below:

	Meat products		Livestock feeds		Processed foods		Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Turnover from external customers	2,172,759	3,324,272	4,672,269	4,493,446	1,279,025	1,081,329	8,124,053	8,899,047
Inter-segment turnover	410,393	413,834	523,342	869,353	–	–	933,735	1,283,187
Total	2,583,152	3,738,106	5,195,611	5,362,799	1,279,025	1,081,329	9,057,788	10,182,234
Segment result	59,650	(10,167)	442,710	488,999	252,150	229,371	754,510	708,203
Unallocated operating income and expenses							(561,540)	(757,329)
Profit/(loss) from operations							192,970	(49,126)
Finance costs							(44,852)	(25,620)
Share of losses of equity-accounted investees							(2,196)	(2,855)
Income tax							(28,573)	(33,488)
Profit/(loss) for the year							117,349	(111,089)
Depreciation and amortisation for the year	63,691	65,863	47,377	48,933	33,821	33,102	144,889	147,898
Reportable segment assets	1,009,075	1,164,256	1,387,403	1,254,166	576,901	422,310	2,973,379	2,840,732
Additions to non-current segment assets during the year	40	95,338	109,379	55,724	11,360	19,153	120,779	170,215
Reportable segment liabilities	101,620	211,445	936,936	738,745	141,282	79,163	1,179,838	1,029,353

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

	2016	2015
Turnover		
Reportable segment turnover	9,057,788	10,182,234
Elimination of inter-segment turnover	(933,735)	(1,283,187)
Consolidated turnover	8,124,053	8,899,047
Profit		
Reportable segment profit	754,510	708,203
Change in fair value of biological assets less costs to sell	(512)	(9,915)
Fair value of agricultural produce on initial recognition	14,113	28,032
Reversal of fair value of agricultural produce due to sales and disposals	(14,016)	(28,610)
Other operating income	31,561	6,605
Other net gains/(losses)	72,520	(132,065)
Distribution costs	(384,471)	(371,048)
Administrative expenses	(280,735)	(250,328)
Finance costs	(44,852)	(25,620)
Share of losses of equity-accounted investees	(2,196)	(2,855)
Consolidated profit/(loss) before taxation	145,922	(77,601)
Assets		
Reportable segment assets	2,973,379	2,840,732
Deferred tax assets	29,551	24,251
Cash and cash equivalents	327,539	530,151
Unallocated head office and corporate assets	329,666	329,442
Consolidated total assets	3,660,135	3,724,576
Liabilities		
Reportable segment liabilities	1,179,838	1,029,353
Income tax payable	9,355	10,402
Deferred tax liabilities	322	314
Interest-bearing borrowings	619,549	885,617
Unallocated head office and corporate liabilities	89,676	94,369
Consolidated total liabilities	1,898,740	2,020,055

(c) Geographical information

The following table sets out information about the geographical location of the Group's turnover from external customers and the Group's tangible assets and interests in equity accounted investees ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and the location of operations in the case of interests in equity-accounted investees.

	Turnover from external customers		Specified non-current assets	
	2016	**2015**	**2016**	**2015**
Mainland China	5,043,124	6,210,639	1,222,862	1,340,254
Vietnam	2,738,645	2,389,359	231,437	170,305
Japan	299,399	257,669	–	–
Rest of Asia Pacific	42,885	41,380	8,828	8,755
	8,124,053	8,899,047	1,463,127	1,519,314

4 Loss before taxation

Loss before taxation is arrived at after charging:

	2016	**2015**
(a) Finance costs		
Interest on bank borrowings wholly repayable within five years	44,852	25,620
(b) Staff costs		
Salaries, wages, bonuses and other benefits	600,179	583,731
Contributions to retirement schemes	80,882	73,339
Equity-settled share-based payment	2,269	3,416
	683,330	660,486

The Group is required to participate in pension schemes organised by the respective municipal governments of the People's Republic of China (the "PRC") whereby the Group is required to pay annual contributions for PRC based employees at rates ranging from 18% to 20% (2015: 18% to 22%) 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 annual contributions described above.

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance of Hong Kong for employees employed under the Employment Ordinance of Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the Group is required to make contributions to the scheme at 6 percent (2015: 6 percent) of the employees' relevant income and its employees are required to make contributions to the scheme at 5 percent (2015:

5 percent) of the employees' relevant income, subject to a cap of monthly relevant income of Hong Kong Dollar ("HKD") HKD30,000. Contributions to the MPF Scheme vest to the employees immediately.

Contribution made to Malaysia's Employees Provident Fund is based on 13 percent (2015: 13 percent) of the eligible employees' salaries when the salaries is Malaysia Ringgit ("MYR") 5,000 or below, or based on 12 percent (2015: 12 percent) of the eligible employees' salaries when the salaries is above MYR5,000.

The Group also made contribution on the statutory social security and health insurance in Vietnam at 21% (2015: 22%) of the eligible employees' salaries.

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

(c) *Other items*

	2016	**2015**
Auditors' remuneration		
– audit services	4,474	4,443
– tax services	228	158
	4,702	4,601
Amortisation of lease prepayments	5,157	4,714
Depreciation of property, plant and equipment	139,732	143,184
Net impairment loss of trade receivables recognised/(reversed)	11,099	(3,912)
Net reversal of inventory	1,602	(13,539)
Operating lease charges		
– plant and machinery	17,623	18,370
– others	9,552	11,283
Research and development costs	1,894	908
Cost of inventories	6,997,102	7,806,112

5 Income tax in the consolidated income statement

	2016	2015
Current tax		
Provision for the year	33,428	32,396
Over provision in respect of prior years	437	(1,228)
	33,865	31,168
Deferred tax		
Reversal of temporary differences	(5,292)	2,320
	28,573	33,488

(i) Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) The Company carries on business in Hong Kong and shall pay Hong Kong profits tax at 16.5 percent in respect of its non-exempt Hong Kong sourced profits.

(iii) Pursuant to the income tax rules and regulations of the PRC, the Group entities incorporated in the PRC are liable to PRC Corporate Income Tax at a rate of 25% (2015: 25%) during the periods, except for Tianjin DaChan Prospect Research and Development Co., Ltd. ("TDPR"), which is subject to a preferential tax rate of 15 percent (2015: 25 percent), as it has obtained the new high-tech enterprise qualification during 2016.

(iv) Pursuant to the income tax rules and regulations of Malaysia, the subsidiary in Malaysia was liable to Malaysian income tax rate of 24% for the year ended 31 December 2016 (2015: 25%).

(v) Pursuant to the Amended Investment Licence No. 1219/GPDC1-BKH-KCN-DN dated 23 September 2003 and issued by Dong Nai Industrial Zone Authority, Asia Nutrition Technologies (VN) Co., Ltd. ("ANTC-VN") is subject to Corporate Income Tax of Vietnam at a preferential rate of 15% (2015: 15%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2015: 22%).

(vi) Asia Nutrition Technologies (HN) Co., Ltd. ("ANTC-HN") is subject to Corporate Income Tax of Vietnam at the rate of 10% for the first 15 years commencing from its first year of operation and 22% for the succeeding years. However, ANTC-HN is entitled to a full tax exemption for four years starting from 2005, its first profit-making year pursuant to the Minutes of Inspection by Tax Department of Hai Duong Province dated 24 November 2006 and a 50% reduction in tax rate for the next four years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-HN is 10% for the year ended 31 December 2016 (2015: 10%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2015: 22%).

(vii) Asia Nutrition Technologies (LA) Co., Ltd. ("ANTC-LA") is subject to Corporate Income Tax of Vietnam at the rate of 20% for the first 10 years commencing from its first year of operation and 22% for the succeeding years. However, ANTC-LA is entitled to a full tax exemption for 2 years starting from 2008, its first profit-making year and a 50% reduction in tax rate for the next three years. Since the said exemption and 50% tax concessions have expired, the applicable tax rate of ANTC-LA is 17% for the year ended 31 December 2016 (2015: 20%). The above tax reduction is not applicable to other income which is taxed at a rate of 20% (2015: 22%).

(viii) Pursuant to the Amended Investments Licence No. 43/2010/ND-CP dated 26 September 2012 and issued by Binh Dinh Provice Economic Zone Authority, Asia Nutrition Technologies (MV) Co., Ltd. ("ANTC-MV") is subject to Vietnam Corporate Income Tax of 20% for the year ended 31 December 2016 (2015: 22%).

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

	2016	**2015**
Profit/(loss) before taxation	145,922	(77,601)
Income tax using PRC's Corporate Income Tax rate of 25% (2015: 25%) (note)	36,481	(19,400)
Effect of different tax rates of subsidiaries operating in different tax jurisdiction	(15,755)	(14,068)
Tax effect of non-deductible expenses	3,081	1,794
Tax effect of non-taxable income	(9,286)	(23,355)
Tax effect of the movement of tax losses and temporary difference not recognised	12,513	89,745
Effect on deferred tax balances resulting from a change in tax rate	1,102	–
Over provision in respect of prior years	437	(1,228)
Actual tax expense	28,573	33,488

Note: The income tax rate of 25% (2015: 25%) represents the domestic tax rate in the jurisdiction where the operations of the Group are substantially based.

6 Dividends

	2016	**2015**
Final dividend proposed after the end of the reporting period	0	0

On 23 March 2017, the Board decides not to distribute any final dividend in respect of the year ended 31 December 2016 (2015: No distribution).

7 Earning (loss) per share

The calculation of basic loss per share for the year ended 31 December 2016 is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB53,899 thousand (2015: approximately RMB153,549 thousand) and the weighted average of 1,012,461,692 ordinary shares (2015: 1,010,649,805) in issue during the year.

For the years ended 31 December 2016, the calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of approximately RMB53,899 thousand (2015: loss of approximately RMB153,549 thousand) and the weighted average of 1,014,763,359 (2015: 1,010,649,805) ordinary shares.

8 Trade receivables

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

	2016	**2015**
Current	303,399	239,145
Less than 30 days past due	54,453	49,124
31-60 days past due	11,890	11,898
61-90 days past due	9,591	9,512
More than 90 days past due	19,620	21,271
Amounts past due	95,554	91,805
Less: Provision for bad debt	(13,731)	(8,654)
	385,222	322,296

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

9 Other receivables

	2016	**2015**
VAT recoverable	383,660	367,159
Deposits and prepayments	101,377	52,141
Advances to staff	11,317	7,709
Others	11,423	69,403
	507,777	496,412
Less: non-current VAT recoverable	91,508	73,391
	416,269	423,021

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

10 Trade payables

An ageing analysis of the trade payables is analysed as follows:

	2016	2015
Current	353,764	286,439
Less than 30 days past due	175,978	131,257
31-60 days past due	30,293	41,896
61-90 days past due	6,501	11,341
More than 90 days past due	34,821	45,494
Amounts past due	247,593	229,988
	601,357	516,427

11 Other payables

	2016	2015
Sales rebate	163,786	128,492
Salaries, wages, bonuses and other benefits payable	93,436	73,775
Accrued expenses	81,116	77,863
Contract performance deposits	32,437	30,812
Receipts in advance	14,317	16,468
Payables for acquisition of fixed assets	6,728	11,843
Amounts due to related parties	42,600	43,926
Others	28,506	33,978
	462,926	417,157
Derivative financial instruments – interest rate swaps	–	1,834
	462,926	418,991

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

MANAGEMENT DISCUSSION AND ANALYSIS

	2016	2015	% change
Turnover (RMB'000)	8,124,053	8,899,047	-8.7
Gross profit (RMB'000)	754,510	708,203	6.5
Gross profit margin (%)	9.3	8.0	
Profit/(loss) attributable to shareholders of the Company (RMB'000)	53,899	(153,549)	N/A

Economic Environment and Strategy Direction

In 2016, while the economic growth in China continued to slow down, the weak growth in the market demand for the white feather broilers showed a stabilising trend. As for the supply side of the white-feather broilers, as affected by the consecutive outbreak of highly pathogenic avian flu in the US and France in 2015, the import of poultry products from these two countries was suspended, which caused a minimal amount of grandfather generation breeder chickens over the last ten years in 2016. This was an important factor in affecting the trend of the white-feather broiler market. The expectation of supply shortage of day-old chicks from the market supported the price of commercial day-old chicks to remain at a high level of approximately RMB3 to RMB4 per bird for a rather long period of time in 2016. However, as affected by a record high of imports of chicken meat over the last five years, the growth in the domestic price of chicken meat was weak.

From 2013 to 2015, the white feather meat chicken industry in China in general met with losses which lead to the accelerated elimination of small and medium enterprises and farmers so as to increase the industry concentration. To cope with the changes in the economic environment and competitive landscape, the Group closed down factories with less competitiveness and focused on investing superior resources in factories with strong competitiveness so as to enhance the its risk-resisting ability.

The Group invariably adhered to the following operating strategies in 2016:

(1) Continuously increase its market shares and profits in the feed market in Vietnam and Malaysia.

(2) Focus on the sales of functional feeds of higher added value in the feed market in the PRC.

(3) Effectively react to the fluctuation in the market by maintaining a proper scale of electrical slaughtering of broilers and strengthening risk management and cost control.

(4) Strengthen the development of products and markets of the food business so as to enable the Group to become a leader in the professional catering business market.

(5) Continuously optimize the structure of one-stop supply chains and continue to increase the proportion of food productisation.

Providing consumers with safe and traceable products is always our solemn commitment. The Group will continue to improve its operating efficiency by strengthening its internal management. While reducing its operation risks, the Group enhances its overall profitability by steadily increasing the proportion of food productisation.

Business Review

In 2016, benefiting from the recovery of the industry cycle and due to the effect which has gradually emerged from a series of measures for lean development and efficiency enhancement, the meat product segment achieved a gross profit margin of approximately 2.7% after experiencing two years of loss-making. Meanwhile, with the rapid growth of the feed market in Vietnam and the stable development of the domestic food product segment in China, the overall gross profit of the Group was less affected by the decline in the results of the domestic feeds segment.

Generally speaking, the strategic contraction of the business scale of the meat product segment led to a decrease of approximately 8.7% in the Group's turnover as compared with the same period of the last year, but the gross profit had achieved a growth of approximately 6.5% as compared with the same period of the last year.

Meat Product

	2016	2015	% change
Turnover (RMB'000)	2,172,759	3,324,272	-34.6%
Gross profit/(loss) (RMB'000)	59,650	(10,167)	N/A
Gross profit margin (%)	2.7	(0.3)	

The meat product segment mainly sells chilled and frozen chicken meat under the brand of "Sister's Kitchen", and sells lightly processed tender chicken meat to fast food shops, internal and external food processors and food processing service providers and supplies feeds and day-old-chicks to contract farmers. The production region of the segment covers Northeast China, North China and East China while its sales network covers the entire nation.

Business Review

As the number of self-bred day-old chicks had a relative low proportion in the supply chain of the meat product segment, and the cooperation agreements with external chicken farms were largely based on the market price of day-old chicks, the meat product segment did not make a high profit from the upward trend in market of day-old chicks. The reasons for turning losses into profits in the meat product segment were: the concentration of resources on factories with more competitive advantages due to the integration of productivity of the meat product segment; the reduction of the breeding and rearing costs due to the enhancement of breeding and rearing performance; the reduction of the meat product processing costs due to the enhancement of the productivity of electrical slaughter plants; the reduction of indirect costs of meat products due to the reduction and integration of supporting departments; and the enhancement of meat product profitability due to the increase in sales of the valued sales channels. With the above measures, the meat product segment achieved a gross profit of approximately RMB59,650 thousand in 2016 as compared to a loss of approximately RMB10,167 thousand of the same period of the last year.

Future Strategies

The operating strategy of "eliminating risk" adhered by the meat product business will also continue to be implemented in the future, including: (i) to adjust the terms of contracts between the Group and external chicken farms pursuant to the market price trend of day-old chicks and enter into supply contracts with terms of adjusting procurement prices according to the market fluctuations of the price of day-old chicks with minimum guarantee when the price is low and profit sharing when the price is high; (ii) to encourage contract farmers to change the way of rearing from netting to cage, to assist them to optimize their management and to improve the feed-to-meat ratio and to raise the rearing and breeding efficiency; (iii) to continue to enhance the rate of utilization of incubation capacity in order to improve cost control; (iv) to continue to increase the ratio of sales through the valued sales channels of chicken meat, including the "Safe and Fresh Shops" franchised or directly operated by the Group at wet markets as well as commercial supermarkets and converting the Group's chicken meat to prepared food and deeply processed food products, etc; and (v) to flexibly adjust the electrical slaughtering capacity in accordance with the market situation and the structures of the distribution channels.

Livestock Feeds (From External Customers)

	2016	2015	% change
Turnover (RMB'000)			
– China	1,955,284	2,123,952	-7.9%
– Vietnam and Malaysia	2,716,985	2,369,494	14.7%
Total	4,672,269	4,493,446	4.0%
Gross profit (RMB'000)			
– China	157,657	239,160	-34.1%
– Vietnam and Malaysia	285,053	249,839	14.1%
Total	442,710	488,999	-9.5%
Gross profit margin (%)			
– China	8.1	11.3	
– Vietnam and Malaysia	10.5	10.5	
Total	9.5	10.9	

The operating income of the feeds segment was primarily derived from the sales of piglet, sow, hog, broiler and egg chicken feeds to external customers in China, Vietnam and Malaysia. Corn and soybean are the primary raw materials of feeds sold by the Group. The main product brands of this segment are "Dr Nupak", "Green Knight" and "SOS". The production and sales region of this segment covered Vietnam, Malaysia and northeastern, northern, central and southwestern China.

Business Review

In 2016, the feeds segment continued to expand its business scale in Southeast Asia. Due to the proper establishment of sales channels and precise positioning of products, the turnover and gross profit had a substantial increase as compared with the last year. With the fierce market competition in the domestic market in China caused by the overcapacity of the feeds industry and the change in the structure of sales channels brought by the increase in breeding concentration, the homogenisation trend of feed products was becoming more obvious. The combination of all the above factors led to an obvious decline in the turnover and gross profit in the domestic feeds segment in China. However, the adjustment of marketing strategy optimized the sales structure of the domestic feed segment. The sales of sow and piglet feeds have increased to approximately 50% of the total sales of pig feed from approximately 40% in the same period of the last year. Generally speaking, the overall gross profit of the feeds segment decreased by approximately 9.5% as compared with the same period of the last year.

Future Strategies

The domestic feeds segment will continue to pursue the following strategies: (i) to actively consolidate the brand's competitive position in northeastern China, to take advantage of the fermentation technique for pre-digestion in intestines in biotechnology, and to focus on marketing activities for sow and piglet feeds products for developing the number one brand of sow and piglet feeds in China; (ii) to select valued customers and offer them products, technical and service support so as to enhance their loyalty and level of contribution to the Group; (iii) to focus our resources in developing the emission-free in pig rearing and breeding and rearing organic cycle demonstration base at our advanced research centre, and to provide customers with a comprehensive pig breeding and rearing programme, in order to realize a 100% sustainable and environmentally-friendly breeding and rearing system.

Processed Food

	2016	2015	% Change
Turnover (RMB'000)			
– Mainland China	948,875	793,227	19.6%
– Export	330,150	288,102	14.6%
Total	1,279,025	1,081,329	18.3%
Gross profit (RMB'000)			
– Mainland China	188,214	181,826	3.5%
– Export	63,936	47,545	34.5%
Total	252,150	229,371	9.9%
Gross profit margin (%)			
– Mainland China	19.8	22.9	
– Export	19.4	16.5	
Total	19.7	21.2	

The processed food segment includes the production and sales of prepared food under the "Sister's Kitchen" brand, as well as centrifuged and marinated, stewed, pre-fried, steamed, grilled and ready-to-eat consumer food items. The processed food products of the Group were not only sold in the PRC market, but were also exported to overseas markets like Japan. Customer groups of the processed food segment include customers at end-consumer markets and professional markets. The sales channels of the processed food segment are mainly group catering, bakery, casual catering, takeaways, international customers, key customers as well as the retail consumption market. The sales areas of the processed food segment cover Japan, Singapore, Hong Kong, northeastern, northern, eastern and southern China and a few inland regions in northwestern and southwestern China.

Business Review

In 2016, although a rise in the raw material price of chicken meat partially offset the gross profits of food products, the significant growth of the sales of hit products and through key channels was achieved with the planned expansion of the sales team and focus on the development of the food segment in key cities. The domestic sales volume still achieved a growth of approximately 28% in a depressed market environment. As compared with the same period of the last year, the export sales to Japan only increased by approximately 6%. However, as affected by the adjustment of export product structure and depreciation of RMB, the gross profit in export increased by approximately 34.5% as compared with the previous year.

Future Strategies

Our brand's core values are assurance and traceability. The Group has seized the opportunities that arise from Chinese nationals' concerns over food safety and has developed the brand's unique edge. The processed food segment will continue to follow the following strategies:

Professional catering business market: to continue to concentrate its resources on key products and focus its efforts on developing the next star product.

Important customer markets: to enhance the quality of services, and to continue to increase marketing efforts on Chinese fast food customers so as to diversify from the systemic risk of an over concentration on western fast food customers.

International markets: to continue to utilize its advantageous research resources for Japanese-style products to continue the development of customer base in Singapore and Hong Kong in order to diversify from the risk of relying on a single Japanese market.

Retail consumer markets: while cutting its production lines of products, the Group will focus its resources on systematically developing key products for major commercial supermarkets in key cities in order to build up a competitive position for its brands.

Financial Review:

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

In 2016, the Group recorded other operating income of approximately RMB31,561 thousand (2015: approximately RMB6,605 thousand) which mainly comprised of processing income, interest income and government subsidies. The increase in other operating income was mainly due to the increase in processing income.

In 2016, other net gains of the Group amounted to approximately RMB72,520 thousand (2015: losses of approximately RMB132,065 thousand). Other net gains mainly includes net foreign exchange gain and net gain on the disposal of fixed assets.

Distribution costs accounted for approximately 4.73% of total turnover, up from approximately 4.17% in 2015.

Administrative expenses accounted for approximately 3.46% of turnover (2015: approximately 2.81%).

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

As at 31 December 2016, the Group's cash and bank deposit balances amounted to approximately RMB327,539 thousand, representing a decrease of approximately RMB202,612 thousand from 2015. The Group's bank loans decreased by approximately RMB224,096 thousand to approximately RMB803,783 thousand (2015: approximately RMB1,027,879 thousand). As at 31 December 2016, the bank loans to equity ratio was approximately 45.6% (2015: approximately 60.3%). Current ratio was maintained at a healthy level of approximately 1.25 times (2015: approximately 1.61 times).

3) **Capital Expenditure**

In 2016, the Group's capital expenditure on the acquisition of properties, machinery and equipment amounted to approximately RMB120,779 thousand which was primarily paid from internal resources and bank borrowings.

4) **Exchange Rate**

The Group's business transactions are mainly denominated in RMB, USD and VND. During the year under review, VND against RMB appreciated by approximately 3.78% while RMB against USD depreciated by approximately 6.83%.

5) Interest

In 2016, the Group's interest expense amounted to approximately RMB44,852 thousand (2015: approximately RMB25,620 thousand), representing an increase of approximately 75.1% from 2015. The increase in interest expense was primarily due to increase of high interest rate RMB bank loans.

6) Dividends

To reserve the resources for the Group's business development, the Board decides not to distribute any dividend for the year 2016 (2015: no distribution).

7) Charge on Assets

As at 31 December 2016, the Group had no security against bank facilities.

8) Capital Commitment

As at 31 December 2016, the capital expenditure of the Group contracted for but not provided in the financial statements was approximately RMB51,885 thousand (2015: approximately RMB82,429 thousand) and the capital expenditure authorised but not contracted for was approximately RMB90,718 thousand (2015: approximately RMB37,181 thousand).

EMPLOYEE COMPENSATION AND TRAINING

As at 31 December 2016, the Group had a total of 9,815 employees (31 December 2015: 10,951). The Group has paid remuneration to its staff with reference to industry practice, the financial performance of the Group and the employee's work performance in order to form a team of professional staff and management to fulfil the development needs of the Company. The Group places great emphasis on the training and development of employees and regards excellent employees as the Group's core competitiveness. With a view to further enhancing their job skills and industry knowledge, the Group has offered various training programs to its members of management and other employees. The Group implemented these programs not only to enhance the quality of its staff, but also to give best chances for development of their personal career. The Group regularly reviews compensation and benefit policies according to industry benchmark, financial results as well as the individual performance of employees so as to offer fair and competitive compensation packages to the employees. Other fringe benefits including insurance, medical benefits and provident fund are provided to retain loyal employees.

OTHER INFORMATION

Annual General Meeting ("AGM")

The 2017 AGM of the Company will be held on 23 June 2017 (Friday) and the notice of AGM will be published and dispatched to shareholders in the manner as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Closing of Register of Members

The Company will close its register of members from 20 June 2017 (Tuesday) to 23 June 2017 (Friday), both dates inclusive, for the purposes of determining the entitlements of the shareholders to attend and vote at the AGM. No transfer of the shares may be registered during the said period. In order to qualify to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at 22/F, Hopewell Centre, 183 Queen's Road East, Hong Kong, by no later than 4:30 p.m. on 19 June 2017 (Monday) (Hong Kong time).

Purchase, Redemption or Sale of Listed Securities of the Company

During the year ended 31 December 2016, 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 certain non-material deviations, it has complied with the Corporate Governance Code as stated in Appendix 14 to the Listing Rules throughout the year ended 31 December 2016. Details of those immaterial deviations will be disclosed in the 2016 Annual Report of the Company to be published soon.

Audit Committee

The audit committee of the Company ("Audit Committee") was established with written terms of reference in accordance with Appendix 14 to the Listing Rules. The Audit Committee is authorised by the Board to assess matters relating to the financial statements and to provide recommendations and advices 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 2016), the internal control and risk management system. There was no disagreement between the Audit Committee and the external auditors on the accounting policies adopted by the Company.

The Audit Committee comprises Mr. Way Yung-Do (chairman of the Audit Committee), Mr. Chen Chih and Mr. Wei Anning who are all independent non-executive directors of the Company.

On behalf of the Board
Han Jia-Hwan
Chairman

Hong Kong, 23 March 2017

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