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CHINA KANGDA FOOD COMPANY LIMITED

中國康大食品有限公司

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code (Primary Listing): 834)

(Singapore Stock Code (Secondary Listing): P74)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

The board (the “Board”) of directors (the “Directors”) of China Kangda Food Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period in 2021 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2022

	<i>Notes</i>	Six months ended 30 June	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	6	809,010	723,294
Cost of sales		(778,517)	(688,921)
Gross profit		30,493	34,373
Other income	6	23,754	4,134
Selling and distribution expenses		(17,265)	(22,549)
Administrative expenses		(31,148)	(34,965)
Provision for impairment loss on trade and bill receivables and other receivables, net		(781)	(805)
Other operating expenses		(5,401)	(14,257)

		Six months ended 30 June	
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Loss from operations	7	(348)	(34,069)
Finance costs	8	(6,379)	(6,838)
Share of loss of an associate		—	—
		<hr/>	<hr/>
Loss before taxation		(6,727)	(40,907)
Income tax credit	9	331	312
		<hr/>	<hr/>
Loss for the period		(6,396)	(40,595)
		<hr/>	<hr/>
Other comprehensive income			
Item that may be reclassified subsequently			
to profit or loss:			
Exchange differences in translating			
foreign operations		(322)	(79)
		<hr/>	<hr/>
Other comprehensive income for the period		(322)	(79)
		<hr/>	<hr/>
Total comprehensive income for the period		(6,718)	(40,674)
		<hr/> <hr/>	<hr/> <hr/>
Loss for the period attributable to:			
Owners of the Company		(6,494)	(39,841)
Non-controlling interests		98	(754)
		<hr/>	<hr/>
		(6,396)	(40,595)
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income for the period			
attributable to:			
Owners of the Company		(6,816)	(39,920)
Non-controlling interests		98	(754)
		<hr/>	<hr/>
		(6,718)	(40,674)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share attributable			
to owners of the Company	<i>11</i>		
Basic (<i>RMB cents</i>)		(1.5)	(9.2)
Diluted (<i>RMB cents</i>)		(1.5)	(9.2)
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	<i>Notes</i>	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		352,806	380,686
Investment property		187,001	191,519
Rights-of-use assets		105,213	108,432
Interest in an associate		–	–
Goodwill		56,356	56,355
Biological assets		24,739	27,200
Deferred tax assets		238	346
		726,353	764,538
Current assets			
Biological assets		7,140	6,854
Inventories		145,121	127,489
Trade and bills receivables	<i>12</i>	194,786	120,154
Prepayments, other receivables and deposits		89,631	71,103
Pledged deposits		40,000	29,000
Cash and bank balances		152,495	138,624
		629,173	493,224
Total current assets		629,173	493,224
Current liabilities			
Trade and bills payables	<i>13</i>	151,600	227,642
Accrued liabilities and other payables		118,720	116,022
Lease liabilities		4,564	4,447
Contract liabilities		20,456	16,586
Interest-bearing bank borrowings	<i>14</i>	181,623	101,104
Other borrowings		8,980	8,576
Amount due to a related company		37,205	44,494
Loan from immediate holding company		82,699	73,505
Deferred government grants		4,422	4,798
Tax payables		2,300	2,177
Total current liabilities		612,569	599,351

		30 June	31 December
		2022	2021
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Net current assets/(liabilities)		16,604	(106,127)
Total assets less current liabilities		742,957	658,411
Non-current liabilities			
Deferred government grants		19,683	21,088
Interest-bearing bank borrowings	<i>14</i>	117,200	19,400
Lease liabilities		31,043	32,984
Deferred tax liabilities		2,256	2,696
Total non-current liabilities		170,182	76,168
Net assets		572,775	582,243
EQUITY			
Equity attributable to owners of the Company			
– Share capital		112,176	112,176
– Reserves		447,910	454,726
Non-controlling interests		560,086	566,902
Total equity		12,689	15,341
		572,775	582,243

NOTES

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 8399, Binhai Boulevard, Huangdao District, Qingdao, the People's Republic of China. The Company's shares are primary listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited (the "SGX-ST") was changed from primary listing to secondary listing with effect from 23 January 2017.

The principal activity of the Company is investment holding. The principal activities of the Group are production and trading of food products, breeding and sale of livestock, poultry and rabbits.

To the best information, knowledge and belief of the Directors, the immediate holding company of the Company is Zenith Hope Limited, incorporated in British Virgin Islands and the ultimate holding company of the Company is Eternal Myriad Limited, incorporated in British Virgin Islands.

The Group's operations are principally conducted in the People's Republic of China (the "PRC"). The financial statements are presented in Renminbi ("RMB"), being the functional currency of the Group.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the IASB. The condensed consolidated interim financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for biological assets which are stated at fair values.

It should be noted that accounting estimates and assumptions are used in preparation of the condensed consolidated interim financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

3. PRINCIPAL ACCOUNTING POLICIES

The Group has applied the same accounting policies in these condensed consolidated interim financial statements as in its 2021 annual consolidated financial statements, except that it has adopted the following amendments to IFRSs effective for the first time for periods beginning on or after 1 January 2022:

Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, IFRS 16, and IAS 41
Amendment to IFRS 16	Covid-19 – Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework

None of these amendments have material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to IAS 8	Definition of Accounting Estimates ¹
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2023

² No mandatory effective date yet determined by available for adoption

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same those that applied to 2021 annual financial statements.

5. SEGMENT INFORMATION

The Group is organised into four main business segments:

- Production and sale of processed food;
- Production and sale of chilled and frozen chicken meat;
- Production and sale of chilled and frozen rabbit meat; and
- Production and sale of other products.

Information regarding the Group's reportable segments as provided to the executive directors of the Company is set out below:

	Six months ended 30 June 2022				
	Processed food	Chilled and frozen chicken meat	Chilled and frozen rabbit meat	Other products	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reportable segment revenue					
– revenue from external customers	<u>339,988</u>	<u>263,280</u>	<u>76,735</u>	<u>129,007</u>	<u>809,010</u>
Reportable segment profit	<u>32,084</u>	<u>(31,489)</u>	<u>1,164</u>	<u>11,468</u>	<u>13,228</u>
Timing of revenue recognition					
At a point in time	<u>339,988</u>	<u>263,280</u>	<u>76,735</u>	<u>129,007</u>	<u>809,010</u>

	Six months ended 30 June 2021				Total <i>RMB'000</i> (unaudited)
	Processed food <i>RMB'000</i> (unaudited)	Chilled	Chilled	Other products <i>RMB'000</i> (unaudited)	
		and frozen	and frozen		
		chicken	rabbit		
		meat	meat		
Reportable segment revenue					
– revenue from external customers	<u>347,497</u>	<u>158,540</u>	<u>103,895</u>	<u>113,362</u>	<u>723,294</u>
Reportable segment profit	<u>10,991</u>	<u>(12,144)</u>	<u>2,944</u>	<u>10,033</u>	<u>11,824</u>
Timing of revenue recognition					
At a point in time	<u>347,497</u>	<u>158,540</u>	<u>103,895</u>	<u>113,362</u>	<u>723,294</u>

A reconciliation between the reportable segment profit and the Group's (loss)/profit before taxation is set out below:

	Six months ended 30 June	
	2022 <i>RMB'000</i> (Unaudited)	2021 <i>RMB'000</i> (Unaudited)
Reportable segment profit	13,228	11,824
Other income	23,754	4,134
Administrative expenses	(31,148)	(34,965)
Provision for impairment loss on trade and bill receivables and other receivables, net	(781)	(805)
Other operating expenses	(5,401)	(14,257)
Finance costs	(6,379)	(6,838)
Loss before taxation	<u>(6,727)</u>	<u>(40,907)</u>

6. REVENUE AND OTHER INCOME

An analysis of the Group's revenue and other income is as follows:

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	809,010	723,294
	809,010	723,294
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	541	612
Amortisation of deferred income on government grant	2,211	2,157
Government grants related to income	81	160
Gains arising from changes in fair value less estimated costs		
to sell of biological assets, net	1,651	538
Gain on disposal of a subsidiary	12,685	–
Rental income	4,064	–
Others	2,521	667
	23,754	4,134
	23,754	4,134

7. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging/(crediting):

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expense	677,029	580,590
Depreciation of property, plant and equipment	30,710	31,758
Depreciation of rights-of-use assets	3,219	4,387
Depreciation of investment properties	4,518	8,379
Provision for trade and bills receivables	781	805
	<hr/>	<hr/>
Staff costs (including directors' remuneration)	87,642	90,809
<i>Less: Retirement scheme contribution</i>	<i>(4,655)</i>	<i>(4,495)</i>
	<hr/>	<hr/>
Total staff costs	82,987	86,314
Exchange (gain)/loss, net	(3,022)	3,686
	<hr/> <hr/>	<hr/> <hr/>

8. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charges on bank borrowings	5,185	5,825
Interest charges on other borrowings	455	153
Interest charges on lease liabilities	1,148	1,150
<i>Less: Amount capitalised</i>	<i>(409)</i>	<i>(290)</i>
	<hr/>	<hr/>
	6,379	6,838
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Deferred tax credit	331	312

No Hong Kong profits tax has been provided for the six months ended 30 June 2022 as the Group did not derive any assessable profit in Hong Kong during the period under review (six months ended 30 June 2021: Nil).

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Qingdao Kangda Foods Co., Ltd. (“Kangda Foods”) and Shandong Kaijia Food Company Limited (“Kaijia Food”) are established and operating in the PRC and subject to PRC corporate income tax. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods and Kaijia Food are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for six months ended 30 June 2022 and for the corresponding period of 2021.

Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full exemption of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Ltd., Qingdao Kangda Rabbit Company Ltd. and Gaomi Kaijia Rearing Co., Ltd. engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax for the six months ended 30 June 2022 and for the corresponding period of 2021.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

10. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB6,494,000 (six months ended 30 June 2021: loss of RMB39,841,000) and on the weighted average of 432,948,000 (six months ended 30 June 2021: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2022 and the corresponding period of 2021 has been presented as the Company has no potential dilutive ordinary shares during the period.

12. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2022	2021
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	198,126	108,563
Bills receivables	–	14,150
<i>Less</i> : provision for impairment	(3,340)	(2,559)
	194,786	120,154

Trade receivables and bills receivables are non-interest bearing and are generally on 30 to 90 days' terms. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The aging analysis of trade receivables based on invoice dates as at the reporting dates are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 30 days	112,309	78,875
31 – 60 days	33,093	25,770
61 – 90 days	4,351	6,803
Over 90 days	45,033	8,706
	<u>194,786</u>	<u>120,154</u>

Before accepting any new customer, the Group will assess the potential customer's credit quality and set credit limits for that customer. Credit limits attributed to customers are reviewed once a year.

13. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and are normally settled on 60 days terms.

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Trade payables	111,600	169,642
Bills payables	40,000	58,000
	<u>151,600</u>	<u>227,642</u>

The aging analysis of trade and bills payables as at the reporting dates are as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Within 60 days	98,302	117,718
61 – 90 days	20,854	44,700
91 – 120 days	14,046	15,881
Over 120 days	18,398	49,343
	<u>151,600</u>	<u>227,642</u>

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Interest-bearing bank borrowings		
Classified as current liabilities	<u>181,623</u>	<u>101,104</u>
Classified as non-current liabilities	<u>117,200</u>	<u>19,400</u>

As at 30 June 2022, the Group's interest-bearing borrowings were repayable as follows:

	30 June 2022 RMB'000 (Unaudited)	31 December 2021 RMB'000 (Audited)
Portion of term loans from banks due for repayable within one year	181,623	101,104
Portion of term loans from banks repayable in the second year	117,200	400
Portion of term loans from banks repayable in the third to fifth years, inclusive	<u>–</u>	<u>19,000</u>
	<u>298,823</u>	<u>120,504</u>

As at 30 June 2022, approximately RMB298.8 million (31 December 2021: RMB120.5 million) of the interest-bearing bank borrowings are secured by the Group's certain short-term pledged deposits, properties, plants and equipment and land use rights, certain of the Group's related party's and a former subsidiary's properties, plants and equipment and land use rights, and guaranteed by certain related parties of the Group and a former subsidiary.

As at 30 June 2022, the Group's interest-bearing bank borrowings bear interests ranging from 2.52% to 4.75% (31 December 2021: 1.66% to 4.75%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group reported its unaudited results for the six months ended 30 June 2022 (“HY2022”) with a loss attributable to owners of the Company of approximately RMB6.5 million as compared to the net loss attributable to owners of the Company of approximately RMB39.8 million for the six months ended 30 June 2021 (“HY2021”).

The Group continued to adopt stable operation strategy and achieved steady growth in revenue. The revenue increased by 11.9% from approximately RMB723.3 million for HY2021 to approximately RMB809.0 million for HY2022. The growth benefited from recovery of consumer demand. However, the price of raw materials of animal feed ingredients such as corn and soybean meal increased in HY2022, the gross profit margin decreased from 4.8% for HY2021 to 3.8% for HY2022.

The decreased in net loss mainly benefited from the following: (i) recognition of gain on disposal of a subsidiary of RMB12.7 million (HY2021: Nil); (ii) decreased in administrative expense and selling and distribution expenses of RMB9.1 million; and (iii) there was no recognition loss on disposal of under-utilised or obsolete property, plant and equipment in HY2022 (HY2021: RMB4.6 million).

PROSPECT

Being a company focusing on consumer products industry, our business is always affected by economic growth, consumers’ preference, industry cycle and animal epidemics. In HY2022, with re-emergence of trade protectionism and global recession, the whole consumer industry is facing complicated external environment and greater challenges. Despite the challenges, with our products being consumer staples, all the above uncertainties will have limited impact on our business.

As the COVID-19 pandemic became a part of the norm, the Group has formulated a comprehensive and stringent prevention and control plan to safeguard the health of our employees, products safety as well as stable production and smooth sales. With our stringent quality control and food safety systems, we will continue to provide customers with high quality products.

The food industry will continue to face challenges with low growth rate and intense competition. With the consumption upgrades, food safety and healthiness become the focus of consumers' attention, which is always our priority. To maintain the overall profitability and to enhance the competitiveness and resistance against market risk, the Group will focus on high value-added processed foods, safeguard the business relationship with the major customers and proactively explore new markets and new customers.

We will continue to optimise product portfolios, enhance cost management, promote brand building and expand new sales channels to strengthen the core competence and improve the overall performance of the Group.

OPERATING AND FINANCIAL REVIEW

REVENUE BY PRODUCTS

	Six months ended 30 June		
	2022	2021	% Change
	<i>RMB'000</i>	<i>RMB'000</i>	+ / (-)
	(Unaudited)	(Unaudited)	
Processed food	339,988	347,497	(2.2)
Chilled and frozen chicken meat	263,280	158,540	66.1
Chilled and frozen rabbit meat	76,735	103,895	(26.1)
Other products	129,007	113,362	13.8
Total	809,010	723,294	11.9

Revenue derived from the production and sales of processed food, chilled and frozen chicken meat, chilled and frozen rabbit meat and other products contributed 42.0%, 32.5%, 9.5% and 16.0% of the revenue for HY2022, respectively (HY2021: 48.0%, 21.9%, 14.4% and 15.7%).

Processed Food Products

Revenue derived from the production and sales of processed food products decreased by 2.2% to approximately RMB340.0 million for HY2022. Due to the COVID-19 pandemic in several domestic regions, dine-in service had been banned occasionally in HY2022, the revenue of processed food products slightly decreased.

Chilled and Frozen Chicken Meat

Revenue derived from the production and sales of chilled and frozen chicken meat increased by 66.1% to approximately RMB263.3 million in HY2022. More chicken meat was consumed as a substitution for pork consumption due to selling price of pork had significantly increased since April 2022, therefore the demand for chilled and frozen chicken meat increased accordingly.

Chilled and Frozen Rabbit Meat

The sales of chilled and frozen rabbit meat products decreased by 26.1% to approximately RMB76.7 million in HY2022. As certain rabbit farms failed to meet the environmental protection requirements in HY2022, less rabbits were raised during the period under review. Decrease in sales of chilled and frozen rabbit meat was in line with the decrease in the number of rabbits raised.

Other Products

Other products were mainly pet food products, feed products and chicken and rabbit meat by-products. Revenue derived from the production and sales of other products increased by 13.8% to RMB129.0 million in HY2022. The increase benefited from growing market for pet food.

Revenue by Geographical Markets

	Six months ended 30 June		
	2022	2021	% Change
	<i>RMB'000</i>	<i>RMB'000</i>	+ / (-)
	(Unaudited)	(Unaudited)	
Export	216,730	250,378	(13.4)
PRC	592,280	472,916	25.2
Total	809,010	723,294	11.9

On a geographical basis, our revenue from PRC and overseas contributed 73.2% and 26.8% (HY2021: 65.4% and 34.6%) of the revenue in HY2022, respectively. Revenue from PRC sales increased by 25.2% to RMB592.3 million in HY2022. Increase in sales of chilled and frozen chicken meat contributed a majority increase in the revenue from PRC. Export sales decreased by 13.4% to RMB216.7 million in HY2022 due to the completion of the disposal of Qingdao Kangda Haiqing Foods Company Limited (“Haiqing Foods”) in November 2021.

PROFITABILITY

Gross Profit and Margin

	Six months ended		Six months ended		Change	% Change
	30 June 2022		30 June 2021			
	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>+ / (-)</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Processed food	39,340	11.6	21,824	6.3	17,516	80.3
Chicken meat	(25,870)	(9.8)	(7,201)	(4.5)	(18,669)	(259.3)
Rabbit meat	2,802	3.7	6,183	6.0	(3,381)	(54.7)
Other products	14,221	11.0	13,567	12.0	654	4.8
Total	<u>30,493</u>	<u>3.8</u>	<u>34,373</u>	<u>4.8</u>	<u>(3,880)</u>	<u>(11.3)</u>

The overall gross profit margin was 3.8% for HY2022, representing a decrease of 1.0 percentage point from 4.8% of the prior period.

Processed Food Products

Processed food products were our main profit contributor. The gross profit margin increased by 5.3 percentage points to 11.6% in HY2022. The Group proactively developed sales to specific catering channels and convenience stores with higher gross margin and adjusted supplies to some sales channels with lower gross margin.

Chilled and Frozen Chicken Meat

The gross profit margin of chilled and frozen chicken meat decreased by 5.3 percentage points to -9.8% in HY2022. The cost of raw materials of animal feed ingredients such as corn and soybean meal has increased significantly in HY2022. The increased cost of forage resulted in the lower gross profit margin of chilled and frozen chicken meat in HY2022.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat decreased in HY2022, from 6.0% for HY2021 to 3.7% for HY2022. Sales of chilled and frozen rabbit meat decreased by 26.1% in HY2022. Lower production and constant fixed cost resulted in the decreased gross profit margin in HY2022.

Other Products

The gross profit margin of other products decreased by 1 percentage point to 11.0% in HY2022. Increased cost of raw materials negatively affected the gross profit margin of other products.

Other Income

Other income in HY2022 was RMB23.7 million, representing an increase of RMB19.6 million from RMB4.1 million in HY2021. Other income comprised mainly gain on disposal of a subsidiary, rental income, government grants, gains arising from changes in fair value less estimated costs to sell of biological assets and interest income on financial assets. The increase in other income was mainly due to the recognition of gain on disposal of a subsidiary, Shandong Kaijia International Trading Co., Ltd. (“Kaijia International”), of RMB12.7 million (HY2021: Nil) and rental income of rabbit farm of RMB4.1 million (HY2021: Nil). For details of the disposal of Kaijia International, please refer to section “SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS”.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salary and welfare, transportation costs and advertisement costs, and was lower by RMB5.2 million to approximately RMB17.3 million in HY2022. The decrease in selling and distribution expenses was attributable to: (1) disposal of Haiqing Foods in the second half year 2021, which incurred RMB2.5 million selling and distribution expenses in HY2021; and (2) decrease in export sales led to less overseas transportation costs incurred.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The main reason for the decrease in administrative expenses was due to recognition of foreign exchange gain of RMB3.0 million in HY2022 (HY2021: loss of RMB3.7 million).

Other Operating Expenses

Other operating expenses for HY2022 was RMB5.4 million, representing a decrease of RMB8.9 million from RMB14.3 million for HY2021. Other operating expenses represented miscellaneous expenses and losses, comprising mainly depreciation of investment properties and loss on disposal of under-utilised or obsolete property, plant and equipment. The Group has not recognised loss on disposal of under-utilised or obsolete property, plant and equipment in HY2022 (HY2021: RMB4.6 million).

Finance Costs

Finance costs decreased by 6.7% to approximately RMB6.4 million in HY2022, mainly due to decrease in average balance of bank borrowing for HY2022.

Taxation

The Group recorded an income tax credit of RMB0.3 million. In HY2022, the Group was in a position of tax loss and no current period taxation was provided. The income tax credit was mainly derived from the deferred tax credit. Some of the subsidiaries of the Group engaged in qualifying agricultural business, which include breeding and sales of livestock, were entitled to full exemption of corporate income tax during the period under review.

Review of the Group's Financial Position as at 30 June 2022

The Group's property, plant and equipment ("PPE") were mainly leasehold buildings and plant and machinery. The PPE decreased by 7.3% to approximately RMB352.8 million as at 30 June 2022. The decrease was a net effect of depreciation charge and addition of plant and machinery.

The investment property represented leasehold buildings in property, plant and equipment and right-of-use assets in relation to rabbit farms held to earn rental income. The investment property was stated at cost less accumulated depreciation as the fair value cannot be reliably measured since there were no active market prices for similar properties.

Right-of-use assets represented operating lease assets and prepaid premium for land leases. The decrease was a result of depreciation of the right-of-use assets during the current period.

Goodwill arose from the acquisitions of subsidiaries in the past.

Biological assets mainly referred to progeny rabbits, breeder rabbits and hatchable eggs for sales and breeder rabbits and chickens for breeding purpose. These biological assets were valued by the management of the Group as at 30 June 2022 based on market-determined prices of rabbits/chickens of similar size, species and age. The valuation methodology is in compliance with IAS 41 and IFRS 13 to determine the fair values of biological assets in their present location and condition. Biological assets, including current and non-current biological assets, decreased by 6.4% as at 30 June 2022 as compared to that of 31 December 2021. The main reason for the decrease was attributable to less breeder chickens raised.

Inventory increased by RMB17.6 million to approximately RMB145.1 million as at 30 June 2022. The increase in inventory was in line with the increase in sales. The inventory turnover days for HY2022 were 31.9 days as compared to 36.9 days for HY2021.

Trade and bills receivables increased by RMB74.6 million to approximately RMB194.8 million as at 30 June 2022. The increase was mainly due to the increase in sales in HY2022 and more trade receivables were collected at the end of the year 2021.

Prepayments, other receivables and deposits increased by RMB18.5 million to approximately RMB89.6 million as at 30 June 2022. The increase was mainly due to the prepayments made for purchasing forage and raw materials of processed food.

The pledged deposits were secured against the bills payables and bank borrowings of the Group. Addition in bank loans led to the increase in pledged deposits.

The increase of cash and cash equivalents was mainly a net effect of addition of bank loans and payment of trade payables.

Trade and bills payables decreased by 33.4% to approximately RMB151.6 million as at 30 June 2022. The decrease in the trade and bills payables was mainly due to the settlement of trade payables.

Accrued liabilities and other payables represented payables for salary and welfare payables, accrued expenses and deposit received, increased by 2.3% to approximately RMB118.7 million as at 30 June 2022. The balance remained stable as at 30 June 2022 as compared to 31 December 2021.

Lease liabilities represented the present value of the lease payments that are not paid as the adoption of IFRS 16. The decrease in lease liabilities was a result of payment of rentals in HY2022.

Contract liabilities represents advance consideration from customers which the performance obligation under the Group's existing contracts were unfulfilled. The increase was a result of more advance payment received from customers due to favorable market trend.

The interest-bearing bank and other borrowing balances increased by RMB178.3 million to approximately RMB298.8 million as at 30 June 2022, after taking into account the additional bank borrowings of approximately RMB279.8 million and the loan repayment of approximately RMB101.5 million.

Loan from immediate holding company increased by RMB9.2 million to RMB82.7 million as at 30 June 2022. The loan is interest-free, unsecured and repayable within one year.

CAPITAL STRUCTURE

As at 30 June 2022, the Group had net assets of approximately RMB572.8 million (31 December 2021: RMB582.2 million), comprising of non-current assets of approximately RMB726.4 million (31 December 2021: RMB764.5 million), and current assets of approximately RMB629.2 million (31 December 2021: RMB493.2 million). The Group recorded a net current assets position of approximately RMB16.6 million as at 30 June 2022 (31 December 2021: net current liabilities of RMB106.1 million), which primarily consisted of cash and bank balances amounted to approximately RMB152.5 million (31 December 2021: RMB138.6 million). Moreover, inventories amounted to approximately RMB145.1 million (31 December 2021: RMB127.5 million) and trade receivables amounted to approximately RMB194.8 million (31 December 2021: RMB120.2 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB151.6 million (31 December 2021: RMB227.6 million) and RMB181.6 million (31 December 2021: RMB101.1 million), respectively.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2022, the Group had cash and bank balances of approximately RMB152.5 million (31 December 2021: RMB138.6 million) and had interest-bearing bank borrowings, loan from immediate holding company and amount due to a related company of approximately RMB298.8 million, RMB82.7 million and RMB37.2 million, respectively (31 December 2021: RMB120.5 million, RMB73.5 million and RMB44.5 million, respectively). The Group's interest-bearing bank borrowings bear interests ranging from 2.52% to 4.75% (31 December 2021: 1.66% to 4.75%) per annum.

The gearing ratio for the Group was 82.7% as at 30 June 2022 (31 December 2021: 50.2%), based on net debt of RMB463.3 million (31 December 2021: RMB284.5 million) and equity attributable to owners of the Company of RMB560.1 million (31 December 2021: RMB566.9 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The management of the Company is confident that the Group has adequate financial resources to meet its future debt repayment and support its working capital requirement and future expansion.

FOREIGN CURRENCY EXPOSURE

The Group is exposed to foreign exchange risk during the period under review arising from various currency exposures mainly to the extent of its receivables in currencies denominated in US dollars, Japanese Yen and EURO.

The Group does not have a formal foreign currency hedging policy or conducts hedging exercise to reduce its foreign currency exposure. However, the management of the Company monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should it be necessary.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB6.9 million (31 December 2021: RMB12.7 million).

CHARGE ON GROUP'S ASSETS

Total interest-bearing bank borrowings include secured liabilities of approximately RMB298.8 million as at 30 June 2022 (31 December 2021: RMB120.5 million).

As at 30 June 2022, the Group's interest-bearing bank borrowings are secured by certain of the Group's short-term pledged deposit, properties, plants and equipment and land use rights, certain of the Group's related party's and a former subsidiary's properties, plants and equipment and land use rights, and guaranteed by certain related parties of the Group and a former subsidiary.

CONTINGENT LIABILITIES

As at 30 June 2022, the Group did not have any material contingent liabilities (31 December 2021: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2022, the Group employed a total of 2,233 employees (as at 31 December 2021: 2,849 employees) situated in the PRC. The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the period under review, the total staff costs (including Directors' emoluments) amounted to approximately RMB83.0 million (for the six months ended 30 June 2021: RMB86.3 million). The Company does not have share option scheme for its employees.

INTERIM DIVIDEND

The Board does not recommend the distribution of any interim dividend for HY2022 (HY2021: Nil).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 28 April 2022, Shandong Kaijia Food Company Limited, an indirect wholly owned subsidiary of the Company entered into an equity transfer agreement with Gaomi Gengsheng Food Company Limited (being (i) a substantial shareholder of Kaijia International; and (ii) its owners, namely Mr. Wang Huanwei (王煥偉) and Mr. Liu Tangjun (劉堂君), are directors of Kaijia International) to dispose 70% of the equity interests of Kaijia International, an indirect non-wholly owned subsidiary of the Company at a cash consideration of RMB17,500,000. Having satisfied all the terms and conditions of the equity transfer agreement, the Group ceased control of Kaijia International and the disposal was completed on 18 May 2022. Gain on disposal of Kaijia International of RMB12.7 million has been recognised in other income.

Save as disclosed above, and except for investment in subsidiaries, the Group did not hold any significant investments in equity interest in other companies nor have any material acquisitions or disposals of subsidiaries or associated companies during the six months ended 30 June 2022.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

There was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2022.

AUDIT COMMITTEE

The audit committee of the Board (the “Audit Committee”) consists of all the independent non-executive Directors, namely Mr. Chan Ka Yin, Mr. Li Xu and Ms. Hui Wing Man. The chairman of the Audit Committee is Mr. Chan Ka Yin. The Audit Committee has reviewed with the management the accounting principles and standards adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the Company’s unaudited financial statements for the six months ended 30 June 2022 and this results announcement.

CODE ON CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2022, the Company has complied with all the code provisions (the “Code Provision(s)”) set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”), save for the deviation as listed below.

Code Provision C.2.1 states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Under the current organisation structure of the Company, Mr. Fang Yu is the chairman and chief executive officer of the Company. With his extensive experience in the financial industry, the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Mr. Fang Yu performs both the roles of chairman and chief executive officer, the division of responsibilities between the chairman and chief executive officer is clearly established. The two roles are performed by Mr. Fang Yu distinctly. The Company considers that it is the long term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the “Model Code”). Having made specific enquiry to all the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code for the six months ended 30 June 2022 and up to the date of this announcement.

EVENTS AFTER REPORTING PERIOD

There were no important events affecting the Group since 30 June 2022.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The Company’s 2022 interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk), SGX-ST (www.sgx.com) and the Company (www.kangdafood.com). The Company’s 2022 interim report will also be published on the aforesaid websites in due course.

APPRECIATION

I would like to extend my gratitude and sincere appreciation to all management and staff members for their diligence and dedication, and also to our business partners and the Company's shareholders for their continuing support.

On behalf of the Board

China Kangda Food Company Limited

Fang Yu

Chairman, Executive Director and Chief Executive Officer

Hong Kong, 30 August 2022

As at the date of this announcement, the executive Directors are Mr. Fang Yu (Chief Executive Officer and Chairman), Mr. An Fengjun, Mr. Gao Yanxu, Mr. Luo Zhenwu and Mr. Li Wei; and the independent non-executive Directors are Mr. Chan Ka Yin, Mr. Li Xu and Ms. Hui Wing Man.