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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 2021**

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 2021 together with the comparative figures for the corresponding period in 2020 as set out below.

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

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	723,294	702,536
Cost of sales		<u>(688,921)</u>	<u>(642,484)</u>
Gross profit		34,373	60,052
Other income	6	4,134	7,923
Selling and distribution expenses		(22,549)	(24,561)
Administrative expenses		(34,965)	(30,910)
Other operating expenses		<u>(15,062)</u>	<u>(3,882)</u>

		Six months ended 30 June	
		2021	2020
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
(Loss)/Profit from operations	7	(34,069)	8,622
Finance costs	8	(6,838)	(10,478)
Share of loss of an associate		<u>–</u>	<u>(206)</u>
Loss before taxation		(40,907)	(2,062)
Income tax credit	9	<u>312</u>	<u>316</u>
Loss for the period		<u>(40,595)</u>	<u>(1,746)</u>
Other comprehensive income			
Item that may be reclassified subsequently			
to profit or loss:			
Exchange differences in translating			
foreign operations		<u>(79)</u>	<u>(363)</u>
Other comprehensive income for the period		<u>(79)</u>	<u>(363)</u>
Total comprehensive income for the period		<u>(40,674)</u>	<u>(2,109)</u>
Loss for the period attributable to:			
Owners of the company		(39,841)	(1,624)
Non-controlling interests		<u>(754)</u>	<u>(122)</u>
		<u>(40,595)</u>	<u>(1,746)</u>
Total comprehensive income for the period			
attributable to:			
Owners of the Company		(39,920)	(1,987)
Non-controlling interests		<u>(754)</u>	<u>(122)</u>
		<u>(40,674)</u>	<u>(2,109)</u>
Loss per share attributable			
to owners of the Company	<i>11</i>		
Basic (<i>RMB cents</i>)		(9.2)	(0.38)
Diluted (<i>RMB cents</i>)		<u>(9.2)</u>	<u>(0.38)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	<i>Notes</i>	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		398,190	423,362
Investment Property		194,172	195,619
Rights-of-use assets		110,376	114,870
Interest in an associate		–	–
Goodwill		56,355	56,355
Biological assets		27,570	32,178
Deferred tax assets		455	583
Deposits for property, plant and equipment		1,988	1,631
		789,106	824,598
Current assets			
Biological assets		21,552	21,168
Inventories		157,749	120,642
Trade and bills receivables	<i>12</i>	144,365	86,575
Prepayments, other receivables and deposits		41,041	45,079
Pledged deposits		45,000	45,432
Cash and bank balances		123,143	208,762
		532,850	527,658
Assets classified as held for sale		129,653	115,985
Total current assets		662,503	643,643
Current liabilities			
Trade and bills payables	<i>13</i>	178,355	148,511
Accrued liabilities and other payables		106,293	117,908
Lease liabilities		4,461	4,574
Contract liabilities		32,747	13,665
Interest-bearing bank borrowings	<i>14</i>	245,400	275,000
Other borrowings		8,987	9,210
Amount due to a related company		4,435	9,378
Loan from immediate holding company		74,888	76,375
Deferred government grants		4,127	4,395
Tax payables		2,220	2,350
		661,913	661,366

		30 June	31 December
		2021	2020
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Liabilities associated with assets classified as held for sale		<u>117,558</u>	<u>109,160</u>
Total current liabilities		<u>779,471</u>	<u>770,526</u>
Net current liabilities		<u>(116,968)</u>	<u>(126,883)</u>
Total assets less current liabilities		<u>672,138</u>	<u>697,715</u>
Non-current liabilities			
Deferred government grants		19,568	21,457
Interest-bearing bank borrowings	14	19,600	–
Lease liabilities		35,260	37,434
Deferred tax liabilities		<u>3,135</u>	<u>3,575</u>
Total non-current liabilities		<u>77,563</u>	<u>62,466</u>
Net assets		<u>594,575</u>	<u>635,249</u>
EQUITY			
Equity attributable to owners of the Company			
– Share capital		112,176	112,176
– Reserves		<u>455,859</u>	<u>495,779</u>
		568,035	607,955
Non-controlling interests		<u>26,540</u>	<u>27,294</u>
Total equity		<u>594,575</u>	<u>635,249</u>

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 2020 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 2021:

Amendments to IFRS 16	COVID-19 Related Rent Concessions
Amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9, and IFRS 16	Interest Rate Benchmark Reform – Phase 2

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.

2021 Amendments to IFRS 16	COVID-19 Related Rent Concessions beyond 30 June 2021 ¹
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use ²
Amendments to IAS 37	Onerous Contracts — Cost of Fulfilling a Contract ²
Annual Improvements to IFRSs 2018–2020 Cycle	Amendments to IFRS 9 Financial Instruments and IFRS 16 Leases ²
Amendments to IFRS 3	Reference to the Conceptual Framework ³
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁴
Amendments to IAS 12	Deferred Tax Related to Assets and Liabilities arising from a Single Transaction ⁴

¹ Effective for annual periods beginning on or after 1 April 2021.

² Effective for annual periods beginning on or after 1 January 2022.

³ Effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022.

⁴ Effective for annual periods beginning on or after 1 January 2023.

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 2020 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 2021				
	Processed	Chilled	Chilled	Other	Total
	food	and frozen	and frozen	products	
	meat	chicken	rabbit		
	meat	meat	meat		
	<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>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>

	Six months ended 30 June 2020				
	Processed food <i>RMB'000</i> (unaudited)	Chilled and frozen chicken meat <i>RMB'000</i> (unaudited)	Chilled and frozen rabbit meat <i>RMB'000</i> (unaudited)	Other products <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
	Reportable segment revenue				
	– revenue from external customers	295,216	227,941	70,378	109,001
Reportable segment profit	16,830	5,619	2,643	10,399	35,491
Timing of revenue recognition					
At a point in time	295,216	227,941	70,378	109,001	702,536

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

	Six months ended 30 June	
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)
Reportable segment profit	11,824	35,491
Other income	4,134	7,923
Administrative expenses	(34,965)	(30,910)
Other operating expenses	(15,062)	(3,882)
Finance costs	(6,838)	(10,478)
Share of loss of an associate	–	(206)
(Loss)/Profit before taxation	(40,907)	(2,062)

6. REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	<u>723,294</u>	<u>702,536</u>
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	612	1,429
Amortisation of deferred income on government grant	2,157	1,476
Government grants related to income	160	293
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	538	4,285
Others	<u>667</u>	<u>440</u>
	<u>4,134</u>	<u>7,923</u>

7. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expense	580,590	529,670
Depreciation of property, plant and equipment	31,758	31,366
Depreciation of rights-of-use assets	4,387	8,101
Depreciation of investment properties	8,379	–
Provision for trade and bills receivables	805	249
	<hr/>	<hr/>
Staff costs (including directors' remuneration)	90,809	94,146
<i>Less: Retirement scheme contribution</i>	(4,495)	(2,697)
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Total staff costs	86,314	91,449
Exchange loss, net	3,686	1,540
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8. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charges on bank borrowings	5,825	9,341
Interest charges on other borrowings	153	71
Interest charges on lease liabilities	1,150	1,539
<i>Less: Amount capitalised</i>	(290)	(473)
	<hr/>	<hr/>
	6,838	10,478
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current period		
– Overprovision (Under-provision) of PRC corporate income tax in prior years	–	32
Deferred tax credit	<u>312</u>	<u>284</u>
	<u><u>312</u></u>	<u><u>316</u></u>

No Hong Kong profits tax has been provided for the six months ended 30 June 2021 as the Group did not derive any assessable profit in Hong Kong during the period under review (six months ended 30 June 2020: 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 2021 and for the corresponding period of 2020.

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 during six months ended 30 June 2021 and for the corresponding period of 2020.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the period under review (six months ended 30 June 2020: Nil).

10. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: 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 RMB39,841,000 (six months ended 30 June 2020: loss of RMB1,624,000) and on the weighted average of 432,948,000 (six months ended 30 June 2020: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2021 and 2020 has been presented as the Company has no potential dilutive ordinary shares during the period.

12. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	147,224	89,329
Bills receivables	1,450	750
<i>Less</i> : provision for impairment	(4,309)	(3,504)
	144,365	86,575

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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 30 days	93,284	50,678
31 – 60 days	36,074	29,084
61 – 90 days	9,240	4,268
Over 90 days	5,767	2,545
	<u>144,365</u>	<u>86,575</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 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	138,355	103,511
Bills payables	40,000	45,00
	<u>178,355</u>	<u>148,511</u>

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 60 days	98,387	87,097
61 – 90 days	22,634	10,417
91 – 120 days	31,264	30,456
Over 120 days	26,070	20,541
	<u>178,355</u>	<u>148,511</u>

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Interest-bearing bank borrowings		
Classified as current liabilities	<u>245,400</u>	<u>275,000</u>
Classified as non-current liabilities	<u>19,600</u>	<u>–</u>

As at 30 June 2021, the Group's interest-bearing borrowings were repayable as follows:

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Portion of term loans from banks due for repayable within one year	245,400	275,000
Portion of term loans from banks repayable in the second year	400	–
Portion of term loans from banks repayable in the third to fifth years, inclusive	<u>19,200</u>	<u>–</u>
	<u>265,000</u>	<u>275,000</u>

As at 30 June 2021, approximately RMB265 million (31 December 2020: RMB275 million) of the interest-bearing bank borrowings are secured by certain of the Group's properties, plants and equipment and land use rights, certain of the Group's related party's properties, plants and equipment and land use rights, short-term pledged deposits and guaranteed by certain subsidiaries and related parties of the Group.

As at 30 June 2021, the Group's interest-bearing bank borrowings bear interests ranging from 3.35% to 5.6% (31 December 2020: 3.35% to 5.6%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group reported its unaudited results for the six months ended 30 June 2021 (“HY2021”) with a loss attributable to owners of the Company of approximately RMB39.8 million as compared to the net loss attributable to owner of the Company of approximately RMB1.6 million for the six months ended 30 June 2020 (“HY2020”).

The Group continued to adopt stable operation strategy and achieved steady growth in revenue. The revenue increased by 3.0% from approximately RMB702.5 million for HY2020 to approximately RMB723.3 million for HY2021. 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 and ocean freight for export increased in HY2021, the gross profit margin decreased from 8.5% for HY2020 to 4.8% for HY2021. Consequently, the gross profit decreased by RMB25.7 million to RMB34.4 million for HY2021. In addition, the Group recognized loss on disposal of under-utilised or obsolete property, plant and equipment of RMB4.6 million in HY2021. All these negative factors led to the significant increase in net loss attributable to the shareholders of the Company in HY2021.

PROSPECTS

Being a company focusing on consumer products industry, our business is always affected by economic growth, consumers’ preference, industry cycle and animal epidemics. In 2021, with the continuation of COVID-19 pandemic, 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, the impact of all these uncertainties will be manageable.

With the continuation of COVID-19 pandemic, the Group has formulated a comprehensive and stringent prevention and control plan to safeguard the health of our employee, products safety as well as stable production and smooth sales. We are taking various effective measures to minimise the disruption on the daily operations and to assure the continuity of the business. Meanwhile, we will continue to be highly cautious on the latest development of the pandemic and strictly implement our prevention and control plan. With our stringent quality control and food safety systems, we will continue to provide customers with safe and high quality products.

The food industry will continue to face challenges with low growth rate and intense competition. 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.

With the consumption upgrades, food safety and healthiness become the focus of consumers' attention, which is always our priority. Rabbit meat is healthier with far more protein, less fat and calorie levels compared to other meats. Rabbit meat segment is always the core and competitive business of the Group. The Group has established the whole industrial chain of rabbit meat from breeding, slaughtering to processing and is one of eight enterprises in the PRC which possesses the permit to export rabbit meat to overseas market. The Group is confident that the demands for rabbit meat will increase steadily with further improvement of living standards and more consumers tend to prefer a wider variety of nutritious foods. Therefore, the Group will continue to leverage on its leading position in the rabbit meat segment and offer consumers with healthy and safe products.

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		% Change + / (-)
	2021 <i>RMB'000</i> (Unaudited)	2020 <i>RMB'000</i> (Unaudited)	
Processed food	347,497	295,216	17.7
Chilled and frozen chicken meat	158,540	227,941	(30.4)
Chilled and frozen rabbit meat	103,895	70,378	47.6
Other products	113,362	109,001	4.0
Total	<u>723,294</u>	<u>702,536</u>	<u>3.0</u>

Revenue derived from the production and sales of processed food, chilled and frozen chicken meat, chilled and frozen rabbit meat and others contributed 48.0%, 21.9%, 14.4% and 15.7% of the revenue for HY2021 (HY2020: 42.0%, 32.4%, 10.0% and 15.6%), respectively.

Processed Food Products

Revenue derived from the production and sales of processed food products increased by 17.7% to approximately RMB347.5 million for HY2021. The reason for the increase was that some domestic fast-food chains cancelled their processed food products orders due to the outbreak of COVID-19 in HY2020. With the stability of the pandemic in China, fast-food consumption gradually recovered in HY2021.

Chilled and Frozen Chicken Meat

Revenue derived from the production and sales of chilled and frozen chicken meat decreased by 30.4% to approximately RMB158.5 million in HY2021. In the recent year, the cost of raw materials of animal feed ingredients such as corn and soybean meal increased significantly, and the market price of broilers experienced great fluctuations. The company has actively adjusted its business strategy and reduced feeding and sales of broilers.

Chilled and Frozen Rabbit Meat

The sales of chilled and frozen rabbit meat products increased by 47.6% to approximately RMB103.9 million in HY2021. Such increase benefited from new customers developed in recent years.

Other Products

Other products were mainly pet food products, feed products and chicken and rabbit meat by-products. Revenue derived from the production and sale of other products increased by 4% to RMB113.4 million in HY2021. The increase benefited from new sales channel developed in Europe in recent years.

Revenue by Geographical Markets

	Six months ended 30 June		
	2021	2020	% Change
	<i>RMB'000</i>	<i>RMB'000</i>	+ / (-)
	(Unaudited)	(Unaudited)	
Export	250,378	253,966	(1.4)
PRC	472,916	448,570	5.4
Total	723,294	702,536	3.0

On a geographical basis, our revenue from PRC and overseas contributed 65.4% and 34.6% (HY2020: 63.9% and 36.1%) of the revenue in HY2021, respectively. Revenue from PRC sales increased by 5.4% to RMB472.9 million in HY2021. Export sales decreased slightly by 1.4% to RMB250.4 million in HY2021. With the recovery of consumer demand due to China's successful control on the pandemic, the PRC sales increased accordingly.

PROFITABILITY

Gross Profit and Margin

	Six month ended		Six month ended		Change	% Change
	30 June 2021		30 June 2020			
	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>Margin %</i>		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Processed food	21,824	6.3	27,151	9.2	(5,327)	(19.6)
Chicken meat	(7,201)	(4.5)	13,588	6.0	(20,789)	(153.0)
Rabbit meat	6,183	6.0	5,103	7.3	1,080	21.2
Other products	13,567	12.0	14,210	13.0	(643)	(4.5)
Total	34,373	4.8	60,052	8.5	(25,679)	(42.8)

The overall gross profit margin was 4.8% for HY2021, representing a decrease of 3.7 percentage point from 8.5% of the prior period.

Processed Food Products

Processed food products were our main profit contributor. The gross profit margin decreased by 2.9 percentage point to 6.3% in HY2021. The decrease was mainly due to increased raw material cost.

Chilled and Frozen Chicken Meat

The gross profit margin of chilled and frozen chicken meat decreased by 10.5 percentage point to -4.5% in HY2021. The cost of raw materials of animal feed ingredients such as corn and soybean meal has increased significant in current period. The company has actively reduced feeding and sales of broilers. The increased cost of forage, lower production, constant fixed cost resulted in the lower gross profit margin of chilled and frozen chicken meat in HY2021.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat had a decrease in HY2021, from 7.3% for HY2020 to 6% for HY2021. Increased ocean freight for export sales negatively affected the gross profit margin of chilled and frozen rabbit meat.

Other Products

The gross profit margin of other products decreased by 1 percentage point to 12.0% in HY2021. Increased ocean freight for export sales and increased cost of raw materials negatively affected the gross profit margin of other products.

Other Income

Other income in HY2021 was RMB4.1 million, representing a decrease of RMB3.8 million from RMB7.9 million in HY2020. Other income comprised mainly gain arising from changes in fair value less estimated costs to sell of biological assets, government grants and interest income on financial assets in HY2021 amounting to RMB0.5 million, RMB2.2 million and RMB0.6 million, respectively. The decrease in other income was mainly due to the decrease of RMB3.7 million in gains arising from changes in fair value less estimated costs to sell of biological assets. The changes in fair value were a result from fluctuation of market price of chickens.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salary and welfare, transportation costs and advertisement costs, and was lower by 8.2% to approximately RMB22.5 million in HY2021. The main reasons for the decrease in selling expenses in HY2021 were attributable to additional transportation costs incurred due to transportation restrictions during the early stage of COVID-19 pandemic in HY2020.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The reason for the increase in administrative expenses was because exchange loss increased by RMB2.2 million during HY2021 and more travelling expenses incurred in HY2021.

Other Operating Expenses

Other operating expenses for HY2021 was RMB15.1 million, representing an increase of RMB11.2 million from RMB3.9 million for HY2020. Other operating expenses represented miscellaneous expenses and losses, comprising mainly depreciation of investment properties of RMB8.4 million (HY2020: Nil) and loss on disposal of under-utilised or obsolete property, plant and equipment of RMB4.6 million. Certain leasehold buildings in property, plant and equipment and right-of-use assets were transferred to investment properties in second half year of 2020, and accordingly the depreciations of these assets were transferred from cost of sales to other operating expense.

Finance Costs

Finance costs decreased by 34.7% to approximately RMB6.8 million in HY2021, mainly due to decrease in average balance of bank borrowing for the current period.

Taxation

The Group recorded an income tax credit of RMB0.3 million. In HY2021, 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 2021

The Group's property, plant and equipment ("PPE") were mainly leasehold buildings and plant and machinery. The PPE decreased by 5.9% to approximately RMB398.2 million as at 30 June 2021. The decrease was a net effect of depreciation charge, disposal of breeder farms 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.

The deposits for property, plant and equipment were prepayment paid for PPE and were non-current in nature.

Biological assets mainly referred to progeny rabbits and progeny chickens for sale and breeder rabbits and chickens for breeding purpose. These biological assets were valued by the management of the Group as at 30 June 2021 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 7.9% as at 30 June 2021 as compared to that of 31 December 2020. The main reason for the decrease was attributable to the decrease in fair value of biological assets.

Inventory increased by RMB37.1 million to approximately RMB157.7 million as at 30 June 2021. The inventory turnover days for HY2021 were 36.9 days as compared to 38 days for HY2020.

Trade and bills receivables increased by RMB57.8 million to approximately RMB144.4 million as at 30 June 2021. The increase was mainly due to more trade receivables were collected at the end of the year 2020.

Prepayments, other receivables and deposits decreased by 9% to approximately RMB41 million as at 30 June 2021. The decrease was mainly due to prepayments made for purchasing forage and raw material of processed food as price rise was expected at the end of last year.

The pledged deposits were secured against the bills payables and bank borrowing of the Group. The pledged deposits remained stable as at 30 June 2021 as compared to 31 December 2020.

The decrease of cash and cash equivalents was mainly attributable to the decrease in cash generated from operating activities. Affected by the continuous pandemic, the collection of accounts receivable has slowed down in HY2021.

Trade and bills payables increased by 20.1% to approximately RMB178.4 million as at 30 June 2021. The increase in the trade and bills payables was mainly due to slowdown in settlement of trade payables during the current period.

Accrued liabilities and other payables represented payables for salary and welfare payables, accrued expenses and deposit received, decreased by 9.9% to approximately RMB106.3 million as at 30 June 2021. The decrease mainly due to settlement of payables for construction in progress.

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 during the current period.

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 customer due to favorable market trend.

The interest-bearing bank and other borrowing balances decreased by RMB10.2 million to approximately RMB274 million as at 30 June 2021, after taking into account the additional bank borrowings of approximately RMB20.0 million and the loan repayment of approximately RMB30.0 million.

Loan from immediate holding company decreased by RMB1.5 million to 74.9 million as at 30 June 2021. The loan is interest-free, unsecured and repayable within one year.

Assets classified as held for sale and liabilities associated with assets classified as held for sale represented assets and liabilities of Qingdao Kangda Haiqing Foods Company Limited (“Haiqing Foods”). For details of the disposal of Haiqing Foods, please refer to section “SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS”. The disposal is still underway as at 30 June 2021 as certain conditions precedent have not been met. Assets and liabilities of Haiqing Foods had been classified as “Assets classified as held for sale” and “Liabilities associated with assets classified as held for sale” respectively. The Directors are of the view that the disposal of Haiqing Foods is highly probable to be completed within twelve months from the date of classification.

CAPITAL STRUCTURE

As at 30 June 2021, the Group had net assets of approximately RMB594.6 million (31 December 2020: RMB635.2 million), comprising of non-current assets of approximately RMB789.1 million (31 December 2020: RMB824.6 million), and current assets of approximately RMB662.5 million (31 December 2020: RMB643.6 million). The Group recorded a net current liability position of approximately RMB117.0 million as at 30 June 2021 (31 December 2020: RMB126.9 million), which primarily consisted of cash and bank balances amounted to approximately RMB123.1 million (31 December 2020: RMB208.8 million). Moreover, inventories amounted to approximately RMB157.7 million (31 December 2020: RMB120.6 million) and trade receivables amounted to approximately RMB144.4 million (31 December 2020: RMB86.6 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB178.4 million (31 December 2020: RMB148.5 million) and RMB265.0 million (31 December 2020: RMB275.0 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 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 2021, the Group had cash and bank balances of approximately RMB123.1 million (31 December 2020: RMB208.8 million) and had interest-bearing bank borrowings, loan from immediate holding company and amount due to a related company of approximately RMB265.0 million, RMB74.9 million and RMB4.4 million respectively (31 December 2020: RMB275.0 million, RMB76.4 million and RMB9.4 million respectively). The Group’s interest-bearing bank borrowings bear interests ranging from 3.35% to 5.6% (31 December 2020: 3.35% to 5.6%).

The gearing ratio for the Group was 69.2% as at 30 June 2021 (31 December 2020: 67.8%), based on net debt of RMB393.0 million (31 December 2020: RMB412.0 million) and equity attributable to owners of RMB568.0 million (31 December 2020: RMB608.0 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 2021, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB17.7 million (31 December 2020: RMB21.9 million).

CHARGE ON GROUP'S ASSETS

Total interest-bearing bank borrowings include secured liabilities of approximately RMB265.0 million as at 30 June 2021 (31 December 2020: RMB275.0 million).

As at 30 June 2021, the Group's interest-bearing bank borrowings are secured by certain of the Group's properties, plants and equipment and land use rights, certain of the Group's related party's properties, plants and equipment and land use rights, short-term pledged deposits and guaranteed by certain subsidiaries and related parties of the Group.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any material contingent liabilities (31 December 2020: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2021, the Group employed a total of 2,456 employees (as at 31 December 2020: 2,819 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 RMB90.8 million (for the six months ended 30 June 2020: RMB94.1 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 HY2021 (HY2020: Nil).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 7 December 2020, the Group entered into the equity transfer agreements with independent third parties to dispose all the equity interest of Haiqing Foods, an indirect wholly-owned subsidiary of the Company at an aggregate cash consideration of RMB6,624,000. The disposal is still underway as at the date of this announcement as certain conditions precedent have not been met and except for investment in subsidiaries.

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 2021.

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 2021.

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 2021 and this results announcement.

CODE ON CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2021, 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 A.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 2021 and up to the date of this announcement.

EVENTS AFTER REPORTING PERIOD

There was no important events affecting the Group since 30 June 2021.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The Company’s 2021 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 2021 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 2021

As at the date of this announcement, the executive directors of the Company 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 of the Company are Mr. Chan Ka Yin, Mr. Li Xu and Ms. Hui Wing Man.