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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 2020

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 2020 together with the comparative figures for the corresponding period in 2019 as set out below.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	6	702,536	675,290
Cost of sales		<u>(642,484)</u>	<u>(622,350)</u>
Gross profit		60,052	52,940
Other income	6	7,923	32,316
Selling and distribution expenses		(24,561)	(19,797)
Administrative expenses		(30,910)	(33,040)
Other operating expenses		<u>(3,882)</u>	<u>(12,771)</u>

		Six months ended 30 June	
		2020	2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Profit from operations	7	8,622	19,648
Finance costs	8	(10,478)	(14,185)
Share of loss of an associate		(206)	(252)
(Loss)/Profit before taxation		(2,062)	5,211
Income tax credit	9	316	11
(Loss)/Profit for the period		(1,746)	5,222
Other comprehensive income			
Item that may be reclassified			
subsequently to profit or loss:			
Exchange differences in translating			
foreign operations		(363)	(3)
Other comprehensive income for the period		(363)	(3)
Total comprehensive income for the period		(2,109)	5,219
(Loss)/Profit for the period attributable to:			
Owners of the company		(1,624)	4,798
Non-controlling interests		(122)	424
		(1,746)	5,222
Total comprehensive income			
for the period attributable to:			
Owners of the Company		(1,987)	4,795
Non-controlling interests		(122)	424
		(2,109)	5,219
(Loss)/Earnings per share attributable to			
owners of the Company	11		
Basic (<i>RMB cents</i>)		(0.38)	1.11
Diluted (<i>RMB cents</i>)		(0.38)	1.11

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		30 June 2020 <i>RMB'000</i> (Unaudited)	31 December 2019 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		667,280	687,126
Rights-of-use assets		142,848	150,949
Interest in an associate		1,536	1,742
Goodwill		56,355	56,355
Biological assets		39,984	39,497
Deferred tax assets		711	866
Deposits for property, plant and equipment		12,390	14,640
		<u>921,104</u>	<u>951,175</u>
Current assets			
Biological assets		29,291	34,756
Inventories		133,063	134,856
Trade receivables	12	124,251	114,597
Prepayments, other receivables and deposits		36,354	45,790
Pledged deposits		47,000	55,880
Cash and bank balances		220,744	159,467
		<u>590,703</u>	<u>545,346</u>

		30 June 2020	31 December 2019
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Trade and bills payables	13	242,622	205,545
Accrued liabilities and other payables		110,635	132,407
Lease liabilities		7,744	8,347
Contract liabilities		26,854	13,564
Interest-bearing bank borrowings	14	315,000	334,000
Other borrowings		22,653	22,145
Amount due to a related company		13,723	10,701
Loan from immediate holding company		37,634	26,848
Deferred government grants		3,221	3,249
Tax payables		2,225	2,489
		<u>782,311</u>	<u>759,295</u>
Net current liabilities		<u>(191,608)</u>	<u>(213,949)</u>
Total assets less current liabilities		<u>729,496</u>	<u>737,226</u>
Non-current liabilities			
Deferred government grants		13,762	15,210
Lease liabilities		43,157	46,891
Deferred tax liabilities		4,014	4,453
		<u>60,933</u>	<u>66,554</u>
Total non-current liabilities		<u>60,933</u>	<u>66,554</u>
Net assets		<u>668,563</u>	<u>670,672</u>
EQUITY			
Equity attributable to owners of the Company			
– Share capital		112,176	112,176
– Reserves		529,491	531,478
		<u>641,667</u>	<u>643,654</u>
Non-controlling interests		26,896	27,018
Total equity		<u>668,563</u>	<u>670,672</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.

In the opinion of the directors of the Company, 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 2019 annual consolidated financial statements, except that it has adopted the following amendments to IFRSs:

Amendments to IFRS 3: Definition of a Business, which is first effective for the current accounting period; and

Amendments to IFRS 16: COVID-19-Related Rent Concessions, which is not yet effective for the current accounting period but early adopted by the Group.

Amendments to IFRS 3: Definition of a Business

The amendments clarify the definition of a business and introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election to apply the concentration test is made for each transaction. The concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the concentration test is met, the set of activities and assets is determined not to be a business. If the concentration test is failed, the acquired set of activities and assets is further assessed based on the elements of a business.

Amendments to IFRS 16: COVID-19-Related Rent Concessions

Effective 1 June 2020, IFRS 16 was amended to provide a practical expedient for lessees accounting for rent concessions that arise as a direct consequence of the COVID-19 pandemic and satisfy the following criteria:

- (a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- (b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- (c) There is no substantive change to other terms and conditions of the lease.

Rent concessions that satisfy these criteria may be accounted for in accordance with the practical expedient, which means the lessee does not need to assess whether the rent concession meets the definition of a lease modification. Lessees apply other requirements in IFRS 16 in accounting for the concession.

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.

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 2019 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
- 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 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	<u>295,216</u>	<u>227,941</u>	<u>70,378</u>	<u>109,001</u>	<u>702,536</u>
Reportable segment profit	<u>16,830</u>	<u>5,619</u>	<u>2,643</u>	<u>10,399</u>	<u>35,491</u>
Timing of revenue recognition					
At a point in time	<u>295,216</u>	<u>227,941</u>	<u>70,378</u>	<u>109,001</u>	<u>702,536</u>

Six months ended 30 June 2019					
	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	361,084	154,060	82,406	77,740	675,290
Reportable segment profit	<u>18,475</u>	<u>5,998</u>	<u>2,901</u>	<u>5,769</u>	<u>33,143</u>
Timing of revenue recognition					
At a point in time	<u>361,084</u>	<u>154,060</u>	<u>82,406</u>	<u>77,740</u>	<u>675,290</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	
	2020	2019
	<i>RMB'000</i> (Unaudited)	<i>RMB'000</i> (Unaudited)
Reportable segment profit	35,491	33,143
Other income	7,923	32,316
Administrative expenses	(30,910)	(33,040)
Other operating expenses	(3,882)	(12,771)
Finance costs	(10,478)	(14,185)
Share of loss of an associate	<u>(206)</u>	<u>(252)</u>
(Loss)/Profit before taxation	<u>(2,062)</u>	<u>5,211</u>

6. REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	702,536	675,290
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	1,429	3,940
Amortisation of deferred income on government grant	1,476	1,669
Government grants related to income	293	664
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	4,285	25,468
Others	440	575
	7,923	32,316

7. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expense	529,670	507,395
Depreciation of property, plant and equipment	31,366	31,132
Depreciation of rights-of-use assets	8,101	5,747
Provision for trade and bills receivables	249	485
Provision for other receivables	—	121
Staff costs (including directors' remuneration)	94,146	101,227
Less: Retirement scheme contribution	(2,697)	(5,127)
Total staff costs	91,449	96,100
Exchange loss, net	1,540	1,501

8. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charges on bank borrowings	9,341	12,866
Interest charges on other borrowings	71	628
Interest charges on lease liabilities	1,539	1,071
Less: Amount capitalised	(473)	(380)
	10,478	14,185

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current period		
– Overprovision (Under-provision) of PRC corporate income tax in prior years	32	(130)
Deferred tax credit	<u>284</u>	<u>141</u>
	<u>316</u>	<u>11</u>

No Hong Kong profits tax has been provided for the six months ended 30 June 2020 as the Group did not derive any assessable profit in Hong Kong during the period under review (six months ended 30 June 2019: 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 2020 and 2019.

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 2020 and 2019.

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 2019: Nil).

10. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

11. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB1,624,000 (six months ended 30 June 2019: profit of RMB4,798,000) and on the weighted average of 432,948,000 (six months ended 30 June 2019: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2020 and 2019 has been presented as the Company has no potential dilutive ordinary shares during the period.

12. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	125,791	105,938
Bills receivables	1,650	11,600
Less: provision for impairment	(3,190)	(2,941)
	<u>124,251</u>	<u>114,597</u>

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	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Within 30 days	101,281	83,874
31 – 60 days	11,302	19,777
61 – 90 days	5,882	236
91 – 120 days	5,786	10,710
Over 120 days	<u>–</u>	<u>–</u>
	<u>124,251</u>	<u>114,597</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	31 December
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Trade payables	208,622	167,435
Bills payables	<u>34,000</u>	<u>38,110</u>
	<u>242,622</u>	<u>205,545</u>

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 60 days	133,477	119,347
61 – 90 days	27,737	33,120
91 – 120 days	41,432	17,778
Over 120 days	39,976	35,300
	242,622	205,545

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Interest-bearing bank borrowings		
Classified as current liabilities	315,000	334,000

As at 30 June 2020, approximately RMB315.0 million (31 December 2019: RMB334.0 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 2020, the Group's interest-bearing bank borrowings bear interests ranging from 4.79% to 5.655% (31 December 2019: 4.79% to 6.00%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group reported its unaudited results for the six months ended 30 June 2020 (“HY2020”) with a loss attributable to owners of the Company of approximately RMB1,624,000 as compared to the net profit attributable to owner of the Company of approximately RMB4,798,000 for the six months ended 30 June 2019 (“HY2019”).

In this challenging time, the impact of COVID-19 on the Group is limited and short-term as the food products are consumer staples. The Group continued to adopt stable operation strategy and achieved steady growth in revenue, gross profit and gross profit margin. The growth benefited from increasing export orders. With the outbreak of COVID-19 worldwide and China’s successful control on the spread of the pandemic, more overseas customers shifted sales orders from other countries to China. The revenue increased by 4.0% from approximately RMB675.3 million for HY2019 to approximately RMB702.5 million for HY2020. The gross profit margin increased from 7.8% for HY2019 to 8.5% for HY2020. Consequently, the gross profit increased by RMB7.1 million to RMB60.1 million for HY2020. In addition, the other operating expenses decreased by RMB8.9 million to RMB3.9 million for HY2020 due to less disposal loss and written off for property, plant and equipment.

However, the increase in gross profit and decrease in other operating expenses were offset by substantial decrease in gains arising from changes in fair value less estimated costs to sell of biological assets, which decreased by RMB21.2 million from RMB25.5 million for HY2019 to RMB4.3 million for HY2020. The changes in fair value were a result of a decline in market price of chickens as compared to prior period due to demand contraction during the COVID-19 pandemic.

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 2020, with the outbreak of COVID-19, continuation of African Swine Flu, 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.

The outbreak of COVID-19 in January 2020 has short-term impact on our operations, such as temporary transportation restrictions, difficulties on staff returning to work, shortage of raw materials and forages and etc. The Group has timely 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. With the pandemic gradually under control in China, our operations have been steadily returning to normal. In response to COVID-19, we are taking various effective measures to minimise the disruption on the daily operations and to assure the continuity of the business. Considering the nature of our business, we believe the negative impact of the pandemic on the Group will be short-term and manageable. 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 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 + / (-)
	2020 <i>RMB'000</i> (Unaudited)	2019 <i>RMB'000</i> (Unaudited)	
Processed food	295,216	361,084	(18.2)
Chilled and frozen chicken meat	227,941	154,060	48.0
Chilled and frozen rabbit meat	70,378	82,406	(14.6)
Other products	109,001	77,740	40.2
Total	702,536	675,290	4.0

Processed Food Products

Revenue derived from the production and sales of processed food products decreased by 18.2% to approximately RMB295.2 million for HY2020. The reason for the decrease was that some domestic fast-food chains cancelled their processed food products orders due to COVID-19 negative impacts on the demand of food service channel.

Chilled and Frozen Chicken Meat

Revenue derived from the production and sales of chilled and frozen chicken meat increased by 48.0% to approximately RMB227.9 million in HY2020. The impact of COVID-19 is limited on the consumption of chickens as it is consumer staples. More chicken meat was consumed as a substitution for pork consumption due to higher selling price of pork. Moreover, the sales of live chickens were restricted under COVID-19, 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 14.6% to approximately RMB70.4 million in HY2020. Most of our rabbit farms were based in Shandong Province. Domestic sales of chilled and frozen rabbit were made to certain provinces other than Shandong Province. The transportation restrictions during the COVID-19 pandemic negatively affected the cross provincial sales, resulting in the decrease in sales of chilled and frozen rabbit meat.

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 40.2% to RMB109.0 million in HY2020. The increase in export sales of pet food products contributed a majority increase in the sales of other products. Such increase benefited from new sales channel developed in Korea and Europe in recent years.

Revenue by Geographical Markets

	Six months ended 30 June		
	2020	2019	% Change
	<i>RMB'000</i>	<i>RMB'000</i>	<i>+ / (-)</i>
	(Unaudited)	(Unaudited)	
Export	253,966	171,953	47.7
PRC	448,570	503,337	(10.9)
Total	702,536	675,290	4.0

On a geographical basis, our revenue from PRC and overseas contributed 63.9% and 36.1% (HY2019: 74.5% and 25.5%) of the revenue in HY2020, respectively. Revenue from PRC sales decreased by 10.9% to RMB448.6 million in HY2020. Cross provincial sales were negatively affected by the transportation restrictions due to COVID-19 pandemic. The decrease in cross provincial sales and cancellation of domestic fast-food chain orders led to the decrease in domestic sales. Revenue from export sales increased by 47.7% to RMB254.0 million in HY2020. With the outbreak of COVID-19 worldwide and China's successful control on the spread of the pandemic, considering the food safety, some overseas customers shifted their sales orders from other countries to China. Consequently, our export sales increased substantially during current period.

PROFITABILITY

Gross Profit and Margin

	Six month ended		Six month ended		Change	% Change
	30 June 2020		30 June 2019			
	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	+ / (-)
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Processed food	27,151	9.2	29,508	8.2	(2,357)	(8.0)
Chicken meat	13,588	6.0	9,582	6.2	4,006	41.8
Rabbit meat	5,103	7.3	4,633	5.6	470	10.1
Other products	14,210	13.0	9,217	11.9	4,993	54.2
Total	<u>60,052</u>	<u>8.5</u>	<u>52,940</u>	<u>7.8</u>	<u>7,112</u>	<u>13.4</u>

The overall gross profit margin was 8.5% for HY2020, representing an increase of 0.7 percentage point from 7.8% of the prior period.

Processed Food Products

Processed food products were our main profit contributor. The gross profit margin increased by 1 percentage point to 9.2% in HY2020. Chicken meat was one of main raw materials for processed food products. The decreased in chicken meat price improved the gross margin of processed food products.

Chilled and Frozen Chicken Meat

The gross profit margin of chilled and frozen chicken meat decreased by 0.2 percentage point to 6.0% in HY2020. The margin for chilled and frozen chicken meat remains stable because decrease in fixed unit cost as a result of increased production countervailed the negative impact of changes in market price of chickens.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat had an increase in HY2020, from 5.6% for HY2019 to 7.3% for HY2020. The Group has established whole industrial chain of rabbit meat and has the ability to control the production cost of rabbit meat. Although revenue of chilled and frozen rabbit meat declined, this business segment recorded an increase in gross profit and gross margin as the portion of export sales with higher gross margin increased in HY2020.

Other Products

The gross profit margin of other products increased by 1.1 percentage point to 13.0% in HY2020. The improvement was a result of decline in chicken price as chicken meat is one of the raw materials for pet food.

Other Income

Other income was RMB7.9 million, representing a decrease of RMB24.4 million from RMB32.3 million of same period of last year. 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 amounting to RMB4.3 million, RMB1.8 million and RMB1.4 million, respectively. The decrease in other income was mainly due to the decrease of RMB21.2 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 a decline in market price of chickens as compared to prior period due to demand contraction during the COVID-19 pandemic.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salary and welfare, transportation costs and advertisement costs, and was higher by 24.1% to approximately RMB24.6 million in HY2020. The main reasons for the increase in selling expenses in the current period were attributable to (i) additional transportation costs incurred due to transportation restrictions during the COVID-19 pandemic, and (ii) expansion of sales channels.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The decrease in administrative expenses was mainly due to cost control and decrease in travelling expenses as less business travel were conducted during the COVID-19 pandemic.

Other Operating Expenses

Other operating expenses represented miscellaneous expenses, comprising mainly loss on disposal of property, plant and equipment. Other operating expenses decreased by RMB8.9 million to approximately RMB3.9 million in the current period. The decrease was mainly due to less property, plant and equipment were disposed and written off during the period as the Company disposed and upgraded certain outdated property, plant and equipment in the same period of last year.

Finance Costs

Finance costs decreased by 26.1% to approximately RMB10.5 million in HY2020, 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 HY2020, 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 2020

The Group's property, plant and equipment ("PPE") were mainly leasehold buildings and plant and machinery. The PPE decreased by 2.9% to approximately RMB667.3 million as at 30 June 2020. The decrease was a net effect of depreciation charge, disposal of breeder farms and addition of plant and machinery.

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. The decrease was in line with the decrease in construction in progress.

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 2020 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, decrease by 6.7% as at 30 June 2020 as compared to that of 31 December 2019. The main reason for the decrease was attributable to the decrease in fair value of biological assets, especially chicken's fair value. The market price of chickens decreased in current period due to demand contraction during the COVID-19 pandemic.

Inventory remained stable as at 30 June 2020 as compared to 31 December 2019. The inventory turnover days for HY2020 were 38 days and is the same turnover days for HY2019.

Trade and bills receivables increased by RMB9.7 million to approximately RMB124.3 million as at 30 June 2020, which was in line with the sales increase.

Prepayments, other receivables and deposits decreased by 20.6% to approximately RMB36.4 million as at 30 June 2020. The decrease was mainly due to a large amount of prepayments was 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 decrease in pledged deposits was mainly due to the settlement of bills payables secured by bank deposits during the period under review.

The increase of cash and cash equivalents was mainly due to the increase of revenue.

Trade and bills payables increased by 18.0% to approximately RMB242.6 million as at 30 June 2020. 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 16.4% to approximately RMB110.6 million as at 30 June 2020. The decrease mainly due to settlement of payables for upgrading chicken farms.

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 RMB19.0 million to approximately RMB315.0 million as at 30 June 2020, after taking into account the additional bank borrowings of approximately RMB30.0 million and the loan repayment of approximately RMB49.0 million.

Loan from immediate holding company increased by RMB10.8 million to 37.6 million as at 30 June 2020. The loan is interest-free, unsecured and repayable within one year.

CAPITAL STRUCTURE

As at 30 June 2020, the Group had net assets of approximately RMB668.6 million (31 December 2019: RMB670.7 million), comprising of non-current assets of approximately RMB921.1 million (31 December 2019: RMB951.2 million), and current assets approximately RMB590.7 million (31 December 2019: RMB545.3 million). The Group recorded a net current liability position of approximately RMB191.6 million as at 30 June 2020 (31 December 2019: RMB213.9 million), which primarily consisted of cash and bank balances amounted to approximately RMB220.7 million (31 December 2019: RMB159.5 million). Moreover, inventories amounted to approximately RMB133.1 million (31 December 2019: RMB134.9 million) and trade receivables amounted to approximately RMB124.3 million (31 December 2019: RMB114.6 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB242.6 million (31 December 2019: RMB205.5 million) and RMB315.0 million (31 December 2019: RMB334.0 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 2020, the Group had cash and bank balances of approximately RMB220.7 million (31 December 2019: RMB159.5 million) and had interest-bearing bank borrowings, loan from immediate holding company and amount due to a related company of approximately RMB315.0 million, RMB37.6 million and RMB13.7 million respectively (31 December 2019: RMB334.0 million, RMB26.8 million and RMB10.7 million respectively). The Group's interest-bearing bank borrowings bear interests ranging from 4.79% to 5.655% (six months ended 30 June 2019: 4.79% to 6.00%).

The gearing ratio for the Group was 68.6% (31 December 2019: 69.7%) as at 30 June 2020, based on net debt of RMB439.1 million (31 December 2019: RMB448.9 million) and equity attributable to owners of RMB641.7 million (31 December 2019: RMB643.7 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 2020, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB36.1 million (31 December 2019: RMB34.4 million).

CHARGE ON GROUP'S ASSETS

Total interest-bearing bank borrowings include secured liabilities of approximately RMB315.0 million (31 December 2019: RMB334.0 million).

As at 30 June 2020, 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 2020, the Group did not have any material contingent liabilities (31 December 2019: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2020, the Group employed a total of 3,064 employees (as at 31 December 2019: 3,017 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 RMB94.1 million (six months ended 30 June 2019: RMB101.2 million). The Company does not have share option scheme for its employees.

INTERIM DIVIDEND

The Board did not recommend the distribution of any interim dividend for HY2020 (HY2019: Nil).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group did not have any significant investments held nor any material acquisitions or disposals of subsidiaries or associated companies during the six months ended 30 June 2020.

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 2020.

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 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 2020 and this results announcement.

CODE ON CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2020, 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 certain deviations 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.

On 18 June 2020, Mr. Song Xuejun retired from the position of independent non-executive Director and ceased to be the chairman of the nomination committee of the Board (the “Nomination Committee”) and a member of each of the Audit Committee and the remuneration committee of the Board (the “Remuneration Committee”) and Mr. Lu Zhiwen retired from the position of independent non-executive Director and ceased to be the chairman of Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. On 24 August 2020, Mr. Li Xu was appointed as an independent non-executive Director, the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee, and Ms. Hui Wing Man was appointed as an independent non-executive Director, the chairman of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee.

As a result, the Company was not in compliance with Rules 3.10(1) and 3.10A of the Listing Rules with regard to the composition of the Board, with Rule 3.21 of the Listing Rules with regard to the composition of the Audit Committee, with Rule 3.25 of the Listing Rules with regard to the composition of the Remuneration Committee and with Code Provision A.5.1 with regard to the composition of the Nomination Committee from 18 June 2020 to 23 August 2020. Following the appointment of Mr. Li Xu and Ms. Hui Wing Man as set out above on 24 August 2020, the Company has complied with Rules 3.10(1) and 3.10A of the Listing Rules in relation to the composition of the Board, Rule 3.21 of the Listing Rules with regard to the composition of the Audit Committee, Rule 3.25 of the Listing Rules with regard to the composition of the Remuneration Committee and Code Provision A.5.1 with regard to the composition of the Nomination Committee.

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 2020 and up to the date of this announcement.

EVENTS AFTER REPORTING PERIOD

There was no important events affecting the Group that have occurred since 30 June 2020.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The Company's 2020 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 2020 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, 28 August 2020

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.