China Kangda Food Company Limited

(Company Registration Number:38299)

(Incorporated in Bermuda on 28 April 2006)

No.1 Hainan Road

Economic and Technology Development Zone

Jiaonan City, Qingdao

PRC

Tel: (86) 0532 8617 1115

Fax: (86) 0532 8616 7510

cre8 Tel: (65) 63278398

KONDE 康大

中國康大食品有限公司
CHINA KANGDA FOOD COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Singapore stock code : P74
Hong Kong stock code : 834

2008
ANNUAL REPORT

Corporate ***Profile***

Established in 1992, China Kangda is a diversified food processing group based in the PRC and it is primarily engaged in the processing, sales and distribution of:

a) chilled and frozen meat products, which are divided into rabbit and chicken meat;
b) processed food products which include a wide range of food products such as instant soup, curry food, chicken-based cooked products, roasted rabbit food, meatballs, de-oxygenated consumer packed chestnuts and seafood; and
c) other products which mainly include pet food, pork, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver and seasoning.

Besides selling products under its own brand names of "康大", "嘉府", "U味" and "KONDA", the Group also acts as an OEM manufacturer of a variety of processed food products including meatballs, seafood, chicken-based cooked products, chestnuts, instant soups and curry products for Japanese food corporations including Zensho, Asahimatsu, Keio Sangyo, Nissin and Kyoei Transport & Warehouse Co., Ltd, as well as Korean customers including Kyungnam Food and Samwoo Global.

The Group currently distributes its wide range of products in 14 provinces and over 25 major cities in the PRC and exports to more than 20 countries and cities including Japan, South Korea, Hong Kong, Russia and certain countries in the European Union.

As one of the only 12 companies in the PRC to have authorisation to supply rabbit meat to the European Union, China Kangda currently is the largest exporter of rabbit meat to the European Union and Russia in the PRC. The Group is further strengthening its foothold in this segment through aggressive expansion strategies.

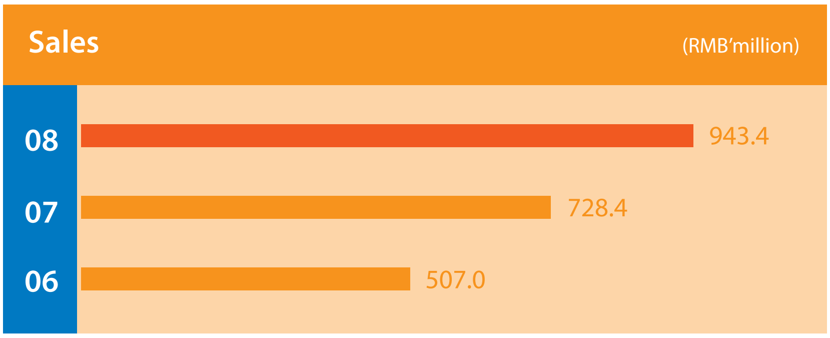
For more information, pleases log on to www.kangdafood.com

Contents

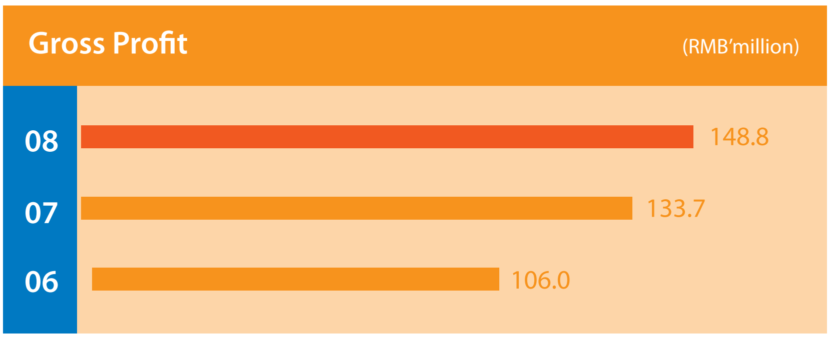
Financial **Highlights**

	FY2008 RMB'million	FY2007 RMB'million	FY2006 RMB'million
Revenue	**943.4**	*728.4*	*507.0*
Gross Profit	**148.8**	*133.7*	*106.0*
Net Profit Attributable to Equity Holders of the Company	**85.6**	*109.9*	*86.8*
Earnings per Share - Basic (RMB cents)	**19.4**	*25.7*	*26.5*
Net Asset Value per Share - Basic (RMB cents)	**142.8**	*132.9*	*102.3*

29.5%
Total revenue increased



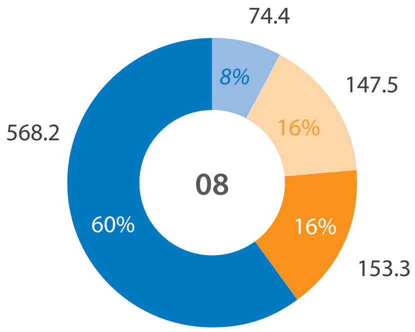
11.3%
Gross profit increased

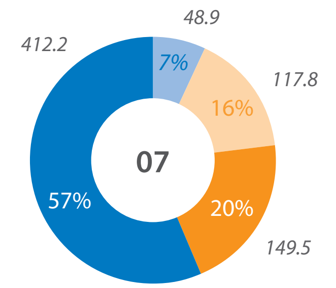


Revenue by Geographical Markets

(RMB'million)

- PRC
- Japan
- Europe
- Other Countries

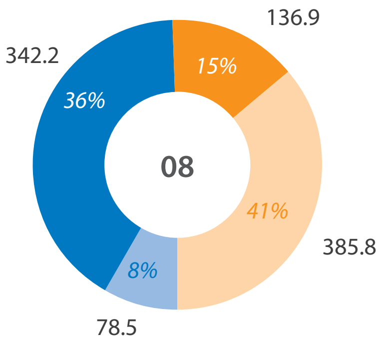


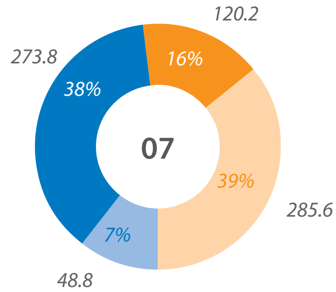


Revenue by Product Category

(RMB'million)

- Processed food products
- Chilled and frozen rabbit meat
- Chilled and frozen chicken meat
- Other foods

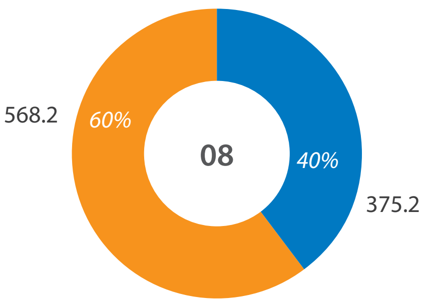


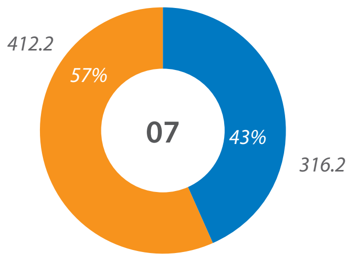


Revenue by Region

(RMB'million)

- Export
- PRC





Chairman's **Statement**

Gao Sishi
Non-executive Chairman

Dear Shareholders,

I am pleased to present on behalf of the Board of Directors (the "Board") of China Kangda Food Company Limited (the "Company") the first report of the audited consolidated annual results of the Company and its subsidiaries (collectively the "Group") for the twelve months ended 31 December 2008 following its listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") by way of introduction. I hereby express our gratitude on behalf of the Board to you and the community for their care for the development of the Company.

Current Opportunities

The global financial crisis has posed challenges to the economy of the People's Republic of China (the "PRC"). Amid the overall economic downturn in the PRC, the domestic food industry is relatively less affected. The impact on exports and domestic sales of domestic food enterprises was mitigated by stable export and strong domestic demand.

For 2009, it is expected that the economy of the PRC will continue to maintain steady growth, with GDP anticipated to have 8% growth on an annual basis, which will put it in a better position to weather the economic uncertainties compared to other major economies. At the same time, as the global financial crisis deteriorates, consumers of foreign markets will prefer products from the PRC which offers the same high standard of quality at reasonable prices.

As a diversified food processing, selling and distribution group based in the PRC, the Group generates over 50% of its profit from the stable and huge demand from the PRC. In respect of the export market, the Group also has major customers from Europe, Japan and other regions. Despite the current global economic recession, the Group is confident of future opportunities. Under the policies of "sustaining growth" and "expanding domestic demand" in the PRC, the Group will take this as an opportunistic challenge to explore the domestic trade market.

Business Review

In FY2008, the Group benefited from the increase in domestic demand, and achieved continuous growth in revenue for FY2008. Revenue from its processed food business segment contributed a reasonable growth of 25%. Overall, the Group's gross profit increased by 11.3% to approximately RMB148.8 million, which was mainly attributable to chicken meat and rabbit meat. Sales to the PRC, Europe and other regions all recorded double-digit growth of 37.8%, 25.2% and 14.8% respectively.

Demand for rabbit meat from the European Union ("EU") remained strong. The Group is one of the companies in the PRC to have the authorization to supply rabbit meat to the EU. It will continue to leverage on the opportunities arising from the increasing demand for rabbit meat from the region and maintain strong growth in its export business. In addition, the substantial increase in pork prices in the PRC has led to an increase in demand for chicken meat products as substitutes. Although price of pork has dropped from the past, the stable and strong demand for chicken meat in the domestic PRC market has contributed to the outstanding performance of the chicken meat business segment of the Group. Meanwhile, the Group has also stepped up its efforts in marketing its processed food business segment to both the domestic and foreign markets, leading to a rapid growth in revenue from processed food segment of the Group.

The Group's profit for FY2008 decreased by 23.0%, mainly due to the increase in administrative expenses during the year. This includes expenses totaling approximately RMB19.5 million arising from the listing of the Company by way of introduction in Hong Kong. In addition, one of the Group's subsidiaries namely Qingdao Kangda Foods Co., Ltd ("Kangda Foods") is no longer entitled to full tax exemption benefit with effect from 1 January 2008. Other than profits arising from agricultural, poultry and primary food processing business segments which are still entitled to full tax exemption benefit, the profit of the Group is subject to corporate income tax at 25% for FY2008.

Through the acquisition of two subsidiaries in May 2008, namely Qingdao Kangda Animal Rearing Co., Ltd ("KD Animal Rearing Company") and Qingdao Kangda Rabbit Co., Ltd ("KD Rabbit Company"), the Group has gained in-house capabilities for the rearing and breeding of rabbits and chickens. This is in line with the Group's strategy to be a diversified and integrated food processing group with three main business segments of chicken, rabbit and processed foods, and has ramped up the Group's capabilities for the rearing and breeding of rabbits and chickens. Under the Group's vertically-integrated business model (from chicken and rabbit rearing, breeding and slaughtering to processing), the Group aims to establish a complete and competitive food supply chain in the PRC.

On 22 December 2008, the Company was listed on the Stock Exchange by way of introduction and its share price surged 47.8% on the first day of trading. The listing on the Stock Exchange will not only enhance the Group's profile in Hong Kong and in the PRC, it will also enable the Company to gain exposure to a wider range of private and institutional investors, and facilitate investment by both Hong Kong and international investors in the Company's shares.

Food Safety

In recent years, the PRC government has put in efforts to rectify unqualified manufacturers in the industry and strengthened regulation on meat food safety, with a view to ensure the quality and qualification for the food produced in the PRC.

The Group's emphasis on food quality has been widely recognized. Its subsidiary, Kangda Foods was awarded the "China Brand Agricultural Products" by the China Brand Agricultural Product Promotion Committee of Ministry of Agriculture in 2008. The assessment standards of the quality control centre of the Group have complied with PRC and international requirements and obtained the HACCP certification, and the Group's quality management system had also been certified to have complied with the requirements of ISO9001 and ISO14001. Leveraging on the Group's sound management, emphasis on food safety and strict control, the Group was able to further tap on the opportunities arising from the industrial rectification and has effectively enlarged its market share with its large-scale production model.

The Group views its ability to comply with the PRC and international standards as its strength. The Group will continue to strengthen its staff training and conduct regular checks on product safety to further enhancing food quality. Food safety has already become a basic and most pertinent factor for the Group's development. The Group will insist on the quality of food safety and take up the responsibility for public safety.

The Group will continue to focus on raising and maintaining its established corporate image.

Future Outlook

The Group will continue to keep tap on the opportunities arising from the authorisation for the PRC to supply rabbit meat to the EU. The new processing plant in Nongan County, Jilin Province, the PRC, has commenced operation in February 2009, and is expected to double the production capacity of rabbit meat to 12,000 tons per annum by FY2009. This will enhance the performance of the Group's revenue and gross profit from rabbit meat.

The Group will seek to strengthen its brand recognition in the PRC through uplifting domestic sales effort of processed food, providing consumers with quality and healthy food products. The Group may benefit from the PRC government's new policy to enhance the intrinsic demand in the PRC by selling of our brand name processed food products to the domestic market. Leveraging on the Group's vertically-integrated business model and being a diversified and integrated food processing group, the Group aims to establish a complete and competitive food supply chain in the PRC, and to gain a dominant market position by becoming a leading food enterprise in the PRC.

I would like to take this opportunity to express my heartfelt gratitude to our Shareholders, my fellow Directors, the strong, dedicated and competent Management team and all our staff for their ongoing support commitment and belief in the Group. On behalf of the Board, I would like to welcome Mr. Yu Chung Leung as an Independent Director to the Board. Mr. Yu will also assume the responsibilities of Chairman of the Remuneration Committee as well as a member of the Nominating and Audit Committees.

The Group including our Management and staff will strive to keep up with challenges ahead of us in year 2009 in appreciation of the continuous support and co-operation from the Group's valued customers and strategic business partners. I truly believe that the stable and healthy development of the Group will ascertain long term Shareholders' returns, and the Group's ultimate goal is to maximize Shareholders' returns.

Gao Sishi
Chairman

Board of Directors


Gao Sishi


Gao Yanxu


An Fengjun

Executive Directors

Gao Yanxu (高岩緒), aged 43, is the Group's CEO and an executive Director of the Company. He was elected as a Director on 12 May 2006 and is a member of the nominating committee of the Company and an authorised representative of the Company. Mr. Gao has more than 10 years of experience in the food production industry. He joined Kangda Foods in March 1993 as a sales manager and is now primarily responsible for the Group's business strategy and direction, the implementation of the Group's corporate plans and policies, and the general management of the business of the Group. Mr. Gao also oversees the production activities of Kangda Foods as its general manager. From 1996 to 1999, Mr. Gao worked as the manager of KD Feed Company. He then worked in Shandong Province Qingdao Kanghong Poultry & Egg Co., Ltd. (山東省青島康宏肉食蛋品有限公司) in 1999 as a manager. On 1 January 2001, Mr. Gao founded KD Trading Company with Mr. Gao Sishi, Mr. An Fengjun, Mr. Zhang Qi, Mr. Kang Peiqiang and other Independent Third Parties. He also became the general manager of Kangda Foods in 2001. As at 31 December 2008, Mr. Gao held 5.3% of the equity interests in KD Trading Company. Mr. Gao obtained a bachelor degree of business and economic management in Renmin University of China (中國人民大學) in June 1997. On 28 February 2000, he completed the courses of master degree of Management in Business Administration in the graduate school of Renmin University of China (中國人民大學研究生院).

An Fengjun (安豐軍), aged 35, is an executive Director of the Company and was appointed as a Director on 25 August 2006. He has more than 10 years of experience in the food production industry and is primarily responsible for food production and business operation of the Group. When joining Kangda Foods in July 1993, Mr. An was initially responsible for finance matters. In April 1996, he worked in KD Feed Company as a finance manager and the assistant to manager respectively. He was then a finance manager of KD Trading Company from 1999 to 2001 and became the vice general manager and sales manager of KD Property Company in 2002. As at 31 December 2008, Mr. An held 1.3% of the equity interests in KD Trading Company. Mr. An was graduated from Jiaonan City Middle Special Vocational School (膠南市職業中等專業學校) majored in Accounting in June 1993. He also completed a post-graduate course in business management in Tianjin University (天津大學) in August 2005.

Non-Executive Directors

Gao Sishi (高思詩), aged 51 is a non-executive Chairman and non-executive Director of the Company. He was elected as a Director on 12 May 2006 and is a member of the remuneration committee of the Company. Mr. Gao has more than 20 years of experience in the food export and production industry. He is the founder and currently the chairman and general manager of KD Trading Company, members of which is engaged in various business activities in the PRC such as property development, transport, animal feeds production and import and export business. As at 31 December 2008, Mr. Gao held 40% of the equity interests in KD Trading Company. During the period from March 1995 to December 1999, Mr. Gao worked as the chairman and general manager of Qingdao City Jiaonan Kangda Foreign Trading Group Company (青島市膠南康大外貿集團公司). From January 1992 to March 1995, Mr. Gao was the general manager of Qingdao Jiao Nan Import and Export Company (青島市膠南進出口公司). Mr. Gao also worked as vice factory head of Jiao Nan City Foreign Trading Cold Storage Factory (膠南市外貿冷藏廠) from July 1989 to December 1991, and was the vice factory head of Qingdao Jiao Nan Import and Export Company Integrated Processing Factory (青島市膠南進出口公司綜合加工廠) from September 1985 to June 1989. In addition, Mr. Gao served the Qingdao Private Enterprises Committee (青島市民營企業協會) as vice president and is the founder of the Jiaonan City General Charity Committee (膠南市慈善總會). Mr. Gao completed a course of Master Business Administration at the graduate school


Zhang Qi


Kuik See Juan


Sim Wee Leong


Yu Chung Leung

of Renmin University of China (中國人民大學研究生院) in March 2004. He is the uncle of Mr. Gao Yanxu.

Zhang Qi (張琪), aged 42 is a non-executive Director and a member of the audit committee of the Company. He was appointed as a Director on 25 August 2006 and is currently the internal audit manager and assistant to general manager of KD Trading Company. As at 31 December 2008, Mr. Zhang held 3.3% of the equity interests in KD Trading Company. He is responsible for the auditing of the financial and operating system of KD Trading Company and is a director of KD Feed Company, KD Tianranju and KD Huaxia, all of which are members of KD Trading Group. Mr. Zhang has more than 20 years of extensive experience in financial matters. In December 1986, Mr. Zhang joined Qingdao No.9 Cotton Textile Factory (青島第九棉紡織廠) as the head of financial department and was subsequently promoted to vice general accountant in September 1996. During the period from 2001 to 2002, he joined Sino-Zam MuLuGuCi Textile Co., Ltd. (中贊合資穆隆古希紡織有限公司) and was responsible for finance matters. Mr. Zhang obtained a degree of Bachelor of Financial Management majored in accounting from Qingdao University (青島大學) in July 1986.

Independent Non-Executive Directors

Kuik See Juan (郭書源), aged 65, is an independent non-executive Director, the Chairman of nominating committee and a member of the audit committee and remuneration committee of the Company. He was appointed as a Director on 25 August 2006 and is presently the chairman and managing director of Inchone Pte Ltd, a company specialising in software application solutions. Mr. Kuik started his career in the banking industry with Oversea-Chinese Banking Corporation Limited in 1962. He then joined the Bank of America in 1972 and held various senior officer positions of its branches in Singapore and Jakarta between 1972 and 1982. In the subsequent years until the end of 2000, Mr. Kuik was actively involved in various management roles as executive directors of various publicly listed companies on the SGX-ST. Currently, Mr. Kuik has also served as an independent non-executive director in four other public companies listed on the SGX-ST. Mr. Kuik holds a Banking Diploma (ACIB) of the Institute of Bankers in London and is an associate member of the Chartered Institute of Bankers in the United Kingdom.

Sim Wee Leong (沈偉龍), aged 44, is an independent non-executive Director, the Chairman of the audit committee and a member of nominating committee and remuneration committee of the Company. He was appointed as a Director on 25 August 2006. He is authorised by Registrar of Public Accountants, Accounting & Corporate Regulatory Authority to practise as a public accountant in the Republic of Singapore and obtained a degree of Bachelor of Accountancy from the National University of Singapore in June 1989. Mr. Sim joined Smalley & Co, a lead audit firm in Singapore in 1997 which he is currently working with as a sole proprietor.

Yu Chung Leung (余仲良), aged 38, has become an independent non-executive Director upon the listing of the Company on the Stock Exchange. Mr. Yu is the Chairman of the remuneration committee and also a member of the audit committee and nominating committee of the Company. He is currently a partner of Lee & Yu Certified Public Accountants, where Mr. Yu has been working since March 2003. Mr. Yu was also an Audit Manager in an international accounting firm, during the period from July 1993 to January 2003. Mr. Yu is a member of Hong Kong Institute of Certified Public Accountants, Association of Chartered Certified Accountants, and an authorized supervisor to train prospective members of the Hong Kong Institute of Certified Public Accountants. He obtained a Master of Arts in International Accounting in the City University of Hong Kong in July 2006.

Key Management

Leung Ting Yuk (梁廷育), aged 34, is the chief financial officer and company secretary of the Group. He joined the Group in January 2008 and is responsible for the preparation of the Group's financial statements as well as the reviews and development of the effective financial policies and control procedures for the Group. Mr. Leung has over seven years of experience in accounting and auditing. Mr. Leung worked in an international accounting firm during the period from November 2000 to January 2008. He graduated from University of Wollongong, Australia with a Bachelor of degree in commerce. Mr. Leung is a member of Hong Kong Institute of Certified Public Accountants and Institute of Certified Public Accountants of Australia.

Gao Yumei (高玉梅), aged 40, is the production manager of the production department of the Group. Ms. Gao has more than 20 years of experience in the food production industry. From 1985 to 1995, Ms. Gao worked in Jiaonan City Import and Export Company (膠南市進出口公司) as the complex production factory head. She later joined Qingdao Kangda Food Refrigareration Factory (青島市康大食品冷藏廠) as its head of workshop from 1995 to 1997. From 1997 to 1999, she held the position of head of workshop at Second Refrigeration Factory of Kangda Foods (青島康大食品有限公司第二冷凍廠) before joining KD Feed Company as its production manager until 2000. From 2001 to 2002, Ms. Gao was the vice manager at Qingdao Kangyang Food Company, Ltd. (青島康洋食品有限公司). She subsequently moved on to Shandong Qingdao Kanghong Meats and Eggs Products Company, Limited (山東青島康宏肉食蛋品有限公司) in 2002 where she served as a vice manager until 2003. In 2004, she joined our subsidiary, Kangda Haiqing, as its vice manager. Ms. Gao undertook a part-time course at the Party School of Shandong Provincial Party Committee of China Communist Party (中共山東省委黨校) and obtained a certificate in economic management. Mr. Gao Yumei is connected with neither Mr. Gao Yanxu nor Mr. Gao Sishi.

Zhang Weike (張維科), aged 35, is the vice manager of the Group's research and development department and responsible for product development and information technology. Mr. Zhang has more than 10 years of experience in various industries including product development and information technology. He joined the product development department of our subsidiary Kangda Foods as vice manager in January 2006. From 1994 to 1997, Mr. Zhang was an administrative supervisor of Qingdao Jiaonan City Import and Export Company, Kangli Packaging Paper Factory (膠南市進出口公司康麗倉裝紙品廠). Mr. Zhang was an assistant to general manager of Qingdao Hualing Food Company Limited (青島華陵食品有限公司) from 1998 to 1999. In January 2000, he joined KD Trading Company where he rose through the ranks and held the position of head of quality control at a production facility of KD Trading Company when he left KD Trading Company in December 2001. He joined our subsidiary, Kangda Foods, in January 2001 where he served as the manager of the quality control department until December 2001; and in January 2002 where he served as vice manager of the management department until December 2002. He was subsequently made assistant manager of the enterprise management department in January 2003 where he remained until December 2003. From January 2004 to July 2004, Mr. Zhang held the position of vice manager at the human resource department at KD Trading Company. In August 2004, he concurrently held the vice manager positions in Qingdao Kangda Delijia Import and Export Company Limited (青島康大得利佳進出口有限公司) and the domestic sales department of Kangda Foods until December 2004. From January 2005 to December 2005, Mr. Zhang served as the vice manager of the trading department at KD Trading Company. During the period from September 1999 to December 2001, Mr. Zhang underwent a part-time economic management course at the Party School of Jiaonan Municipal Party Committee of China Communist Party (中共山東省委黨校). Mr. Zhang completed an enterprise management major from the Agricultural Managerial Cadres' College of Shandong Province (山東省農業管理幹部學校) in July 1995, and subsequently completed his post-graduate course on business management at Tianjin University (天津大學) in August 2005.

Zhao Ruifen (趙瑞芬), aged 44, is the manager of the Group's administration department. She has more than 20 years of working experience and is responsible for the administrative functions of the Group. Ms. Zhao joined the Group's subsidiary, Kangda Foods, in July 2001. She assumed management responsibilities of some of the Group's production facilities and was the supervisor of production and business departments of Kangda Foods. From March 2000 to July 2001, Ms. Zhao was the sales manager of the domestic sales department of KD Trading Company. Between March 1995 and March 2000, she was an assistant secretary of Qingdao Kangyu Diamond Company, Ltd. (青島康宇鑽石有限公司). In March 1994, Ms. Zhao joined Qingdao Kangda Food Refrigeration Factory (青島市康大食品冷藏廠) and was responsible for the production activities of the factory. She was in charge of the human resource department of Jiaonan City Foreign Trading Refrigeration Factory (膠南市外貿冷藏廠) between December 1984 and March 1994. Ms. Zhao has completed a part-time Economics Management course from Shandong Provincial Party Committee School (中共山東省委黨校).

Pang Shumei (逄淑梅), aged 36, is the manager of the Group's quality control department. She has more than 10 years of working experience and is responsible for the products quality control of the Group. Ms. Pang worked in the Second Refrigeration Factory of Kangda Foods (青島康大食品有限公司第二冷凍廠) as a quality control staff during the period from 1997 to 1999. She was the head of the quality control division of Kangda Foods during 2000 to 2002. In 2003, she was the manager of the quality control department of Kangda Foods. Ms. Pang studied foods inspection major and graduated from Hubei University of Technology (湖北工業大學), previously known as Hubei Technology Institute (湖北工學院), in June 1997.

Corporate *Information*

BOARD OF DIRECTORS

Executive:
Gao Yanxu (CEO)
An Fengjun

Non-executive:
Gao Sishi (Chairman)
Zhang Qi

Independent non-executive:
Kuik See Juan
Sim Wee Leong
Yu Chung Leung

COMPANY SECRETARIES

Leung Ting Yuk (HKICPA, CPA Australia)
Josephine Toh Lei Mui (ACIS)
Kang Peiqiang

ASSISTANT SECRETARIES

Ira Stuart Outerbridge III (FCIS)

AUDIT COMMITTEE

Sim Wee Leong (Chairman)
Kuik See Juan
Zhang Qi
Yu Chung Leung

REMUNERATION COMMITTEE

Yu Chung Leung (Chairman)
Kuik See Juan
Sim Wee Leong
Gao Sishi

NOMINATING COMMITTEE

Kuik See Juan (Chairman)
Sim Wee Leong
Gao Yanxu
Yu Chung Leung

AUTHORISED REPRESENTATIVES

Leung Ting Yuk
Gao Yanxu

COMPLIANCE ADVISER

Daiwa Securities SMBC
Hong Kong Limited
Level 26, One Pacific Place
88 Queensway
Hong Kong

LEGAL ADVISERS

as to Hong Kong law:
Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Central
Hong Kong

as to Singapore law:
WongPartnership LLP
One George Street #20-01
Singapore 049145

as to PRC law:
Qindao Law Firm
22nd Floor
Northern Tower, Golden Square
20 Hong Kong Road Central
Qingdao
PRC

AUDITORS

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

AUDIT PARTNER-IN-CHARGE

Norman Tsui
(since the financial year ended 31 December 2007)

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

WEBSITE OF THE COMPANY

www.kangdafood.com
(The contents of the Company's website do not form part of this document)

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 1, Hai Nan Road
Jiaonan City
Shandong Province
PRC

PLACE OF BUSINESS IN HONG KONG REGISTERED UNDER PART XI OF THE COMPANIES ORDINANCE

12th Floor, Room 2-3
Multifield Centre
426 Shanghai Street
Kowloon
Hong Kong

Management **Discussion and Analysis**

FINANCIAL AND OPERATIONS REVIEW

Revenue	FY2008 RMB'000	FY2007 RMB'000	% Change +/(-)
Processed food products	342,240	273,812	25.0
Chilled and frozen rabbit meat	136,865	120,217	13.8
Chilled and frozen chicken meat	385,828	285,638	35.1
Other foods	78,493	48,740	61.0
Total	943,426	728,407	29.5

Chilled and Frozen Meat Products

Rabbit and chicken meat segments contributed 55.4% to total revenue in FY2008 compared to 55.7% in FY2007. Total revenue of rabbit and chicken meat segments recorded a 28.8% increase to RMB522.7 million.

As a result of the Group's continuous effort in penetrating into the European Union (the "EU") market, the revenue of rabbit meat increased to RMB136.9 million in FY2008 as demand from the EU continued its momentum. Rabbit meat is a delicacy in European countries such as France, Italy, Malta and Cyprus and demand for it is on the uptrend. Export accounted for around 70% of total rabbit meat sales.

The Group is strengthening its foothold in the rabbit meat segment by setting up a new plant in Jilin Province, the PRC. The plant will enlarge the Group's production capacity from the current 6,000 tons to 12,000 tons annually by 2009.

Chicken meat contributed 40.9% to total revenue for FY2008. Revenue grew by 35.1% to RMB385.8 million from RMB285.6 million in FY2007. The growth in revenue was mainly due to significant increase in pork prices in the PRC market which had resulted an increase in demand for chicken meat product as a substitute.

Processed Food Products

Revenue from processed food showed a rapid growth of 25.0% to reach RMB342.2 million. The increase was attributable to the export of new soup products to Japan, seafood products exported to Malaysia and sales of meatball products to domestic PRC market.

Other Foods

Revenue from other foods increased by 61.0% to RMB78.5 million from RMB48.7 million in FY2007, mainly due to strong demand from the domestic market and export to Japan.

The increase in revenue was largely driven by an increase in demand for the Company's pet food products. Pet food sales contributed over 50% to this segment with growth generated from Beijing and Shanghai markets in the PRC, and exports to Japan.

Revenue by Geographical Markets	FY2008 RMB'000	FY2007 RMB'000	% Change +/(-)
Export	375,197	316,162	18.7
PRC	568,229	412,245	37.8
Total	943,426	728,407	29.5

On a geographical basis, revenue from the export sales grew by 18.7% to reach RMB375.2 million in FY2008 compared to RMB316.2 million in FY2007. The revenue improvement was mainly due to higher export sales of rabbit meat products.

PRC sales increased by 37.8% to RMB568.2 million compared to RMB412.2 million in FY2007, mainly attributable from an increase in sales of chicken meat products and processed food products to domestic market.

Profitability

Gross Profit and Margin	FY2008 RMB'000	FY2008 Margin %	FY2007 RMB'000	FY2007 Margin %	Change RMB'000	% Change +/(-)
Processed food	66,859	19.5	71,407	26.1	(4,548)	(6.4)
Rabbit meat	34,777	25.4	31,149	25.9	3,628	11.6
Chicken meat	37,481	9.7	28,466	10.0	9,015	31.7
Other foods	9,701	12.4	2,663	5.5	7,038	264.3
Total	148,818	15.8	133,685	18.4	15,133	11.3

The better performance from all the Group's business activities in FY2008 has resulted in an overall increase in gross profit by approximately RMB15.1 million or 11.3% as compared to RMB133.7 million in FY2007. The increase was mainly attributable to the Group's chicken meat and rabbit meat segments.

Gross profit margin declined from 18.4% to 15.8% mainly due to a substantial profit margin decrease of the processed food products, resulting from rising raw materials prices.

Processed Food

Processed food business remained the main profit contributor in FY2008. Gross profit slightly decreased by 6.4% to RMB66.9 million compared to RMB71.4 million in FY2007. Gross profit margin declined to 19.5% from 26.1% for FY2008, mainly due to rising raw material costs.

Rabbit Meat

Rabbit meat continued its strong growth momentum with increased demand from the EU and the PRC. Gross profit margin remained stable for the current year under review at 25.4% and gross profit grew by 11.6% to RMB34.8 million.

Chicken Meat

Gross profit margin for chicken meat maintained around 10.0% for the FY2008 with steady and robust growth from the domestic market. Gross profit increased by approximately RMB9.0 million or 31.7% to RMB37.5 million from RMB28.5 million for FY2007.

Other Foods

Gross profit margin for other foods increased significantly from 5.5% to 12.4% due to higher volume of domestic sales of pet food and increase in selling price. Gross profit surged at RMB9.7 million compared to RMB2.7 million for FY2007. Other foods are mainly chicken and rabbit meat by-products and pet food products, which are not the core profit drivers of the Group.

Other income

Other income which rose 30.7% to RMB25.0 million from FY2007 to FY2008 comprised mainly of interest income of RMB9.1 million, government grants of RMB3.8 million, excess over the costs of business combinations of RMB2.4 million arising from the acquisition of two subsidiaries, lapsing of share option granted to a major customer of RMB1.7 million and gain on change in fair value of biological assets of RMB1.7 million.

Selling and distribution expenses

The increase in selling and distribution expenses of approximately RMB4.8 million or 49.3% to RMB14.6 million was primarily due to transportation and quality inspection costs arising from increased sales, hiring of more staff and advertising costs resulting from the increased business activity.

Administrative expenses

Administrative expenses increased by 113.1% to RMB58.0 million from RMB27.2 million. This was mainly represented the Group's IPO expenses in Hong Kong of approximately RMB19.5 million, legal and professional fees of RMB2.2 million, depreciation of RMB2.9 million, foreign exchange loss of RMB2.0 million and salaries and allowances of approximately RMB16.3 million.

Finance costs

Finance costs increased by 21.4% to approximately RMB3.0 million for FY2008 from RMB2.5 million in FY2007 due to more loans obtained in FY2008 for project investment.

Taxation

Tax expenses increased by 320.5% to RMB12.7 million from FY2007 to FY2008 as one of the Group's subsidiaries namely Qingdao Kangda Foods Co., Ltd ("Kangda Foods") is no longer entitled to full tax exemption benefit with effect from 1 January 2008. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods are still 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 then subject to corporate income tax at 25% for the year ended 31 December 2008.

Net profit after tax

Net profit for the Group decreased by 23.0% to RMB84.6 million for FY2008.

Review of the Group Financial Position as at 31 December 2008

The Group's addition of property, plant and equipment mainly was leasehold buildings and plant and machinery of approximately RMB49.5 million through acquisition of two subsidiaries in May 2008, namely Qingdao Kangda Animal Rearing Co., Ltd ("KD Animal Rearing Company") and Qingdao Kangda Rabbit Co., Ltd ("KD Rabbit Company"). Aggregate addition of property, plant and equipment in FY2008 amounted to RMB151.3 million.

There was an addition to prepaid premium for land leases in FY2008 amounting to RMB19.8 million. The reduction of approximately RMB0.7 million was due to amortisation.

Biological assets were included in FY2008 following the acquisition of KD Animal Rearing Company and KD Rabbit Company. Biological assets of both subsidiaries refer to progeny rabbits and progeny chickens held for sale and breeder rabbits and chickens held for breeding purpose. These biological assets were valued by an independent professional valuer as at 31 December 2008 with reference to the market-determined prices.

Inventories decreased by RMB5.6 million to RMB60.7 million in line with the expected decrease in production volume during Lunar New Year period in January 2009. The inventory turnover for FY2008 represented 29 days compared to 30 days in FY2007.

Trade receivables increased by RMB25.4 million to RMB81.9 million in FY2008 was attributable to higher level of credit sales which was in line with the increase in revenue. The trade receivables turnover days remained 27 days for FY2008 and FY2007.

Prepayments, other receivables and deposits comprised mainly deposits placed with the Group's suppliers for raw materials purchase and deposits for construction projects and tax recoverable for export sales.

Assets and liabilities classified as held for sale represented assets and liabilities in relation to the proposed disposal of the Group's 70% equity interest in a subsidiary namely, Qingdao Spiritzone Asiawin Food Co., Ltd. ("Asiawin Food") as announced by the Company on 18 February 2009. The principal activity of Asiawin Food is production and sales of onion rings.

Trade and bills payables increased by RMB44.8 million from FY2007 to RMB82.5 million in FY2008 in line with the higher purchasing volume during the year and bills payables of RMB11.8 million issued to a supplier of Cod fish in overseas.

Accrued liabilities, other payables, and deposits received increased by approximately RMB22.7 million to RMB43.3 million, mainly due to payables to suppliers of facilities acquired. These comprised mainly payables for construction and facilities acquired, salary and welfare payables, accrued expenses and deposit received.

The Group continued to generate positive net operating cash flow of RMB161.3 million in FY2008 and cash and cash equivalent stood at a strong RMB461.1 million as at end of FY2008.

PROSPECTS

Jilin Rabbit Project

Demand for rabbit meat from the EU continues to remain strong. The Group still one of the companies in the PRC to have the authorisation to supply rabbit meat to the EU. In terms of production capacity, the Group has ramped up its capacity of rabbit meat to the current 6,000 tons per annum from 4,000 tons per annum in FY2007. The Group will also target to improve its profit by enforcing strict cost controls and are on track to double its production capacity of rabbit meat. The new processing plant in Nongan County, Jilin Province, the PRC, has commenced operation from February 2009. This plant will rear and breed rabbits and process rabbit meat which is expected to double the Group's production capacity of rabbit meat to 12,000 tons per annum by FY2009.

Acquisition of two subsidiaries from related party

The acquisitions of KD Animal Rearing Company and KD Rabbit Company as well as the acquisition of assets from Qingdao Kangda Foreign Trade Group Co., Ltd. will provide the Group with in-house capabilities for the rearing and breeding of rabbits and chickens. This is in line with the Group's strategy to be a diversified and integrated food processing group with three main business segments of chicken, rabbit and processed foods. Under the Group's vertically-integrated business model (from chicken and rabbit rearing, breeding, slaughtering to processing), the Group aims to establish a complete and competitive food supply chain in the PRC. Save as disclosed above, the Group did not have any material acquisition and disposal of subsidiaries and affiliated companies, and investment during the year under review.

3-year syndicated loan

On 13 October 2008, the Company entered into a 3-year syndicated loan agreement for HKD105 million with CITIC Ka Wah Bank and two participating banks as lead arranger and original lenders respectively. The syndicated loan was guaranteed and secured against the shares of the Company's subsidiaries — Perfect Good Group Limited and Spiritzone Group Limited. The loans from the above two subsidiaries to the Company are subordinated. The proceeds from the syndicated loan will be used to refinance the Group's existing debt facilities and for project investment and working capital requirements.

Listing on the Stock Exchange by way of introduction

On 22 December 2008, the Company has listed all its shares in issue on the Main Board of the Stock Exchange by way of introduction. The listing on the Stock Exchange will enhance the Company's profile in Hong Kong and in the PRC, facilitate investment by Hong Kong investors in the Company and enable the Company to gain access to Hong Kong's capital markets and to benefit from its exposure to a wider range of private and institutional investors.

CAPITAL STRUCTURE

As at 31 December 2008, the Group had net assets of approximately RMB629.0 million, comprising non-current assets of approximately RMB311.0 million (mainly comprising property, plant and equipment), and current assets approximately RMB657.5 million. The Group recorded a net current asset position of approximately RMB429.9 million as at 31 December 2008, which primarily consist of cash and bank balances amounted to approximately RMB461.1 million (comprising balances demoninated in RMB amounted to approximately RMB442.5 million, balances demoninated in USD amounted to approximately RMB18.0 million and the remaining denominated in SGD and HKD respectively), moreover, inventories amounted to approximately RMB60.7 million and trade receivables amounted to approximately RMB81.9 million are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB82.5 million and RMB87.8 million respectively. The Group's interest-bearing bank borrowings of approximately RMB197.7 million as at 31 December 2008 carry interests ranging from 4.45% to 7.60% per annum and are denominated in RMB, USD and HKD as to approximately RMB64.0 million, RMB47.7 million and RMB86.0 million, respectively. The Group adopts a sound financial policy and relies principally on its internally fenerated capital and bank borrowings to fund its business, the surplus cash is deposited in bank to facilitate operation expenditure or investment.

LIQUIDITY AND FINANCIAL RESOURCES

During the year under review, the Group satisfied their working capital needs principally from cash flow from operations and bank loans. As at 31 December 2008, the Group has cash and cash equivalent of approximately RMB461.1 million, representing an increase of approximately 35.3% from approximately RMB340.9 million as at 31 December 2007. Net cash generated from operating activities surged RMB142.0 million or 733.2% to RMB161.3 million in FY2008 from RMB19.4 million in FY2007.

The net gearing ratio for the Group was 31.8% by the end of 2008, based on net debt of RMB198.7 million and equity attributable to equity holders of RMB625.4 million. The Group serves its debts primarily with recurring cash flow generated from its operation, the board of directors of the Company is confident that the Group has adequate financial resources to meet its future debt repayment (which mainly include bank borrowings repayable within five years) and support its working capital requirement and future expansion.

FOREIGN EXCHANGE RATE RISK

The Group is exposed to foreign exchange rate risk from the financial assets and financial liabilities denominated in USD, EUR, JPY, SGD and HKD. During the year under review, the Group did not use any financial instrument for hedging purposes and the Group did not have hedging outstanding as at 31 December 2008.

CHARGE ON ASSETS

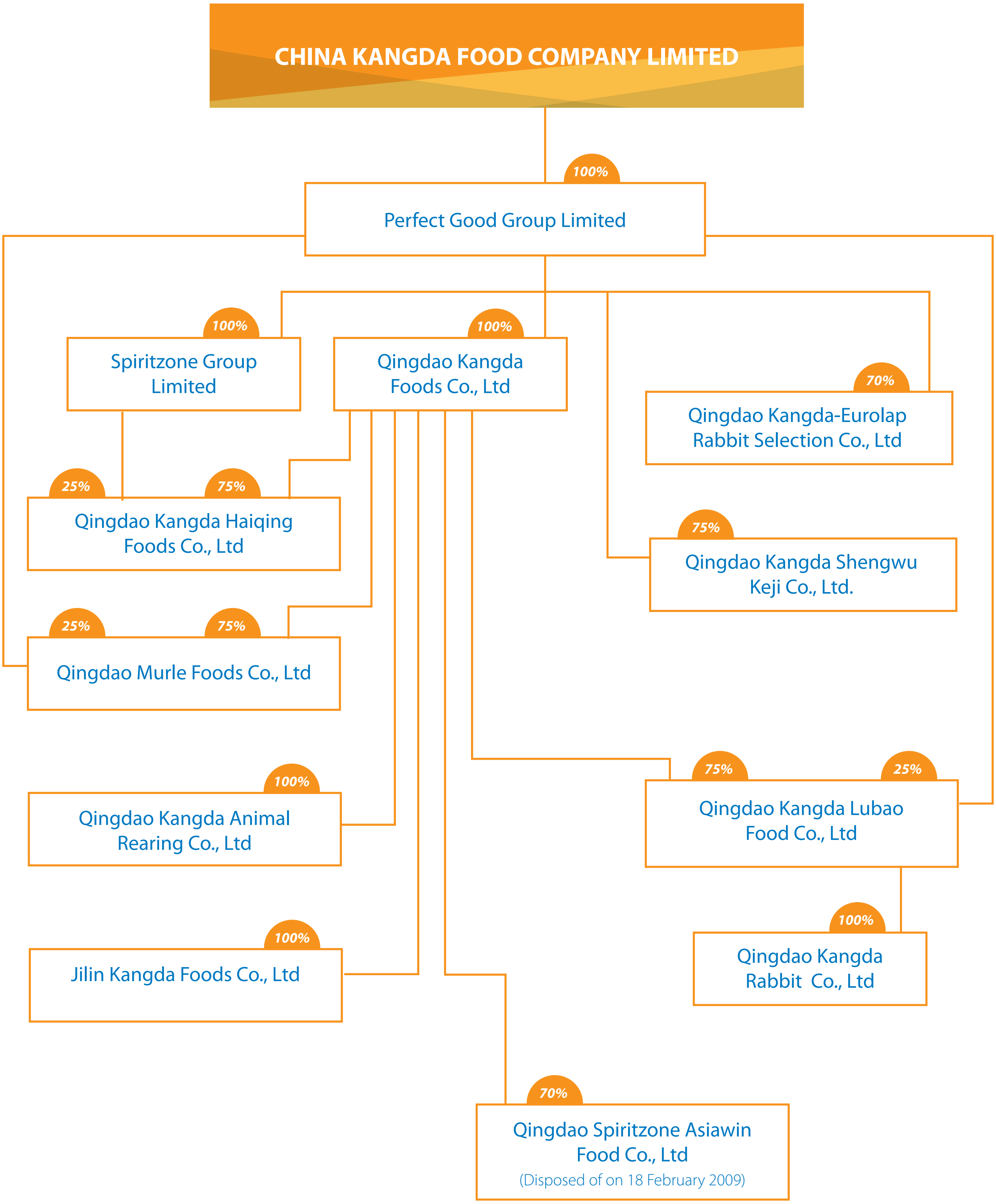
As at 31 December 2008, a 3–year syndicated loan of carrying amount of RMB85,982,000 was guaranteed and secured against the Company's interests in its two subsidiaries, Perfect Good Group Limited and Spiritzone Group Limited.

As at 31 December 2008, certain of the Group's land use rights and property, plant and equipment with aggregate carrying amount of RMB7.3 million and RMB12.9 million respectively were pledged as security against another bank loan of RMB27.0 million. Two unsecured bank loans totalling RMB22.0 million were guaranteed by a related party. The remaining unsecured bank loans were guaranteed by the inter–group companies.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2008, the Group employed a total of 2,602 employees (2007 : 1,959 employees) situated in the PRC. The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the year under review, the total staff costs (including Directors' emoluments) amounted to approximately RMB48.5 million (2007 : RMB37.7 million). The Company does not have share option scheme for its employees.

Corporate Structure



Corporate Governance Report

The Board of Directors (the "**Board**") is committed to maintain a high standard of corporate governance practices and procedures within the Company and its subsidiaries (the "**Group**"). The Board endeavors to ensure that its businesses are conducted in accordance with the rules and regulations and applicable codes and standards.

The Board will review and improve the corporate governance practices from time to time to ensure that the interests of its shareholders are properly protected and promoted.

For the year under review, the Company has complied with all the applicable code provisions of the Code of Corporate Governance 2005 (the "**Singapore Code**") issued by the Council Corporate Disclosure and Governance, Singapore for the year under review and the Code on Corporate Governance Practices (the "**HK Code**") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**SEHK**") from the date on which the shares of the Company are listed on the SEHK.

BOARD OF DIRECTORS

(A) Board's Conduct of its Affairs

The Board is responsible for the overall performance of the Group. It sets the Company's values and standards and ensures that the necessary financial and human resources are in place for the Company to achieve its objectives.

The principal functions of the Board are to:

1. approve the board's policies, strategies and financial objectives of the Group and monitoring the performance of the management;

2. oversee the process for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;

3. declare of interim and final dividends, if applicable;

4. approve the nomination of directors and appointment of key personnel;

5. assume responsibility for corporate governance; and

6. prepare of financial statements which give a true and fair view of the Company for each financial period in accordance with the International Financial Reporting Standards.

The Board is supported by the Audit Committee (the "**AC**"), the Remuneration Committee (the "**RC**") and the Nominating Committee (the "**NC**").

The Board meets at least once every quarter to review the strategic policies of the Group, significant business transactions, performance of the business and approve the release of quarterly, half-yearly and year-end results. The Board will also meet as and when warranted by particular circumstances between the scheduled meetings. The Company's Bye-laws provide for meetings to be held via telephone and video conferencing.

The approval of the Board is required for any matters which is likely to have a material impact on the Group's operating units and/or financial positions as well as matters other than in the ordinary course of business.

The day-to-day management, administration and operation of the Group are delegated to the executive Board members. Each executive director of the Company has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties can be carried out in an effective and efficient manner.

Corporate Governance Report

Details of directors' attendance at the Board meetings, the AC meetings, the NC meeting and the RC meeting held for the year ended 31 December 2008 are set out in the table below:

Meetings of	Board	AC	NC	RC
Total held in 2008	*5*	*4*	*1*	*1*
		Attendance Rate		
Gao Sishi	2	N/A	N/A	1
Gao Yanxu	4	N/A	1	N/A
An Fengjun	5	N/A	N/A	N/A
Zhang Qi	2	1	N/A	N/A
Kuik See Juan	5	4	1	1
Sim Wee Leong	5	4	1	1
Yu Chung Leung*	0	0	0	0

* Mr. Yu Chung Leung was appointed to the Board and as a member of the AC, NC and RC with effect from 22 December 2008. He has been recently appointed as the Chairman of the RC on 27 February 2009.

Newly appointed directors will be briefed on the Group's business activities, strategic direction and regulatory environment in which the Group operates. They will also be provided with a letter of appointment setting out their duties, obligations and terms of appointment.

The Board is kept informed of the new updates in the requirements of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and the SEHK from time to time.

(B) BOARD COMPOSITION

The Board comprises seven directors, with two executive directors, two non-executive directors, and three independent non-executive directors. The names of the directors are set out as follows:

Executive Directors:
Gao Yanxu (Chief Executive Officer)
An Fengjun

Non-executive Directors:
Gao Sishi (Chairman)
Zhang Qi

Independent Non-executive Directors:
Kuik See Juan
Sim Wee Leong
Yu Chung Leung (appointed since 22 December 2008)

The biographies of the directors are set out on pages 6 to 7 of the annual report.

During the year ended 31 December 2008, the Board met the requirements of the Hong Kong Listing Rules related to the appointment of at least three independent non-executive directors and one third of the Board comprises independent non-executive directors in compliance with the Singapore Code. The Board has received the annual written confirmations of independence from all the independent non-executive directors pursuant to Rule 3.13 of the Hong Kong Listing Rules. The Board is of the view that all the independent non-executive directors are independent in accordance with the Hong Kong Listing Rules and the Singapore Code. All the independent non-executive directors have appropriate professional qualifications or accounting or related financial management expertise.

Corporate Governance Report

(C) Chairman and Chief Executive Officer

According to provision A.2.1 of the HK Code and principle 3 of the Singapore Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. This is to ensure an appropriate balance of powers. The Non-executive Chairman of the Group is Mr. Gao Sishi. Mr. Gao Sishi is the founder of the Group. The Company Secretaries assist the Chairman and the Chairman of the Board Committees in scheduling Board meetings and Board Committees meetings in consultation with the Chairman and the Chief Executive Officer.

Mr. Gao Yanxu, nephew of Mr. Gao Sishi, is the Chief Executive Officer of the Company. As Chief Executive Officer, Mr. Gao Yanxu is responsible for day-to-day management affairs of the Group including reviewing and charting of corporate directions and strategies. He also ensures that stipulated corporate policies are properly complied with.

Notwithstanding the relationship between the Chairman and the Chief Executive Officer, the directors are of the view that there are sufficient safeguards and checks to ensure that the decision making process of the Board is independent and based on collective decision of the directors without any individual exercising any considerable concentration of power or influence. In line with the recommendations of the HK Code and the Singapore Code, Mr. Kuik See Juan has been appointed as the lead independent non-executive director of the Company to address the concerns, if any, of the Company's shareholders.

Under provision A.4.1 of the HK Code, the non-executive directors should be appointed for a specific term, subject to re-election by the shareholders of the Company. Pursuant to their appointment letters dated 24 November 2008, the two non-executive directors of the Company, Mr. Gao Sishi and Mr. Zhang Qi, are each appointed by the Company for a term of 3 years commencing on 25 August 2006, subject to re-election by the shareholders of the Company. Their appointment may be terminated by either party by giving the other at least three months' written notice or in accordance with other terms of the appointment letters.

Pursuant to the appointment letters dated 24 November 2008, 25 November 2008 and 27 November 2008 respectively, the three independent non-executive directors of the Company, Mr. Yu Chung Leung, Mr. Kuik See Juan and Mr. Sim Wee Leong are each appointed by the Company for a term of 3 years commencing on 25 August 2006 (in respect of Mr. Kuik See Juan and Mr. Sim Wee Leong) and 22 December 2008 (in respect of Mr. Yu Chung Leung), subject to re-election by the shareholders of the Company. Their appointment may be terminated by either party by giving the other at least one month's written notice or in accordance with other terms of the appointment letters.

(D) Board Membership and Performance

Nominating Committee

The NC, regulated by a set of written terms of reference, comprises three members, a majority of whom are independent non-executive directors. The chairman is Mr. Kuik See Juan, an independent non-executive director, who is not directly associated with any connected person of the Company.

The members of the NC are as follows:

Kuik See Juan (Chairman)
Sim Wee Leong
Gao Yanxu
Yu Chung Leung

The principal functions of the NC are to:

1. review nominations for the appointment and re-appointment to the Board;
2. ensure that all directors submit themselves for re-nomination and re-election at regular intervals;
3. evaluate the performance of the Board as a whole;
4. review and evaluate whether or not a director is able to and has been adequately carrying out his duties as a director of the Company, particular when he is has multiple Board representations; and
5. review on an annual basis the independence of directors.

Corporate Governance Report

During the year ended 31 December 2008, the NC made recommendations to the Board on all nominations for appointment of a new director and re-appointment of directors retiring at the Annual General Meeting ("**AGM**"). In selecting potential new directors, the NC would seek to identify the competencies required to enable the Board to fulfill its responsibilities. The Curriculum Vitae and other particulars/documents of the nominee or candidate will be given to the NC for consideration. The NC would evaluate the suitability of the nominee or candidate based on his qualifications, business and related experience, commitment, ability to contribute to the Board process and such qualities and attributes that may be required by the Board.

In accordance with the Company's Bye-laws, each director is required to retire at least once in every three years by rotation and all newly appointed Directors will have to retire at the next AGM following their appointments. The retiring directors are eligible to offer themselves for re election. Pursuant to the Company's Bye-law 86(1), Mr. An Fengjun and Mr. Kuik See Juan will retire at the forthcoming AGM. Mr. Yu Chung Leung will also retire pursuant to Bye-law 85(6) of the Company's Bye-laws at the forthcoming AGM.

For the year under review, the NC had conducted a Board evaluation to assess the effectiveness of the Board as a whole which will examine factors such as Board composition, information flow to the Board, Board procedures, Board accountability, and standards of conduct of the Board members. The evaluation process is carried out by the NC on an annual basis.

(E) Access to Information

All directors have independent access to the Group's senior management and the Company secretaries. All directors are provided, where appropriate, with management information to enable them to participate at the meetings. The Company secretaries provide secretarial support to the Board, attend Board meetings and ensure adherence to Board procedures and the relevant rules and regulations which are applicable to the Company.

Should the directors, whether as a group or individually, need independent professional advice to fulfill their duties, the directors will be able to obtain such advice from professionals in which the consultation fees incurred will be borne by the Company.

(F) Procedures for Developing Remuneration Policies, Level and Mix of Remuneration and Disclosure on Remuneration

Remuneration Committee

The RC, regulated by a set of written terms of reference, comprises the following non-executive directors:

Yu Chung Leung (Chairman)
Gao Sishi
Sim Wee Leong
Kuik See Juan

The principal functions of the RC are to:

1. determine the remuneration packages of all executive directors and key executives of the Group;

2. assess performance of executive directors;

3. review and recommend the directors' fees for non-executive directors, which are subject to shareholders' approval at the annual general meetings; and

4. assess and recommend the terms of executive directors' service contracts.

The RC had recommended to the Board an amount of S$96,000 as directors' fees for the financial year ended 31 December 2008. The Board will table this at the AGM for shareholders' approval.

Corporate Governance Report

The annual review of the remuneration packages of all directors was carried out by the RC to ensure that the remuneration of the directors and key executives commensurate with their performance, qualifications, experience and duties giving due regard to the financial and commercial health and business needs of the Group. The objective of the remuneration policies was to ensure that the directors would be provided with the appropriate incentives to encourage enhanced performance and are, in a fair and reasonable manner, rewarded for their individual contributions to the success of the Company.

Disclosure on remuneration

The breakdown of each individual director's remuneration, in percentage terms showing the level and mix for the year ended 31 December 2008, are as follows:

Name of director	Salary	Bonus	Director's fees	Other benefits	Total
	%	%	%	%	%
Below S$250,000					
Gao Sishi	—	—	—	—	—
Gao Yanxu	17	—	83	—	100
An Fengjun	60	—	40	—	100
Zhang Qi	—	—	—	—	—
Kuik See Juan	—	—	100	—	100
Sim Wee Leong	—	—	100	—	100

Other than Mr Gao Yanxu, no employee of the Group is an immediate family member of a director or substantial shareholder.

Details of remuneration paid to the top 5 executives of the Group (who are not directors) for the year ended 31 December 2008 are set our below:

Name of executive	Salary	Bonus	Other benefits	Total
	%	%	%	%
Below S$250,000				
Leung Ting Yuk	100	—	—	100
Gao Yumei	100	—	—	100
Zhang Weike	100	—	—	100
Zhao Ruifen	100	—	—	100
Gao Chunying	100	—	—	100

(G) Accountability

The Board provides shareholders with a detailed and balanced explanation and analysis of the Company's performance, position and prospects on a quarterly basis.

The Management provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a quarterly basis.

(H) Audit Committee

The AC, regulated by a set of written terms of reference, comprises four members, all of whom are non-executive directors. The members of the AC are:

Sim Wee Leong (Chairman)
Kuik See Juan
Zhang Qi
Yu Chung Leung

Corporate Governance Report

The principal functions of the AC are to:

1. review the annual, half-yearly and quarterly financial statements of the Company and the Group before submission to the Board for adoption;

2. review with the external auditors, their audit plans and audit reports;

3. approve the internal audit plans and review results of internal audit as well as Management's responses to the recommendations from the internal auditors;

4. review the co-operation given by the Company's officers to the external auditors;

5. nominate and review the appointment or re-appointment of internal and external auditors;

6. review interested person transactions;

7. review the independence of the external auditors annually; and

8. undertake such other functions and duties as may be required by the statute or the Listing Manual of the SGX-ST and the Hong Kong Listing Rules.

The AC meets at least four times a year and when deemed appropriate to carry out its functions as sets out under its terms of reference. The AC has full access to and the co-operation of Management, has full discretion to invite any directors and executive officers to attend its meetings, and has reasonable adequate resources to enable it to discharge its functions.

Four AC meetings were held in the year ended 31 December 2008 to discuss and review the follow matters:

1. the annual and quarterly financial statements of the Company and the Group before submission to the Board for adoption;

2. the audit plans and audit reports with the external auditors;

3. the approval of the internal audit plans and the adequacy and effectiveness of the internal control system and to make recommendation to the Board for improvement of internal control and risk management;

4. the nomination and appointment or re-appointment of internal and external auditors;

5. the co-operation given by the Company's officers to the external auditors;

6. the related parties transactions, including those interested person transactions (as defined under the Listing Manual of SGX-ST) and continuing connected transactions (as defined under the Hong Kong Listing Rules);

7. the independence of the external auditors annually; and

8. the undertaking of such other functions and duties as may be required by statue or the Listing Manual of the **SGX-ST** and the Hong Kong Listing Rules.

For the year ended 31 December 2008, the AC had met with the external auditors and internal auditors without the presence of management and had established that both the external & internal auditors have had the full co-operation of Management in carrying out their works. In addition, the AC had reviewed the non-audit services provided by the external auditors, Grant Thornton and is of the opinion that the provision of such services does not affect their independence.

The AC has also put in place a "whistle-blowing" policy whereby staff of the Group may raise concerns on financial improprieties, fraudulent acts or other matters and ensure that arrangements are in place for investigation.

The AC has recommended to the Board the re-appointment of Grant Thornton as external auditors at the forthcoming AGM.

Corporate Governance Report

(I) Internal Controls and Internal Audit

The Board bears the overall responsibility for maintaining and ensuring that a sound and effective internal control system is maintained within the Group.

The Company has adopted a set of internal control procedures and policies to safeguard the Group's assets, to ensure proper maintenance of accounting records and reliability of financial reporting and to ensure compliance with relevant legislation and regulations. The internal control system is designed to ensure that the financial and operations functions, compliance control, asset management and risk management functions are in place and functioning effectively. It is however, impossible to preclude all errors and irregularities, as the system is designed to manage rather than eliminate risks, and therefore can provide only reasonable and not absolute assurance against material misstatements or losses, errors or misjudgments, fraud or other irregularities.

The Group has outsourced the internal audit function to Ernst and Young, a firm of certified public accountants. The internal audit of the Group covers the review of financial, operational and compliance controls and risk management functions of the Group. Non-compliance and internal control weaknesses noted during internal audits and the recommendations thereof are reported to the AC as part of the Group's internal control system.

The internal auditors report directly to the AC. The AC will review the adequacy of the internal audit function annually and ensures that the internal audit function is adequately resourced.

During the year ended 31 December 2008, the Board has reviewed the effectiveness of the internal control system of the Group, and considered the system effective and adequate.

(J) Communication with Shareholders, Investors and Greater Shareholder Participation

In line with continuous disclosure obligations, the Company is committed to regular and proactive communication with its shareholders and investors. It is the Company's policy that the shareholders and investors be informed of all major developments that have an impact on the Group.

Information is communicated to the shareholders and investors on a timely basis through:

(a) publication of press releases, announcements and circulars on the websites of the SGX-ST, the SEHK and the Company;

(b) publication of financial statements containing a summary of the financial information and affairs of the Group for the quarterly, half-yearly and fully year via the websites of the SGX-ST, the SEHK, and the Company;

(c) interim reports and annual reports that are sent to all shareholders;

(d) notices of and explanatory notes for general meetings; and

(e) meetings with investors and analysts.

At the annual general meetings, the shareholders will be given an opportunity to voice their views and seek clarification from the directors and members of the senior management.

The respective chairman of the AC, RC and NC, as well as the external auditors, are also normally available at general meetings to answer shareholders' queries.

The market capitalisation of the Company as at 31 December 2008 was approximately S$72,711,540 (issued share capital: 440,676,000 shares at closing market price: S$0.165 per share).

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code For Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Hong Kong Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors of the Company, the Company confirms that all directors of the Company have complied with required standard as set out in the Model Code from the date on which the shares of the Company are listed on the SEHK.

The Group has also adopted an internal compliance code of conduct to provide guidance to its officers regarding dealings in the Company's securities. Officers are prohibited from dealing in securities of the Company two weeks before the release of the quarterly and the half-yearly results and at least one month before the release of full year results and at all times, if in possession of price-sensitive information.

AUDIT FEE

The Company's external auditor is Grant Thornton, Certified Public Accountants. During the year ended 31 December 2008, the total fee paid/payable in respect of audit and non-audit services provided by the external auditor are set out below:

	2008 RMB'000
Audit fee	**750**
Non-audit fee#	**3,446**

The independent auditors received non-audit fee of approximately RMB3,446,000 for acting as the reporting accountants in respect of the application for listing the Company on the SEHK by the way of introduction during the year ended 31 December 2008. No other non-audit fee was paid to the independent auditors for the year ended 31 December 2008.

INTERESTED PERSON TRANSACTIONS

The Company has adopted an internal policy with regard to transactions with interested persons and has set out procedures for review and approval of the Company's interested person transactions. The aggregate value of the interested person transactions conducted under the general mandate during the year ended 31 December 2008 is provided below:

(in RMB'000)

	Year ended 31 December 2008	
Name of interested person	**Aggregate value of all IPTs during the financial year under review excluding transactions less than $100,000 and transactions pursuant to the IPT Mandate (or a shareholders' mandate for IPTs under Rule 920 of the New Listing Manual)**	**Aggregate value of all IPTs under the IPT Mandate (or a shareholders' mandate for IPTs under Rule 920 of the New Listing Manual) during the financial year under review (excluding transactions less than $100,000)**
Sales to Qingdao Kangda Foreign Trade Group Company Limited and it's subsidiaries ("**KD Trading Group**") (Note 1) and Hong Kong Kangfulai Group Co., Ltd (香港康福萊集團有限公司)	Nil	3,286
Purchases from KD Trading Group (Note 2)	Nil	54,897
Rental income received from a related company	219	Nil
Rental expenses paid to related companies	213	Nil
Interest income from leases from related companies	192	Nil
Guarantees given by the related companies in connection with bank loans granted to the KD Trading Group	22,000	Nil

Corporate Governance Report

Notes:

1. These are the supply of chestnuts, soup ingredients and processed food products to KD Trading Group, including Qingdao Kangda Shidai Property Development Company Limited and Qingdao Kangda Delijia Import and Export Company Limited ("KD Delijia") for the year ended 31 December 2008.
2. These are the purchases of raw materials such as vegetables, flowers and animal feed from the KD Trading Group including Qingdao Kangda Modern Agriculture Technology Development Company Limited, KD Delijia and Qingdao Jiaonan Kangda Feed Company Limited for the year ended 31 December 2008.

MATERIAL CONTRACTS UNDER THE LISTING MANUAL OF SGX-ST

Save as disclosed in the Corporate Governance Report, the Directors' Report and in the Financial Statements, the Group did not enter into any material contracts (as defined under the Listing Manual of the SGX-ST) involving the interests of the directors or controlling shareholders during the year ended 31 December 2008 as required to be reported under Rule 1207 (8) of the Listing Manual of SGX-ST.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING ON THE SGX-ST

The Company refers to the net proceeds (the "**IPO Proceeds**") amounted to RMB142 million (equivalent to S$28.1 million) raised from the initial public offering of its shares on the SGX-ST and has fully utilised its IPO proceeds as follows:

	Intended Use	Amount Allocated and Utilised
1.	To increase production capacity of existing product including cold storage facilities	RMB56.0 million (equivalent to S$11.1 million)
2.	To establish production facilities for new products	RMB14.0 million (equivalent to S$2.8 million)
3.	To acquire land	RMB30.0 million (equivalent to S$5.9 million)
4.	For establishment of farms	RMB32.0 million (equivalent to S$6.3 million)
5.	To build a new building to house the Company's product development centre	RMB10.0 million (equivalent to S$2.0 million)
	Total	RMB142.0 million (equivalent to S$28.1 million)

FINANCIAL REPORTING

The directors are responsible for the preparation of the financial statements which give a true and fair view of the state of affairs of the Group, in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinances and the Hong Kong Listing Rules. In preparing the financial statements for the year ended 31 December 2008, the Directors have selected suitable accounting policies and have applied them consistently which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis. .

The statement by the auditor of the Company about its responsibilities for the financial statements is set out in the independent auditor's report contained in this annual report.

SHARE INTEREST OF KEY MANAGEMENT

Ms. Zhao Ruifen, being one of the key management whose brief biographical details are set out in this annual report, is beneficially interested in 8,400,000 shares of the Company as at 31 December 2008.

CONFIRMATION OF NON-COMPETITION

Mr. Gao Sishi, the controlling shareholder (as defined in the Hong Kong Listing Rules) has provided a written confirmation, which has been reviewed and confirmed by the independent non-executive Directors, confirming that, during the year ended 31 December 2008, he has complied with the terms of the Deed of Non-competition Undertaking dated 25 August 2006 and the Supplemental Deed of Non-Competition Undertaking dated 25 November 2008, both entered into with the Company.

Financial Contents

Directors' Report

The directors of the Company (the "**Directors**") are pleased to present their report and audited financial statements of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2008.

ADOPTION OF CHINESE NAME

Pursuant to a special resolution passed at the special general meeting of the Company held on 30 October 2008 and approval obtained from the Registrar of Companies in Bermuda, the Company has adopted the Chinese name "中國康大食品有限公司" as its secondary name.

LISTING

In addition to the listing of the Company's ordinary shares (the "**Shares**") on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") on 9 October 2006, the Company had on 22 December 2008 listed its Shares on The Stock Exchange of Hong Kong Limited (the "**SEHK**") by way of introduction. As a result, the Company now has a dual primary listing of its Shares on both the SGX-ST and the SEHK.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 17 to the financial statements.

There has been no change in the nature of the principal activities of the Group during the year.

ACQUISITION OF SUBSIDIARIES

During the year, the Group acquired two subsidiaries. Details of the acquisitions are as follows:

(i) On 31 May 2008, the Group completed the acquisition of the entire equity interest and a shareholder's loan in Qingdao Kangda Animal Rearing Co., Ltd ("**KD Animal Rearing Co**") from Qingdao Kangda Foreign Trade Group Co., Ltd ("**KD Trading Company**") and Qingdao Kangda Property Development Limited at a total consideration RMB42.9 million.

(ii) On the same day, the Group completed the acquisition of the entire equity interest and a shareholder's loan in Qingdao Kangda Rabbit Co. Ltd ("**KD Rabbit Co**") from KD Trading Company and Mr. Gao Yanxu (an executive director of the Company) at a total consideration of RMB20 million.

After the acquisitions, KD Animal Rearing Co and KD Rabbit Co have both become indirect wholly-owned subsidiaries of the Company. KD Animal Rearing Co and KD Rabbit Co are engaged in rearing, breeding and sale of livestock and rabbit, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company as at that date are set out in the consolidated financial statements on pages 38 to 89.

The board of Directors (the "**Board**") did not recommend any dividend for the year ended 31 December 2008.

Directors' Report

SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements is set out below. The summary does not form part of the audited financial statements.

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**943,426**	728,407	506,962	447,652	345,271
Profit before tax	**97,277**	112,907	93,079	97,688	34,536
Tax	**(12,662)**	(3,011)	(6,298)	(14,020)	(201)
Profit for the year	**84,615**	109,896	86,781	83,668	34,335
Attributable to:					
Equity holders of the Company	**85,643**	109,852	86,791	79,877	30,048
Minority interests	**(1,028)**	44	(10)	3,791	4,287

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Non-current assets	**310,989**	161,344	88,424	67,794	58,574
Current assets	**657,482**	527,729	441,730	217,804	142,471
TOTAL ASSETS	**968,471**	689,073	530,154	285,598	201,045
Current liabilities	**227,553**	101,597	97,120	201,454	114,061
Non-current liabilities	**111,869**	—	—	36,624	—
TOTAL LIABILITIES	**339,422**	101,597	97,120	238,078	114,061
NET ASSETS	**629,049**	587,476	433,034	47,520	86,984

PROPERTY, PLANT AND EQUIPMENT

Details of the movement in property, plant and equipment of the Group are set out in note 14 to the financial statements.

As stated in the listing document of the Company dated 28 November 2008, property interests of the Group were appraised by an independent property valuer at the valuation of approximately RMB106.5 million as at 31 August 2008. Had those property interests been stated at such valuation, the additional depreciation that would be charged against the income statement for the year ended 31 December 2008 would amounted to approximately RMB252,700.

INTEREST-BEARING BANK BORROWINGS

Particulars of interest-bearing bank borrowings of the Group as at 31 December 2008 are set out in note 30 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 34 to the financial statements.

Directors' Report

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Memorandum of Association, Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company (the "**Shareholders**").

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the statements of changes in equity.

DISTRIBUTABLE RESERVES

As at 31 December 2008, the Company's reserves available for distribution, calculated in accordance with the provision of laws of Bermuda, amounted to approximately RMB267,341,000 of which approximately RMB261,198,000 in the share premium account may be distributed in the form of fully paid bonus Shares.

PURCHASE, ISSUE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year, the Company has repurchased certain Shares on the SGX-ST. A summary of the details of these repurchases are shown as follows:

Date of repurchase	Number of ordinary shares repurchased	Price per share Highest S$	Lowest S$	Consideration S$ (Note 1)
10 October 2008	930,000	0.190	0.185	174,050
15 October 2008	500,000	0.205	0.205	102,500
	1,430,000			276,550

Note:

1. Handling charges are not included.

As a result of the repurchases, the issued share capital of the Company was reduced to HK$110,169,000 comprising 440,676,000 Shares. Premium paid on the repurchases was charged against the reserves of the Company. An amount equivalent to the nominal value of the Shares cancelled pursuant to the repurchases was transferred from retained profits to a capital redemption reserve.

The repurchase of the Company's Shares during the year were effected by the Directors pursuant to the mandate given by the Shareholders at the special general meeting held on 29 April 2008, with a view to benefit Shareholders as a whole by enhancing the net asset value per share and earnings per share of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, issued, sold or redeemed any Shares during the year.

POST-BALANCE SHEET DATE EVENTS

Details of post-balance sheet date events of a material nature are set out in note 42 to the financial statements.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers, respectively.

As at 31 December 2008, so far as the Directors are aware, the following Directors or their respective associates or persons who are interested in more than 5% of the issued share capital of the Company had an interest in one of the five largest suppliers of the Group:

Name of supplier	Name of shareholder	Nature of interest	Approximate percentage of interest
Qingdao Jiaonan Kangda Feed Co., Ltd. ("**KD Feed Company**")	KD Trading Company (Note 1)	Direct	90%
KD Feed Company	Mr. Gao Sishi (Note 1)	Indirect	90%
KD Feed Company	Mr. An Fengjun (Note 2)	Direct	10%

Notes:

1. Mr. Gao Sishi, the controlling Shareholder (as defined in the Rules Governing the Listing of Securities on the SEHK (the "**Hong Kong Listing Rules**")), non-executive Director and non-executive chairman of the Company, is holding 40% of the equity interest in KD Trading Company. As such, KD Trading Company is an associate of Mr. Gao Sishi, and Mr. Gao Sishi is indirectly interested in 90% interest in KD Feed Company through KD Trading Company.

2. Mr. An Fengjun is an executive Director of the Company.

Save as disclosed above, none of the Directors, their associates or any Shareholder (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers and/or suppliers of the Group.

DIRECTORS

The Directors during the year and up to the date of this report are as follows:

Executive Directors:
Gao Yanxu (Chief Executive Officer)
An Fengjun

Non-executive Directors:
Gao Sishi *(Chairman)*
Zhang Qi

Independent Non-executive Directors:
Kuik See Juan
Sim Wee Leong
Yu Chung Leung (appointed since 22 December 2008)

In accordance with Bye-laws 85(6) and 86(1) of the Company's Bye-laws, Mr. An Fengjun, Mr. Kuik See Juan and Mr. Yu Chung Leung shall retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election at the annual general meeting.

The Company has received annual confirmations of independence from each of its independent non-executive directors and considers them to be independent under Rule 3.13 of the Hong Kong Listing Rules and the Singapore Code.

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 8 of the annual report.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

Executive Directors

Mr. Gao Yanxu entered into a service agreement with the Company on 25 August 2006, pursuant to which he has been appointed as an executive Director commencing from 12 May 2006 for an initial period of 3 years. Under such service agreement, he is entitled to a monthly salary of RMB30,000, and is entitled to an annual bonus of RMB640,000 if the Group has met its profit target for the relevant financial year.

Mr. An Fengjun had also entered into a service agreement with the Company on 25 August 2006, pursuant to which he has been appointed as an executive Director commencing from that date for an initial period of 3 years. Under such service agreement, he is entitled to a monthly salary of RMB10,000, and is entitled to an annual bonus of RMB180,000 if the Group has met its profit target for the relevant financial year.

For the purpose of the Company's listing on the SEHK, each of Mr. Gao Yanxu and Mr. An Fengjun have each entered into a new service contract (the "**New ED Service Contracts**") with the Company on 24 November 2008 (which has superseded and substituted their service agreements dated 25 August 2006), pursuant to which each of them shall be continued to be appointed as an executive Director for a term of three years commencing on 12 May 2006 and 25 August 2006, respectively (subject to re-election by Shareholders), unless otherwise terminated by either party giving not less than three months' notice to the other, or in accordance with other terms of the service agreement. The New ED Service Contracts became effective on 22 December 2008 (i.e. the date of listing of the Company on the SEHK).

Under the New ED Service Contracts, each of Mr. Gao Yanxu and Mr. An Fengjun is entitled to a monthly salary of RMB50,000 and RMB30,000, respectively, with such salary will be reviewed annually by the Board. Each of Mr. Gao Yanxu and Mr. An Fengjun is also entitled to such management bonus by reference to the consolidated net profits of the Group after taxation and minority interests but before extraordinary items ("**Net Profits**") as the Board may approve provided that the aggregate amount of management bonuses payable to all executive Directors in respect of any financial year of the Group shall not exceed 10 percent of the Net Profits for the relevant financial year.

Independent Non-executive Directors

Mr. Kuik See Juan and Mr. Sim Wee Leong have both been appointed as independent non-executive Directors since 25 August 2006 for a period of 3 years subject to re-election by the Shareholders. Each of them had executed an appointment letter on 27 February 2007 with the Company in that respect, pursuant to which each of them is entitled to an annual remuneration of S$48,000.

For the purpose of the Company's listing on the SEHK, each of Mr. Kuik See Juan and Mr. Sim Wee Leong has signed a new appointment letter (the "**New INED Appointment Letters**") with the Company on 25 November 2008 and 27 November 2008, respectively (which have superseded and substituted their respective appointment letters dated 27 February 2007), pursuant to which each of them has continued to be appointed as an independent non-executive Director for a term of three years commencing from 25 August 2006 (subject to re-election by Shareholders), unless otherwise terminated by either party by giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. The New INED Appointment Letters became effective on 22 December 2008.

Under the New INED Appointment Letters, Mr. Kuik See Juan and Mr. Sim Wee Leong are/shall be entitled to a remuneration of S$48,000 and S$48,000 per annum respectively (subject to the approval of the Shareholders).

Mr. Yu Chung Leung has signed an appointment letter with the Company on 24 November 2008, pursuant to which he has been appointed as an independent non-executive Director for a term of three years commencing on 22 December 2008 (subject to re-election by Shareholders), unless otherwise terminated by either party by giving not less than one month's notice in writing to the other or in accordance with the terms of the appointment letter. Under the appointment letter, Mr. Yu Chung Leung is/shall be entitled to a remuneration of RMB180,000 per annum.

Directors' Report

Non-executive Directors

Both Mr. Gao Sishi and Mr. Zhang Qi have signed an appointment letter with the Company on 24 November 2008, pursuant to which they have continued to be appointed as non-executive Directors for a term of three years commencing on 25 August 2006 (subject to re-election by Shareholders), unless otherwise terminated by either party by giving not less than three month's notice in writing to the other or in accordance with the terms of the appointment letter. The appointment letters became effective on 22 December 2008. None of the non-executive Directors will receive any directors' fee under the appointment letters.

None of the Directors proposed for re-election at the forthcoming annual general meeting has entered into a service contract with the Company or any of its subsidiaries which is not determinable by the Company or the relevant subsidiaries within one year without payment of compensation, other than statutory compensation.

CONTRACTS OF SIGNIFICANCE

Save as those disclosed in the sub-sections headed "Directors' Services Contracts" above and "Interested Person Transactions, Connected Transactions and Continuing Connected Transactions" below, and note 41 to the financial statements, no Director of the Company has a significant interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, any of its subsidiaries, the controlling shareholder and/or any of his associates was a party during the year under review.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

During and as at the end of the financial year, neither the Company nor any of its subsidiaries was a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES UNDER THE SECURITIES AND FUTURES ORDINANCE (CHAPTER 571) OF THE LAWS OF HONG KONG (THE "SFO")

As at 31 December 2008, the interests of the directors and chief executive in the share capital of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**"), were as follows:

	Long positions in the shares of the Company					
Name of Director	**Personal Interests**	**Family Interests**	**Corporate Interests**	**Other Interests**	**Total**	**Percentage**
Gao Sishi	166,740,000	—	—	—	166,740,000	37.8%
Gao Yanxu	14,310,000	—	—	—	14,310,000	3.3%
Zhang Qi	8,910,000	—	—	—	8,910,000	2.0%
An Fengjun	—	—	—	—	—	—
Kuik See Juan	—	—	—	—	—	—
Sim Wee Leong	—	—	—	—	—	—
Yu Chung Leung	—	—	—	—	—	—
	189,960,000	—	—	—	189,960,000	43.1%

Save as disclosed above, as at 31 December 2008, none of the Directors, chief executive of the Company nor their associates had or was deemed to have any interests or short position in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the SEHK pursuant to the above mentioned Mode Code of the Hong Kong Listing Rules.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

	Held in Name of Director		Deemed Interest	
Name of Director	1/1/2008	21/1/2009 and 31/12/2008	1/1/2008	21/1/2009 and 31/12/2008
Gao Sishi	**166,740,000**	**166,740,000**	—	—
Gao Yanxu	**14,310,000**	**14,310,000**	—	—
Zhang Qi	**8,910,000**	**8,910,000**	—	—
An Fengjun	—	—	—	—
Kuik See Juan	—	—	—	—
Sim Wee Leong	—	—	—	—
Yu Chung Leung	—	—	—	—
	189,960,000	**189,960,000**	—	—

SUBSTANTIAL SHAREHOLDERS' INTERESTS UNDER THE SFO

As at 31 December 2008, insofar as is known to the Directors and chief executive of the Company, the following persons (not being a Director or chief executive of the Company), had an interest or short position in the shares and underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

In respect of the Company

Name of Shareholder	Capacity/nature of interests	Number of shares held	Approximate percentage of issued share capital (%)
UOB Kay Hian Pte Ltd. (Notes 1 and 2)	Registered owner	79,174,000	18.0
UOB-Kay Hian Holdings Limited (Note 1)	Deemed interest	79,174,000	18.0
United Overseas Bank Limited (Note 1)	Deemed interest	79,174,000	18.0
Cheng Xiutai (Note 2)	Registered and beneficial owner	39,500,000	9.0
Proven Choice Group Limited (Note 3)	Registered and beneficial owner	30,000,000	6.8
Huang Quan (Note 3)	Deemed interest	30,000,000	6.8
Zensho Co. Ltd. (Note 4)	Registered and beneficial owner	22,106,000	5.0

Notes:

1. UOB Kay Hian Pte Ltd. was holding 79,174,000 shares as nominee for and on behalf of various individual beneficiaries. UOB Kay Hian Pte Ltd. is a wholly owned subsidiary of UOB-Kay Hian Holdings Limited, which in turn is owned as to approximately 39.4% by United Overseas Bank Limited. As such, UOB-Kay Hian Holdings Limited and United Overseas Bank Limited were both deemed to be interested in the 79,174,000 shares held by UOB Kay Hian Pte Ltd. pursuant to Part XV of the SFO. Both UOB-Kay Hian Holdings Limited and United Overseas Bank Limited are listed on the SGX-ST.

2. Mr. Cheng Xiutai, an independent third party,is beneficially interested in 39,500,000 shares which were held by UOB Kay Hian Pte Ltd. as his nominee.

3. Proven Choice Group Limited was wholly-owned by Huang Quan who is not related to any of the Directors or Shareholders. As such, Huang Quan is deemed to be interested in the 30,000,000 shares held by Proven Choice Group Limited under Part XV of the SFO.

4. Zensho Co. Ltd. is an independent third party and is a listed company in Japan.

Save as disclosed above, the Directors are not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2008, which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Report

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 15 to 23 of the annual report.

INTERESTED PERSON TRANSACTIONS, CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

Details of the interested person transactions (as defined under the Listing Manual of the SGX-ST), connected transactions (as defined under the Hong Kong Listing Rules) and continuing connected transactions (as defined under the Hong Kong Listing Rules) for the year under review are set out in note 41 to the financial statements.

As disclosed in the listing document of the Company dated 28 November 2008 (the "**Listing Document**"), the Group has entered into the following continuing connected transactions (the "**Transactions**") as defined under the Hong Kong Listing Rules. These continuing connected transactions between certain connected parties (as defined in the Hong Kong Listing Rules) and the Group also constituted related party transactions as disclosed in note 36 to the financial statements.

- The Group entered into 10 lease agreements dated between 1 January 2005 to 31 October 2008 either as landlord or tenant (collectively the "**Lease Agreements**") with various connected persons (as defined under the Hong Kong Listing Rules) including KD Feed Company, KD Trading Company and Qingdao Spiritzone Asiawin Food Co., Ltd. with annual rental ranging from RMB2,400 to RMB218,880. The terms of the Lease Agreements will expire between 30 October 2009 to 31 December 2024. The total amount of rental paid and received by the Group for the year ended 31 December 2008 amounted to approximately RMB213,000 and RMB219,000, respectively.

- On 30 June 2008, the Company entered into a supply agreement with KD Trading Company (for and on behalf of KD Trading Company, its subsidiaries and associated companies (the "**KD Trading Group"**) (the "**Supply Agreement**") pursuant to which the Company agreed that the Group will supply to KD Trading Group, and KD Trading Company agreed that KD Trading Group will purchase from the Group chestnuts, soup ingredients and processed food products in accordance with the terms of the Supply Agreement. The terms of the Supply Agreement commenced from the date of the Supply Agreement until 31 December 2010. The total amount of sales made to KD Trading Group for the year ended 31 December 2008 under the Supply Agreement amounted to approximately RMB41,500.

- On 30 June 2008, the Company entered into a supply agreement with Qingdao Bonded Zone Kangfulai International Trading Company Limited ("**Qingdao Kangfulai**") (the "**QKC Agreement**") pursuant to which the Company agreed that the Group will supply to Qingdao Kangfulai, and Qingdao Kangfulai agreed that KD Trading Group will purchase from the Group onion rings in accordance with the terms of the QKC Agreement. The terms of the QKC Agreement commenced from the date of the QKC Agreement until 31 December 2010. The total amount of sales made to Qingdao Kangfulai for the year ended 31 December 2008 under the QKC Agreement amounted to approximately RMB2,164,000.

- On 30 June 2008, the Company entered into a purchase agreement with KD Trading Company (for and on behalf of KD Trading Group) and on 17 November 2008, a supplemental agreement to the Purchase Agreement is entered between the same parties (collectively the "**Purchase Agreement**"). Pursuant to the Purchase Agreement, the Company agreed that the Group will purchase from KD Trading Group, and KD Trading Company agreed that KD Trading Group will sell to the Group raw materials including vegetables, flowers and fodder in accordance with the terms of the Purchase Agreement. The terms of the Purchase Agreement commenced from the date of the Purchase Agreement until 31 December 2010. The total amount of purchases from KD Trading Group for the year ended 31 December 2008 under the Purchase Agreement amounted to approximately RMB21,044,000.

KD Trading Company is owned as to 40% by Mr. Gao Sishi (the controlling shareholder of the Company) and is therefore considered as an associate of Mr. Gao Sishi and a connected person of the Company under the Hong Kong Listing Rules.

Qingdao Kangfulai is wholly-owned by Kangfulai Group (H.K.) Co., Limited. Kangfulai Group (H.K.) Co., Limited is in turn owned as to 51% by Mr. Xue Ping, a director of Qingdao Spiritzone Asiawin Food Co., Ltd. ("**Spiritzone Asiawin Food**") , which was then a non wholly-owned subsidiary of the Company. Qingdao Kangfulai was therefore considered as an associate of Mr. Xue Ping and a connected person of the Company under the Hong Kong Listing Rules.

Directors' Report

Spiritzone Asiawin Food was indirectly owned by the Company and Kangfulai Group (H.K.) Co., Limited as to 70% and 30% during the year under review, respectively. Kangfulai Group (H.K.) Co., Limited is owned as to 51% by Mr. Xue Ping, a director of Spiritzone Asiawin Food. As such, Spiritzone Asiawin Food is an associate of Mr. Xue Ping and a connected person of the Company under the Hong Kong Listing Rules.

The Company has applied for, and the SEHK has granted, a waiver i) with regard to the QKC Agreement and the continuing connected transactions contemplated thereunder for the period commencing on 22 December 2008 to the year ending 31 December 2010 from strict compliance with the announcement (but not reporting) requirement under Chapter 14A of the Hong Kong Listing Rules; and ii) with regard to the Purchase Agreement and the continuing connected transactions contemplated thereunder for the period commencing on 22 December 2008 to the year ending 31 December 2010 from strict compliance with the announcement (but not reporting) and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules, provided that the above-mentioned continuing connected transactions are conducted in compliance with the conditions (including the respective proposed cap amounts) imposed by the SEHK.

The independent non-executive Directors of the Company have reviewed the Transactions conducted during the year and confirmed that the Transactions:

(i) have been entered into in the ordinary and usual course of the business of the Group;

(ii) have been entered into either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from independent third parties;

(iii) have been entered into in accordance with the relevant agreements on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) have not exceeded the annual cap for the year ended 31 December 2008 as disclosed in the Listing Document.

In accordance with paragraph 14A.38 of the Hong Kong Listing Rules, the Board engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed — Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board.

The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Hong Kong Listing Rules, save as the aforesaid, there were no other transactions which need to be disclosed as connected transactions or continuing connected transactions in accordance with the requirements under the Hong Kong Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

As disclosed in the Listing Document, Mr. Gao Sishi is directly and indirectly interested in KD Trading Group, which comprises 22 PRC companies and is principally engaged in diversified businesses, including trading of construction materials, fresh vegetables, animal feeds and property management.

The following companies of KD Trading Group conduct businesses similar to but are not in competition with the Group's business:

- Qingdao Kangda Modern Agricultural Technology Development Company Limited ("**KD Agriculture**") is a company established in the PRC and is owned by KD Trading Company as to 80% and Qingdao Kangda Property Development Company, Limited ("**KD Property Company**") as to 20%. KD Agriculture is principally engaging in growing and sales of plants and vegetables. For the year ended 31 December 2007 and the five months ended 31 May 2008, the revenue of KD Agriculture was approximately RMB7.5 million and RMB734,000 respectively.

  To the best knowledge of the Directors, the vegetables sold by KD Agriculture are fresh vegetables. The major customers of KD Agriculture include the Group, which purchased fresh vegetables as raw materials for production of processed food from KD Agriculture, and other customers of its own. The vegetables sold by the Group are dehydrated vegetables. Since the vegetables of KD Agriculture and the Group are of different types, the Directors are of the view that they are not in competition.

Directors' Report

- KD Feed Company is a company established in the PRC and is owned by KD Trading Company as to 90% and Mr. An Fengjun as to 10%. KD Feed Company is principally engaging in manufacture and sales of feeds for livestock such as rabbits and chickens. For the year ended 31 December 2007 and the five months ended 31 May 2008, the revenue of KD Feed Company was approximately RMB30.3 million and RMB16.6 million respectively. Since the feeds manufactured and sold by KD Feed Company is for livestock while the Group manufactures and sells pet food, which is a different type of product targeting at different customers, the Directors are of the view that they are not in competition.

- KD Trading Company is a company established in the PRC and is owned by Mr. Gao Sishi as to 40%, Mr. Gao Yanxu as to 5.3%, Mr. An Fengjun as to 1.3% and Mr. Zhang Qi as to 3.3%. Apart from its principal business of construction materials trading, KD Trading Company also engaged in the sales of processed food products to a target group of customers who are its business partners. KD Trading Company would sell the processed food products at a price higher than the purchase price from the Group. Revenue of KD Trading Company derived from sales of processed food products for the year ended 31 December 2007 amounted to approximately RMB227,000. Since 1 January 2008, KD Trading Company had no longer sold processed food products, instead, the processed products it purchased from the Group are used for self-consumption and free gift packages to others and therefore no revenue was derived from KD Trading Company for sale of processed food products for the five months ended 31 May 2008. The Directors understand that KD Trading Company will continue to purchase processed food products for self-consumption, including making of gift packages to be gifted to others at nil consideration but does not intend to sell any processed food products in the future. As such, the Directors are of the view that there is no competition with KD Trading Company.

- Qingdao Kangda Delijia Import and Export Co., Ltd. ("**KD Import & Export Company**") is a company established in the PRC and is owned by KD Property Company as to 30%. In 2005 and 2006, apart from its principal business of trading of chemical products, KD Import & Export Company also engaged in selling fish to overseas market. KD Import & Export Company has ceased the trading of fish since 1 September 2006, the Directors are of the view that there is no competition with KD Import & Export Company.

Save as disclosed above, during the year and up to the date of this report, none of the Directors who are considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as Directors to represent the interests of the Company and/or the Group. The Directors are not aware that any KD Trading Group member has actual operation in food processing business during the year and up to the date of this report. The Directors also are not aware that any KD Trading Group member plans to engage in food processing business which may compete with the business of the Group in the near future. As the Group is principally engaged in the production and sales of chicken meat, rabbit meat and processed foods which are distinct from the businesses of KD Trading Group, the Directors are of the view that the businesses of KD Trading Group do not compete or are unlikely to compete directly or indirectly with the Group's business.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public (as defined in the Hong Kong Listing Rules) as at the date of this report.

AUDIT COMMITTEE, NOMINATING COMMITTEE AND REMUNERATION COMMITTEE

Details of the Company's audit committee, nominating committee and remuneration committee are set out in the Corporate Governance Report in pages 15 to 23 of this annual report.

Directors' Report

AUDITORS

Grant Thornton, Certified Public Accountants retires and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting. Grant Thornton have expressed their willingness to accept re-appointment as auditors.

On behalf of the Board,

Gao Sishi
Chairman

Gao Yanxu
Executive Director

27 February 2009

Statement by the Directors

We, Gao Sishi and Gao Yanxu, being two of the directors of China Kangda Food Company Limited, do hereby state that, in the opinion of the directors,

(i) the accompanying consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement of the Group and the balance sheet and statement of changes in equity of the Company, together with the notes thereto, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and the results of the business, changes in equity and cash flows of the Group for the year then ended; and

(ii) as at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

The financial statements for the year ended 31 December 2008 were authorised for issue by the Board of Directors on the date stated hereunder.

Gao Sishi
Chairman

Gao Yanxu
Executive Director

27 February 2009

Independent Auditors' Report

Grant Thornton
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Member of Grant Thornton International Ltd

To the members of
China Kangda Food Company Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements of China Kangda Food Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 89, which comprise the company and consolidated balance sheets as at 31 December 2008, and the consolidated income statement, the company and consolidated statements of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. Their opinion on these financial statements is set out on page 36.

The directors' responsibility for these financial statements includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

27 February 2009

Consolidated Income Statement

for the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	6	**943,426**	728,407
Cost of sales		**(794,608)**	(594,722)
Gross profit		**148,818**	133,685
Other income	6	**24,968**	19,103
Selling and distribution costs		**(14,617)**	(9,793)
Administrative expenses		**(58,022)**	(27,232)
Other operating expenses		**(882)**	(395)
Profit from operations	7	**100,265**	115,368
Finance costs	8	**(2,988)**	(2,461)
Profit before taxation		**97,277**	112,907
Income tax expense	9	**(12,662)**	(3,011)
Profit for the year		**84,615**	109,896
Attributable to:			
Equity holders of the Company		**85,643**	109,852
Minority interests		**(1,028)**	44
Profit for the year		**84,615**	109,896
Dividends	10	**—**	21,442
Earnings per share attributable to equity holders of the Company	12		
Basic (RMB cents)		**19.4**	25.7
Diluted (RMB cents)		**N/A**	25.6

Balance Sheets

as at 31 December 2008

		Group		Company	
		2008	2007	**2008**	2007
	Notes	**RMB'000**	RMB'000	**RMB'000**	RMB'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	14	**247,568**	129,658	**—**	—
Prepaid premium for land leases	15	**45,406**	26,234	**—**	—
Long-term deposits	16	**3,000**	—	**—**	—
Investments in subsidiaries	17	**—**	—	**84,144**	84,144
Lease receivables	18	**—**	5,452	**—**	—
Biological assets	19	**14,461**	—	**—**	—
Deferred tax assets	20	**554**	—	**—**	—
		310,989	161,344	**84,144**	84,144
Current assets					
Biological assets	19	**8,895**	—	**—**	—
Inventories	21	**60,655**	66,252	**—**	—
Trade receivables	22	**81,912**	56,505	**—**	—
Prepayments, other receivables and deposits	23	**26,538**	21,673	**—**	—
Lease receivables	18	**—**	640	**—**	—
Amounts due from related companies	24	**—**	41,786	**—**	74,545
Amounts due from subsidiaries	25	**—**	—	**413,443**	246,864
Cash and bank balances	26	**461,118**	340,873	**14,024**	1,984
		639,118	527,729	**427,467**	323,393
Assets classified as held for sale	27	**18,364**	—	**—**	—
		657,482	527,729	**427,467**	323,393
Current liabilities					
Trade and bills payables	28	**82,500**	37,696	**—**	—
Accrued liabilities, other payables and deposits received	29	**43,294**	20,582	**10,105**	1,250
Interest-bearing bank borrowings	30	**87,827**	25,000	**23,857**	—
Amount due to a related company	31	**1,047**	1,200	**—**	—
Financial liabilities at fair value through profit or loss	32	**—**	1,673	**—**	1,673
Deferred government grants	33	**185**	—	**—**	—
Tax payables		**6,890**	15,446	**—**	—
		221,743	101,597	**33,962**	2,923
Liabilities directly associated with assets classified as held for sale	27	**5,810**	—	**—**	—
		227,553	101,597	**33,962**	2,923
Net current assets		**429,929**	426,132	**393,505**	320,470
Total assets less current liabilities		**740,918**	587,476	**477,649**	404,614

Balance Sheets

as at 31 December 2008

	Notes	Group 2008 RMB'000	Group 2007 RMB'000	Company 2008 RMB'000	Company 2007 RMB'000
Non-current liabilities					
Interest-bearing bank borrowings	30	**109,839**	—	**109,839**	—
Deferred government grants	33	**2,030**	—	**—**	—
		111,869	—	**109,839**	—
Net assets		**629,049**	587,476	**367,810**	404,614
EQUITY					
Equity attributable to equity holders of the Company					
— Share capital	34	**114,178**	114,550	**114,178**	114,550
— Proposed final dividends	10	**—**	21,442	**—**	21,442
— Reserves		**511,176**	426,411	**253,632**	268,622
		625,354	562,403	**367,810**	404,614
Minority interests		**3,695**	25,073	**—**	—
Total equity		**629,049**	587,476	**367,810**	404,614

Gao Sishi
Director

Gao Yanxu
Director

Statements of Changes in Equity

for the year ended 31 December 2008

Group

	Equity attributable to equity holders of the Company									
	Share capital RMB'000	**Proposed final dividends** RMB'000	**Share premium*** RMB'000	**Merger reserve* (note 35)** RMB'000	**Capital redemption reserve* (note 35)** RMB'000	**Other reserves* (note 35)** RMB'000	**Retained profits*** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 1 January 2007	109,200	17,010	227,387	(41,374)	—	15,908	101,391	429,522	3,512	433,034
Profit for the year	—	—	—	—	—	—	109,852	109,852	44	109,896
Total recognised income and expense for the year	—	—	—	—	—	—	109,852	109,852	44	109,896
Transfer to other reserves	—	—	—	—	—	10,377	(10,377)	—	—	—
Issue of new shares	5,350	—	34,689	—	—	—	—	40,039	—	40,039
Incorporation of a subsidiary	—	—	—	—	—	—	—	—	20,350	20,350
Capital injection to a subsidiary	—	—	—	—	—	—	—	—	1,167	1,167
2006 final dividends approved	—	(17,010)	—	—	—	—	—	(17,010)	—	(17,010)
Proposed final dividends 2007 (note 10)	—	21,442	—	—	—	—	(21,442)	—	—	—
At 31 December 2007 and 1 January 2008	114,550	21,442	262,076	(41,374)	—	26,285	179,424	562,403	25,073	587,476
Profit/(loss) for the year	—	—	—	—	—	—	85,643	85,643	(1,028)	84,615
Total recognised income and expense for the year	—	—	—	—	—	—	85,643	85,643	(1,028)	84,615
Acquisition of additional interests in a subsidiary	—	—	—	—	—	—	—	—	(20,350)	(20,350)
2007 final dividends approved	—	(21,442)	—	—	—	—	—	(21,442)	—	(21,442)
Repurchase of own shares	(372)	—	(878)	—	—	—	—	(1,250)	—	(1,250)
Transfer to capital redemption reserve	—	—	—	—	372	—	(372)	—	—	—
Transfer to other reserves	—	—	—	—	—	7,685	(7,685)	—	—	—
At 31 December 2008	114,178	—	261,198	(41,374)	372	33,970	257,010	625,354	3,695	629,049

* The consolidated reserves of the Group of approximately RMB511,176,000 as at 31 December 2008 (2007: approximately RMB426,411,000) as presented in the Group's balance sheet comprised these reserve accounts.

Statements of Changes in Equity

for the year ended 31 December 2008

Company

	Share capital RMB'000	Proposed final dividends RMB'000	Share premium** RMB'000	Merger reserve** (note 35) RMB'000	Capital redemption reserve** (note 35) RMB'000	Retained profits/ (Accumulated losses)** RMB'000	Total equity RMB'000
At 1 January 2007	109,200	17,010	227,387	6,143	—	1,821	361,561
Profit for the year	—	—	—	—	—	20,024	20,024
Total recognised income and expense for the year	—	—	—	—	—	20,024	20,024
Issue of new shares	5,350	—	34,689	—	—	—	40,039
2006 final dividends approved	—	(17,010)	—	—	—	—	(17,010)
Proposed final dividends 2007 (note 10)	—	21,442	—	—	—	(21,442)	—
At 31 December 2007 and 1 January 2008	114,550	21,442	262,076	6,143	—	403	404,614
Loss for the year	—	—	—	—	—	(14,112)	(14,112)
Total recognised income and expense for the year	—	—	—	—	—	(14,112)	(14,112)
2007 final dividends approved	—	(21,442)	—	—	—	—	(21,442)
Repurchase of own shares	(372)	—	(878)	—	—	—	(1,250)
Transfer to capital redemption reserve	—	—	—	—	372	(372)	—
At 31 December 2008	114,178	—	261,198	6,143	372	(14,081)	367,810

** The reserves of the Company of approximately RMB253,632,000 as at 31 December 2008 (2007: approximately RMB268,622,000) as presented in the Company's balance sheet comprised these reserve accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Profit before taxation		**97,277**	112,907
Adjustments for :			
Interest income	6	**(9,110)**	(9,556)
Interest expenses	8	**2,988**	2,461
(Gain)/loss arising from changes in fair value of financial liabilities at fair value through profit and loss	32	**(1,673)**	281
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net	19	**(1,662)**	—
Excess over the costs of business combinations recognised in the income statement	36	**(2,379)**	—
Depreciation of property, plant and equipment	7	**13,339**	7,352
Loss on disposal of property, plant and equipment	7	**882**	114
Amortisation of prepaid premium for land leases	7	**670**	540
Amortisation of deferred income on government grant	6	**(262)**	—
Reversal of impairment on trade receivables	7	**(54)**	(34)
Operating profit before working capital changes		**100,016**	114,065
Decrease/(increase) in inventories		**5,742**	(35,550)
Increase in trade receivables		**(25,374)**	(6,422)
Decrease/(increase) in amounts due from related companies		**52,721**	(41,786)
Increase in prepayments, other receivables and deposits		**(3,733)**	(8,275)
Increase in biological assets		**(6,625)**	—
Increase in trade and bill payables		**43,013**	5,159
Increase in accrued liabilities, other payables and deposits received		**18,384**	1,593
Increase/(decrease) in amount due to a related company		**2,133**	(3,918)
Cash generated from operations		**186,277**	24,866
Interest paid		**(2,988)**	(2,461)
Income taxes paid		**(21,947)**	(3,041)
Net cash generated from operating activities		**161,342**	19,364
Cash flows from investing activities			
Purchases of property, plant and equipment		**(101,847)**	(60,112)
Additions to prepaid premium for land leases		**(19,842)**	(22,150)
Long-term deposits paid		**(3,000)**	—
Proceeds from disposal of property, plant and equipment		**3,741**	696
Arising from acquisition of subsidiaries (net of cash and cash equivalent)	36	**(61,800)**	—
Acquisition of additional interests in a subsidiary		**(20,350)**	—
Receipt of government grants	33	**3,176**	—
Decrease in time deposits with original maturity of more than three months when acquired		**—**	10,000
Interest received		**8,918**	9,556
Net cash used in investing activities		**(191,004)**	(62,010)

Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from financing activities			
New bank loans		**197,666**	25,000
Repayment of bank loans		**(25,000)**	(25,000)
Dividend paid		**(21,442)**	(17,010)
Repurchase of shares	34(b)	**(1,250)**	—
Proceeds from issue of new shares		—	40,039
Proceeds from issue of share option		—	1,392
Capital injection from the minority shareholders of subsidiaries		—	21,517
Net cash generated from financing activities		**149,974**	45,938
Net increase in cash and cash equivalents		**120,312**	3,292
Cash and cash equivalents at 1 January		**340,873**	337,581
Cash and cash equivalents at 31 December		**461,185**	340,873
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**461,118**	340,873
Cash and bank balances attributable to assets classified as held for sale	27	**67**	—
		461,185	340,873

Notes to the Financial Statements

for the year ended 31 December 2008

1. CORPORATE INFORMATION

China Kangda Food Company Limited (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 Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at No. 1, Hainan Road, Economic and Technology Development Zone, Jiaonan City, Qingdao, the People's Republic of China. The Company's shares have been listed on the Mainboard of the Singapore Exchange Securities Trading Limited (the "SGX-ST") and the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 9 October 2006 and 22 December 2008 respectively.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred to as the "Group") are set out in note 17 to the financial statements.

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

The financial statements for the year ended 31 December 2008 were approved for issue by the board of directors on 27 February 2009.

2. ADOPTION OF NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has adopted for the first time the new standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretation Committee ("IFRIC") of the IASB, which are relevant to and effective for the Group's financial statements for the annual period beginning on or after 1 January 2008. The new IFRSs had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, the following new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Group.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 32, IAS 39 and IFRS 7 (Amendment)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
IAS 39 (Amendment)	Eligible Hedged Items[2]
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards[2]
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
IFRS 2 (Amendment)	Share-based Payment — Vesting conditions and cancellations[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC — Int 13	Customer Loyalty Programmes[3]
IFRIC — Int 15	Agreements for the Construction of Real Estate[1]
IFRIC — Int 16	Hedges of a Net Investment in a Foreign Operation[4]
IFRIC — Int 17	Distribution of Non-cash Assets to Owners[2]
IFRIC — Int 18	Transfer of Assets from Customers[2]
Various	Annual Improvements to IFRSs 2008[5]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 July 2009

3 Effective for annual periods beginning on or after 1 July 2008

4 Effective for annual periods beginning on or after 1 October 2008

5 Generally effective for annual periods beginning on or after 1 January 2009 unless otherwise stated in the specific IFRS

Notes to the Financial Statements

for the year ended 31 December 2008

2. ADOPTION OF NEW OR AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (CONTINUED)

The Directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement.

Among these new standards and interpretations, IAS 1(Revised) *Presentation of Financial Statements* is expected to materially change the presentation of the Group's financial statements. The amendments affect the presentation of owner changes in equity and introduce a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures.

In addition, IFRS 8 *Operating Segments* may result in new or amended disclosures. The Directors are in the process of identifying reportable operating segments as defined in IFRS 8.

The Directors are currently assessing the impact of other new and amended IFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these IFRSs is unlikely to have a significant impact on the Group's results and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The financial statements on pages 38 to 89 have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the IASB. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules") and the Listing Manual of the SGX-ST.

The significant accounting policies that have been adopted in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for the biological assets which are stated at fair values. Disposal groups and non-current assets held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 3.12. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Upon the reassessment on the identification and measurement of the subsidiary's identifiable assets, liabilities and contingent liabilities and the measurement of the costs of the business combination, the excess of the Group's interest in the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities over costs is recognised immediately in the consolidated income statement after that reassessment.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date. Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities. Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests is presented separately in the consolidated income statement as an allocation of the Group's results. Where loss applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interests to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interests only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, and the expenditure of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Leasehold buildings	The shorter of the lease terms and 20 years
Plant and machinery	5 to 10 years
Furniture, fixtures and office equipment	5 to 10 years
Motor vehicles	5 years

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Property, plant and equipment (Continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on depreciation of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in the income statement.

Construction in progress, which represents buildings under construction, and plant and machinery pending installation, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. No depreciation is provided on construction in progress. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The assets' estimated residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.5 Impairment of non-financial assets

Property, plant and equipment, prepaid premium for land leases and investments in subsidiaries are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries are set out below. Financial assets are categorised as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fee that are an integral part of the effective interest rate and transaction cost.

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Derecognition occurs when the rights to receive cash flows expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.6 Financial assets (Continued)

At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one of more of the following loss events:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— it becoming probable that the debtor will enter bankruptcy or financial reorganisation; and

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

Impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

3.7 Financial liabilities

The Group's financial liabilities include trade, bills and other payables, amount due to a related company, borrowings and financial liabilities at fair value through profit or loss.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Trade, bills and other payables and amount due to a related company

Trade, bills and other payables and amount due to a related company are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7 Financial liabilities (Continued)

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liabilities is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss at fair value, with any resultant gain or loss recognised in income statement. The net gain or loss recognised in income statement incorporates any interest paid on the financial liability.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using weighted average method and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value is calculated as the estimated selling price in the ordinary course of business less all further costs of completion and the estimated costs necessary to make the sale.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9 Provisions

Provisions are recognised when present obligations will probably lead to an outflow of economic resources from the Group which can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognised as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long term provisions are discounted to their present values, where time value of money is material.

All provisions are reviewed at the balance sheet date and adjusted to reflect the current best estimates.

In those cases where the possible outflow of economic resources as a result of present obligations is considered impossible or remote, or the amount to be provided for cannot be measured reliably, no liability is recognised in the balance sheet, unless assumed in the course of a business combination.

3.10 Revenue recognition

Revenue is recognised to the extent when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received, net of allowances for returns, trade discounts and value-added tax. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods — revenue is recognised when the significant risks and rewards of ownership have been transferred to the customers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. Normally, risk is transferred upon dispatch of goods.

(ii) Interest income — interest income is recognised as interest accrues (using the effective interest method) unless collectibility is in doubt.

(iii) Rental income — rental income is recognised in the period in which the properties are let out and on the straight-line basis over the lease terms.

(iv) Government grant — revenue is recognised when there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

3.11 Income tax

Income tax for the year comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. The PRC corporate income tax is provided at rates applicable to enterprises in PRC on the income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes. All charges to current tax assets or liabilities are recognised as a component of income tax expense in the income statement.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11 Income tax (Continued)

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply to the period the liability is settled or the asset is realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.12 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Impairment losses on non-current assets held for sale (or disposal groups) are recognised in income statement. As long as a non-current asset is classified as held for sale or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

3.13 Employee benefits

Retirement benefits scheme

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the subsidiaries of the Company in the PRC is required to contribute a certain percentage of the basic salaries of their employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the subsidiaries of the Company. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There are no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Short-term employee benefits

Employee entitlements to annual leave are recognised as a liability when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.14 Foreign currencies

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the balance sheet date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation have been treated as assets and liabilities of the foreign operation and translated into RMB at the closing rates.

3.15 Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party (a) controls, is controlled by, or is under common control with, the Company/Group; (b) has an interest in the Company that gives it significant influence over the Company/Group; or (c) has joint control over the Company/Group;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

3.16 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16 Leases (Continued)

Leases that transfer substantially all the rewards and risks of ownership of assets to the lessee, other than legal title, are accounted for as finance lease. Where the Group is the lessee, at the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms. Where the Group is the lessor, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid premiums for land leases represent up-front payments to acquire long term interests in the usage of land in the PRC. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the income statement on the straight-line basis over the period of the leases which is 50 years.

3.17 Borrowing costs

All borrowing costs are expensed as incurred.

3.18 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of cash on hand and in banks and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable in demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet classification, cash and bank balances comprise cash on hand and demand deposits repayable on demand with any banks or other financial institutions. Cash and bank balances include deposits denominated in foreign currencies.

3.19 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.20 Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to income statement on a systematic and rational basis over the useful lives of the related assets.

Notes to the Financial Statements

for the year ended 31 December 2008

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.20 Government grants (Continued)

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in income statement in the period in which they become receivable.

3.21 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the segment primary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of prepaid premium for land leases, property, plant and equipment and inventories. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to prepaid premium for land leases and property, plant and equipment.

In respect of geographical segment reporting, segment revenue are based on the country in which the customers are located and total assets and capital expenditure are where the assets are located.

3.22 Dividends

Final dividends proposed by the directors are classified as an allocation of retained profits on a separate line within the equity, until they have been approved by the shareholders at general meeting. When these dividends are approved by the shareholders and declared, they are recognised as a liability.

3.23 Biological assets

Biological assets are living animals involved in the agricultural activities of the transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

Biological assets are measured at fair value less estimated point-of-sale costs at initial recognition and at each balance sheet date. The fair value of biological assets is determined based on the market price of livestock of similar age, breed and genetic merit.

The gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of- sale costs of biological assets is recognised in the income statement for the period in which it arises.

4. CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitors' actions in response to severe industry cycles. Management reassesses the estimations at the balance sheet date.

Notes to the Financial Statements

for the year ended 31 December 2008

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

(ii) Impairment of trade receivables

The Group's management assesses the collectibility of trade receivables. This estimate is based on the credit worthiness and repayment history of the Group's customers and the current market condition. Management reassesses if there is any indication of the impairment loss at the balance sheet date.

(iii) Provision for taxes

The Group is mainly subject to various taxes in the PRC including corporate income tax. Significant judgement is required in determining the amount of the provision for taxes and the timing of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

(iv) Valuation of biological assets

The Group's management determines the fair values less estimated point-of-sale costs of biological assets on initial recognition and at each balance sheet date with reference to the market-determined prices, species, growing conditions, cost incurred and the professional valuation. This determination involved the use of significant judgement.

(v) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives reflect the management's estimates of the periods that the Group intends to derive economic benefits from use of these assets.

5. SEGMENT INFORMATION

Primary reporting format — business segments

The Group is organised into two main business segments:

— Manufacturing and sale of chilled and frozen meat products

— Manufacturing and sale of processed food products

Notes to the Financial Statements

for the year ended 31 December 2008

5. SEGMENT INFORMATION (CONTINUED)

Primary reporting format — business segments (Continued)

An analysis by principal activity of contribution to results is as follows:

	Manufacturing and sale of chilled and frozen meat products		Manufacturing and sale of processed food products		Others*		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Segment revenue :								
Sales to external customers	**522,693**	405,855	**342,240**	273,812	**78,493**	48,740	**943,426**	728,407
Segment results	**62,659**	54,159	**63,057**	67,725	**8,485**	2,008	**134,201**	123,892
Unallocated other income							**24,968**	19,103
Unallocated corporate expenses							**(58,904)**	(27,627)
Finance costs							**(2,988)**	(2,461)
Profit before taxation							**97,277**	112,907
Income tax expense							**(12,662)**	(3,011)
Profit for the year							**84,615**	109,896
Segment assets	**221,495**	101,160	**93,425**	102,691	**14,999**	13,951	**329,919**	217,802
Unallocated assets							**638,552**	465,179
Total assets							**968,471**	682,981
Total and unallocated liabilities							**339,422**	101,597
Other segment information :								
Capital expenditure	**68,126**	43,934	**45,971**	36,465	**7,592**	1,863	**121,689**	82,262
Depreciation	**7,468**	3,927	**5,039**	3,259	**832**	166	**13,339**	7,352
Amortisation	**375**	289	**253**	239	**42**	12	**670**	540

* "Others" represents unallocated items.

Secondary reporting format — geographical segments

The following table provides an analysis of the Group's sales by geographical market based on the country in which the customers are located, irrespective of the origin of the goods.

	2008	2007
	RMB'000	RMB'000
Segment revenue by geographical markets:		
PRC	**568,229**	412,245
Japan	**153,297**	149,479
Europe*	**147,483**	117,755
Others	**74,417**	48,928
	943,426	728,407

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5. SEGMENT INFORMATION (CONTINUED)

Secondary reporting format — geographical segments (Continued)

The following is an analysis of the carrying amount of segment assets and capital expenditure (i.e. additions to property, plant and equipment and prepaid premium for land leases) analysed by the geographical area in which the assets are located.

	Segment assets		Capital expenditure	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
PRC	**909,583**	645,756	**121,689**	82,262
Japan	**19,221**	9,808	**—**	—
Europe*	**27,100**	24,028	**—**	—
Others	**12,567**	3,389	**—**	—
	968,471	682,981	**121,689**	82,262

* Europe mainly including Russia, Belgium, Germany and France.

6. REVENUE AND OTHER INCOME

Revenue of the Group represents the net invoiced value of goods sold, net of allowances for returns, trade discounts and value-added tax. An analysis of the Group's revenue and other income is as follows:

	2008	2007
	RMB'000	RMB'000
Revenue		
Sale of goods	**943,426**	728,407
Other income		
Interest income on financial assets stated at amortised cost		
— Interest income on bank deposits	**8,918**	9,478
— Interest income from lease	**192**	78
Rental income	**219**	764
Amortisation of deferred income on government grants (note 33)	**262**	—
Government grants related to income*	**3,530**	7,969
Gain arising from changes in fair value of financial liabilities at fair value through profit or loss (note 32)	**1,673**	—
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net (note 19)	**1,662**	—
Excess over the costs of business combinations recognised in the income statement (note 36)	**2,379**	—
Others	**6,133**	814
	24,968	19,103

* The balance represents grants received in relation to the Group in its various operations and achievements in poultry and animal rearing and food products processing.

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7. PROFIT FROM OPERATIONS

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

	2008 RMB'000	2007 RMB'000
Cost of inventories recognised as an expense	**748,809**	538,880
Depreciation of property, plant and equipment*	**13,339**	7,352
Amortisation of prepaid premium for land leases**	**670**	540
Minimum lease payments under operating leases for production facilities	**919**	759
Reversal of impairment on trade receivables	**(54)**	(34)
Excess over the costs of business combinations recognised in the income statement (note 36)	**(2,379)**	—
(Gain)/loss arising from changes in fair value of financial liabilities at fair value through profit or loss (note 32)	**(1,673)**	281
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net (note 19)	**(1,662)**	—
Audit fee	**988**	990
Non-audit fee#	**3,446**	—
Staff costs (including directors' remuneration)	**48,475**	37,716
Less: Retirement scheme contribution	**(3,355)**	(1,336)
	45,120	36,380
Loss on disposal of property, plant and equipment	**882**	114
Exchange loss, net	**1,958**	4,866

* Depreciation of approximately RMB10,471,000 (2007: RMB6,269,000) and approximately RMB2,868,000 (2007: RMB1,083,000) has been charged to cost of sales and administrative expenses, respectively, for the year ended 31 December 2008.

** Amortisation of prepaid premium for land leases of approximately RMB670,000 (2007: RMB540,000) has been charged to cost of sales for the year ended 31 December 2008.

\# The independent auditors received non-audit fee of approximately RMB3,446,000 for acting as the reporting accountants in respect of the listing the Company's shares on the SEHK by the way of introduction during the year ended 31 December 2008. No other non-audit fee was paid to the independent auditors for the years ended 31 December 2008 and 2007.

8. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest charges on:		
Bank loans wholly repayable within five years	**2,988**	2,432
Amount due to a related company	**—**	29
	2,988	2,461

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for the year ended 31 December 2008

9. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current year provision:		
PRC corporate income tax	**14,251**	3,003
(Over)/under-provision in respect of prior year	**(860)**	8
	13,391	3,011
Deferred tax credit (note 20)	**(729)**	—
Total income tax expense	**12,662**	3,011

No Hong Kong profits tax has been provided for the year ended 31 December 2008 as the Group did not derive any assessable profit arising in Hong Kong during the year (2007: 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.

During the 5th session of the 10th National People's Congress of the PRC, which was concluded on 31 March 2007, the New PRC Corporate Income Tax Law was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes, which include, but not limited to, the unification of the income tax rates for domestic-invested and foreign-invested enterprises at 25% and the revoke of withholding tax exemption provision that applied to dividends paid by foreign-invested enterprises to its foreign investors. According to the implementation rules, a reduced withholding rate of 10% will be imposed on dividends distributed to foreign investors, unless a lower rate applies for tax-treaty countries.

On 22 February 2008, the State Tax Bureau further announced that all undistributed profits accumulated as at 31 December 2007 are exempted from the PRC withholding tax no matter when these profits are subsequently distributed.

Qingdao Kandga Foods Co., Ltd ("Kangda Foods") is established and operating in the PRC and subject to PRC corporate income tax. Pursuant to a group restructuring exercise in 2006, Kangda Foods became a wholly owned foreign enterprises ("WOFE") in the PRC. In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Kangda Foods, as a WOFE in the PRC, is entitled to an exemption from the PRC state and local corporate income tax for the first two profitable financial years of its operations and thereafter is entitled to a 50% relief from the state corporate income tax of the PRC for the following three financial years (the "Tax Holiday").

The two-year tax exemption period for Kangda Foods commenced in the financial year ended 31 December 2006 and expired in the financial year ended 31 December 2007. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods are still 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 then subject to corporate income tax at 25% for the year ended 31 December 2008.

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Qingdao Kangda Haiqing Foods Co., Ltd. ("Kangda Haiqing") is established as a sino-foreign cooperative enterprise in the PRC and is entitled to the Tax Holiday.

The two-year tax exemption period for Kangda Haiqing commenced in the financial year ended 31 December 2003 and expired in the financial year ended 31 December 2004. The taxable profits of Kangda Haiqing are subject to corporate income tax at 25% for the year ended 31 December 2008 (2007: 12%, after the 50% relief from the normal rate).

In accordance with various approval documents issued by the State Tax Bureau and the Local Tax Bureau of the PRC, Qingdao Spiritzone Asiawin Food Company Ltd ("Asiawin") is established as a sino-foreign cooperative enterprise in the PRC and is entitled to the Tax Holiday.

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9. INCOME TAX EXPENSE (CONTINUED)

The two-year tax exemption period for Asiawin commenced in the financial year ended 31 December 2007.

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 corporate income tax exemption or half reduction of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Limited ("KD Animal Co") and Qingdao Kangda Rabbit Company Limited ("KD Rabbit Co") are engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax during the year ended 31 December 2008.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2007: Nil).

A reconciliation of the tax expense and the accounting profit at applicable tax rates is presented below:

	2008 **RMB'000**	2007 RMB'000
Profit before taxation	**97,277**	112,907
Tax calculated at the rates applicable to profits in the tax jurisdictions concerned	**26,602**	33,660
Tax effect of non-deductible expenses	**2,356**	4
Tax effect of non-taxable income	**(475)**	—
Tax Holiday of PRC subsidiaries	**(14,786)**	(30,661)
(Over)/under-provision in prior year	**(860)**	8
Others	**(175)**	—
Income tax expense	**12,662**	3,011

10. DIVIDENDS

	2008 **RMB'000**	2007 RMB'000
Proposed final dividends — Nil (2007 : RMB0.0485 per ordinary share)	**—**	21,442

The board of directors did not recommend any payment of dividends during the year. (2007: final dividend of RMB0.0485 per ordinary share).

	2008 **RMB'000**	2007 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB0.0485 per ordinary share (2007: RMB0.0405)	**21,442**	17,010

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of RMB85,643,000 (2007: RMB109,852,000), a loss of RMB14,112,000 (2007: profit of RMB20,024,000) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB85,643,000 (2007: RMB109,852,000) and on the weighted average of 441,792,000 (2007: 427,000,000 ordinary shares) ordinary shares in issue during the year.

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12. EARNINGS PER SHARE (CONTINUED)

In relation to the year ended 31 December 2007, the calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company for the year of RMB109,852,000 and the weighted average of approximately 428,400,000 ordinary shares outstanding during the year, after adjusting for the effects of all dilutive potential shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of approximately 427,000,000 ordinary shares in issue during the year, plus the weighted average of approximately 1,400,000 ordinary shares deemed to be issued at no consideration as if the Company's share option (note 32) has been exercised as at 31 December 2007.

In relation to the year ended 31 December 2008, no diluted earnings per share are presented as there was anti-dilutive effect for the share option outstanding during the year.

13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to Hong Kong Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Fees RMB'000	Salaries, allowances and benefits RMB'000	Pension RMB'000	Bonus RMB'000	Total RMB'000
Year ended 31 December 2008					
Executive directors:					
Gao Yanxu	**360**	**73**	—	—	**433**
An Fengjun	**120**	**179**	—	—	**299**
Non-executive directors:					
Gao Sishi	—	—	—	—	—
Zhang Qi	—	—	—	—	—
Independent non-executive directors					
Kuik See Juan	**245**	—	—	—	**245**
Sim Wee Leong	**245**	—	—	—	**245**
Yu Chung Leung	—	—	—	—	—
	970	**252**	—	—	**1,222**
Year ended 31 December 2007					
Executive directors:					
Gao Yanxu	360	1,141	—	—	1,501
An Fengjun	120	382	—	—	502
Non-executive directors:					
Gao Sishi	—	—	—	—	—
Zhang Qi	—	—	—	—	—
Independent non-executive directors					
Kuik See Juan	245	—	—	—	245
Sim Wee Leong	245	—	—	—	245
	970	1,523	—	—	2,493

There was no arrangement under which a director waived or agreed to waive any remuneration during the years.

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13. EMOLUMENTS FOR DIRECTORS AND HIGHEST PAID INDIVIDUALS (CONTINUED)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included four (2007: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individual during the year are as follows:

	2008 **RMB'000**	2007 RMB'000
Salaries, allowances and other benefits	**564**	536
Retirement scheme contributions	**—**	—
	564	536

The number of individuals fell within the following emolument band (excluding the directors):

	2008	2007
Emolument band		
Nil to HK$1,000,000	**1**	1

No emolument was paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

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14. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Leasehold buildings RMB'000	**Plant and machinery** RMB'000	**Furniture, fixtures and office equipment** RMB'000	**Motor vehicles** RMB'000	**Construction in progress** RMB'000	**Total** RMB'000
As at 1 January 2007						
Cost	44,295	44,676	7,305	2,316	15,597	114,189
Accumulated depreciation	(8,208)	(18,218)	(2,862)	(1,101)	—	(30,389)
Net carrying amount	36,087	26,458	4,443	1,215	15,597	83,800
Year ended 31 December 2007						
Opening net carrying amount	36,087	26,458	4,443	1,215	15,597	83,800
Additions	3,912	23,796	2,546	133	29,725	60,112
Transfer in/(out)	30,160	13,270	—	—	(43,430)	—
Disposal	(4,436)	(2,426)	(10)	(30)	—	(6,902)
Depreciation charge	(1,782)	(4,498)	(744)	(328)	—	(7,352)
Closing net carrying amount	63,941	56,600	6,235	990	1,892	129,658
As at 31 December 2007 and 1 January 2008						
Cost	73,931	79,316	9,841	2,419	1,892	167,399
Accumulated depreciation	(9,990)	(22,716)	(3,606)	(1,429)	—	(37,741)
Net carrying amount	63,941	56,600	6,235	990	1,892	129,658
Year ended 31 December 2008						
Opening net carrying amount	63,941	56,600	6,235	990	1,892	129,658
Additions	28,419	22,737	1,879	1,358	47,454	101,847
Acquisition of subsidiaries (note 36)	33,974	13,687	1,288	40	500	49,489
Transfer in/(out)	8,291	411	—	—	(8,702)	—
Disposal	(1,785)	(1,498)	(768)	(572)	—	(4,623)
Depreciation charge	(4,259)	(8,051)	(684)	(345)	—	(13,339)
Transfer to non-current assets classified as held for sale (note 27)	(7,063)	(7,898)	(503)	—	—	(15,464)
Closing net carrying amount	**121,518**	**75,988**	**7,447**	**1,471**	**41,144**	**247,568**
As at 31 December 2008						
Cost	134,884	103,400	11,475	2,558	41,144	293,461
Accumulated depreciation	(13,366)	(27,412)	(4,028)	(1,087)	—	(45,893)
Net carrying amount	**121,518**	**75,988**	**7,447**	**1,471**	**41,144**	**247,568**

All property, plant and equipment held by the Group are located in the PRC.

Certain of the Group's property, plant and equipment with an aggregate carrying amount of approximately RMB12,892,000 (2007: RMB1,737,000) were pledged against bank loans totalling approximately RMB27,000,000 (2007: RMB5,000,000) as at 31 December 2008 (note 30).

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15. PREPAID PREMIUM FOR LAND LEASES

	Group		
	Land use rights	Long-term prepaid rentals	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2007			
Cost	4,903	—	4,903
Accumulated amortisation	(279)	—	(279)
Net carrying amount	4,624	—	4,624
Year ended 31 December 2007			
Opening net carrying amount	4,624	—	4,624
Additions	—	22,150	22,150
Amortisation for the year	(97)	(443)	(540)
Closing net carrying amount	4,527	21,707	26,234
At 31 December 2007 and 1 January 2008			
Cost	4,903	22,150	27,053
Accumulated amortisation	(376)	(443)	(819)
Net carrying amount	4,527	21,707	26,234
Year ended 31 December 2008			
Opening net carrying amount	4,527	21,707	26,234
Additions	19,842	—	19,842
Transfer in/(out)	4,251	(4,251)	—
Amortisation for the year	(216)	(454)	(670)
Closing net carrying amount	**28,404**	**17,002**	**45,406**
At 31 December 2008			
Cost	29,175	17,720	46,895
Accumulated amortisation	(771)	(718)	(1,489)
Net carrying amount	**28,404**	**17,002**	**45,406**

Long-term prepaid rentals are paid for a plot of land, with a site area of 300 Chinese mu, located in the PRC leased by the Group during the year ended 31 December 2007. The Group is still in the process of applying for the land use rights certificate. During the year ended 31 December 2008, land use rights certificate of 60 Chinese mu has been obtained. The directors, based on the opinion from a PRC lawyer, do not expect any legal obstacles for the Group in obtaining the relevant title certificate for the remaining 240 Chinese mu.

The lands are located in PRC and the terms for land leases are 50 years.

Certain of the Group's land use rights with an aggregate carrying amount of approximately RMB7,324,000 (2007: Nil) were pledged against bank loans totalling approximately RMB27,000,000 (2007: Nil) as at 31 December 2008 (note 30).

16. LONG-TERM DEPOSITS

Long-term deposits are paid by the Group for acquiring certain land located in the PRC from the Bureau of Land and Resources in Jiaonan City during the year. The total consideration for the acquisition of the land is RMB10,050,000.

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17. INVESTMENTS IN SUBSIDIARIES

	Company 2008 RMB'000	2007 RMB'000
Unlisted investments, at cost	**84,144**	84,144

Particulars of the subsidiaries as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of share/paid-up capital 2008	2007	Percentage of equity attributable to the Company 2008	2007	Principal activities
Directly held :						
美好集團有限公司 Perfect Good Group Ltd. ("Perfect Good")	British Virgin Islands ("BVI")	**US$10,000**	US$10,000	**100**	100	Investment holding
Indirectly held :						
神域集團有限公司 Spiritzone Group Ltd. ("Spiritzone")	BVI	**US$100**	US$100	**100**	100	Investment holding
青島康大食品有限公司 Qingdao Kangda Foods Co., Ltd.	PRC	**US$20,000,000**	US$20,000,000	**100**	100	Production of food products
青島康大海青食品有限公司 Qingdao Kangda Haiqing Foods Co., Ltd.	PRC	**US$800,000**	US$800,000	**100**	100	Production of food products
青島神域冠亞食品有限公司 Qingdao Spiritzone Asiawin Food Co., Ltd.	PRC	**US$2,000,000**	US$2,000,000	**70**	70	Production of food products
青島康大綠寶食品有限公司 Qingdao Kangda Lubao Foods Co., Ltd.	PRC	**US$5,000,000**	US$5,000,000	**100**	100	Trading of food products
青島莫爾利食品有限公司 Qingdao Murle Food Co., Ltd.	PRC	**US$11,000,000**	US$11,000,000	**100**	75	Trading of food products
青島康大養殖有限公司* Qingdao Kangda Animal Rearing Co., Ltd.*	PRC	**RMB3,000,000**	—	**100**	—	Breeding and sales of livestock and poultry
青島康大兔業發展有限公司* Qingdao Kangda Rabbit Co., Ltd.*	PRC	**RMB5,000,000**	—	**100**	—	Breeding and sales of rabbits
吉林康大食品有限公司 Jilin Kangda Foods Co., Ltd.	PRC	**RMB10,000,000**	n/a	**100**	n/a	Inactive
青島康大生物科技有限公司 Qingdao Kangda Shengwu Keji Co., Ltd.	PRC	**RMB5,985,000**	n/a	**75**	n/a	Inactive
青島康大歐洲兔業育種有限公司 Qingdao Kangda-Eurolap Rabbit Selection Co., Ltd.	PRC	**RMB9,790,000**	n/a	**70**	n/a	Inactive

The financial statements of the above subsidiaries for the year ended 31 December 2008 are audited by Grant Thornton, Hong Kong for the purpose of incorporation into the Group's consolidation financial statements.

* Subsidiaries which were newly acquired during the financial year ended 31 December 2008.

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18. LEASE RECEIVABLES

	Group			
	Minimum lease payment receivables		Present value of minimum lease payment receivables	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	—	729	—	640
In the second to fifth years inclusive	—	2,918	—	2,129
More than five years	—	7,467	—	3,323
	—	11,114	—	6,092
Less : unearned finance income	—	(5,022)	—	—
Present value of minimum lease payment receivables	—	6,092	—	6,092
Included in the financial statements as:				
Current lease receivables			—	640
Non-current lease receivables			—	5,452
			—	6,092

The interest rate inherent in the leases was fixed at the contract date for the entire lease term. The average effective interest rate contracted was approximately 7.33% per annum for the year ended 31 December 2007.

19. BIOLOGICAL ASSETS

	Group				
	Breeder rabbits	**Progeny rabbits**	**Breeder chickens**	**Hatchable eggs and progeny chickens**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Additions due to business combination	4,355	2,429	3,777	4,508	15,069
Increase due to purchases	12,915	12,625	1,590	42,359	69,489
Gains/(loss) arising from changes in fair value less estimated point-of-sale costs	1,521	(327)	(378)	846	1,662
Decrease due to consumption	—	(12,533)	—	(41,012)	(53,545)
Decrease due to sales	(8,408)	—	(911)	—	(9,319)
At 31 December 2008	**10,383**	**2,194**	**4,078**	**6,701**	**23,356**

The progeny rabbits and hatchable eggs and progeny chickens are raised for sale. The breeder rabbits and chickens are held to produce further progeny rabbits and hatchable eggs and progeny chickens.

Biological assets as at 31 December 2008 and 2007 are stated at fair values less estimated point-of-sale costs and are analysed as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Non-current portion	**14,461**	—
Current portion	**8,895**	—
	23,356	—

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19. BIOLOGICAL ASSETS (CONTINUED)

In accordance with the valuation reports issued by an independent professional valuer, the fair value less estimated point-of-sale costs of the livestock and poultry is determined with reference to the market-determined prices of items with similar size, species and age. The valuation methodology is in compliance with IAS 41 to determine the fair values of biological assets in their present location and condition.

Significant assumptions used by the independent professional valuer in their valuation are as follows:

(a) There will be no material change in existing political, legal, technological, fiscal or economic condition which may adversely affect the business of the Group; and

(b) All proposed facilities and systems of the Group will be operated efficiently and have sufficient capacity for future expansion.

The physical quantity of rabbits, chickens and eggs as at 31 December 2008 and 2007 are analysed as follows:

	Group	
	2008	2007
	Number of Rabbits/Chickens/ Eggs	Number of Rabbits/Chickens/ Eggs
Progeny rabbits	**136,699**	—
Breeder rabbits	**57,602**	—
	194,301	—
Progeny chickens	**602,224**	—
Breeder chickens	**93,529**	—
	695,753	—
Hatchable eggs	**637,445**	—

20. DEFERRED TAX ASSETS

Deferred taxation is calculated in full on temporary differences under the liability method using the principal taxation rate of 25% (2007: 33%).©

The movement on the deferred tax assets is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**—**	—
Deferred taxation credited to the income statement (note 9)	**729**	—
Transferred to assets classified as held for sales (note 27)	**(175)**	—
At 31 December	**554**	—

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20. DEFERRED TAX (CONTINUED)

The principal component of the deferred tax assets is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Deferred government grants (note 33)	**554**	—

Deferred tax liabilities of RMB10,371,000 (2007: Nil) have not been established for the withholding tax and other taxation that would be payable on the unremitted earnings of certain subsidiaries in the PRC, as such amounts will be permanently reinvested; such unremitted earnings totalled RMB100,371,000 at 31 December 2008 (2007: Nil).

21. INVENTORIES

	Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**18,835**	15,413
Finished goods	**41,820**	50,839
	60,655	66,252

22. TRADE RECEIVABLES

	Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables	**81,912**	56,559
Less: Allowance for impairment	**—**	(54)
Net carrying amount	**81,912**	56,505

Trade 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 as at the balance sheet dates are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within 30 days	**60,160**	37,909
31–60 days	**13,291**	17,970
61–90 days	**4,446**	190
91–120 days	**2,325**	206
Over 120 days	**1,690**	230
	81,912	56,505

Before accepting any new customer, the Group will assess the potential customer's credit quality and set credit limits for that customer. Limits attributed to customers are reviewed once a year. Further details on the Group's credit policy are set out in note 39.

22. TRADE RECEIVABLES (CONTINUED)

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the allowance for doubtful debts during the year is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	**54**	88
Reversal of impairment loss	**(54)**	(34)
At 31 December	**—**	54

The aging analysis of trade receivables that are not impaired is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Neither past due nor impaired	**73,015**	56,070
Not more than 3 months past due	**8,821**	312
3 to 6 months past due	**68**	119
6 to 12 months past due	**8**	4
	81,912	56,505

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there were no recent history of default.

Trade receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographical region is:

	Group	
	2008	2007
	RMB'000	RMB'000
PRC	**23,024**	19,280
Japan	**19,221**	9,808
Europe	**27,100**	24,028
Others	**12,567**	3,389
	81,912	56,505

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23. PREPAYMENTS, OTHER RECEIVABLES AND DEPOSITS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**18,653**	4,869	**—**	—
Other receivables and deposits	**7,885**	16,804	**—**	—
	26,538	21,673	**—**	—

24. AMOUNTS DUE FROM RELATED COMPANIES

As at 31 December 2007, out of the amounts due from related companies, approximately RMB41,237,000 was due from a company in which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. Au Fengjun and Mr. Zhang Qi, directors of the Company, have beneficial interest. The remaining balance of RMB549,000 was due from another company in which Kangfulai (as defined in note 27), the minority shareholder of a subsidiary, has beneficial interest. The balances were unsecured, interest free and repayable on demand.

Disclosure pursuant to section 161B of the Hong Kong Companies Ordinances are as follows:

	As at 31 December 2008	**Maximum amount outstanding during the year**	**As at 1 January 2008**
	RMB'000	RMB'000	RMB'000
青島康大外貿集團有限公司 ("KD Trading Company")	—	41,237	41,237

25. AMOUNTS DUE FROM SUBSIDIARIES

The amounts due from subsidiaries are unsecured, interest free and repayable on demand.

26. CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Time deposits	**330,545**	166,310	**—**	—
Cash and bank balances	**130,573**	174,563	**14,024**	1,984
	461,118	340,873	**14,024**	1,984

The Group had cash and bank balances denominated in RMB amounting to approximately RMB442,531,000 as at 31 December 2008 (2007: RMB330,218,000) which were deposited with banks in the PRC. RMB is not freely convertible into foreign currencies. Under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business. The bank balances earn interest at floating rates based on daily bank deposit rates. The time deposits earn at fixed interest rates ranging from 0.36% to 8.02% (2007: 2.52% to 4.14%) per annum as at 31 December 2008.

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27. ASSETS/(LIABILITIES) CLASSIFIED AS HELD FOR SALE

On 18 February 2009, the Group entered into a sale and purchase agreement with 香港康福萊集團有限公司 ("Kangfulai"), a minority shareholder of Asiawin, pursuant to which the Group agreed to dispose of, and Kangfulai agreed to purchase, the entire 70% equity interest in Asiawin (the "Equity Interest") at an aggregate consideration of approximately RMB8,786,000. Asiawin engages in manufacturing and sale of processed food products. The assets and liabilities, related to Asiawin, which are expected to be sold within twelve months, have been classified as assets/liabilities held for sale and are presented separately in the balance sheet as at 31 December 2008. The transaction was completed before the end of February 2009.

The major classes of assets and liabilities classified as held for sale are as follows:

	2008 RMB'000
Property, plant and equipment	15,464
Deferred tax assets	175
Trade and other receivables	27
Inventories	2,044
Amount due from a minority shareholder	587
Cash and bank balances	67
Total assets classified as held for sale	**18,364**
Trade and other payables	(2,825)
Amount due to a related company	(2,286)
Deferred government grants	(699)
Liabilities directly associated with assets classified as held for sale	**(5,810)**

28. TRADE AND BILLS PAYABLES

	Group	
	2008 **RMB'000**	2007 RMB'000
Trade payables	**70,707**	37,696
Bills payables	**11,793**	—
	82,500	37,696

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

The aging analysis of trade payables as at the balance sheet dates are as follows:

	Group	
	2008 **RMB'000**	2007 RMB'000
Within 60 days	**47,526**	28,729
61–90 days	**6,796**	1,025
91–120 days	**17,738**	2,513
Over 120 days	**10,440**	5,429
	82,500	37,696

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29. ACCRUED LIABILITIES, OTHER PAYABLES AND DEPOSITS RECEIVED

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued liabilities	**14,760**	6,246	**10,105**	1,250
Other payables	**28,499**	12,563	**—**	—
Deposits received	**35**	1,773	**—**	—
	43,294	20,582	**10,105**	1,250

30. INTEREST-BEARING BANK BORROWINGS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Non-current				
Interest-bearing bank borrowings	**109,839**	—	**109,839**	—
Current				
Interest-bearing bank borrowings	**87,827**	25,000	**23,857**	—
Total Interest-bearing bank borrowings	**197,666**	25,000	**133,696**	—

At 31 December 2008, the Group's and the Company's interest-bearing bank borrowings were repayable as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**87,827**	25,000	**23,857**	—
In the second year	**66,848**	—	**66,848**	—
In the third year to fifth year	**42,991**	—	**42,991**	—
	197,666	25,000	**133,696**	—

Total interest-bearing bank borrowings include secured liabilities of RMB112,982,000 (2007: RMB25,000,000).

As at 31 December 2008, the Group's interest-bearing bank borrowings are guaranteed by Perfect Good, Spiritzone and certain related parties of the Group and secured against the Company's interests in Perfect Good and Spiritzone and the pledge of certain of the Group's property, plant and equipment (note 14) and land use rights (note 15).

As at 31 December 2007, the Group's interest-bearing bank borrowings are guaranteed by its related parties and secured by the pledge of certain of the Group's and its related party's property, plant and equipment (note 14).

The Group's interest-bearing bank borrowings bear interests ranging from 4.45% to 7.60% (2007: 6.57% to 7.29%) per annum as at 31 December 2008.

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31. AMOUNT DUE TO A RELATED COMPANY

As at 31 December 2008, the related company is a company in which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. Zhang Qi and Mr. An Fengjun, directors of the Company, have beneficial interest. The amount is unsecured, interest free and repayable on demand.

As at 31 December 2007, the related company was a company in which, Kangfulai has beneficial interest. The amount was unsecured and repayable on demand. The amount bore interest at 7.224% per annum for the year ended 31 December 2007.

32. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

In pursuant to the placement agreement ("Placement Agreement") entered into between the Group and Zensho Co., Ltd ("Zensho") on 30 July 2007, the Company has granted Zensho an option (the "Option") to subscribe for 24,562,000 new ordinary shares of HK$0.25 each of the Company, at a price equivalent to the weighted average price for trades on SGX-ST for the past one month prior to the date of the exercise of the option, or such higher price as agreed. The option is exercisable for a period of seven days ("Option Period") commencing six months from the listing of the Placement Shares (as defined in note 34a). The Option may be exercised by Zensho once only, in whole or in part at any time during the Option Period. Zensho did not exercise the Option during the Option Period and the Option was lapsed on 9 March 2008.

The above derivatives should be carrying at fair value and were revalued at 31 December 2007 by (LCH) Asia-Pacific Surveyors Limited based on Monte Carlo Simulation and assumptions. Certain significant assumptions are summarised below:

(1) The stock asset price was SGD0.425 as at 31 December 2007;

(2) The volatility was 48% as at 31 December 2007;

(3) The risk free interest rate was 1.997% which was the yield of 3-Months and Half Year Singapore Government Bond quoted as at 31 December 2007; and

(4) The maturity is 0.19 year.

Reconciliation of changes in the carrying amounts of the financial liabilities at fair value through profit or loss is as follows:

	Group and Company	
	2008	2007
	RMB'000	RMB'000
At the beginning of the year	**1,673**	—
At initial recognition	—	1,392
(Gain)/loss arising from changes in fair value through profit or loss	**(1,673)**	281
At the end of the year	—	1,673

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33. DEFERRED GOVERNMENT GRANTS

	Group 2008 RMB'000	2007 RMB'000
At the beginning of the year	—	—
Additions	3,176	—
Transferred to liabilities directly associated with assets classified as held for sales (note 27)	(699)	—
Recognised as income during the year	(262)	—
At the end of the year	2,215	—
Portion classified as current liabilities	(185)	—
Non-current portion	2,030	—

During the year, the Group received certain government subsidies of RMB3,176,000. The grants were received from the Finance Bureau of Jiaonan City for the purpose of acquiring production facilities and information system. Since the Group fulfilled the conditions attaching to the government grants, the Group recognised the government grants as deferred income over the expected useful lives of the relevant assets of 10 to 20 years.

34. SHARE CAPITAL

Ordinary shares of HK$0.25 each	Notes	**Number of shares** '000	**Amount** HK$'000
Authorised :			
At 31 December 2007 and 2008		**2,000,000**	**500,000**
Issued and fully paid :			
At 1 January 2007		420,000	105,000
Allotted and issued	(a)	22,106	5,527
At 31 December 2007 and 1 January 2008		442,106	110,527
Repurchase	(b)	(1,430)	(358)
At 31 December 2008		**440,676**	**110,169**

The issued and fully paid share capital is equivalent to approximately RMB114,550,000 and RMB114,178,000 as at 31 December 2007 and 2008 respectively.

The movements in share capital for the years ended 31 December 2007 and 2008 were as follows:

(a) Pursuant to the Placement Agreement, 22,106,000 new ordinary shares of HK$0.25 each (the "Placement Shares") were issued to Zensho on 3 September 2007 at a price of S$0.37727 each. The Placement Shares, rank *pari passu* in all respects with the Company's existing issued and paid-up ordinary shares of HK$0.25 each.

The net proceeds from the placement amounting to approximately RMB40,039,000 has been partly added to the Group's working capital and partly used for construction a factory for the purpose of processing seasonings which complements or can be used in processed foods manufactured.

(b) On 10 October 2008 and 15 October 2008, the Company repurchased 930,000 and 500,000 of its ordinary shares, respectively, of HK$0.25 each by way of market acquisition on the SGX-ST with purchase prices ranging from S$0.185 to S$0.205 each. The total consideration paid was approximately RMB1,250,000.

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35. RESERVES

(a) Other reserves

In accordance with the relevant laws and regulations of the PRC, the subsidiaries of the Company established in the PRC are required to transfer 10% of its profit after taxation determined in accordance with the accounting regulations in the PRC to the other reserve until the reserve balance reaches 50% of the respective registered capital of the PRC subsidiaries. Such reserve may be used to reduce any losses incurred or for capitalisation as paid-up capital of the PRC subsidiaries.

During the previous years, the subsidiaries of the Company established in the PRC has discretionarily transferred 5% of its profit after taxation prepared in accordance with the accounting regulations in the PRC to the public welfare reserve. The use of the public welfare reserve is restricted to capital expenditure for employees' facilities. This public welfare reserve is non-distributable except upon liquidation of the PRC subsidiaries. No public welfare reserves had been provided during the years ended 31 December 2007 and 2008.

(b) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of the Restructuring Exercise.

The merger reserve of the Company represents the difference between the net tangible asset value of the subsidiaries acquired and the nominal value of the share capital of the Company issued in exchange thereof as a result of the Restructuring Exercise.

(c) Capital redemption reserve

The capital redemption reserve of the Group represents the nominal value of the share capital of the Company repurchased and cancelled.

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36. BUSINESS COMBINATIONS

(a) Acquisition of KD Animal Co

On 31 May 2008, the Group acquired from Qingdao Kangda Property Development Limited ("KD Property Co"), a company which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi have beneficial interests, and KD Trading Company the entire equity interest in KD Animal Co, and the interest in a shareholder's loan granted by KD Trading Company to KD Animal Co (the "Shareholder's Loan A") with an aggregate consideration of RMB42,900,000. KD Animal Co is engaged in cultivation and sale of livestock products.

The assets and liabilities of KD Animal Co as at the date of acquisition are as follows:

	Fair value and previous carrying amount RMB'000
Property, plant and equipment	37,528
Biological assets	8,285
Inventories	1,130
Prepayments, other receivables and deposits	548
Amounts due from related companies	6,052
Cash and bank balances	853
Trade payables	(2,361)
Accrued liabilities, other payables and deposits received	(3,160)
Lease liabilities	(4,297)
Amounts due to related companies	(702)
Shareholder's Loan A	(36,100)
Net assets attributable to the Group	7,776
Shareholder's Loan A	36,100
Excess over the cost of a business combination recognised in the income statement	(976)
Purchase consideration	**42,900**

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of KD Animal Co is as follows:

	RMB'000
Consideration settled in cash	42,900
Cash and cash equivalents in subsidiary acquired	(853)
Net cash outflow on acquisitions	**42,047**

The purchase consideration was agreed between the Group, KD Property Co and KD Trading Company in December 2007 based on the latest financial position of KD Animal Co available at that time. As the acquisition completed in May 2008, the value of net assets attributable to the Group acquired, including property, plant and equipment and biological assets, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination, which was recognised in the income statement.

Since the acquisition, KD Animal Co did not contributed any revenue and contribute net profit of RMB97,000 to the Group for the year ended 31 December 2008. Had the acquisition taken place on 1 January 2008, the revenue and net profit of the Group for the year ended 31 December 2008 would have been RMB943,426,000 and RMB84,794,000, respectively. These pro forma information are for illustrative purpose only and are not necessarily an indication of revenue and result of operations of the Group that would actually have been achieved had the acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

Notes to the Financial Statements

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36. BUSINESS COMBINATIONS (CONTINUED)

(b) Acquisition of KD Rabbit Co

On 31 May 2008, the Group acquired from a related company, KD Trading Company and Mr. Gao Yanxu (an executive director of the Company) the entire equity interest in KD Rabbit Co, and the interest in a shareholder's loan granted by the related party to KD Rabbit Co (the "Shareholder's Loan B") with an aggregate consideration of RMB20,000,000. KD Rabbit Co is engaged in cultivation and sale of livestock products.

The assets and liabilities of KD Rabbit Co as at the date of acquisition are as follows:

	Fair value and previous carrying amount RMB'000
Property, plant and equipment	11,961
Biological assets	6,784
Trade receivable	6
Inventories	1,059
Prepayments, other receivables and deposits	584
Amounts due from related companies	6,172
Cash and bank balances	247
Trade payables	(2,255)
Accrued liabilities, other payables and deposits received	(1,168)
Lease liabilities	(1,987)
Shareholder's Loan B	(13,500)
Net assets attributable to the Group	7,903
Shareholder's Loan B	13,500
Excess over the cost of a business combination recognised in the income statement	(1,403)
Purchase consideration	**20,000**

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of KD Rabbit Co is as follows:

	RMB'000
Consideration settled in cash	20,000
Cash and cash equivalents in subsidiary acquired	(247)
Net cash outflow on acquisitions	**19,753**

The purchase consideration was agreed between the Group, KD Trading Company and Mr. Gao Yanxu in December 2007 based on the latest financial position of KD Rabbit Co available at that time. As the acquisition completed in May 2008, the value of net assets attributable to the Group acquired, including property, plant and equipment and biological assets, all being at fair value, exceeds the consideration paid for the acquisition, giving rise to an excess over the cost of business combination, which was recognised in the income statement.

Since the acquisition, KD Rabbit Co did not contribute any revenue and contribute net profit of RMB796,000 to the Group for the year ended 31 December 2008. Had the acquisition taken place on 1 January 2008, the revenue and net profit of the Group for year ended 31 December 2008 would have been RMB943,426,000 and RMB85,449,000, respectively. These pro forma information are for illustrative purpose only and are not necessarily an indication of revenue and result of operations of the Group that would actually have been achieved had the acquisition been completed on 1 January 2008 nor are they intended to be a projection of future results.

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37. COMMITMENTS

Operating lease commitments

Except for the prepaid premium for land leases (note 15), the Group leases certain of its land and buildings and office premises under operating lease arrangements. Leases for land, building and office premises are for terms ranging from 1 to 2 years.

The total future minimum lease payments of the Group under non-cancellable operating leases are as follows:

As a Lessee

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,260**	2,049	**—**	—
In the second to fifth years	**3,263**	263	**—**	—
After the fifth years	**3,348**	696	**—**	—
	7,871	3,008	**—**	—

As a Lessor

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**—**	109	**—**	—

Capital commitments

Capital commitments not provided for in the financial statements were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted but not provided for in respect of:				
Purchase of property, plant, equipment and land	**92,943**	22,527	**—**	—
Acquisition of subsidiaries	**—**	62,900	**—**	—
	92,943	85,427	**—**	—

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2007, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of approximately RMB6,510,000.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to market risk (including currency risk and interest risk), credit risk and liquidity risk in the normal course of business. The Group does not have written risk management policies and guidelines. However, the board of directors of the Company meets periodically to analyse and formulate measures to manage the Group's exposure to market risk, including principally changes in interest rates and currency exchange rates.

Generally, the Group employs a conservative strategy regarding its risk management. As the Group's exposure to market risk is kept at a minimum level, the Group has not used any derivatives or other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes.

(a) Categories of financial assets and liabilities

The categories of financial assets and financial liabilities included in the balance sheet and the headings in which they are included are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
— Lease receivables	**—**	6,092
— Trade receivables	**81,912**	56,505
— Other receivables	**1,859**	1,323
— Amounts due from related companies	**—**	41,786
Cash and bank balances	**461,118**	340,873
	544,889	446,579
Financial liabilities		
At amortised cost		
— Trade and bills payables	**82,500**	37,696
— Accruals and other payables	**43,259**	18,809
— Interest-bearing bank borrowings	**197,666**	25,000
— Amount due to a related company	**1,047**	1,200
At fair value		
— Financial liabilities at fair value through profit or loss	**—**	1,673
	324,472	84,378

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(a) Categories of financial assets and liabilities (Continued)

	Company	
	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
— Amounts due from related companies	**—**	74,545
— Amounts due from subsidiaries	**413,443**	246,864
Cash and bank balances	**14,024**	1,984
	427,467	323,393
Financial liabilities		
At amortised cost		
— Accrued liabilities	**10,105**	1,250
— Interest-bearing bank borrowings	**133,696**	—
At fair value		
— Financial liabilities at fair value through profit or loss	**—**	1,673
	143,801	2,923

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group borrows both loans issued at fixed and floating interest rates. Exposure to floating interest rate presents when there are unexpected adverse interest rate movements. The Group's policy is to manage its interest rate risk, working within an agreed framework, to ensure that there are no unduly exposures to significant interest rate movements and rates are approximately fixed when necessary.

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (Continued)

(i) Interest rate profile

The following table details the interest rate profile of the Group's financial instruments at the balance sheet date:

	Group			
	Weighted average effective interest rate		Carrying amount	
	2008	2007	**2008**	2007
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Cash and bank balances	**0.390%**	0.760%	**130,573**	174,563
Financial liabilities				
Interest-bearing bank borrowing	**4.975%**	—	**(133,696)**	—
Fixed rate instruments				
Financial assets				
Lease receivables	—	7.330%	—	6,092
Time deposits	**4.150%**	2.520%	**330,545**	166,310
			330,545	172,402
Financial liabilities				
Interest-bearing bank borrowing	**6.480%**	6.980%	**(63,970)**	(25,000)
Amount due to a related company	—	7.224%	—	(1,200)
			(63,970)	(26,200)

	Company			
	Weighted average effective interest rate		Carrying amount	
	2008	2007	**2008**	2007
	%	%	**RMB'000**	RMB'000
Variable rate instruments				
Financial assets				
Cash and bank balances	**0.013%**	0.720%	**14,024**	1,984
Variable rate instruments				
Financial liabilities				
Interest-bearing bank borrowing	**4.975%**	—	**(133,696)**	—

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Interest rate risk (Continued)

(ii) Interest rate sensitivity analysis

The following table illustrates the sensitivity of the profit for the year to a reasonably possible change in interest rates of +0.5% and -0.5% (2007: +/- 0.5%), with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current of current market conditions. The calculations are based on the Group's financial instruments held at each balance sheet date. All other variables are held constant. There is no impact on other components of consolidated equity in response to the possible change in interest rates.

	Group			
	2008 RMB'000		2007 RMB'000	
	+0.5%	**-0.5%**	+0.5%	-0.5%
Effect on profit for the year	**(93)**	**93**	867	(867)

	Company			
	2008 RMB'000		2007 RMB'000	
	+0.5%	**-0.5%**	+0.5%	-0.5%
Effect on profit for the year	**(598)**	**598**	10	(10)

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39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of its business.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

	Group	
	2008	2007
	RMB'000	RMB'000
Classes of financial assets — carrying amounts		
Trade receivables	**81,912**	56,505
Other receivables	**1,859**	1,323
Lease receivables	**—**	6,092
Amounts due from related companies	**—**	41,786
Cash and bank balances	**461,118**	340,873
	544,889	446,579

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's management considers that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due.

None of the Group's financial assets are secured by collateral or other credit enhancements.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(d) Foreign currency risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they related. The currencies giving rise to this risk are mainly Euro, United States dollars and Japanese Yen.

The Group reviews its foreign currency exposures regularly and does not consider its foreign exchange risk to be significant.

Notes to the Financial Statements

for the year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Foreign currency risk (Continued)

(i) Foreign currency risk exposure

The following table details the Group's exposures at the balance sheet date to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which they relate:

	Group 2008				
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HKD RMB'000**
Financial assets					
Trade receivables	**24,338**	**13,993**	**2,513**	**—**	**—**
Cash and bank balances	**18,033**	**—**	**—**	**256**	**298**
	42,371	**13,993**	**2,513**	**256**	**298**
Financial liabilities					
Interest-bearing bank borrowing	**47,714**	**—**	**—**	**—**	**85,982**

	2007				
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HKD RMB'000
Financial assets					
Trade receivables	21,958	20,767	1,993	—	—
Cash and bank balances	150	—	—	1,964	8,541
	22,108	20,767	1,993	1,964	8,541

	Company 2008		
	USD RMB'000	**SGD RMB'000**	**HKD RMB'000**
Financial assets			
Cash and bank balances	**13,692**	**140**	**192**
Financial liabilities			
Interest-bearing bank borrowing	**47,714**	**—**	**85,982**

	2007		
	USD RMB'000	SGD RMB'000	HKD RMB'000
Financial assets			
Cash and bank balances	19	1,964	1

Apart from the above, all the Group's financial assets and liabilities are denominated in RMB.

Notes to the Financial Statements

for the year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Foreign currency risk (Continued)

(ii) Foreign currency sensitivity analysis

The following table indicates the approximate change in the Group's profit for the year in response to a 5% appreciation in the Group's functional currencies against the respective foreign currencies. There is no impact on other components of consolidated equity in response to the general increase in the following foreign currency rates.

			Group		
			2008		
	USD RMB'000	**EURO RMB'000**	**JPY RMB'000**	**SGD RMB'000**	**HKD RMB'000**
Effect on profit after tax	**(552)**	**700**	**126**	**14**	**(4,702)**

			2007		
	USD RMB'000	EURO RMB'000	JPY RMB'000	SGD RMB'000	HKD RMB'000
Effect on profit after tax	1,084	1,038	100	98	427

			Company			
	2008 RMB'000			2007 RMB'000		
	USD	**SGD**	**HKD**	USD	SGD	HKD
Effect on profit after tax	**(1,701)**	**7**	**(4,290)**	—	98	—

A weakening of the above foreign currencies against RMB at each balance sheet date would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Notes to the Financial Statements

for the year ended 31 December 2008

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(e) Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management.

The cash flow management of all operating entities is centralised, including the raising of funds to cover expected cash demands. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

As at 31 December 2008 and 2007, the maturity profile of the Group's financial liabilities, based on the contracted undiscounted payments, are summarised below:

	Group				
	2008			2007	
	Within 6 months RMB'000	**6 to 12 months RMB'000**	**over 1 year RMB'000**	Within 6 months RMB'000	6 to 12 months RMB'000
Interest-bearing bank borrowings	**36,053**	**56,572**	**121,816**	5,000	20,000
Trade and bills payables	**72,060**	**10,440**	**—**	37,696	—
Accrued liabilities and other payables	**43,259**	**—**	**—**	18,809	—
	151,372	**67,012**	**121,816**	61,505	20,000

	Company				
	2008			2007	
	Within 6 months RMB'000	**6 to 12 months RMB'000**	**over 1 year RMB'000**	Within 6 months RMB'000	6 to 12 months RMB'000
Interest-bearing bank borrowings	**8,787**	**17,575**	**121,816**	—	—
Accrued liabilities and other payables	**10,105**	**—**	**—**	1,250	—
	18,892	**17,575**	**121,816**	1,250	—

(f) Fair value

The fair value of the Group's long term interest-bearing bank borrowings as at 31 December 2008 was not materially different from their carrying amount since they are interest bearing at variable rates. The fair value of lease receivable as at 31 December 2007 was not materially different from their carrying amount since the implicit interest rate approximates the market interest rate. The fair value of the Group's other financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

Notes to the Financial Statements

for the year ended 31 December 2008

40. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is total debts divided by total capital. Total debts are calculated as the sum of bank loans and amount due to a related company as shown in the consolidated balance sheet. Total capital is calculated as total equity attributable to equity holders, as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level.

	2008 **RMB'000**	2007 RMB'000
Interest-bearing bank borrowings	**197,666**	25,000
Amount due to a related company	**1,047**	1,200
Total debts	**198,713**	26,200
Equity attributable to equity holders	**625,354**	562,403
Total debt to equity ratio	**32%**	5%

41. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

	Notes	**2008** **RMB'000**	2007 RMB'000
Sales to related companies	(i)	**3,286**	3,448
Purchases from related companies	(ii)	**54,897**	51,742
Rental income received from a related company	(iii)	**219**	219
Rental expenses paid to related companies	(iv)	**213**	—
Construction fee paid to a related company	(v)	**—**	250
Interest paid to a related company	(vi)	**—**	29
Interest income from lease received from related companies	(vii)	**192**	78
Acquisitions of property, plant and equipment and land use right from a related party	(viii)	**21,624**	—
Guarantees given by the related companies in connection with bank loans granted to the Group	(ix)	**22,000**	25,000

Notes to the Financial Statements

for the year ended 31 December 2008

41. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Key management personnel compensation

	Notes	2008 RMB'000	2007 RMB'000
Short term employee benefits of directors and other members of key management		**1,932**	3,168

Notes:

(i) Sales to related companies of approximately RMB1,122,000 (2007: RMB616,000) were made to related companies, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors, and of approximately RMB2,164,000 (2007: RMB2,832,000) were made to a related company of which Kangfulai has beneficial interest. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and these related companies.

(ii) Purchases from related companies, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors, were made in the ordinary course of business with reference to the terms negotiated between the Group and these related companies.

(iii) Rental income received from a related company, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors, was made according to the term of the lease agreement. Also, Mr. Gao Yanxu is an equity holder of this related company.

(iv) Rental expenses to related companies, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors, were made according to the term of the lease agreement.

(v) Construction fee paid to a related company of which Mr. Gao Sishi and Mr. Gao Yanxu were directors.

(vi) Interest paid to a related company of which Kangfulai has beneficial interest. The details of the outstanding balance of the amount due to this related company and interest rate are disclosed in note 31.

(vii) Lease income received from related companies of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors.

(viii) Acquisitions of property, plant and equipment and land use right of approximately RMB17,544,000 and RMB4,080,000 respectively were made from a related company, of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi were shareholders and/or directors. The transactions are made in the ordinary course of business with reference to the terms negotiated between the Group and the related company.

(ix) The Group's bank loans were guaranteed by the related companies of which Mr. Gao Sishi and Mr. Gao Yanxu were also directors. The loans were also secured by certain of its related company's property, plant and equipment as at 31 December 2007.

42. SUBSEQUENT EVENTS

In addition to those disclosed elsewhere in the financial statements, the Group has the following significant subsequent events after 31 December 2008:

(a) On 13, 14 and 19 January 2009, the Company repurchased 531,000, 900,000 and 6,297,000 of its ordinary shares, respectively, of HK$0.25 each by way of market acquisition on the SGX-ST. The total consideration paid was approximately RMB6,333,000.

(b) On 18 February 2009, the Group entered into a sale and purchase agreement with Kangfulai, pursuant to which the Group agreed to dispose of the entire 70% equity interest in Asiawin at an aggregate consideration of approximately RMB8,786,000.

Statistics of Shareholdings

As at 16 March 2009

Authorised Share capital	:	HK$500,000,000
Issued and fully paid up capital	:	HK$108,237,000
No. of shares issue	:	432,948,000
Class of shares	:	Ordinary share of HK$0.25 each
Voting rights	:	One vote per share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1–999	0	0.00	0	0.00
1,000–10,000	672	44.83	4,914,000	1.14
10,001–1,000,000	786	52.43	37,841,000	8.74
1,000,001 and above	41	2.74	390,193,000	90.12
Total	1,499	100.00	432,948,000	100.00

TWENTY LARGEST SHAREHOLDERS AS AT 16 MARCH 2009

No.	Name	No. of Shares	%
1	GAO SISHI	166,740,000	38.51
2	UOB KAY HIAN PTE LTD	77,697,000	17.95
3	PROVEN CHOICE GROUP LIMITED	30,000,000	6.93
4	ZENSHO CO., LTD	24,445,000	5.65
5	GAO YANXU	14,310,000	3.31
6	PHILLIP SECURITIES (HONG KONG) LTD	10,546,000	2.43
7	ZHANG QI	8,910,000	2.06
8	DBS VICKERS (HONG KONG) LTD	8,361,000	1.93
9	RAFFLES NOMINEES PTE LTD	7,452,000	1.72
10	PHILLIP SECURITIES PTE LTD	7,262,000	1.68
11	OCBC SECURITIES (HONG KONG) LTD	7,212,000	1.66
12	OCBC SECURITIES PRIVATE LTD	7,199,000	1.66
13	CIMB-GK SECURITIES PTE. LTD.	6,850,000	1.58
14	BOCI SECURITIES LTD	4,167,000	0.96
15	STANDARD CHARTERED BANK (HONG KONG) LTD	4,012,000	0.92
16	DBS VICKERS SECURITIES (S) PTE LTD	3,003,000	0.69
17	NOMURA SINGAPORE LIMITED	1,774,000	0.41
18	HSBC (SINGAPORE) NOMINEES PTE LTD	1,436,000	0.33
19	TEH KIU CHEONG	1,000,000	0.23
20	KIM ENG SECURITIES PTE. LTD.	738,000	0.17
		393,114,000	90.78

Statistics of Shareholdings

As at 16 March 2009

SUBSTANTIAL SHAREHOLDINGS

(As recorded in the Register of Substantial Shareholders)

	No. of Shares			
Substantial Shareholders	**Direct Interest**	**(%)**	**Deemed Interest**	**(%)**
Gao Sishi	166,740,000	38.51	—	—
Cheng Xiutai	102,000	0. 02	38,198,000	8.82
Proven Choice Group Limited[(1)]	30,000,000	6.90	—	—
Huang Quan	—	—	30,000,000	6.90
Zensho Co., Ltd	24,445,000	5.65	—	—

Note:

1. Proven Choice Group Limited is an investment company incorporated in the BVI. It is wholly-owned by Mr. Huang Quan who is not related to any or the Directors or Shareholders.

PERCENTAGE OF SHAREHOLDING IN PUBLIC'S HANDS

Approximately 34.7% of the Company's issued shares are held in the hands of public as at 16 March 2009. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the SGX-ST and the Hong Kong Listing Rules.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of CHINA KANGDA FOOD COMPANY LIMITED (the "**Company**") will be held at Concorde Hotel Singapore, Studio 1, Level 3, 100 Orchard Road, Singapore 238840 on Tuesday, 28 April 2009 at 9.00 am for the following purposes:

AS ORDINARY BUSINESS

1. To receive and adopt the directors' report and the consolidated audited accounts of the Company for the year ended 31 December 2008 together with the auditors' report thereon.

(Resolution 1)

2. To re-elect the following directors retiring pursuant to the Company's Bye-Laws:

Mr An Fengjun	(Retiring under Bye-Law 86(1))	**(Resolution 2)**
Mr Kuik See Juan	(Retiring under Bye-Law 86(1))	**(Resolution 3)**
Mr Yu Chung Leung	(Retiring under Bye-Law 85(6))	**(Resolution 4)**

*Mr Kuik See Juan will, upon re-election as a director of the Company, remain as chairman of the nominating committee and a member of the audit and remuneration committees and will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the Singapore Exchange Securities Trading Limited (the "**Listing Manual**") and Rule 3.13 of the Rules Governing the Listing of Securities (the "**Hong Kong Listing Rules**") on the Stock Exchange of Hong Kong Limited (the "**SEHK**").*

Mr Yu Chung Leung will, upon re-election as a director of the Company, remain as chairman of the remuneration committee and a member of the audit and nominating committees and will be considered independent for the purposes of Rule 704(8) of the Listing Manual and Rule 3.13 of the Hong Kong Listing Rules.

3. To approve the payment of directors' fees of S$96,000 for the year ended 31 December 2008 (2007: S$96,000).

(Resolution 5)

4. To re-appoint Grant Thornton as the Company's auditors and to authorise the board of directors to fix their remuneration.

(Resolution 6)

5. To transact any other ordinary business which may properly be transacted at an annual general meeting.

AS SPECIAL BUSINESS

To consider and if thought fit, to pass the following resolutions as Ordinary Resolutions, with or without any modifications:

6. **Authority to allot and issue shares up to fifty per centum (50%) of issued shares**

That authority be generally and unconditionally given to the directors of the Company to allot, issue and deal with ordinary shares in the capital of the Company ("**Shares**") whether by way of rights, bonus or otherwise, and/or make or grant offers, agreements or options (collectively, "**Instruments**") that might or would require Shares to be issued, including but not limited to the creation and issue of (as well as adjustments to) warrants, debentures or other instruments convertible into Shares at any time and upon such terms and conditions and to such persons as the directors may, in their absolute discretion, deem fit provided that:

(a) the aggregate number of Shares (including Shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) does not exceed fifty per centum (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which the aggregate number of Shares and convertible securities to be issued other than on a pro rata basis to all shareholders of the Company shall not exceed twenty per centum (20%) of the total number of issued Shares (excluding treasury shares) in the share capital of the Company at the time of the passing of this Resolution;

Notice of Annual General Meeting

(b) For the purpose of determining the aggregate number of Shares that may be issued under sub-paragraph (a) above, the total number of issued Shares (excluding treasury shares) shall be based on the total number of issued Shares (excluding treasury shares) of the Company at the time of the passing of this Resolution; and

(c) such authority shall, unless revoked or varied by the Company in a general meeting, continue in force (i) until the conclusion of the Company's next annual general meeting or the date by which the next annual general meeting of the Company is required by law to be held, whichever is earlier; or (ii) in the case of Shares to be issued in accordance with the terms of convertible securities issued, made or granted pursuant to this Resolution, until the issuance of such Shares in accordance with the terms of such convertible securities (the "**Issue Mandate**").

See Explanatory notes (i) and (iii)

(Resolution 7)

7. **Authority to allot and issue shares other than on a pro rata basis at a discount of not more than twenty per centum (20%)**

That without prejudice to the generality of, and pursuant and subject to the approval of the Issue Mandate set out in Resolution 7, authority be and is hereby given to the directors of the Company to allot and issue Shares for cash consideration other than on a pro rata basis to shareholders of the Company, at a discount to the lower of the Weighted Average Price or the Benchmarked Price, exceeding ten per centum (10%) but not more than twenty per centum (20%), at any time and upon such terms and conditions and for such purposes and to such persons as the directors may in their absolute discretion deem fit, provided that:

(a) in exercising the authority conferred by this Resolution, the Company shall comply with the requirements imposed by the Singapore Securities Exchange Trading Limited (the "**SGX-ST**") and the SEHK from time to time and the provisions of the Listing Manual and the Hong Kong Listing Rules for the time being in force (in each case, unless such compliance has been waived by the SGX-ST or the SEHK (as the case may be), all applicable legal requirements under the Companies Act, Chapter 50 of Singapore (the "**Companies Act**") and the Companies Ordinance (Chapter 32) of the Laws of Hong Kong and otherwise, the Bye-Laws for the time being of the Company and the applicable laws of Bermuda;

(b) unless revoked or varied by the Company in a general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next annual general meeting of the Company or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier; and

(c) for the purpose of this Resolution:

"**Weighted Average Price**" means the weighted average price of the Shares for trades done on the SGX-ST for the full market day on which the placement or subscription agreement is signed (or if not available, the weighted average price based on the trades done on the preceding market day); and

"**Benchmarked Price**" means the higher of:

(1) the closing price on the SEHK on the date of the relevant placing agreement or other agreement involving the proposed issue of securities under the Issue Mandate; and

Notice of Annual General Meeting

(2) the average closing price on the SEHK in the 5 trading days immediately prior to the earliest of:

(i) the date of announcement of the placing or the proposed transaction or arrangement involving the proposed issue of securities under the Issue Mandate;

(ii) the date of the placing agreement or other agreement involving the proposed issue of securities under the Issue Mandate; and

(iii) the date on which the placing or subscription price is fixed.

See Explanatory notes (ii) and (iii)

(Resolution 8)

8. **Renewal of Shareholders' Mandate for Interested Person Transactions**

That for the purposes of Chapter 9 of the Listing Manual:

(a) approval be given for the renewal of the mandate for the Company, its subsidiaries and associated companies or any of them to enter into any of the transactions falling within the types of Interested Person Transactions (as defined in Chapter 9 of the Listing Manual), particulars of which are set out in Appendix II to the circular of the Company dated 26 March 2009 ("**Appendix II**"), provided that such transactions are carried out in the normal course of business, at arm's length and on commercial terms and in accordance with the guidelines of the Company for Interested Person Transactions as set out in Appendix II (the "**IPT Mandate**");

(b) the IPT Mandate shall, unless revoked or varied by the Company in general meeting, continue in force until the conclusion of the next annual general meeting; and

(c) authority be given to the directors to complete and do all such acts and things (including executing all such documents as may be required) as they may consider necessary, desirable or expedient to give effect to the IPT Mandate as they may think fit.

See Explanatory notes (iv) and (v)

(Resolution 9)

By Order of the Board

Leung Ting Yuk
Company Secretary

26 March 2009

Notice of Annual General Meeting

Explanatory notes to Resolutions to be passed —

(i) The Ordinary Resolution 7 proposed in item 6 above, if passed, will empower the directors from the date of the above meeting until the date of the next annual general meeting, to allot and issue Shares and convertible securities in the Company up to an amount not exceeding fifty per centum (50%) of the total number of issued Shares (excluding treasury shares) in the capital of the Company, of which up to twenty per centum (20%) may be issued other than on a pro rata basis.

For the purpose of the Ordinary Resolution 7, the total number of issued Shares (excluding treasury shares) is based on the Company's total number of issued Shares (excluding treasury shares) at the time the proposed Ordinary Resolution 7 is passed.

(ii) Ordinary Resolution 8 proposed in item 7 above is to empower the directors, pursuant to the Issue Mandate set out in Ordinary Resolution 7, to allot and issue Shares other than on a pro rata basis to shareholders of the Company, at a discount to the lower of the Weighted Average Price or the Benchmarked Price, exceeding ten per centum (10%) but not more than twenty per centum (20%).

In exercising the authority conferred by Ordinary Resolution 8, the Company shall comply with the requirements of the SGX-ST and the SEHK (unless waived by the SGX-ST or the SEHK (as the case may be)), all applicable legal requirements and the Company's Bye-Laws. Rule 811(1) of the Listing Manual presently provides that an issue of shares must not be priced at more than ten per centum (10%) discount to the weighted average price for trades done on the SGX-ST for the full market day on which the placement or subscription agreement is signed (or if not available, the weighted average price based on the trades done on the preceding market day).

On 19 February 2009, the SGX-ST released a press release of new measures effective on 20 February 2009 (the "**Press Release**"), which included an interim measure allowing issuers to undertake placements of new shares using the general mandate to issue shares, priced at discounts of up to twenty per centum (20%), subject to the conditions that the issuer seeks shareholders' approval in a separate resolution at a general meeting to issue new shares other than on a pro rata basis at a discount exceeding ten per centum (10%) but not more than twenty per centum (20%). The general share issue mandate resolution is not conditional on this resolution. Ordinary Resolution 8 has been included following this interim measure, taking into account the relevant requirements under the Hong Kong Listing Rules. The Press Release states that this new measure will also be in effect until 31 December 2010 when it will be reviewed by the SGX-ST.

(iii) **IMPORTANT: Notwithstanding the passing of the Ordinary Resolutions 7 and 8 proposed in items 6 and 7 above, the Company shall from time to time comply with the relevant requirements under the Hong Kong Listing Rules in relation to issuance of securities, in particular Rules 7.19(6), 13.36 and 13.36(5) thereof.**

(iv) The Ordinary Resolution 9 proposed in item 8 above, if passed, will authorise the Interested Person Transactions as described in Appendix II and recurring in the year and will empower the directors to do all acts necessary to give effect to the IPT Mandate. This authority will, unless previously revoked or varied by the Company at a general meeting, expire at the conclusion of the next annual general meeting of the Company.

(v) **IMPORTANT: Notwithstanding the passing of the Ordinary Resolution 9 proposed in item 8 above, the Company shall comply with the applicable requirements concerning connected transactions under Chapter 14A of the Hong Kong Listing Rules for all its connected transactions from time to time. For the avoidance of doubt, for transactions not covered by the IPT Mandate which constitute connected transactions for the Company under Chapter 14A of the Hong Kong Listing Rules, the Company shall also comply with all requirements applicable to such transactions under the Hong Kong Listing Rules.**

Notice of Annual General Meeting

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company.

2. A member who wishes to appoint a proxy should complete the attached Shareholder Proxy Form. Thereafter, the proxy form must be lodged at the office of the Company's branch share registrar, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong (for Hong Kong Shareholders), or the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 63 Cantonment Road, Singapore 089758 (for Singapore Shareholders), not less than forty-eight (48) hours before the time appointed for the meeting.

3. If the member is a corporation, the instrument appointing a proxy must be executed under seal or the hand of its duly authorised officer or attorney.

4. A depositor whose name appears in the Depository Register (as defined in Section 130A of the Companies Act) of the Company and who is unable to attend personally but wishes to appoint a nominee to attend and vote on his behalf, or if such depositor is a corporation, should complete the depositor proxy form under seal or the hand of its duly authorised officer or attorney and lodge the same at the office of the Company's Singapore Share Transfer Agent, B.A.C.S. Private Limited, at 63 Cantonment Road, Singapore 089758 not later than 48 hours before the time appointed for the meeting.

5. As at the date of this notice, the board of directors of the Company comprises the following members: (1) executive directors: Gao Yanxu, An Fengjun; (2) non-executive directors: Gao Sishi, Zhang Qi; and (3) independent non-executive directors: Kuik See Juan, Sim Wee Leong, Yu Chung Leung.