

KOND 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

Interim Report 2011



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Corporate Profile

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

- a) chilled and frozen rabbit meat;
- b) chilled and frozen chicken meat;
- c) processed foods 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
- d) other products which mainly include pet food, dehydrated vegetables, poultry, rabbit organs, fruits, dried chili, pig liver and seasoning.

China Kangda's chilled and frozen rabbit meat is mainly exported to European Union ("EU"). Besides selling products under its own brand names of "康大", "嘉府", "U味", and "KONDA", China Kangda also acts as an Original Equipment Manufacture ("OEM") manufacturer of a variety of processed foods including meatballs, seafood, chicken-based cooked products, chestnuts, instant soups and curry products for Japanese food corporations including Zensho, Asahimatsu, Keio Sangyo, Nissin and Kyohei Transport & Warehouse Co., Ltd, as well as various customers in Korea.

China Kangda currently distributes its wide range of products in 26 provinces and over 30 major cities in the PRC and exports to more than 20 countries and cities including Japan, South Korea, Hong Kong, the United Arab Emirates and certain countries in the EU.

China Kangda is one of the only 12 companies in the PRC to have authorization to supply rabbit meat to the EU and one of the largest PRC exporters of rabbit meat. China Kangda is further strengthening its foothold in this segment through aggressive expansion strategies.

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

Corporate Information

BOARD OF DIRECTORS

Executive:
Gao Yanxu (CEO)
An Fengjun

Non-executive:
Gao Sishi (Chairman)
Zhang Qi
Naoki Yamada

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

COMPANY SECRETARIES

Fong William (HKICPA)
Josephine Toh Lei Mui (ACIS)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Gao Yanxu
Fong William

LEGAL ADVISERS

as to Hong Kong law:
P. C. Woo & Co.
12th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

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

as to PRC law:
Hitrust & Co. Law Firm
2401-02, Gang Ao Building
No. 27, Shandong Road
Qingdao
PRC

AUDITOR

BDO Limited
Certified Public Accountants
25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

AUDIT PARTNER-IN-CHANGE

Tsui Ka Che, Norman
(since the financial year ended
31 December 2010)

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
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
Economic and Technology
Development Zone
Jiaonan City
Shandong Province
PRC

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

Room 4215, Office Tower
Convention Plaza,
No. 1 Harbour Road
Wanchai
Hong Kong

Management Discussion and Analysis

BUSINESS REVIEW

The business environment remains challenging. The continual increase in raw materials prices and keen competition has caused a decline in the Group's gross profit margin from 9.5% to 7.9%.

In spite of the above, the Group's profit after tax increased by 8.1% to RMB3.9 million for the six months ended 30 June 2011 ("HY2011") as a result of increase in sales. With regards to the impact of the earthquakes in Japan mentioned in the prior period announcement, the Board believes that the continuing impact on the Group's financial performance and position will be minimal because the Group has exercised careful risk management and has been sourcing food ingredients from PRC as an alternative.

The Group plans to expand its sales in the PRC market as it expects to see increasingly strong demand for healthier, safer and quality meat products. The Group will also continue to increase its production capacity and control its product quality through enhancement of its existing production facilities to meet the increase in market demand for its products.

To satisfy the Group's future working capital, measures are continuously implemented to tighten cost controls over various operating expenses and to increase the cash inflow generated from its operations. The Group is also actively negotiating with the banks to seek the renewal of the outstanding bank borrowings and as well as to negotiate for new banking facilities.

The Board remains positive that the Group's financial position is stable and it has sufficient cash resources to meet its present and future cash flow requirements.

OPERATING AND FINANCIAL REVIEW

Revenue by Products

	Six months ended 30 June		% Change Unaudited +/-
	2011 Unaudited RMB'000	2010 Unaudited RMB'000	
Processed food products	213,174	147,123	44.9
Chilled and frozen rabbit meat	109,378	98,172	11.4
Chilled and frozen chicken meat	154,636	115,274	34.1
Other products	93,534	82,628	13.2
Total	570,722	443,197	28.8

Processed Food Products

Revenue derived from processed food products increased significantly by 44.9% to approximately RMB213.2 million for HY2011 from approximately RMB147.1 million for the six months ended 30 June 2010 ("HY2010").

The Group had successfully launched various new product range under its own brand, such as instant soup, chicken-based cooked products and roasted rabbit food. Based on the Group's reputation and track record in the processed food products market, steady growth in revenue was achieved.

The significant increase in revenue was also attributable to the expansion of the Group's production capacity through the acquisition of Shandong Kaijia Food Company Limited ("Kaijia Food") and its subsidiary, Shandong Kaijia International Trade Co., Ltd. ("Kaijia Trade") (collectively referred as the "Kaijia Group") in the prior year.

The principal activities of Kaijia Group are production and sale of processed food products as well as chilled and frozen chicken meat products, which commenced from March 2010. The Group's revenue included six months' results of Kaijia Group for HY2011 and four month's result for HY2010.

Chilled and Frozen Meat Products

The rabbit and chicken meat segments contributed 46.3% to the Group's total revenue for HY2011 compared to 48.2% of HY2010. The revenue of the rabbit and chicken meat segments registered a 23.7% increase to RMB264.0 million in HY2010.

Revenue derived from the sale of rabbit meat increased by 11.4% to RMB109.4 million in HY2011. The increase was attributable to the increasing demand for the Group's rabbit meat products in the European Union ("EU") and PRC markets.

Management Discussion and Analysis

Revenue of the chicken meat segment contributed 27.1% to the Group's total revenue for HY2011. Revenue increased by 34.1% to RMB154.6 million in HY2011. The increase was due mainly to the recovering demand in the PRC market and the expansion of the production capacity of chilled and frozen chicken meat products through the acquisition of Kaijia Group, which has been discussed and explained under "Process food products" above.

Other Products

Revenue derived from the production and sale of other products increased by 13.2% to RMB93.5 million in HY2011, due mainly to the strong demand from both the PRC and Korea markets.

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

Revenue by Geographical Markets

	Six months ended 30 June		% Change Unaudited +/-
	2011 Unaudited RMB'000	2010 Unaudited RMB'000	
Export	233,658	189,926	23.0
PRC	337,064	253,271	33.1
Total	570,722	443,197	28.8

On a geographical basis, revenue from export sales increased by 23.0% to RMB233.7 million in HY2011. The increase in export sales was attributable mainly to the increase in the sale of processed food products as a result of the expansion of production capacity for HY2011.

PRC sales increase by 33.1% to RMB337.1 million in HY2011. The increase was mainly attributable to the increase in sale of chicken meat products to PRC market.

PROFITABILITY

Gross Profit ("GP") and Margin

	Six months ended 30 June 2011		Six months ended 30 June 2010		Change	% Change
	GP	Margin	GP	Margin		
	RMB'000 Unaudited	% Unaudited	RMB'000 Unaudited	% Unaudited	GP RMB'000 Unaudited	% Unaudited
Processed food	16,944	7.9	14,979	10.2	1,965	13.1
Rabbit meat	16,941	15.5	18,672	19.0	(1,731)	(9.3)
Chicken meat	4,380	2.8	7,581	6.6	(3,201)	(42.2)
Other products	6,785	7.3	705	0.9	6,080	862.4
Total	45,050	7.9	41,937	9.5	3,113	7.4

Gross profit margin declined from 9.5% to 7.9% in HY2011 which was due mainly to the increased raw materials prices of processed food products and the reduced price of chicken meat products in the PRC market.

Processed Food Products

Processed food products were the main profit contributor in HY2011. Gross profit increased by 13.1% to RMB16.9 million in HY2011. The decline in the gross profit margin to 7.9% from 10.2% was due mainly to the increasing cost in certain input materials.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat declined from 19.0% to 15.5% for HY2011 due to the increase of raw material prices. However, as the Group was able to control the cost of raw materials through its own supply of rabbit meat, the gross profit margin on a quarter to quarter basis from for the three months ended 31 March 2011 ("3M2011") to HY2011 improved from 13.9% to 15.5%.

Management Discussion and Analysis

Chilled and Frozen Chicken Meat

The decline in gross profit of chilled and frozen chicken meat segment was due mainly to the increase in raw material prices and keen competition. As a result of the oversupply of chicken meat products from smaller plants in the PRC, the bargaining power on discount of mass-purchase of raw materials had weakened and this in turn resulted in price fluctuations.

Other Products

Other products are mainly chicken and rabbit meat by-products and pet food products, which are not the core profit drivers of the Group. Due to the fluctuation in prices of chicken and rabbit meat by-product, gross profit margin decreased to 7.3% in HY2011 and increased from RMB0.7 million to RMB6.8 million.

Other Income

Other income comprised mainly government grants, gain on change in fair value of biological assets and interest income from bank deposits amounting to RMB10.9 million, RMB5.1 million and RMB1.0 million respectively. The rest were rental income and recovery of gas and electricity.

The increase in other income was due to the increase of government grants as a result of the increase in turnover. For HY2011, approximately RMB2.9 million of government grants were received from the Group's two new subsidiaries, Chongqing Kangda Juxin Rabbit Co., Ltd and Jilin Kangda Guarantee Co., Ltd.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly transportation costs, promotion costs and salary and welfare. The increase by 44.4% to approximately RMB14.2 million was primarily due to the increase in transportation and quality inspection costs as a result of higher sales volume for HY2011.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, travelling expenses and other miscellaneous administrative expenses. The slight increase of 2.5% was due mainly to higher cost of salaries and allowance expenses of the administrative staff.

Finance Costs

Finance costs increased by 65.8% to RMB13.1 million for HY2011 due mainly to the higher average bank borrowings level during the period.

Other Operating Expenses

Other operating expenses represented miscellaneous expenses relating to the disposal of damaged packaging materials, which had increased with the increase of sales during the period.

Taxation

Income tax credit comprised mainly the deferred tax asset which arose from the fair value adjustment on property, plant and equipment, intangible assets and land use rights upon business combination of Kaijia Group.

REVIEW OF THE GROUP'S FINANCIAL POSITION AS AT 30 JUNE 2011

The Group's property, plant and equipment were mainly leasehold buildings and plant and machinery. The increase by 2.9% to approximately RMB575.7 million as at 30 June 2011 was due mainly to an acquisition of equipment of approximately RMB37.3 million. This was offset by a depreciation charge of RMB20.8 million.

The reduction in prepaid premium for land leases and intangible assets for HY2011 amounted to approximately RMB1.6 million and RMB3.6 million respectively. This was due mainly to amortisation. The intangible assets refer to the export licences and hygiene registration certificates awarded by the relevant authorities in Japan and EU, where the registered products produced by the Group are allowed to be exported to these countries.

Goodwill arose from the acquisitions of subsidiaries in the past.

Biological assets refer to progeny rabbits and chickens held for sale and breeder rabbits and chickens held for breeding purpose. These biological assets were valued by the directors of the Group as at 30 June 2011 based on market-determined prices of rabbits/chickens of 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.

Inventories increased by approximately RMB35.6 million to approximately RMB172.7 million in anticipation of an increase in demand in the third quarter of 2011. The inventory turnover day for HY2011 was 53 days compared to 48 days for the year ended 31 December 2010 ("FY2010").

Trade receivables increased by approximately RMB9.8 million or 10.5% to approximately RMB103.0 million in HY2011. The increase was attributable to higher level of credit sales in line with the increase in revenue. The trade receivable turnover days decreased to 31 days in HY2011 compared with 39 days in FY2010 due to the stepping up of collection efforts.

Prepayments, other receivables and deposits increased by approximately RMB6.4 million and to approximately RMB58.2 million as at 30 June 2011 due mainly to the increase of deposits placed with the Group's suppliers for construction in progress which arose from the enhancement of the Group's production facilities scheduled for completion during the year.

Trade payables increased by approximately RMB61.7 million from approximately RMB73.2 million as at 31 December 2010 to approximately RMB134.9 million as at 30 June 2011 due to longer payment terms granted by some suppliers and the increase in purchase of raw materials to cater to the anticipated increase in demand in the third quarter of 2011.

Management Discussion and Analysis

Accrued liabilities and other payables represented payables for construction and facilities, salary and welfare payables, accrued expenses and deposit received. The decrease was due to the decrease of deposits placed by customers compared to 31 December 2010.

After taking into account the additional bank borrowing of approximately RMB304.9 million and the loan repayment of approximately RMB304.9 million during the period, the interest-bearing bank borrowings balance as at 30 June 2011 remained constant compared to 31 December 2010.

Amount due to a related company represented the cash advance received from Qingdao Kangda Foreign Trade Group Limited (“KD Group”) and the outstanding balance as a result of trading and other transactions. To provide for the Group’s additional working capital, KD Group had advanced approximately RMB100.0 million to the Group which is unsecured, interest-free and not repayable within next twelve months from 4 April 2011. This had been discussed and explained in the Group’s full year results announcement as at 31 December 2010.

Tax payables decreased from RMB2.1 million as at 31 December 2010 to RMB1.9 million as at 30 June 2011. This was due to income tax paid during the HY2011.

CAPITAL STRUCTURE

As at 30 June 2011, the Group had net assets of approximately RMB695.9 million (31 December 2010: RMB689.9 million), comprising non-current assets of approximately RMB825.0 million (31 December 2010: RMB801.8 million), and current assets approximately RMB559.0 million (31 December 2010: RMB433.1 million). The Group recorded a net current liability position of approximately RMB118.5 million (31 December 2010: net current asset position of RMB100.8 million) as at 30 June 2011, which primarily consist of cash and bank balances amounted to approximately RMB199.5 million (31 December 2010: RMB116.6 million). Moreover, inventories amounted to approximately RMB172.7 million (31 December 2010: RMB137.0 million) and trade receivables amounted to approximately RMB103.0 million (31 December 2010: RMB93.2 million) are also major current assets. Major current liabilities are trade payables and interest-bearing bank borrowings amounted to RMB134.9 million (31 December 2010: RMB73.2 million) and RMB384.9 million (31 December 2010: RMB384.9 million) respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the Group has cash and cash equivalent of approximately RMB199.5 million (31 December 2010: RMB116.6 million) and had total interest-bearing bank borrowings of approximately RMB384.9 million (31 December 2010: RMB384.9 million). The Group’s interest-bearing bank borrowings bear interests ranging from 5.56% to 7.57%.

The gearing ratio for the Group was 58.5% (31 December 2010: 58.9%) as at 30 June 2011, based on net debt of RMB384.9 million (31 December 2010: RMB384.9 million) and equity attributable to equity holders of RMB657.6 million (31 December 2010: RMB653.0 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 and support its working capital requirement and future expansion.

FOREIGN CURRENCY EXPOSURE

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

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

CAPITAL COMMITMENTS

As at 30 June 2011, the capital commitment of the Group which had been contracted for but not provided in the financial statements was in the total amount of approximately RMB1.8 million (31 December 2010: RMB11.6 million).

CHARGE ON ASSETS

During the period, bank loan of RMB180.0 million was borrowed and secured by the pledge of certain of the Group’s property, plant and equipment with a net carrying amount of RMB57.4 million and land use rights with a net carrying amount of RMB13.9 million.

Saved as disclosed above, the remaining bank loans were guaranteed by the inter-group companies.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group did not have any material contingent liabilities (31 December 2010: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2011, the Group employed a total of 4,060 employees (as at 30 June 2010: 4,056 employees) situated in the PRC. The Group’s emolument policy is formulated based on industry practices and performance of individual employees. During the period under review, the total staff costs (including directors’ emoluments) amounted to approximately RMB38.3 million (six months ended 30 June 2010: RMB38.9 million). The Company does not have share option scheme to employees.

Other Information

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2011, the interests and short positions of the directors and chief executives in the shares and underlying shares of the Company or any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register of members of the Company, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") (together, "Discloseable Interests") were as follows:

Name of Directors	Long positions in the shares the Company					Total	%
	Personal Interests	Family Interests	Corporate Interests	Other Interests			
Gao Sishi	166,740,000	-	-	-	-	166,740,000	38.5
Gao Yanxu	14,310,000	-	-	-	-	14,310,000	3.3
Zhang Qi	8,910,000	-	-	-	-	8,910,000	2.1
An Fengjun	-	-	-	-	-	-	-
Kuik See Juan	-	-	-	-	-	-	-
Sim Wee Leong	-	-	-	-	-	-	-
Yu Chung Leung	-	-	-	-	-	-	-
Naoki Yamada	-	-	-	-	-	-	-
	189,960,000	-	-	-	-	189,960,000	43.9

Save as disclosed above, as at 30 June 2011, none of the directors, chief executives of the Company nor their associates had or was deemed to have any interests or short position in the shares, or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), which have 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 Stock Exchange pursuant to the Model Code.

Other Information

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

In respect of the Company

As at 30 June 2011, 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:

Name of Shareholders	Capacity/nature of interests	Number of shares held	Approximate percentage of issued share capital (%)
Cheng Xiutai (Note 1)	Registered and beneficial owner	33,324,000	7.7
Proven Choice Group Limited (Note 2)	Registered and beneficial owner	27,980,000	6.5
Huang Quan (Note 2)	Deemed interests	27,980,000	6.5
Zensho Co. Ltd. (Note 3)	Register and beneficial owner	39,783,000	9.2

Notes:

1. Mr. Cheng Xiutai is an independent third party.
2. Proven Choice Group Limited was wholly-owned by Huang Quan who is not related to any of the directors or shareholders of the Company. As such, Huang Quan is deemed to be interested in the 27,980,000 shares held by Proven Choice Group Limited under Part XV of the SFO.
3. 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 30 June 2011, 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.

DIVIDENDS

The Board of the directors of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2011. No interim dividend was paid in respect of the six months ended 30 June 2010.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHT TO ACQUIRE SHARES OR DEBENTURES

During the period under review, there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or the chief executive of the Company or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or the chief executive of the Company to acquire such rights in any other body corporate.

PURCHASE, SALE, REDEMPTION OR CANCELLATION OF THE COMPANY'S LISTED SECURITIES OR REDEEMABLE SECURITIES

During the period, neither the Company nor any of its subsidiaries has purchased, redeemed, sold or cancelled any of the Company's listed securities or redeemable securities during the six months ended 30 June 2011.

Other Information

AUDIT COMMITTEE

The audit committee of the Company consists of the independent non-executive directors, namely Mr. Sim Wee Leong, Mr. Kuik See Juan and Mr. Yu Chung Leung and the non-executive director of the Company, Mr. Zhang Qi and Mr. Naoki Yamada. The audit committee has reviewed with management the accounting principles and standards adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the Company's unaudited financial statements for the six months ended 30 June 2011.

CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has adopted and complied with the code provisions of the Code on Corporate Governance Practices, as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code during the six months ended 30 June 2011.

APPRECIATION

I would like to thank the Board, management and all our staff for their hard work and dedication, as well as our shareholders and customers for their support to the Group.

On behalf of the Board
China Kangda Food Company Limited
Gao Sishi
Chairman

Hong Kong, 14 August 2011

As at the date of this report, the executive directors of the Company are Mr. Gao Yanxu (chief executive) and Mr. An Fengjun; the non-executive directors of the Company are Mr. Gao Sishi (non-executive chairman), Mr. Zhang Qi and Mr. Naoki Yamada; and the independent non-executive directors of the Company are Mr. Kuik See Juan, Mr. Sim Wee Leong and Mr. Yu Chung Leung.

Unaudited Consolidated Statement of Comprehensive Income Statement

For the six months ended 30 June 2011

	Notes	Six months ended 30 June	
		2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Revenue	5	570,722	443,197
Cost of sales		(525,672)	(401,260)
Gross profit		45,050	41,937
Other income	5	19,289	11,889
Selling and distribution expenses		(14,227)	(9,854)
Administrative expenses		(32,624)	(31,821)
Other operating expenses		(310)	(251)
Profit from operations	6	17,178	11,900
Finance costs	7	(13,094)	(7,899)
Share of loss of associates		(236)	–
Profit before taxation		3,848	4,001
Income tax credit/(expense)	8	92	(355)
Profit for the period		3,940	3,646
Other comprehensive income		–	–
Total comprehensive income for the period		3,940	3,646
Profit for the period attributable to:			
Owners of the Company		4,642	4,552
Non-controlling interests		(702)	(906)
		3,940	3,646
Total comprehensive income attributable to:			
Owners of the Company		4,642	4,552
Non-controlling interests		(702)	(906)
		3,940	3,646
Earnings per share attributable to owners of the Company	10		
Basic (RMB cents)		1.07	1.05
Diluted (RMB cents)		–	–

Unaudited Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		575,660	559,186
Prepaid premium for land leases		127,413	129,031
Intangible assets		5,038	8,592
Interest in associates		3,665	3,902
Biological assets		38,781	27,653
Goodwill		59,428	59,428
Deferred tax assets		15,033	13,971
		825,018	801,763
Current assets			
Biological assets		25,561	21,598
Inventories		172,667	137,039
Trade receivables	11	102,976	93,182
Prepayments, other receivables and deposits		58,249	51,804
Amount due from a related company		–	12,795
Cash and bank balances		199,505	116,643
		558,958	433,061
Current liabilities			
Trade payables	12	134,867	73,200
Accrued liabilities and other payables		49,396	72,839
Interest-bearing bank borrowings	13	384,900	384,902
Amount due to a related company		105,639	–
Deferred government grants		791	791
Tax payables		1,888	2,142
		677,481	533,874
Net current liabilities		(118,523)	(100,813)
Total assets less current liabilities		706,495	700,950

Unaudited Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Non-current liabilities			
Deferred government grants		10,620	11,015
Total non-current liabilities		10,620	11,015
Net assets		695,875	689,935
EQUITY			
Equity attributable to owners of the Company			
– Share capital		112,176	112,176
– Reserves		545,431	540,789
Non-controlling interests		657,607 38,268	652,965 36,970
Total equity		695,875	689,935

Unaudited Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Equity attributable to equity holders of the Company						Total	Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Capital redemption reserve	Other reserves	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (Audited)	112,176	257,073	(41,374)	2,374	41,818	280,898	652,965	36,970	689,935
Contribution from a non-controlling shareholder (Unaudited)	-	-	-	-	-	-	-	2,000	2,000
Transactions with owners (Unaudited)	-	-	-	-	-	-	-	2,000	2,000
Profit for the period (Unaudited)	-	-	-	-	-	4,642	4,642	(702)	3,940
Other comprehensive income (Unaudited)	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	4,642	4,642	(702)	3,940
At 30 June 2011 (Unaudited)	112,176	257,073	(41,374)	2,374	41,818	285,540	657,607	38,268	695,875
At 1 January 2010 (Audited)	112,176	257,073	(41,374)	2,374	38,782	280,551	649,582	14,989	664,571
Acquisition of a subsidiaries (Unaudited)	-	-	-	-	-	-	-	19,413	19,413
Incorporation of subsidiaries (Unaudited)	-	-	-	-	-	-	-	9,440	9,440
Transactions with owners (Unaudited)	-	-	-	-	-	-	-	28,853	28,853
Profit for the period (Unaudited)	-	-	-	-	-	4,552	4,552	(906)	3,646
Other comprehensive income (Unaudited)	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	4,552	4,552	(906)	3,646
At 30 June 2010 (Unaudited)	112,176	257,073	(41,374)	2,374	38,782	285,103	654,134	42,936	697,070

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Cash flows from operating activities		
Profit before taxation		
Adjustments for:	3,848	4,001
Interest income	(988)	(1,825)
Interest expenses	13,094	7,899
Depreciation of property, plant and equipment	20,842	11,889
Amortisation of prepaid premium for land leases	1,618	3,256
Amortisation of intangible assets	3,554	2,298
Gain arising from change in fair value less estimated point-of-sale costs of biological assets, net	(5,149)	(749)
Amortisation of deferred income on government grants	(396)	(330)
Loss on disposal of property, plant and equipment	453	186
Share of loss of associates	236	–
Operating profit before working capital changes	37,112	26,625
Increase in inventories	(35,628)	(50,813)
(Increase)/Decrease in trade receivables	(9,794)	3,093
(Increase)/Decrease in biological assets	(9,941)	885
Decrease in amount due to a related company	(6,445)	(33,311)
Decrease/(Increase) in prepayments, other receivables and deposits	18,435	(23,454)
Increase/(Decrease) in trade and bills payables	61,667	(3,852)
Decrease in accrued liabilities, other payables and deposits received	(23,443)	(15,047)
Cash generated/(used in) from operations	31,963	(95,874)
Interest paid	(13,094)	(7,899)
Income taxes paid	(1,224)	(3,957)
Net cash generated/(used in) from operating activities	17,645	(107,730)

Unaudited Consolidated Cash Flow Statement

For the six months ended 30 June 2011

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Cash flows from investing activities		
Purchases of property, plant and equipment	(37,826)	(24,377)
Acquisition of subsidiaries	–	(123,890)
Proceeds from disposal of property, plant and equipment	57	36
Interest received	988	1,825
<i>Net cash used in investing activities</i>	(36,781)	(146,406)
Cash flows from financing activities		
Repayment of bank loans	(304,902)	(186,039)
Addition of bank loans	304,900	240,000
Capital injection from the minority shareholders	2,000	9,440
Advance from a related Company	100,000	–
<i>Net cash generated from financing activities</i>	101,998	63,401
Net increase/(decrease) in cash and cash equivalents	82,862	(190,735)
Cash and cash equivalents at beginning of financial period	116,643	267,884
Cash and cash equivalents at end of financial period	199,505	77,149
Analysis of balances of cash and cash equivalents		
Cash and bank balances	199,505	77,149

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

1. CORPORATE INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 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 Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 October 2006 and 22 December 2008 respectively.

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

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

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

The accounting policies used in preparing the interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December 2010, except that, during the period, the Group has applied for the first time some revised standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB") of the IASB which are effective for the Group's financial statements for the annual period beginning on or after 1 January 2011. The adoption of 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.

3. BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the IASB. The interim financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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

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

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

4. SEGMENT INFORMATION

The Group is organised into four main business segments:

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

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

	Six months ended 30 June 2011				
	Processed food RMB'000 (unaudited)	Chilled and frozen rabbit meat RMB'000 (unaudited)	Chilled and frozen chicken meat RMB'000 (unaudited)	Other products RMB'000 (unaudited)	Total RMB'000 (unaudited)
Reportable segment revenue – revenue from external customers	213,174	109,378	154,636	93,534	570,722
Reportable segment profit	11,629	14,215	526	4,453	30,823

	Six months ended 30 June 2010				
	Processed food RMB'000 (unaudited)	Chilled and frozen rabbit meat RMB'000 (unaudited)	Chilled and frozen chicken meat RMB'000 (unaudited)	Other products RMB'000 (unaudited)	Total RMB'000 (unaudited)
Reportable segment revenue – revenue from external customers	147,123	98,172	115,274	82,628	443,197
Reportable segment profit	11,066	14,684	5,818	515	32,083

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

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Reportable segment profit	30,823	32,083
Other income	19,289	11,889
Administrative expenses	(32,860)	(31,821)
Other operating expenses	(310)	(251)
Finance costs	(13,094)	(7,899)
Profit before taxation	3,848	4,001

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

5. REVENUE AND OTHER INCOME

Revenue of the Group, which is also the turnover 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:

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Revenue		
Sale of goods	570,722	443,197
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	988	1,825
Rental income	–	134
Amortisation of deferred income on government grants	396	330
Government grants related to income	10,914	3,101
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net	5,149	749
Others	1,842	5,750
	19,289	11,889

6. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Cost of inventories recognised as an expense	525,672	401,260
Depreciation of property, plant and equipment	20,842	11,889
Amortisation of intangible assets	3,554	2,298
Amortisation of prepaid premium for land leases	1,618	3,256
Minimum lease payments under operating leases for production facilities	3,521	154
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets, net	(5,149)	(749)
Staff costs (including directors' remuneration)	38,270	38,863
Less: Retirement scheme contribution	(5,510)	(4,850)
	32,760	34,013
Loss on disposal of property, plant and equipment	453	186
Exchange loss	715	3,267

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

7. FINANCE COSTS

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Interest charges on: Bank loans wholly repayable within five years	13,094	7,899

8. INCOME TAX CREDIT/(EXPENSE)

	Six months ended 30 June	
	2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Current year provision		
– PRC corporate income tax	(970)	(355)
Deferred tax credit	1,062	–
Total income tax credit/(expense)	92	(355)

No Hong Kong profits tax has been provided for the six months ended 30 June 2011 as the Group did not derive any assessable profit in Hong Kong during the period (six months ended 30 June 2010: 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.

9. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2011 (six months ended 30 June 2010: Nil)

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB4,642,000 (six months ended 30 June 2010: RMB4,552,000) and on the weighted average of 432,948,000 (six months ended 30 June 2010: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2011 and 2010 has been presented as the Company has no potential dilutive ordinary shares during the period.

11. TRADE RECEIVABLES

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 based on invoice dates as at the reporting dates are as follows:

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 30 days	72,670	64,874
31 – 60 days	13,001	16,550
61 – 90 days	7,664	6,587
91 – 120 days	4,590	2,218
Over 120 days	5,051	2,953
	102,976	93,182

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.

12. TRADE PAYABLES

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

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 60 days	111,166	60,268
61 – 90 days	17,539	5,081
91 – 120 days	1,139	1,924
Over 120 days	5,023	5,927
	134,867	73,200

Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2011

13. INTEREST-BEARING BANK BORROWINGS

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Current		
Interest-bearing bank borrowings	<u>384,900</u>	<u>384,902</u>

As at 30 June 2011, approximately RMB180.0 million of the interest-bearing bank borrowings was secured by the pledge of certain of the Group's property, plant and equipment and land use rights.

The Group's interest-bearing bank borrowings bear interests ranging from 5.56% to 7.57% (six months ended 30 June 2010: 3.26% to 5.58%) per annum.