

# 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**

# 2012



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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 and etc.

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, the United Arab Emirates and certain countries in the EU.

China Kangda is one of the major companies in the PRC authorised to supply rabbit meat to the EU and one of the largest PRC exporters of rabbit meat. China Kangda is also the first PRC company to be granted the certification for breeding progeny rabbit in the PRC. China Kangda is continued to strengthen its foothold in this segment through aggressive expansion strategies.

For more information, please log on to [www.kangdafood.com](http://www.kangdafood.com)



## Corporate Information

### BOARD OF DIRECTORS

Executive (see note (i) below):

Gao Yanxu (CEO)

An Fengjun

Non-executive:

Gao Sishi (Chairman)

Zhang Qi

Naoki Yamada

Independent non-executive

(see note (ii) below):

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

Notes:

(i) The following changes as announced on 3 September 2012, were effected from 3 September 2012:

(1) Resignation of Mr. Gao Yanxu as the chief executive officer of the Company; and

(2) Appointment of Mr. Wang Baowang as the chief executive officer of the Company.

(ii) The following changes as announced on 27 August 2012, were effected from 25 August 2012:

(1) Resignation of Mr. Kuik See Juan as a lead independent non-executive director, the chairman of the nomination committee, a member of each of the audit committee and remuneration committee of the Company; and

(2) Appointment of Mr. He Dingding as a lead independent non-executive director, the chairman of the nomination committee, a member of each of the audit committee and remuneration committee of the Company.

### AUTHORISED REPRESENTATIVES

Gao Yanxu

Fong William

### SINGAPORE SHARE REGISTRAR

B.A.C.S. Private Limited

63 Cantonment Road

Singapore 089758

### HONG KONG SHARE REGISTRAR

Tricor Investor Services Limited

Level 26, Tesbury Centre,

28 Queen's Road East

Hong Kong

### AUDITOR

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

BDO LLP

Certified Public Accountants

21 Merchant Road

#05-01, Royal Merukh S.E.A.

Building

Singapore 058267

### REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

### WEBSITE OF THE COMPANY

[www.kangdafood.com](http://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

Faced with a subdued European sovereign debt crisis, the global economy has showed signs of a slowdown. The unfavourable climate created a challenging operating environment for the Group and hampered its export businesses in Europe. In addition, the factors including increased raw materials costs, the appreciation of the RMB and the intense price competition in the PRC market have impacted the Group's profitability. The Group's gross profit margin declined from 7.9% to 7.2% and the comprehensive income attributable to owners of the Company declined by 52.2% to RMB2.2 million for the six months ended 30 June 2012 ("HY2012").

In spite of the above, with the Group continuing increase in its production capacity and focusing on its products quality, turnover for the Group had improved significantly by 16.0% to RMB662.2 million in HY2012.

The Group has also continued to optimise its sales channels in the PRC domestic market and raise its brand profile through advertisements and launching diversified product mix in response to the market demand.

The PRC's economic performance was inevitably affected by external forces, but its economic conditions are stable as a whole. The rapid urbanisation in the PRC couple with its large population would provide the foundation for the PRC economy to remain relatively robust. Looking ahead, the Group will continue to increase its existing production capacity and control its products quality to increase its market penetration in the PRC market.

In addition to the abovementioned strategies, the Group will improve its inventory management and minimize stock level through organic growth of its businesses. The Group will continue to implement measures to tighten cost controls over various operating expenses to improve its profitability and to increase the cash inflow generated from its operations.

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. The Group is also actively negotiating with its banks to seek the renewal of outstanding bank borrowings as well as new banking facilities.

The Group is well-positioned to tackle the challenges imposed by the global economic environment and the Board believes that the commitment to healthier, safer and quality meat products will place it ahead of its fellow competitors.

### OPERATING AND FINANCIAL REVIEW

#### Revenue by Products

	Six months ended 30 June 2012 Unaudited RMB'000	Six months ended 30 June 2011 Unaudited RMB'000	% Change Unaudited + / (-)
Processed food products	316,958	213,174	48.7
Chilled and frozen rabbit meat	79,534	109,378	(27.3)
Chilled and frozen chicken meat	147,375	154,636	(4.7)
Other products	118,314	93,534	26.5
<b>Total</b>	<b>662,181</b>	<b>570,722</b>	<b>16.0</b>

#### Processed Food Products

Revenue derived from processed food products increased significantly by 48.7% to approximately RMB317.0 million for HY2012 from approximately RMB213.2 million for the six months ended 30 June 2011 ("HY2011").

The Group had successfully launched various new product ranges 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, a sterling growth in revenue was achieved with the expansion of its production capacity.

#### Chilled and Frozen Meat Products

The rabbit and chicken meat segments contributed 34.3% to the Group's total revenue for HY2012 compared to 46.3% of HY2011. The revenue of the rabbit and chicken meat segments registered a 14.1% decrease to RMB226.9 million for HY2012.

Given the economic uncertainty emanating from Europe, there was a decrease in demand for rabbit meat. Revenue derived from the sale of rabbit meat decreased by 27.3% to approximately RMB79.5 million in HY2012 and decreased by 31.0% to RMB45.0 million in 2Q2012.



## Management Discussion and Analysis

Revenue of the chicken meat segment contributed 22.3% to the Group's total revenue for HY2012. Revenue decreased by 4.7% to RMB147.4 million in HY2012. The decrease was due mainly to the keen competition of frozen chicken meat products in PRC market.

### Other Products

Revenue derived from the production and sale of other products increased by 26.5% to RMB118.3 million in HY2012, 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 2012 Unaudited RMB'000	Six months ended 30 June 2011 Unaudited RMB'000	% Change Unaudited + / (-)
Export	274,422	233,658	17.4
PRC	387,759	337,064	15.0
<b>Total</b>	<b>662,181</b>	<b>570,722</b>	<b>16.0</b>

On a geographical basis, revenue from export sales increased by 17.4% to RMB274.4 million in HY2012. The increase in export sales was attributable mainly to the increase in the sale of processed food products as a result of an expansion of production capacity in HY2012.

PRC sales increase by 15.0% to RMB387.8 million in HY2012. PRC sales achieved a remarkable growth as the Group continuously increasing its market share by optimizing its sales channels and stepping up its brand promotion.

## PROFITABILITY

### Gross Profit ("GP") and Margin

	Six months ended 30 June 2012		Six months ended 30 June 2011		Change	% Change
	GP	Margin	GP	Margin	GP	
	RMB'000 Unaudited	% Unaudited	RMB'000 Unaudited	% Unaudited	RMB'000 Unaudited	% Unaudited
Processed food	36,463	11.5	16,944	7.9	19,519	115.2
Rabbit meat	4,586	5.8	16,941	15.5	(12,355)	(72.9)
Chicken meat	3,201	2.2	4,380	2.8	(1,179)	(26.9)
Other products	3,481	2.9	6,785	7.3	(3,304)	(48.7)
<b>Total</b>	<b>47,731</b>	<b>7.2</b>	<b>45,050</b>	<b>7.9</b>	<b>3,278</b>	<b>7.3</b>

Gross profit margin declined from 7.9% to 7.2% in HY2012 which was due mainly to the increased raw materials prices, particularly the rise in corn price, increased labour costs which were paid in compliance with the revised requirements in minimum wages and social security regulations and the intense competition of chicken meat products in the PRC market.

### Processed Food Products

Processed food products were the main profit contributor in HY2012. Benefiting from the economy of scale as a result of the expansion of the Group's production capacity, gross profit increased by 115.2% to RMB36.5 million in HY2012.



## Management Discussion and Analysis

### *Chilled and Frozen Rabbit Meat*

The gross profit margin of chilled and frozen rabbit meat declined from 15.5% to 5.8% for HY2012 due to the decrease of selling price resulting from the decrease of rabbit meat demand in Europe market.

### *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 intense price competition. As a result of the oversupply of chicken meat products from smaller plants in the PRC, the bargaining power on discount for mass-purchase of raw materials had weakened and this in turn resulted in price fluctuations. The extent of increase in the cost of the chicken meat products was higher than the increase in selling price of the chicken meat products.

### *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-products, gross profit margin decreased to 2.9% in HY2012 and gross profit decreased from RMB6.8 million to RMB3.5 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 RMB13.7 million, RMB5.9 million and RMB0.9 million respectively. The rest was mainly minor income generated from sale of raw materials, mainly vegetables and food ingredients, to factories in Qingdao. The increase in other income was due to the increase of government grants provided by the Chinese government in support of the Group's operations and business in Shandong and Jilin Provinces.

### *Selling and Distribution Expenses*

Selling and distribution expenses comprised mainly transportation costs, promotion costs and salary and welfare. The increase in selling and distribution expenses by 15.1% to approximately RMB16.4 million was primarily due to the increase in quality inspection costs and marketing expenses in promotion to increase the Group's market share in the PRC.

### *Administrative Expenses*

Administrative expenses comprised mainly staff costs, professional fees, travelling expenses and other miscellaneous administrative expenses. The increase by 9.2% was due mainly to salaries and allowance expenses increment and an increase in number of administrative staff in HY2012.

### *Finance Costs*

Finance costs increased by 17.2% to RMB15.3 million for HY2012 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 expense comprised the accrued PRC corporate income tax during the period offsetting by the deferred tax credit arose from the fair value adjustment on property, plant and equipment, intangible assets and land use rights upon business combination of the Shandong Kaijia Food Company Limited and its subsidiary, Shandong Kaijia International Trade Co., Ltd. (collectively known as the "Kaijia Group").

## **REVIEW OF THE GROUP'S FINANCIAL POSITION AS AT 30 JUNE 2012**

The Group's property, plant and equipment were mainly leasehold buildings and plant and machinery. The slight increase by 0.9% to approximately RMB600.9 million as at 30 June 2012 was due mainly to an acquisition of equipment of approximately RMB27.3 million. This was offset by a depreciation charge of RMB21.7 million.

The reduction in prepaid premium for land leases and intangible assets for HY2012 amounting to approximately RMB1.3 million and approximately RMB1.5 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 European Union ("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 2012 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.



## Management Discussion and Analysis

Inventories increased by approximately RMB7.7 million to approximately RMB199.3 million in anticipation of an increase in demand in the third quarter of 2012. The inventory turnover day for HY2012 was 53 days compared to 49 days for the year ended 31 December 2011 ("FY2011"). The increase in the average inventory turnover day resulted from the decrease in rabbit meat demand in the Europe market.

Trade receivables increased by approximately RMB8.6 million or 8.4% to approximately RMB111.2 million in HY2012. The increase was attributable to higher level of credit sales in line with the increase in revenue. The trade receivable turnover days was 29 days in HY2012 compared with 26 days in FY2011.

Prepayments, other receivables and deposits increased slightly by approximately RMB3.2 million to approximately RMB57.1 million as at 30 June 2012.

Trade and bills payables increased by approximately RMB103.4 million from approximately RMB135.2 million as at 31 December 2011 to approximately RMB238.7 million as at 30 June 2012 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 2012.

Accrued liabilities and other payables represented payables for construction and facilities, salaries and welfare payables, accrued expenses and deposits received. The decrease was due to the decrease of deposits placed by customers compared to 31 December 2011.

The interest-bearing bank borrowings decreased by approximately RMB31.4 million to approximately RMB469.0 million after taking into account the additional bank borrowings of approximately RMB387.0 million and the loan repayment of approximately RMB418.4 million.

To provide for the Group's additional working capital, Qingdao Kangda Foreign Trade Group Limited ("KD Group") had advanced approximately RMB100.0 million in March 2011 to the Group which was unsecured and interest-free. Approximately RMB20.0 million had been repaid before 31 December 2011 and RMB80.0 million had been repaid to KD Group in January 2012. The outstanding balance of amount due from a related company was as a result of trading and other transactions.

Tax payables increased from RMB1.9 million as at 31 December 2011 to RMB4.5 million as at 30 June 2012. A tax refund amounting to RMB4.3 million had been received from the Inland Revenue Department of Hong Kong in relation to an excess tax charged for the period from 2005 to 2007. Given that this transaction may involve uncertainties in the ultimate tax determination, the Management will be seeking an opinion from a tax specialist, if necessary, to evaluate if there will be any potential tax liability in other jurisdiction.

### CAPITAL STRUCTURE

As at 30 June 2012, the Group had net assets of approximately RMB705.9 million (31 December 2011: RMB704.8 million), comprising non-current assets of approximately RMB838.7 million (31 December 2011: RMB834.7 million), and current assets approximately RMB650.5 million (31 December 2011: RMB694.5 million). The Group recorded a net current liability position of approximately RMB120.1 million as at 30 June 2012 (31 December 2011: RMB116.9 million), which primarily consist of cash and bank balances amounted to approximately RMB237.0 million (31 December 2011: RMB310.9 million). Moreover, inventories amounted to approximately RMB199.3 million (31 December 2011: RMB191.6 million) and trade receivables amounted to approximately RMB111.2 million (31 December 2011: RMB102.6 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB238.7 million (31 December 2011: RMB135.2 million) and RMB469.0 million (31 December 2011: RMB500.4 million) respectively.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, the Group has cash and cash equivalent of approximately RMB237.0 million (31 December 2011: RMB310.9 million) and had total interest-bearing bank borrowings of approximately RMB469.0 million (31 December 2011: RMB500.4 million). The Group's interest-bearing bank borrowings bear interests ranging from 6.56% to 8.20%.

The gearing ratio for the Group was 70.3% (31 December 2011: 75.2%) as at 30 June 2012, based on net debt of RMB469.0 million (31 December 2011: RMB500.4 million) and equity attributable to owners of RMB667.4 million (31 December 2011: RMB665.2 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, management monitors the Group's foreign exchange exposure and will consider hedging significant foreign currency exposure should it be necessary.





## Management Discussion and Analysis

### CAPITAL COMMITMENTS

As at 30 June 2012, 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 RMB13.1 million (31 December 2011: RMB12.0 million).

### CHARGE ON ASSETS

Total interest-bearing bank borrowings include secured liabilities of approximately RMB220.0 million (31 December 2011: RMB205.0 million).

As at 30 June 2012, the Group's interest-bearing bank borrowings are secured by the pledge of certain of the Group's property, plant and equipment land use rights and pledged deposits. Saved as disclosed above, the remaining bank loans were guaranteed by the inter-group companies.

### CONTINGENT LIABILITIES

As at 30 June 2012, the Group did not have any material contingent liabilities (31 December 2011: Nil).

### EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2012, the Group employed a total of 5,614 employees (as at 30 June 2011: 4,060 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 RMB74.8 million (six months ended 30 June 2011: RMB38.3 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 2012, 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	-	-	-	-	-	-	-
	<b>189,960,000</b>	-	-	-	-	<b>189,960,000</b>	<b>43.9</b>

Save as disclosed above, as at 30 June 2012, 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.

\* Mr. Kuik See Juan had resigned as independent non-executive director on 25 August 2012.



## 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 2012, 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	33,256,000	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	47,715,000	11.0

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 2012, 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 2012. No interim dividend was paid in respect of the six months ended 30 June 2011.

#### 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 OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2012.



## 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 directors of the Company, namely 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 2012.

### CODE ON CORPORATE GOVERNANCE PRACTICE

In the opinion of the Directors, the Company has generally adhered to the principles as set out in the Code of Corporate Governance under Appendix 14 of the Listing Rules and where applicable, relevant and practicable to the Company, for the six months ended 30 June 2012.

### 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 2012.

### 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, 10 August 2012

# Unaudited Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
<b>Revenue</b>	5	662,181	570,722
Cost of sales		(614,450)	(525,672)
<b>Gross profit</b>		47,731	45,050
Other income	5	22,636	19,289
Selling and distribution expenses		(16,378)	(14,227)
Administrative expenses		(35,627)	(32,624)
Other operating expenses		(1,154)	(310)
<b>Profit from operations</b>	6	17,208	17,178
Finance costs	7	(15,343)	(13,094)
Share of loss of associates		(140)	(236)
<b>Profit before taxation</b>		1,725	3,848
Income tax (expense)/credit	8	(648)	92
<b>Profit for the period</b>		1,077	3,940
Other comprehensive income		–	–
<b>Total comprehensive income for the period</b>		1,077	3,940
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		2,220	4,642
Non-controlling interests		(1,143)	(702)
		1,077	3,940
<b>Earnings per share attributable to owners of the Company</b>	10		
Basic (RMB cents)		0.51	1.07
Diluted (RMB cents)		–	–

# Unaudited Statements of Financial Position

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		600,903	595,347
Prepaid premium for land leases		124,531	125,849
Intangible assets		1,682	3,171
Interest in associates		3,319	3,459
Biological assets		34,033	32,935
Goodwill		59,428	59,428
Deferred tax assets		14,791	14,549
		838,687	834,738
<b>Current assets</b>			
Biological assets		39,288	31,384
Inventories		199,264	191,552
Trade receivables	11	111,222	102,592
Prepayments, other receivables and deposits		57,029	53,849
Amount due from a related company		5,145	–
Pledged deposits		1,504	4,171
Cash and bank balances		237,013	310,934
		650,465	694,482
<b>Current liabilities</b>			
Trade and bills payables	12	238,660	135,223
Accrued liabilities and other payables		57,512	86,408
Interest-bearing bank borrowings	13	469,000	500,430
Amount due to a related company		–	86,527
Deferred government grants		891	891
Tax payables		4,536	1,869
		770,599	811,348
Net current liabilities		(120,134)	(116,866)
<b>Total assets less current liabilities</b>		<b>718,553</b>	<b>717,872</b>
<b>Non-current liabilities</b>			
Deferred government grants		12,628	13,024
Total non-current liabilities		12,628	13,024
<b>Net assets</b>		<b>705,925</b>	<b>704,848</b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
– Share capital		112,176	112,176
– Reserves		555,249	553,029
<b>Non-controlling interests</b>		<b>667,425</b>	<b>39,643</b>
		38,500	
<b>Total equity</b>		<b>705,925</b>	<b>704,848</b>

# Unaudited Statements of Changes in Equity

For the six months ended 30 June 2012

	Equity attributable to equity holders of the Company							Non-controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Share premium RMB'000	Merger reserve RMB'000	Capital redemption reserve RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000		
At 1 January 2012 (Audited)	112,176	257,073	(41,374)	2,374	44,117	290,839	665,205	39,643	704,848
Profit/(loss) for the period (Unaudited)	-	-	-	-	-	2,220	2,220	(1,143)	1,077
Other comprehensive income (Unaudited)	-	-	-	-	-	-	-	-	-
Total comprehensive income for the period (Unaudited)	-	-	-	-	-	2,220	2,220	(1,143)	1,077
<b>At 30 June 2012 (Unaudited)</b>	<b>112,176</b>	<b>257,073</b>	<b>(41,374)</b>	<b>2,374</b>	<b>44,117</b>	<b>293,059</b>	<b>667,425</b>	<b>38,500</b>	<b>705,925</b>
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/(loss) 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
<b>At 30 June 2011 (Unaudited)</b>	<b>112,176</b>	<b>257,073</b>	<b>(41,374)</b>	<b>2,374</b>	<b>41,818</b>	<b>285,540</b>	<b>657,607</b>	<b>38,268</b>	<b>695,875</b>



## Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
<b>Cash flows from operating activities</b>		
<b>Profit before taxation</b>	1,725	3,848
<b>Adjustments for:</b>		
Interest income	(923)	(988)
Interest expenses	15,343	13,094
Depreciation of property, plant and equipment	21,739	20,842
Amortisation of prepaid premium for land leases	1,318	1,618
Amortisation of intangible assets	1,489	3,554
Gain arising from change in fair value less estimated point-of-sale costs of biological assets, net	(5,914)	(5,149)
Amortisation of deferred income on government grants	(396)	(396)
Loss on disposal of property, plant and equipment	–	453
Share of loss of associates	140	236
<b>Operating profit before working capital changes</b>	<b>34,521</b>	<b>37,112</b>
Increase in inventories	(7,712)	(35,628)
Increase in trade receivables	(8,630)	(9,794)
Increase in biological assets	(3,089)	(9,941)
Increase in prepayments, other receivables and deposits	(3,180)	(6,445)
(Decrease)/increase in balance with a related company	(11,672)	18,435
Increase in trade and bills payables	103,437	61,667
Decrease in accrued liabilities and other payables	(25,270)	(23,443)
<b>Cash generated from operations</b>	<b>78,400</b>	<b>31,963</b>
Interest paid	(15,343)	(13,094)
Income taxes paid	(1,844)	(1,224)
<b>Net cash generated from operating activities</b>	<b>61,213</b>	<b>17,645</b>





## Unaudited Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(27,294)	(37,826)
Increase in pledged deposits	2,667	–
Proceeds from disposal of property, plant and equipment	–	57
Interest received	923	988
<i>Net cash used in investing activities</i>	<i>(23,704)</i>	<i>(36,781)</i>
<b>Cash flows from financing activities</b>		
Addition of bank loans	387,000	304,900
Repayment of bank loans	(418,430)	(304,902)
Capital injection from the non-controlling shareholders	–	2,000
Advance from a related Company	–	100,000
Repayment to a related Company	(80,000)	–
<i>Net cash (used in)/generated from financing activities</i>	<i>(111,430)</i>	<i>101,998</i>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(73,921)</b>	<b>82,862</b>
Cash and cash equivalents at beginning of financial period	310,934	116,643
<b>Cash and cash equivalents at end of financial period</b>	<b>237,013</b>	<b>199,505</b>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	237,013	199,505



# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2012

## 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 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 2011, 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") and the International Financial Reporting Interpretation Committee ("IFRIC") of the IASB which are effective for the Group's financial statements for the annual period beginning on or after 1 January 2012. 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 IFRSs which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the IASB. The 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 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 2012

## 4. SEGMENT INFORMATION

The Group is organised into four main business segments:

- Production and sale of processed food
- Production and sale of chilled and frozen rabbit meat
- Production and sale of chilled and frozen chicken meat
- 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 2012				
	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	316,958	79,534	147,375	118,314	662,181
Reportable segment profit	23,951	3,013	2,102	2,287	31,353

	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

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

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Reportable segment profit	31,353	30,823
Other income	22,636	19,289
Administrative expenses	(35,627)	(32,860)
Other operating expenses	(1,154)	(310)
Finance costs	(15,343)	(13,094)
Share of loss of associates	(140)	–
Profit before taxation	1,725	3,848

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2012

## 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	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
<b>Revenue</b>		
Sale of goods	662,181	570,722
<b>Other income</b>		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	923	988
Amortisation of deferred income on government grants	396	396
Government grants related to income	13,665	10,914
Gains arising from changes in fair value less estimated point-of-sale costs of biological assets, net	5,914	5,149
Others	1,738	1,842
	<b>22,636</b>	<b>19,289</b>

## 6. PROFIT FROM OPERATIONS

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

	Six months ended 30 June	
	2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
Cost of inventories recognised as an expense	614,450	525,672
Depreciation of property, plant and equipment	21,739	20,842
Amortisation of intangible assets	1,489	3,554
Amortisation of prepaid premium for land leases	1,318	1,618
Minimum lease payments under operating leases for production facilities	6,115	3,521
Gain arising from changes in fair value less estimated point-of-sale costs of biological assets, net	(5,914)	(5,149)
Staff costs (including directors' remuneration)	74,821	38,270
Less: Retirement scheme contribution	(10,009)	(5,510)
	<b>64,812</b>	<b>32,760</b>
Loss on disposal of property, plant and equipment	–	453
Exchange loss, net	395	715



## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2012

### 7. FINANCE COSTS

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest charges on: Bank loans wholly repayable within five years	15,343	13,094

### 8. INCOME TAX (EXPENSE)/CREDIT

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current period provision		
– PRC corporate income tax	(890)	(970)
Deferred tax credit	242	1,062
Total income tax (expense)/credit	(648)	92

No Hong Kong profits tax has been provided for the six months ended 30 June 2012 as the Group did not derive any assessable profit in Hong Kong during the period (six months ended 30 June 2011: 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 2012 (six months ended 30 June 2011: Nil)



## Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2012

### 10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB2,220,000 (six months ended 30 June 2011: RMB4,642,000) and on the weighted average of 432,948,000 (six months ended 30 June 2011: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2012 and 2011 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 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 30 days	73,700	71,086
31 – 60 days	13,070	17,025
61 – 90 days	9,352	3,460
91 – 120 days	5,047	1,062
Over 120 days	10,053	9,959
	111,222	102,592

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

### 12. TRADE AND BILLS PAYABLES

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

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 60 days	156,504	96,612
61 – 90 days	49,831	20,297
91 – 120 days	15,653	4,822
Over 120 days	16,672	13,492
	238,660	135,223

# Notes to the Unaudited Consolidated Financial Statements

For the six months ended 30 June 2012

## 13. INTEREST-BEARING BANK BORROWINGS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
<b>Current</b>		
Interest-bearing bank borrowings	469,000	500,430

As at 30 June 2012, approximately RMB220.0 million of the interest-bearing bank borrowings were 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 6.56% to 8.20% (six months ended 30 June 2011: 5.56% to 7.57%) per annum.

## 14. 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:

		Six months ended 30 June	
		2012 RMB'000 (Unaudited)	2011 RMB'000 (Unaudited)
	Notes		
Sales to related companies	(i)	249	289
Sales to substantial shareholder	(ii)	38,915	–
Rental expenses paid to related companies	(iii)	120	160
Guarantees given by the related companies in connection with bank loans granted to the Group	(iv)	80,000	100,000
<b>(b) Key management personnel compensation</b>			
Short term employee benefits of directors and other members of key management		1,710	1,170

Notes:

- (i) Sales to related companies were made to a related company of which Mr. Gao Sishi, Mr. Gao Yanxu, Mr. An Fengjun and Mr. Zhang Qi 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) The Group entered into an agreement with its substantial shareholder dated 26 March 2012 (the "Food Supply Framework Agreement") whereby the Group sold the food products, including packaging products, meat products, soups, vegetables and other food products produced by the Group, to its substantial shareholder. These sales were made in the ordinary course of business with reference to the terms negotiated between the Group and this substantial shareholder.
- (iii) Rental expenses paid 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 agreements.
- (iv) The Group's bank loans were guaranteed by the related companies of which Mr. Gao Sishi and Mr. Gao Yanxu were also shareholders and directors.