KONDE 康大

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

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code (Primary Listing): 834)
(Singapore Stock Code (Secondary Listing): P74)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the "**Board**") of directors (the "**Directors**") of China Kangda Food Company Limited (the "**Company**") is pleased to announce its audited consolidated results of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2019 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*5*	**1,410,535**	1,403,673
Cost of sales		**(1,303,976)**	(1,282,316)
Gross profit		**106,559**	121,357
Other income and other gains	*5*	**55,066**	36,826
Selling and distribution costs		**(40,699)**	(34,608)
Administrative expenses		**(67,126)**	(58,106)
Other operating expenses		**(18,962)**	(32,713)
Profit from operations	*6*	**34,838**	32,756
Finance costs	*7*	**(24,889)**	(25,189)
Share of loss of an associate		**(484)**	(514)

	Notes	2019 *RMB'000*	2018 *RMB'000*
Profit before taxation		**9,465**	7,053
Income tax expense	*8*	**(4,123)**	(1,340)
Profit for the year		**5,342**	5,713
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences in translating foreign Operations		**217**	(421)
Other comprehensive income for the year		**217**	(421)
Total comprehensive income for the year		**5,559**	5,292
Profit for the year attributable to:			
Owners of the Company		**4,366**	5,642
Non-controlling interests		**976**	71
		5,342	5,713
Total comprehensive income for the year attributable to:			
Owners of the Company		**4,583**	5,221
Non-controlling interests		**976**	71
		5,559	5,292
Earnings per share for profit attributable to the owners of the Company during the year	*10*		
Basic *(RMB cents)*		**1.01**	1.30
Diluted *(RMB cents)*		**1.01**	1.30

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Notes	**2019** **RMB'000**	2018 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**687,126**	677,602
Prepaid premium for land leases		**–**	101,324
Interests in associates		**1,742**	2,226
Goodwill		**56,355**	56,778
Biological assets		**39,497**	23,339
Right-of-use assets		**150,949**	–
Deferred tax assets		**866**	1,188
Deposits for property, plant and equipment		**14,640**	5,119
Total non-current assets		**951,175**	867,576
Current assets			
Biological assets		**34,756**	28,679
Inventories		**134,856**	124,857
Trade and bills receivables	*11*	**114,597**	122,707
Prepayments, other receivables and deposits		**45,790**	32,126
Pledged deposits		**55,880**	311,100
Cash and cash equivalents		**159,467**	276,867
Total current assets		**545,346**	896,336
Current liabilities			
Trade and bills payables	*12*	**205,545**	507,156
Accrued liabilities and other payables		**132,407**	112,702
Contract liabilities		**13,564**	7,988
Interest-bearing bank borrowings		**334,000**	384,000
Amount due to a related party		**10,701**	19,001
Loan from immediate holding company		**26,848**	–
Deferred government grants		**3,249**	3,339
Other borrowings		**22,145**	38,887
Lease liabilities		**8,347**	–
Tax payables		**2,489**	1,511
Total current liabilities		**759,295**	1,074,584
Net current liabilities		**(213,949)**	(178,248)
Total assets less current liabilities		**737,226**	689,328

	Notes	**2019**	2018
		RMB'000	*RMB'000*
Non-current liabilities			
Deferred government grants		**15,210**	18,619
Other borrowings		**–**	264
Lease liabilities		**46,891**	–
Deferred tax liabilities		**4,453**	5,332
Total non-current liabilities		**66,554**	24,215
Net assets		**670,672**	665,113
EQUITY			
Equity attributable to the Company's owners			
Share capital		**112,176**	112,176
Reserves		**531,478**	526,895
		643,654	639,071
Non-controlling interests		**27,018**	26,042
Total equity		**670,672**	665,113

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2019

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 Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 8399, Binhai Boulevard, Huangdao District, Qingdao, the People's Republic of China. The Company's shares are primary listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the listing status in the Main Board of the Singapore Exchange Securities Trading Limited was changed from primary listing to secondary listing with effect from 23 January 2017.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries (together with the Company referred as the "Group") are production and trading of food products, breeding and sale of livestock, poultry and rabbits.

In the opinion of the directors, the immediate holding company of the Company is Zenith Hope Limited, incorporated in British Virgin Islands and the ultimate holding company of the Company is Eternal Myriad Limited, incorporated in British Virgin Islands.

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

2. APPLICATIONS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

(a) Adoption of new/revised IFRSs – first effective on 1 January 2019

In the current year, the Group has applied for the first time the following new and revised standards issued by the International Accounting Standards Board ("IASB"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2019:

IFRS 16	Leases
IFRIC – Interpretation 23	Uncertainty over Income Tax Treatments
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 23, Borrowing Costs
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IAS 12, Income Taxes
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, Business combinations
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 11, Joint arrangements
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 9	Prepayment Features with Negative Compensation

IFRS 16 – Leases

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"), IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases-Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following table summarised the impact of transition to IFRS 16 on consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

Consolidated statement of financial position as at 1 January 2019

	RMB'000
Increase in right-of-use assets	143,161
Decrease in prepaid premium for land leases	(101,324)
Decrease in prepayments, other receivables and deposits	(5,358)
Increase in lease liabilities (non-current)	34,524
Increase in lease liabilities (current)	1,955

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	RMB'000
Operating lease commitment as of 31 December 2018	47,383
Less: future interest expenses	(10,904)
Total lease liabilities as of 1 January 2019	36,479

The weighted average leasee's incremental borrowing rates applied to lease liabilities recognised in the consolidated statement of financial position as at 1 January 2019 is 5.86% per annum.

(ii) New definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee applies the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term. The Group has elected not to recognise right-of-use assets and lease liabilities for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised right-of-use assets and lease liabilities at the date of adoption of IFRS 16, i.e. 1 January 2019.

Right-of-use assets

The right-of-use assets should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liabilities (see below for the accounting policy to account for lease liabilities); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use assets at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities.

Lease liabilities

The lease liabilities should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liabilities by: (i) increasing the carrying amount to reflect interest on the lease liabilities; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019.

The Group has elected to recognise all the right-of-use assets at 1 January 2019 for leases previously classified operating leases and prepaid premium for land leases under IAS 17 at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position immediately before the date of initial application. For all these right-of-use assets, the Group has applied IAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) exclude the initial direct costs from the measurement of the right-of-use assets at 1 January 2019; and (iii) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease; and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

(b) New/revised IFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, the following new/revised IFRSs, potentially relevant to the Group's financial statements, have been issued but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to IAS 1 and IAS 8	Definition of Material[1]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current[2]
Amendments to IFRS 3	Definition of a Business[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

[1] *Effective for annual periods beginning on or after 1 January 2020*

[2] *Effective for annual period beginning on or after 1 January 2022*

[3] *The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments of the amendments continue to be permitted.*

The directors of the Company have performed an assessment on other new standards and amendments, and have concluded on a preliminary basis that other new standards and amendments would not have a significant impact on the Group's consolidated financial statements in subsequent years.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual International Financial Reporting Standards and Interpretations approved by the IASB, and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted 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.

(b) Basis of measurement and going concern assumption

The financial statements have been prepared under the historical cost basis except for biological assets which are stated at fair values less cost to sell and financial assets at fair value through other comprehensive income which are stated at fair values as explained in the accounting policies set out in the financial statements.

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.

In preparing the financial statements, the Directors considered the operations of the Group can continue as a going concern notwithstanding that:

1. as at the year ended 31 December 2019, the Group's current liabilities exceeded its current assets by approximately RMB213.9 million;

2. amongst the total bank borrowings and other borrowings, and loan from ultimate holding company of approximately RMB383.0 million as at 31 December 2019 are due for repayment within one year from 31 December 2019, which the Group maintained its cash and cash equivalents of RMB159.5 million only; and

3. the Group's net operating cash outflows amounted to RMB237.9 million (2018: net operating cash inflows of RMB374.5 million) for the year ended 31 December 2019.

These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the financial statements were prepared on a going concern basis as the Directors are of the view that the Group will have sufficient working capital to finance its operations and meet its financial obligations in the next twelve months from 31 December 2019, after taking into consideration of the following:

1. The Group continues to expand its production volume by improving the utilisation rate of its facilities and implement measures to tighten cost controls over various operating expenses in order to improve its profitability and cash inflow from its operations in the future;

2. The Group is actively negotiating with the banks to seek for renewal of the outstanding bank borrowings. Subsequent to the end of the reporting period, the Group also obtained written confirmation from several Group's major bankers, which confirmed to renew certain bank borrowings, in aggregate of up to RMB334 million, to the Group for another year upon the maturity of the bank borrowings. All these bank borrowings will mature in 2020;

3. Subsequent to year end date, the immediate holding company confirmed to renew the loan to the Group of RMB26.8 million for another year upon maturity in 2020 and provided an additional loan to the Group of RMB8.9 million for a period of one year from February 2020; and

4. The Group is actively exploring the availability of alternative source of financing.

The Directors believe that the aforementioned financing/business plans and operational measures will be successful, based on the continuous efforts and commitment given by the management.

Having regard to the cash flow projection of the Group, which are prepared assuming that these measures are successful, the Directors are of the opinion that, in the light of the measures taken to-date, together with the expected results of the other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the financial statements to write down the values of the assets to their net realisable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of such adjustments has not yet been reflected in the financial statements.

(c) Functional and presentation currency

The financial statements are presented in RMB which is the same as the functional currency of the Company and its subsidiaries in the PRC.

4. SEGMENT INFORMATION

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

	2019				
	Processed foods	**Chilled and frozen rabbit meat**	**Chilled and frozen chicken meat**	**Other products**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Revenue from external customers	**760,874**	**157,599**	**335,528**	**156,534**	**1,410,535**
Reportable segment revenue	**760,874**	**157,599**	**335,528**	**156,534**	**1,410,535**
Reportable segment profit	**24,331**	**6,023**	**10,078**	**9,114**	**49,546**
Depreciation of property, plant and equipment	**29,503**	**6,111**	**13,010**	**6,068**	**54,692**
Depreciation of right-of-use assets	**8,842**	**1,832**	**3,899**	**1,819**	**16,392**
Loss on disposal of property, plant and equipment	**7,964**	**1,655**	**3,523**	**1,667**	**14,809**
Provision for trade and bills receivables	**812**	**168**	**358**	**167**	**1,505**
Timing of revenue recognition					
At a point in time	**760,874**	**157,599**	**335,528**	**156,534**	**1,410,535**

	2018				
	Processed Foods	Chilled and frozen rabbit meat	Chilled and frozen chicken meat	Other products	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from external customers	807,165	109,559	318,053	168,896	1,403,673
Reportable segment revenue	807,165	109,559	318,053	168,896	1,403,673
Reportable segment profit/(loss)	65,249	(999)	(5,723)	13,316	71,843
Depreciation of property, plant and equipment	33,364	4,529	13,147	6,980	58,020
Amortisation of prepaid premium for land leases	2,415	328	951	505	4,199
Loss on disposal of property, plant and equipment	8,359	1,135	3,294	1,748	14,536
Provision for trade and bills receivables	213	29	84	44	370
Timing of revenue recognition					
At a point in time	807,165	109,559	318,053	168,896	1,403,673

Reportable segment revenue represented revenue of the Group in the consolidated statement of comprehensive income. A reconciliation between the reportable segment profit and the Group's profit before taxation is set out below:

	2019	2018
	RMB'000	*RMB'000*
Reportable segment profit	**49,546**	71,843
Other income and other gains	**55,066**	36,826
Administrative expenses	**(67,126)**	(58,106)
Other operating expenses	**(2,648)**	(17,807)
Finance costs	**(24,889)**	(25,189)
Share of loss of an associate	**(484)**	(514)
Profit before taxation	**9,465**	7,053

A reconciliation between the reportable segment depreciation of property, plant and equipment and loss on disposal of property, plant and equipment and the Group's depreciation of property, plant and equipment and loss on disposal of property, plant and equipment, respectively is set out below:

	2019	2018
	RMB'000	*RMB'000*
Reportable depreciation of property, plant and equipment	**54,692**	58,020
Depreciation of property, plant and equipment under administrative expenses	**5,578**	7,825
Consolidated depreciation of property, plant and equipment	**60,270**	65,845
Reportable loss on disposal of property, plant and equipment	**14,809**	14,536
Under other operating expenses	**1,269**	13,412
Consolidated loss on disposal of property, plant and equipment	**16,078**	27,948

The following table set out information about the disaggregated revenue and geographical location of the Group's revenue from external customers. The geographical location of customers is determined based on the location at which the goods were delivered.

	2019	2018
	RMB'000	*RMB'000*
Local (Country of domicile)		
PRC	**803,528**	745,816
Export (Foreign countries)		
Japan	**215,833**	305,131
Europe#	**363,910**	331,449
Others	**27,264**	21,277
	1,410,535	1,403,673

Principally include Germany, France, Spain and Russia

Information about a major customer

For the year ended 31 December 2019, revenue from one customer of the Group's chilled and frozen chicken meat and processed foods segments amounted to RMB182.4 million (2018: RMB196.4 million), which represents 10% or more (2018: 10% or more) of the Group's revenues.

5. REVENUE AND OTHER INCOME AND OTHER GAINS

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

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Sale of goods	**1,410,535**	1,403,673

The following table provides information about trade and bills receivables and contract liabilities from contracts with customers.

	2019	2018
	RMB'000	*RMB'000*
Trade and bills receivables *(note 11)*	**114,597**	122,707
Contract liabilities	**13,564**	7,988

The contract liabilities mainly related to the advance consideration received from customers which has been recognised as revenue for the year ended 31 December 2019.

As at 31 December 2019, the advance consideration received from customers of RMB13,564,000 represents unfulfilled performance obligations under the Group's existing contracts. This amount represents revenue expected to be recognised in the future. The Group will recognise the expected revenue in future when performance obligations is completed, which is expected to occur within one year.

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

	2019	2018
	RMB'000	*RMB'000*
Other income and other gains		
Interest income on financial assets stated at amortised cost	**4,651**	2,828
Amortisation of deferred income on government grants	**3,339**	3,421
Government grants related to income*	**490**	3,251
Gains arising from changes in fair value less estimated costs to sell of biological assets, net	**34,911**	10,528
Gain on disposal of subsidiaries	**3,016**	5,167
Insurance claims	**1,486**	6,916
Others	**7,173**	4,715
	55,066	36,826

* *Various government grants have been received mainly from Qingdao City Huangdao District National Economic Centre（青島市黃島區國庫集中支付中心）and Nong An Animal Husbandry Bureau（農安縣畜牧業管理局）(2018: Qingdao City Huangdao District National Economic Centre（青島市黃島區國庫集中支付中心）, Gaomi City Financial Institution（高密市財政局）, Nong An Animal Husbandry Bureau（農安縣畜牧業管理局）and Qingdao City Huangdao District Municipal Industry and Information Technology Bureau（青島市黃島區工業和信息化局）) for the Group's business conducted in those areas. There are no unfulfilled conditions or contingencies related to these grants.*

6. PROFIT FROM OPERATIONS

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

	2019	2018
	RMB'000	*RMB'000*
Cost of inventories recognised as an expense	**1,072,480**	1,055,997
Depreciation of property, plant and equipment*	**60,270**	65,845
Depreciation of right-of-use asset*	**16,392**	–
Amortisation of prepaid premium for land leases*	**–**	4,199
Provision for trade and bills receivables^	**1,505**	370
(Reversal of provision)/Provision for other receivables^	**(449)**	2,440
Write-off of inventories	**842**	–
Minimum lease payments under operating leases for production facilities under IAS 17	**–**	11,178
Audit fee paid to auditors:		
Auditors of the Company	**1,657**	1,652
Other auditors	**233**	217
Non-audit fee paid to auditors	**383**	–
Employees costs (including Directors' remuneration)	**189,721**	192,545
Retirement scheme contribution	**12,692**	11,602
Total employees costs#	**202,413**	204,147
Loss on disposal of property, plant and equipment^	**16,078**	27,948
Exchange loss/(gain), net	**802**	(4,069)

* *Depreciation of approximately RMB71,034,000 (2018: RMB57,997,000), approximately RMB50,000 (2018: RMB23,000) and approximately RMB5,578,000 (2018: RMB7,825,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2019. Amortisation of prepaid premium for land leases has had been charged to cost of sales for the year ended 31 December 2018.*

Total employees costs of approximately RMB160,462,000 (2018: RMB164,123,000), approximately RMB13,054,000 (2018 RMB11,627,000) and approximately RMB28,897,000 (2018: RMB28,397,000) has been charged to cost of sales, selling and distribution costs and administrative expenses, respectively, for the year ended 31 December 2019.

^ *Provision for trade, bills and other receivables, reversal of provision for other receivables and loss on disposal of property, plant and equipment were included in other operating expenses for the years ended 31 December 2018 and 2019.*

7. FINANCE COSTS

	2019	2018
	RMB'000	*RMB'000*
Interest charges on bank borrowings	**22,428**	25,120
Interest charges on other borrowings	**–**	503
Interest on lease liabilities	**3,408**	–
Less: Amount capitalised	**(947)**	(434)
	24,889	25,189

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.85% (2018: 5.23%) to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2019	2018
	RMB'000	*RMB'000*
PRC corporate income tax		
Current year provision	**4,934**	3,978
Under-provision in prior years	**(249)**	(2,123)
	4,685	1,855
Deferred tax credit	**(562)**	(515)
Total income tax expense	**4,123**	1,340

No Hong Kong profits tax has been provided for the year ended 31 December 2019 as the Group did not derive any assessable profit arising in Hong Kong during the year (2018: Nil).

PRC corporate income tax is provided at the rates applicable to the subsidiaries in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretations thereof.

Qingdao Kangda Foods Co., Ltd. ("Kangda Foods") and Shandong Kaijia Food Company Limited ("Kaijia Food") are established and operating in the PRC and subject to PRC corporate income tax. According to the New PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods and Kaijia Food are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for the years ended 31 December 2019 and 2018.

Under the New PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full exemption of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Ltd., Qingdao Kangda Rabbit Company Ltd., Gaomi Kaijia Rearing Co., Ltd. and Qingdao Kangda Modern Agricultural Technology Development Company Limited ("Modern Agricultural") engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax during the years ended 31 December 2019 and 2018.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the year (2018: Nil).

9. DIVIDENDS

The board of Directors did not recommend any payment of dividends during the year (2018: Nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to owners of the Company of approximately RMB4,366,000 (2018: RMB5,642,000) and on the 432,948,000 (2018: 432,948,000) ordinary shares in issue during the year.

For the years ended 31 December 2019 and 2018, the Company did not have any potential ordinary shares. Accordingly, diluted earnings per share are the same as basic earnings per share.

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade and bill receivables	**105,938**	102,162
Bills receivables	**11,600**	22,550
Less: provision for impairment	**(2,941)**	(2,005)
Trade and bills receivables – net	**114,597**	122,707

Trade and bills receivables are non-interest bearing and are generally on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values at initial recognition.

The ageing analysis of trade and bills receivables based on invoice dates as at the reporting date is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**83,874**	90,567
31 – 60 days	**19,777**	27,962
61 – 90 days	**236**	2,625
91 – 120 days	**10,710**	566
Over 120 days	**–**	987
	114,597	122,707

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.

The maximum exposure to credit risk for trade and bills receivables at the reporting date by geographic region is:

	2019	2018
	RMB'000	*RMB'000*
PRC	**57,724**	59,643
Japan	**6,800**	5,058
Europe	**44,798**	57,854
Others	**5,275**	152
	114,597	122,707

12. TRADE AND BILLS PAYABLES

Trade payables are non-interest bearing and are normally settled on terms of 60 days. Bills payables refer to payables due to third party supplies which were guaranteed by bank for settlement in accordance to banking facilities and are non-interest bearing, secured by the pledged deposits and are normally settled on terms of 180 days.

	2019	2018
	RMB'000	*RMB'000*
Trade payables	**167,435**	161,156
Bills payables	**38,110**	346,000
	205,545	507,156

The ageing analysis of trade and bills payables based on invoice dates as at the reporting date is as follows:–

	2019	2018
	RMB'000	*RMB'000*
Within 60 days	**119,347**	251,033
61 – 90 days	**33,120**	77,341
91 – 120 days	**17,778**	54,730
Over 120 days	**35,300**	124,052
	205,545	507,156

13. EVENT AFTER THE REPORTING DATE

Since the outbreak of Coronavirus Disease 2019 ("**COVID-19**") in January 2020, it has certain impacts on of the Group's business operation and overall global economy. According to the preliminary assessment, it is expected that the financial performance in the first quarter of 2020 will be affected to some extent. Subject to the development and spread of COVID-19 subsequent to the date of the financial statements, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group, the extent of which could not be estimated as at the date of these financial statements. It is not practicable to estimate the full financial effect of the COVID-19 may have on the Group's business as at the date when this final results announcement is authorised to issue.

MANAGEMENT DISCUSSION AND ANALYSIS BUSINESS REVIEW

BUSINESS REVIEW

During the fiscal year 2019 ("**FY2019**"), the Group recorded a profit attributable to owners of the Company amounted to approximately RMB4.4 million as compared to approximately RMB5.6 million recorded in the fiscal year 2018 ("**FY2018**").

The Group continued to adopt its stable operation strategy. The sales turnover increased by 0.5% from approximately RMB1,403.7 million to approximately RMB1,410.5 million for FY2019. The Group's gross profit decreased by 12.2% to RMB106.6 million for FY2019. Gross profit margin decreased from 8.6% for FY2018 to 7.6% for FY2019. Affected by African Swine Flu ("**ASF**"), the pork price soared during the year. Consequently, selling price of chicken and rabbit meat increased as a result of change of meat consumption behavior. However, the negative impact of shortage of raw material, increase of logistics costs outweighed the increase of selling price, the gross margin and gross profit of the Group declined in FY2019 as compared to FY2018.

Revenue derived from the production and sales of processed food, chilled and frozen chicken meat and chilled and frozen rabbit meat contributed 53.9%, 23.8% and 11.2% of the revenue for FY2019 (FY2018: 57.5%, 22.7% and 7.8%), respectively. Revenue structure of the Group remains relatively stable. As rabbit meat is our competitive business segment, the Group has established the whole industrial chain of rabbit meat from breeding, slaughtering to processing and will continue to enhance its contribution.

PROSPECT

Being a company focuses on consumer products industry, our business is always affected by economic growth, consumers' preference, industry cycle and animal epidemics. In 2020, with the outbreak of COVID-19, continuation of ASF, re-emergence of trade protectionism and global recession, the whole consumer industry is facing complicated external environment and greater challenges. Despite the challenges, with our products being consumer staples, all the above uncertainties will have limited impact on our business.

The outbreak of COVID-19 in January 2020 has certain impact on our operations, such as transportation restrictions, difficulties on staff returning to work, shortage of raw materials and forages and etc. The Group has timely formulated a comprehensive and stringent prevention and control plan to safeguard the health of our employee, products safety as well as stable production and smooth sales.

Based on a preliminary review, the production and sales in the first quarter of 2020 recorded a decline as compared to the corresponding period of 2019. With the pandemic gradually under controlled in China, our operations have seen to be steadily returning to normal. Considering the nature of our business, we believe the negative impact of the pandemic on the Group will be short-term and manageable. Meanwhile, we will continue to be highly cautious on the latest development of the pandemic and strictly implement our prevention and control plan.

The food industry will continue to face challenges with low growth rate and intense competition. To maintain the overall profitability and to enhance the competitiveness and resistance against market risk, the Group will focus on high value–added processed foods, safeguard the business relationship with the major customers and proactively explore new markets and new customers.

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

We will continue to optimise product portfolios, enhance cost management, promote brand building and expand new sales channels to strengthen the core competence and improve the overall performance of the Group.

OPERATING AND FINANCIAL REVIEW

Revenue by products

	FY2019	FY2018	% Change
	RMB'000	*RMB'000*	+/(-)
Processed food	**760,874**	807,165	(5.7)
Chilled and frozen rabbit meat	**157,599**	109,559	43.8
Chilled and frozen chicken meat	**335,528**	318,053	5.5
Other products	**156,534**	168,896	(7.3)
Total	**1,410,535**	1,403,673	0.5

Processed Food Products

Revenue derived from the production and sales of processed food products decreased by 5.7% to approximately RMB760.9 million for FY2019. Affected by price rise of raw material meat and product portfolio adjustment, the export sales of processed food products decreased in FY2019.

Chilled and Frozen Rabbit Meat

The sales of chilled and frozen rabbit meat products increased by 43.8% to approximately RMB157.6 million in FY2019, which was contributed to the new markets and customers developed in Xinjiang Province and Ningxia Province in FY2019.

Chilled and Frozen Chicken Meat

Revenue derived from the production and sales of chilled and frozen chicken meat increased by 5.5% to approximately RMB335.5 million for FY 2019. The increase was mainly more chicken meat consumption as substitution for pork consumption due to the rise of pork price in FY2019.

Other Products

Revenue derived from the production and sale of other products decreased by 7.3% to RMB156.5 million for FY2019. The Group has adjusted its product portfolio and ceased the production of some products with lower or negative gross margin due to sharp price increase in certain raw material meat. Our proactive adjustment led to a decrease in sales of other products.

REVENUE BY GEOGRAPHICAL MARKETS

	FY2019	FY2018	% Change
	RMB'000	*RMB'000*	+/(-)
Export	**607,007**	657,857	(7.7)
PRC	**803,528**	745,816	7.7
Total	**1,410,535**	1,403,673	0.5

On a geographical basis, our revenue from PRC and overseas contributed 57.0% and 43.0% (FY2018: 53.1% and 46.9%) of the revenue, respectively. Revenue from PRC sales increased by 7.7% to RMB803.5 million for FY2019. Revenue from export sales decreased by 7.7% to RMB607.0 million for FY2019. The increase in domestic sales mainly attributed from new markets and customers developed in FY2019. The decrease in export sales was a result of adjustment of product portfolio and cessation of sales of lower or negative gross margin products due to rising price of raw material meat.

Profitability

Gross Profit and Margin

	FY2019	**FY2019**	FY2018	FY2018	Change	% Change
	RMB'000	***Margin %***	*RMB'000*	*Margin %*	*RMB'000*	*+/(-)*
Processed food	**63,545**	**8.4**	100,526	12.5	(36,981)	(36.8)
Rabbit meat	**12,393**	**7.9**	2,866	2.6	9,527	332.4
Chicken meat	**15,180**	**4.5**	(1,307)	(0.4)	16,487	1,261.4
Other products	**15,441**	**9.9**	19,272	11.4	(3,831)	(19.9)
Total	**106,559**	**7.6**	121,357	8.6	(14,798)	(12.2)

The overall gross profit margin was 7.6% for FY2019, representing a decrease of 1 percentage point from 8.6% of the previous year.

Processed Food Products

Processed food products were our main profit contributor. The gross margin decreased from 12.5% for FY2018 to 8.4% for FY2019. A sharp increase in raw material meat pushed up our production costs in FY2019, while the selling price of some overseas sales orders were dependant on economy outlook year by year. Although the Group proactively adjusted product portfolio and ceased production of some products with lower or negative gross margin, the time lag of adjusting selling price still led to a decrease in gross margin of processed food products.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat had a substantial increase in FY2019, from 2.6% for FY2018 to 7.9% for FY2019. With the pork price increase in FY2019, the price of other meat products increased accordingly. The Group has established whole industrial chain of rabbit meat and has the ability to control the production cost of rabbit meat. This business segment therefore recorded an increase in gross profit and gross margin.

Chilled and Frozen Chicken Meat

The gross profit margin of chilled and frozen chicken meat improved from –0.4% for FY2018 to 4.5% for FY2019. The improvement was a result of selling price increase for chicken meat due to increased demand in FY2019.

Other Products

Other products were mainly pet food products, feed products and chicken and rabbit meat by–products. Due to the increase in cost of raw material meat, gross profit margin decreased from 11.4% in FY2018 to 9.9% in FY2019.

Other Income

Other income comprised mainly gain on change in fair value of biological assets, interest income on financial assets, government grants, gain on disposal of subsidiaries and insurance claims amounting to RMB34.9 million, RMB4.7 million, RMB3.3 million, RMB3.0 million and RMB1.5 million, respectively. The increase in other income was mainly due to the increase in gains arising from changes in fair value less estimated costs to sell of biological assets as a result of selling price increase in biological assets. The Group has engaged an independent valuer to assess the fair value of biological assets on an annual basis.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salary and welfare, transportation costs, advertisement costs, etc. In order to expand sales channels in domestic market, the Group incurred more selling expenses in FY2019.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The reasons led to an increase in administrative expenses: (i) more senior managements hired and more travelling expenses incurred to develop new business, (ii) more asset insurance expenses incurred to cover more rabbits and rabbit farm, (iii) professional fees for additional professional works performed during FY2019.

Other Operating Expenses

Other operating expenses represented miscellaneous expenses, comprising mainly write off property, plant and equipment, which decreased by 42% to approximately RMB19.0 million for FY2019. The decrease was mainly due to less property, plant and equipment were disposed and written off during the year as the Company disposed and upgraded certain outdated property, plant and equipment in FY2018.

Finance costs

Finance costs decreased by 1.2% to approximately RMB24.9 million for FY2019, mainly due to the decrease in average balance of bank borrowing for the year.

Taxation

Taxation increased by 207.7% to approximately RMB4.1 million for FY2019. 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 exemption of corporate income tax on profits derived from such business. The increase in tax expenses mainly due to withholding tax accrued in relation to dividend declared by a subsidiary to an overseas company, another subsidiary of the Group.

Review of the Group's Financial Position as at 31 December 2019

The Group's property, plant and equipment ("**PPE**") increased by 1.4% to approximately RMB687.1 million as at 31 December 2019. The increase was a net effect of addition of plant and machinery due to upgrading factories facilities and breeder farms and depreciation charge, disposal of existing factories facilities and breeder farms. The addition of PPE mainly included new rabbit farms and upgrade of environmental equipment in rabbit farms.

The prepaid premium for land leases was reclassified to right-of-use assets upon the adoption of IFRS 16 in current year. For details, please refer to note 2(a) in the consolidated financial statements.

Goodwill decreased by RMB0.4 million as at 31 December 2019, was due to disposal of a subsidiary in FY2019.

The deposits for property, plant and equipment were prepayment paid for PPE and were non-current in nature. The increase was in line with the increase in construction in progress.

Biological assets mainly refered to progeny rabbits and progeny chickens for sale and breeder rabbits and chickens for breeding purpose. These biological assets were valued by an independent professional valuer as at 31 December 2019 with reference to market-determined prices.

Inventories increased by 8.0% to approximately RMB134.9 million for FY2019 due to maintenance of more inventories for favorable market trend. The inventory turnover days for FY2019 were 36 days compared to 43 days for FY2018.

Trade and bills receivables decreased by 6.6% to approximately RMB114.6 million as at 31 December 2019. Although revenue increased slightly in FY2019, more accounts receivables were collected at the end of the year, which led to a decrease in trade and bills receivables. The trade and bills receivables turnover days was 31 days for FY2019 compared to 29 days for FY2018.

Prepayments, other receivables and deposits increased by 42.5% to approximately RMB45.8 million as at 31 December 2019. The increase was mainly due to increase of prepayment for forage and raw material of processed food as price rise is expected in coming year.

Cash and cash equivalents, including pledged deposits, decreased by approximately 63.4% to approximately RMB215.3 million for FY2019. The decrease was mainly as a result of settlement of bills payable secured by pledged deposits. Approximately RMB35.9 million and RMB20.0 million of the bank deposit was secured against the bills payables and bank borrowing of the Group as at 31 December 2019, respectively (31 December 2018: RMB291.1 million and RMB20.0 million).

Trade and bills payables decreased by 59.5% to approximately RMB205.5 million as at 31 December 2019. The decrease in the trade and bills payables was mainly due to settlement of bills payable in FY2019.

Accrued liabilities and other payables represented payables for salary and welfare payables, accrued expenses and deposit received, increased by 17.5% to approximately RMB132.4 million as at 31 December 2019. The increase mainly due to increase in payables for upgrading chicken farms.

Contract liabilities represents advance consideration from customers which the performance obligation under the Group's existing contracts were unfulfilled. The increase was a result of more advance payment received from customer due to favorable market trend.

The interest-bearing bank and other borrowing balances as at 31 December 2019 decreased by RMB66.7 million to approximately RMB356.1 million after taking into account the additional borrowings of approximately RMB334.0 million and repayment of the borrowings of approximately RMB400.7 million during the year. No other borrowing were classified as non-current liabilities as at 31 December 2019 (31 December 2018: RMB0.26 million).

Tax payables increased from RMB1.5 million for FY2018 to RMB2.5 million as at 31 December 2019. The increase in tax payables was in line with the increase in taxation during the year.

CAPITAL STRUCTURE

As at 31 December 2019, the Group had net assets of approximately RMB670.7 million (31 December 2018: RMB665.1 million), comprising non-current assets of approximately RMB951.2 million (31 December 2018: RMB867.6 million), and current assets of approximately RMB545.3 million (31 December 2018: RMB896.3 million). The Group recorded a net current liability position of approximately RMB213.9 million as at 31 December 2019 (31 December 2018: RMB178.2 million), which primarily consist of cash and cash equivalents balances amounted to approximately RMB159.5 million (31 December 2018: RMB276.9 million). Moreover, as at 31 December 2019 inventories amounted to approximately RMB134.9 million (31 December 2018: RMB124.9 million) and trade and bills receivables amounted to approximately RMB114.6 million (31 December 2018: RMB122.7 million) were also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank and other borrowings which, as at 31 December 2019 amounted to approximately RMB205.5 million (31 December 2018: RMB507.2 million) and approximately RMB356.1 million (31 December 2018: RMB422.9 million) respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, the Group has cash and cash equivalent of approximately RMB159.5 million (31 December 2018: RMB276.9 million) and had total interest-bearing bank borrowings of approximately RMB334.0 million (31 December 2018: RMB384.0 million), other borrowings of approximately RMB22.1 million (31 December 2018: RMB39.2 million), loan from immediate holding company of RMB26.8 million (2018: Nil) and lease liabilities of RMB55.2 million (2018: Nil) respectively. The Group's interest-bearing bank borrowings and other borrowing were debts with interest rate ranging from 4.79% to 6.00% (31 December 2018: 4.70% to 6.00%) and 3.0% to 3.5% (31 December 2018: 3.0% to 6.95%) per annum, respectively.

The gearing ratio for the Group was 69.7% as at 31 December 2019 (31 December 2018: 69.2%), based on net debt of approximately RMB448.9 million (31 December 2018: RMB442.2 million) and equity attributable to Company's owners of approximately RMB643.7 million (31 December 2018: RMB639.1 million). The Group would serve its debts primarily with cash flow generated from its operation, seeking renewal of the outstanding bank borrowings and new banking facilities and exploring the availability of alternative source of financing. The Board 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 following table details the Group's exposures as at FY2019 to foreign currency risk from the financial assets and financial liabilities denominated in a currency other than the functional currency to which the Group's entities relate:

	USD	**EURO**	**JPY**	**SGD**	**HK$**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets					
Trade receivables	52	4	–	–	–
Cash and bank balances	12,817	–	14,060	5	2,996
	12,869	4	14,060	5	2,996
Financial liabilities					
Other borrowing	–	–	–	–	22,145

In view of the nature of the Group's business, which spans several countries, foreign exchange risks will continue to be an integral aspect of its risk profile in the future. Currently, the Group neither has a formal foreign currency hedging policy nor conducts hedging exercise to reduce foreign currency exposure. The Group will continue to monitor its foreign exchange exposure.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB34.4 million (2018: RMB15.3 million).

CHARGE ON ASSETS

Total secured interest-bearing bank borrowings were approximately RMB334.0 million as at 31 December 2019 (2018: RMB384.0 million).

As at 31 December 2019, the Group's interest-bearing bank borrowings were guaranteed by certain related parties of the Group and secured against pledge of certain of the Group's property, plant and equipment, right-of-use assets, and bank deposits.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 3,017 employees (2018: 3,849 employees) in the PRC. The Group's emolument policy is formulated based on the industry practices and performance of individual employee. During the year under review, the total staff costs (including Directors' emoluments) were in the amount of approximately RMB202.4 million (2018: RMB204.1 million). The Company has not adopted any share option scheme for its employees.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

Except for investment in subsidiaries, the Group did not hold any significant investment in equity interest in other company. The Group did not have any material acquisitions or disposals of subsidiaries or associated companies during the year ended 31 December 2019.

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 year ended 31 December 2019.

EXTRACT OF THE AUDITORS' REPORT

The following is an extract of the independent auditor's report on the Group's annual financial statements for the year ended 31 December 2019:

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

We draw attention to note 3(b) in the consolidated financial statements, which indicates the Group's current liabilities exceeded its current assets by approximately RMB213,949,000 as at 31 December 2019. As stated in note 3(b), this condition, along with other matters as set forth in note 3(b), indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

AUDIT COMMITTEE

The audit committee of the Company had reviewed with the management of the Group regarding 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 audited financial statements and this announcement for the year ended 31 December 2019.

CODE ON CORPORATE GOVERNANCE PRACTICE

During the year ended 31 December 2019, the Company has complied with all the code provisions (the "**Code Provisions**") set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"), save for deviation from the relevant Code Provisions A.2.1 as listed below:

Code Provision A.2.1 states that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

Under the current organisation structure of the Company, Mr. Fang Yu is the chairman and chief executive officer of the Company. With his extensive experience in the financial industry, the Board believes that vesting the roles of both chairman and chief executive officer in the same person provides the Company with strong and consistent leadership, allows for effective and efficient planning and implementation of business decisions and strategies, and is beneficial to the business prospects and management of the Group. Although Mr. Fang Yu performs both the roles of chairman and chief executive officer, the division of responsibilities between the chairman and chief executive officer is clearly established. The two roles are performed by Mr. Fang Yu distinctly. The Company considers that it is the long term objective of the Company to have these two roles performed by separate individuals when suitable candidates are identified.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "**Model Code**"). Having made specific enquiry of the Directors, all the Directors confirmed that they had complied with the required standards as set out in the Model Code for the year ended 31 December 2019.

EVENTS AFTER REPORTING PERIOD

Save as disclosed in this announcement, we did not identify any important events affecting the Group that have occurred since 31 December 2019.

PUBLICATION OF RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019 AND ANNUAL REPORT

This final results announcement is published on the websites of SEHK (www.hkexnews.hk), SGX-ST (www.sgx.com) and the Company (www.kangdafood.com). The Company's annual report for the year ended 31 December 2019 will also be published on the aforesaid websites in due course.

ANNUAL GENERAL MEETING AND CLOSURE OF REGISTER OF MEMBERS

The annual general meeting of the Company will be held on 22 June 2020 (the "**AGM**"). For the purpose of determining the eligibility to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 17 June 2020 to Monday, 22 June 2020, both days inclusive, during which no transfer of shares will be registered.

In order to qualify for attending and voting at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 16 June 2020.

DIVIDEND

The Directors did not recommend the payment of a final dividend for FY2019 (FY2018: Nil).

SCOPE OF WORK OF THE AUDITOR

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements, and consequently no assurance has been expressed by BDO Limited on this announcement.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the Group's management and staff for their dedication and commitment throughout the year. Besides, I would like to thank all shareholders, business partners, customers, and vendors for their support and encouragement given to the Group in the past years. My thanks are also extended to the lawyers, auditors, consultants and relevant enterprises who always give us help and support. We will do all our best and we wish you all the best for the upcoming year.

On behalf of the Board
China Kangda Food Company Limited
Fang Yu
Chairman, Executive Director and Chief Executive Officer

Hong Kong, 31 March 2020

As at the date of this announcement, the executive Directors are Mr. Fang Yu (Chief Executive Officer and Chairman), Mr. An Fengjun, Mr. Gao Yanxu, Mr. Luo Zhenwu and Mr. Li Wei; and the independent non-executive Directors are Mr. Chan Ka Yin, Mr. Song Xuejun and Mr. Lu Zhiwen.