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CHINA KANGDA FOOD COMPANY LIMITED

中國康大食品有限公司

(Incorporated in Bermuda with limited liability)

(Hong Kong Stock Code (Primary Listing): 834)

(Singapore Stock Code (Secondary Listing): P74)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of China Kangda Food Company Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2023 together with the comparative figures for the corresponding period in 2022 as set out below.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

For the six months ended 30 June 2023

	<i>Notes</i>	Six months ended 30 June	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Revenue	6	790,603	809,010
Cost of sales		(743,156)	(778,517)
Gross profit		47,447	30,493
Other income	6	16,952	23,754
Selling and distribution expenses		(23,015)	(17,265)
Administrative expenses		(34,388)	(31,148)
Provision for impairment loss on trade and bill receivables, net		(858)	(781)
Other operating expenses		(5,754)	(5,401)

		Six months ended 30 June	
		2023	2022
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit/(loss) from operations	7	384	(348)
Finance costs	8	(6,940)	(6,379)
Share of loss of an associate		<u>—</u>	<u>—</u>
Loss before taxation		(6,556)	(6,727)
Income tax credit	9	299	331
Loss for the period		(6,257)	(6,396)
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences in translating foreign operations		<u>(95)</u>	<u>(322)</u>
Other comprehensive income for the period		<u>(95)</u>	<u>(322)</u>
Total comprehensive income for the period		(6,352)	(6,718)
Loss for the period attributable to:			
Owners of the Company		(6,528)	(6,494)
Non-controlling interests		<u>271</u>	<u>98</u>
		(6,257)	(6,396)
Total comprehensive income for the period attributable to:			
Owners of the Company		(6,623)	(6,816)
Non-controlling interests		<u>271</u>	<u>98</u>
		(6,352)	(6,718)
Loss per share attributable to owners of the Company	<i>11</i>		
Basic (<i>RMB cents</i>)		(1.5)	(1.5)
Diluted (<i>RMB cents</i>)		<u>(1.5)</u>	<u>(1.5)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		288,599	334,587
Investment property		98,623	130,753
Interests in associate		–	–
Goodwill		56,355	56,355
Biological assets		33,175	24,425
Right-of-use assets		100,960	99,419
Deferred tax assets		113	147
Total non-current assets		577,825	645,686
Current assets			
Biological assets		29,004	26,654
Inventories		174,006	162,959
Trade and bills receivables	12	91,675	161,433
Prepayments, other receivables and deposits		95,611	95,236
Pledged deposits		242,346	44,000
Cash and cash equivalents		215,476	197,939
		848,118	688,211
Assets classified as held for sale		71,393	–
Total current assets		919,511	688,221
Current liabilities			
Trade and bills payables	13	276,551	167,261
Accrued liabilities and other payables		108,962	126,897
Contract liabilities		20,182	20,580
Interest-bearing bank borrowings	14	297,600	286,000
Amount due to a related party		38,713	1,455
Loans from immediate holding company		92,850	88,923
Deferred government grants		4,851	4,737
Other borrowings		9,681	9,460
Lease liabilities		4,318	4,546
Tax payables		4,280	3,314
		857,988	713,173
Liabilities associated with assets classified as held for sale		31,034	–
Total current liabilities		889,022	713,173
Net current assets/(liabilities)		30,489	(24,952)

		30 June	31 December
		2023	2022
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Total assets less current liabilities		<u>608,314</u>	<u>620,734</u>
Non-current liabilities			
Interest-bearing bank borrowings	<i>14</i>	–	9,700
Deferred government grants		20,414	19,560
Lease liabilities		31,271	28,157
Deferred tax liabilities		<u>1,259</u>	<u>1,595</u>
Total non-current liabilities		<u>52,944</u>	<u>59,012</u>
Net assets		<u>555,370</u>	<u>561,722</u>
EQUITY			
Equity attributable to the owners of the Company			
Share capital		112,176	112,176
Reserves		<u>432,104</u>	<u>438,727</u>
		544,280	550,903
Non-controlling interests		<u>11,090</u>	<u>10,819</u>
Total equity		<u>555,370</u>	<u>561,722</u>

NOTES

1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda on 28 April 2006. The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. The principal place of business of the Company is located at No. 8399, Binhai Boulevard, Huangdao District, Qingdao, the People's Republic of China. The Company's shares are primary listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") and secondary listed in the Main Board of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**").

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.

To the best information, knowledge and belief 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**"). The financial statements are presented in Renminbi ("**RMB**"), being the functional currency of the Group.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with IFRSs which collective term includes all applicable individual IFRSs, International Accounting Standards and Interpretations issued by the IASB. The condensed consolidated interim financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

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

3. PRINCIPAL ACCOUNTING POLICIES

The Group has applied the same accounting policies in these condensed consolidated interim financial statements as in its 2022 annual consolidated financial statements, except that it has adopted the following amendments to IFRSs effective for the first time for periods beginning on or after 1 January 2023:

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules

None of these amendments have material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

4. USE OF JUDGEMENTS AND ESTIMATES

In preparing these condensed consolidated interim financial statements, the significant judgements made by the management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same those that applied to 2022 annual financial statements.

5. SEGMENT INFORMATION

The Group is organised into four main business segments:

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

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

	Six months ended 30 June 2023				Total
	Processed food	Chilled and frozen chicken meat	Chilled and frozen rabbit meat	Other products	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Reportable segment revenue					
– revenue from external customers	<u>387,907</u>	<u>290,332</u>	<u>100,700</u>	<u>11,664</u>	<u>790,603</u>
Reportable segment profit	<u><u>26,465</u></u>	<u><u>(7,717)</u></u>	<u><u>6,010</u></u>	<u><u>(326)</u></u>	<u><u>24,432</u></u>
Timing of revenue recognition					
At a point in time	<u><u>387,907</u></u>	<u><u>290,332</u></u>	<u><u>100,700</u></u>	<u><u>11,664</u></u>	<u><u>790,603</u></u>

	Six months ended 30 June 2022				Total <i>RMB'000</i> (unaudited)
	Processed food <i>RMB'000</i> (unaudited)	Chilled and frozen chicken meat <i>RMB'000</i> (unaudited)	Chilled and frozen rabbit meat <i>RMB'000</i> (unaudited)	Other products <i>RMB'000</i> (unaudited)	
Reportable segment revenue					
– revenue from external customers	<u>339,988</u>	<u>263,280</u>	<u>76,735</u>	<u>129,007</u>	<u>809,010</u>
Reportable segment profit	<u>32,084</u>	<u>(31,489)</u>	<u>1,164</u>	<u>11,468</u>	<u>13,228</u>
Timing of revenue recognition					
At a point in time	<u>339,988</u>	<u>263,280</u>	<u>76,735</u>	<u>129,007</u>	<u>809,010</u>

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

	Six months ended 30 June	
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)
Reportable segment profit	24,432	13,228
Other income	16,952	23,754
Administrative expenses	(34,388)	(31,148)
Provision for impairment loss on trade and bill receivables, net	(858)	(781)
Other operating expenses	(5,754)	(5,401)
Finance costs	<u>(6,940)</u>	<u>(6,379)</u>
Loss before taxation	<u>(6,556)</u>	<u>(6,727)</u>

6. REVENUE AND OTHER INCOME

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	790,603	809,010
	<u>790,603</u>	<u>809,010</u>
Other income		
Interest income on financial assets stated at amortised cost		
– Interest income on bank deposits	1,118	541
Amortisation of deferred income on government grant	2,531	2,211
Government grants related to income	1,214	81
Gains arising from changes in fair value less estimated costs		
to sell of biological assets, net	4,562	1,651
Gain on disposal of a subsidiary	–	12,685
Rental income	3,759	4,064
Waiver of interest payables	1,649	–
Others	2,119	2,521
	<u>2,119</u>	<u>2,521</u>
	<u>16,952</u>	<u>23,754</u>

7. PROFIT/(LOSS) FROM OPERATIONS

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

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories recognised as an expense	647,819	677,029
Depreciation of property, plant and equipment	27,964	30,710
Depreciation of rights-of-use assets	3,178	3,219
Depreciation of investment properties	3,649	4,518
Provision for trade and bills receivables	858	781
	<hr/>	<hr/>
Staff costs (including directors' remuneration)	85,766	87,642
<i>Less: Retirement scheme contribution</i>	(4,318)	(4,655)
	<hr/>	<hr/>
Total staff costs	81,448	82,987
Exchange loss/(gain), net	1,367	(3,022)
	<hr/> <hr/>	<hr/> <hr/>

8. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest charges on bank borrowings	5,885	5,185
Interest charges on other borrowings	–	455
Interest charges on lease liabilities	1,055	1,148
<i>Less: Amount capitalised</i>	–	(409)
	<hr/>	<hr/>
	6,940	6,379
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX CREDIT

	Six months ended 30 June	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Deferred tax credit	<u>299</u>	<u>331</u>

No Hong Kong profits tax has been provided for the six months ended 30 June 2023 as the Group did not derive any assessable profit in Hong Kong during the period under review (six months ended 30 June 2022: 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 PRC Corporate Income Tax Law, the profit arising from agricultural, poultry and primary food processing businesses of Kangda Foods and Kaijia Food are exempted from PRC corporate income tax. The taxable profits of Kangda Foods arising from profit from business other than agricultural, poultry and primary food processing are subject to corporate income tax at 25% for six months ended 30 June 2023 and for the corresponding period of 2022.

Under the PRC Corporate Income Tax Law and Implementation Rules, enterprises that engage in qualifying agricultural business are eligible for certain tax benefits, including full exemption of corporate income tax on profits derived from such business. Qingdao Kangda Animal Rearing Company Ltd., Qingdao Kangda Rabbit Company Ltd. and Gaomi Kaijia Rearing Co., Ltd. engaged in qualifying agricultural business, which include breeding and sales of livestock, and are entitled to full exemption of corporate income tax for the six months ended 30 June 2023 and for the corresponding period of 2022.

Tax has not been provided by the Company as the Company did not derive any assessable profits during the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

10. DIVIDENDS

The Board has resolved not to declare any interim dividend in respect of the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

11. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB6,528,000 (six months ended 30 June 2022: loss of RMB6,494,000) and on the weighted average of 432,948,000 (six months ended 30 June 2022: 432,948,000) ordinary shares in issue during the period.

No diluted earnings per share for the six months ended 30 June 2023 and the corresponding period of 2022 has been presented as the Company has no potential dilutive ordinary shares during the period.

12. TRADE AND BILLS RECEIVABLES

	30 June	31 December
	2023	2022
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade receivables	99,572	158,072
Bills receivables	–	10,400
<i>Less: provision for impairment</i>	<u>(7,897)</u>	<u>(7,039)</u>
	<u>91,675</u>	<u>161,433</u>

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

The aging analysis of trade receivables based on invoice dates as at the reporting dates are as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 30 days	77,129	96,473
31 – 60 days	1,701	24,203
61 – 90 days	1,844	10,205
Over 90 days	<u>11,001</u>	<u>30,552</u>
	<u>91,675</u>	<u>161,433</u>

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

13. TRADE AND BILLS PAYABLES

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Trade payables	76,092	119,261
Bills payables	<u>200,459</u>	<u>48,000</u>
	<u>276,551</u>	<u>167,261</u>

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

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Within 60 days	59,772	79,298
61 – 90 days	10,030	42,831
91 – 120 days	194,374	9,212
Over 120 days	<u>12,375</u>	<u>35,920</u>
	<u>276,551</u>	<u>167,261</u>

14. INTEREST-BEARING BANK BORROWINGS

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Interest-bearing bank borrowings		
Classified as current liabilities	<u>297,600</u>	<u>286,000</u>
Classified as non-current liabilities	<u>–</u>	<u>9,700</u>

As at 30 June 2023, the Group's interest-bearing borrowings were repayable as follows:

	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Portion of term loans from banks due for repayable within one year	297,600	286,000
Portion of term loans from banks repayable in the second year	–	9,700
Portion of term loans from banks repayable in the third to fifth years, inclusive	<u>–</u>	<u>–</u>
	<u>297,600</u>	<u>295,700</u>

As at 30 June 2023, approximately RMB297.6 million (31 December 2022: RMB295.7 million) of the interest-bearing bank borrowings are secured by the Group's certain short-term pledged deposits, properties, plants and equipment and land use rights, certain of the Group's related party's and a former subsidiary's properties, plants and equipment and land use rights, and guaranteed by certain related parties of the Group.

As at 30 June 2023, the Group's interest-bearing bank borrowings bear interests ranging from 3.65% to 4.75% (31 December 2022: 3.65% to 4.75%) per annum.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group reported its unaudited results for the six months ended 30 June 2023 (“**HY2023**”) with a loss attributable to owners of the Company of approximately RMB6.5 million (for the six months ended 30 June 2022 (“**HY2022**”) : RMB6.5 million).

The Group continued to adopt stable operation strategy. The revenue slightly decreased by 2.3% from approximately RMB809.0 million for HY2022 to approximately RMB790.6 million for HY2023. Benefiting from the increase in selling price of products, the gross profit margin increased from 3.8% for HY2022 to 6.0% for HY2023. The increase in gross profit was offset by the decrease in other income and increase in selling and distribution expenses and administrative expenses.

PROSPECT

Being a company focusing on consumer products industry, our business is always affected by economic growth, consumers’ preference, industry cycle and animal epidemics. In HY2023, with 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 food industry will continue to face challenges with low growth rate and intense competition. With the consumption upgrades, food safety and healthiness become the focus of consumers’ attention, which is always our priority. With our stringent quality control and food safety systems, we will continue to provide customers with high quality products. To maintain the overall profitability and to enhance the competitiveness and resistance against market risk, the Group will increase investment in research and development of new products, focus on high value-added processed foods, safeguard the business relationship with the major customers and proactively explore new markets and new customers.

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

OPERATING AND FINANCIAL REVIEW

REVENUE BY PRODUCTS

	Six months ended 30 June		% Change + / (-)
	2023 <i>RMB'000</i> (Unaudited)	2022 <i>RMB'000</i> (Unaudited)	
Processed food	387,907	339,988	14.1
Chilled and frozen chicken meat	290,332	263,280	10.3
Chilled and frozen rabbit meat	100,700	76,735	31.2
Other products	11,664	129,007	(91.0)
Total	790,603	809,010	(2.3)

Revenue derived from the production and sales of processed food, chilled and frozen chicken meat, chilled and frozen rabbit meat and other products contributed 49.1%, 36.7%, 12.7% and 1.5% of the revenue for HY2023, respectively (HY2022: 42.0%, 32.5%, 9.5% and 16.0%).

Processed Food Products

Revenue derived from the production and sales of processed food products increased by 14.1% to approximately RMB387.9 million for HY2023. With the gradual recovery of the consumption market, the sales volumes and amounts of processed food products increased in HY2023 as compared to that of HY2022.

Chilled and Frozen Chicken Meat

Revenue derived from the production and sales of chilled and frozen chicken meat increased by 10.3% to approximately RMB290.3 million in HY2023. With the increase in market demand and rise in chicken prices in HY2023, the Group increased the number of broiler chickens raised and slaughter volume of broilers, resulting in an increase in the sales of chilled and frozen chicken meat.

Chilled and Frozen Rabbit Meat

The sales of chilled and frozen rabbit meat products increased by 31.2% to approximately RMB100.7 million in HY2023. In order to meet the growing demand of overseas markets, the Group focused on the processing of meat rabbits, therefore overseas sales of chilled and frozen rabbit meat products increased in HY2023.

Other Products

Other products were mainly pet food products, feed products and chicken and rabbit meat by-products. Revenue derived from the production and sales of other products decreased by RMB117.3 million to RMB11.7 million in HY2023. Due to increase in prices of raw materials of pet food, such as chicken and rabbit meat, the profit margin of pet food products decreased significantly in HY2023. The Group actively reduced the production and sales of pet food products, resulting in a significant decrease in revenue of other products.

Revenue by Geographical Markets

	Six months ended 30 June		
	2023	2022	% Change
	<i>RMB'000</i>	<i>RMB'000</i>	+/(-)
	(Unaudited)	(Unaudited)	
Export	229,931	216,730	6.1
PRC	560,672	592,280	(5.3)
Total	790,603	809,010	(2.3)

On a geographical basis, our revenue from PRC and overseas contributed 70.9% and 29.1% (HY2022: 73.2% and 26.8%) of the revenue in HY2023, respectively. Revenue from PRC sales decreased by RMB31.6 million to RMB560.7 million in HY2023. Decrease in sales of pet food products in the PRC offset the increase in sales of processed food products and chilled and frozen chicken meat in the PRC, and domestic sales revenue decreased in HY2023. Benefiting from the development and demand growth of rabbit meat in overseas market, increase in sales of chilled and frozen rabbit meat contributed a majority increase in the revenue from overseas.

PROFITABILITY

Gross Profit and Margin

	Six months ended		Six months ended		Change	% Change
	30 June 2023		30 June 2022			
	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>Margin %</i>	<i>RMB'000</i>	<i>+ / (-)</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Processed food	37,757	9.7	39,340	11.6	(1,583)	(4.0)
Chicken meat	735	0.3	(25,870)	(9.8)	26,605	(102.8)
Rabbit meat	8,941	8.9	2,802	3.7	6,139	219.1
Other products	14	0.1	14,221	11.0	(14,207)	(99.9)
Total	<u>47,447</u>	<u>6.0</u>	<u>30,493</u>	<u>3.8</u>	<u>16,954</u>	<u>55.6</u>

The overall gross profit margin was 6.0% for HY2023, representing an increase of 2.2 percentage points from 3.8% of the prior period.

Processed Food Products

Processed food products were our main profit contributor. The gross profit margin decreased by 1.9 percentage points to 9.7% in HY2023. Due to sales growth in the domestic market with low gross profit, the overall gross profit of processed food decreased in HY2023.

Chilled and Frozen Chicken Meat

The gross profit margin of chilled and frozen chicken meat increased by 10.1 percentage points to 0.3% in HY2023. The improvement was attributable to the increase of selling price of chilled and frozen chicken in HY2023. Furthermore, because of an increase in production and sales volume, the reduction in unit fixed costs was helpful to the improvement of gross profit.

Chilled and Frozen Rabbit Meat

The gross profit margin of chilled and frozen rabbit meat increased in HY2023, from 3.7% for HY2022 to 8.9% for HY2023. The Group reduced its own raising rabbit and focused on processing meat rabbits in HY2023. Furthermore, benefiting from the reduction in overseas shipping costs, the gross profit of meat rabbits improved in HY2023.

Other Products

The gross profit margin of other products decreased by 10.9 percentage points to 0.1% in HY2023. The decrease was mainly due to the increased cost of raw materials and higher unit fixed cost as a result of decrease in sales of other product in HY2023.

Other Income

Other income in HY2023 was RMB17.0 million, representing a decrease of RMB6.8 million from RMB23.8 million in HY2022. Other income comprised mainly gains arising from changes in fair value less estimated costs to sell of biological assets, rental income, government grants, and interest income on financial assets. The decrease in other income was a net effect of the following: increase in gains arising from changes in fair value less estimated costs to sell of biological assets of RMB2.9 million due to rising selling price of chicken, recognition of waiver of interest payables of RMB1.6 million (HY2022: Nil) and decrease in recognition of gain on disposal of a subsidiary of RMB12.7 million.

Selling and Distribution Expenses

Selling and distribution expenses comprised mainly salary and welfare, transportation costs and advertisement costs, and was increased by RMB5.8 million to approximately RMB23.0 million in HY2023. The increase of marketing activities led to more advertising and promotion expenses incurred in HY2023.

Administrative Expenses

Administrative expenses comprised mainly staff costs, professional fees, depreciation charge, travelling expenses and other miscellaneous administrative expenses. The main reason for the increase in administrative expenses was due to recognition of foreign exchange loss of RMB1.4 million in HY2023 (HY2022: gain of RMB3.0 million).

Other Operating Expenses

Other operating expenses for HY2023 was RMB5.7 million, remaining stable as compared with that of HY2022. Other operating expenses represented miscellaneous expenses and losses, comprising mainly depreciation of investment properties and loss on disposal of under-utilised or obsolete property, plant and equipment.

Finance Costs

Finance costs increased by 8.8% to approximately RMB6.9 million in HY2023, mainly due to the increase in average balance of bank borrowings.

Taxation

The Group recorded an income tax credit of RMB0.3 million. In HY2023, the Group was in a position of tax loss and no current period taxation was provided. The income tax credit was mainly derived from the deferred tax credit. Some of the subsidiaries of the Group engaged in qualifying agricultural business, which include breeding and sales of livestock, were entitled to full exemption of corporate income tax during the period under review.

Review of the Group's Financial Position as at 30 June 2023

The Group's property, plant and equipment ("PPE") were mainly leasehold buildings and plant and machinery. The PPE decreased by 13.7% to approximately RMB288.6 million as at 30 June 2023. The decrease was a net effect of depreciation charge, reclassification of certain PPE to assets classified as held for sale and addition of plant and machinery.

The investment property represented leasehold buildings in property, plant and equipment and right-of-use assets in relation to rabbit farms held to earn rental income. The investment property was stated at cost less accumulated depreciation as the fair value cannot be reliably measured since there were no active market prices for similar properties. The investment property decreased by 24.6% to approximately RMB98.6 million as at 30 June 2023. The decrease was a result of depreciation charge and reclassification of certain investment property to assets classified as held for sale.

Right-of-use assets represented operating lease assets and prepaid premium for land leases. The increase was a net effect of addition of operating lease assets and depreciation of the right-of-use assets during the current period.

Goodwill arose from the acquisitions of subsidiaries in the past.

Biological assets mainly referred to progeny chickens, progeny rabbits, breeder rabbits and hatchable eggs for sales and breeder rabbits and chickens for breeding purpose. These biological assets were valued by the management of the Group as at 30 June 2023 based on market-determined prices of rabbits/chickens of similar size, species and age. The valuation methodology is in compliance with IAS 41 and IFRS 13 to determine the fair values of biological assets in their present location and condition. Biological assets, including current and non-current biological assets, increased by RMB11.1 million as at 30 June 2023 as compared to that of 31 December 2022. The main reason for the increase was attributable to more progeny chickens raised.

Inventory increased by RMB11.0 million to approximately RMB174.0 million as at 30 June 2023. The inventory turnover days for HY2023 were 41.4 days as compared to 31.9 days for HY2022.

Trade and bills receivables decreased by RMB69.8 million to approximately RMB91.7 million as at 30 June 2023. The decrease was mainly due to more collection of trade receivables in current period.

The pledged deposits were secured against the bills payables and bank borrowings of the Group. Addition in bills payables led to the increase in pledged deposits.

The increase of cash and cash equivalents was mainly due to collection of trade receivables.

Trade and bills payables increased by RMB109.3 million to approximately RMB276.6 million as at 30 June 2023. The increase in the trade and bills payables was mainly due to more bills payables were issued to settle payment with suppliers.

Accrued liabilities and other payables represented payables for salary and welfare payables, accrued expenses and deposit received, decreased by RMB17.9 million to approximately RMB109.0 million as at 30 June 2023. The decrease mainly due to settlement of payables for construction in progress.

Lease liabilities represented the present value of the lease payments that are not paid as the adoption of IFRS 16. The increase in lease liabilities was a net effect of addition of operating lease liabilities and payment of rentals in HY2023.

Contract liabilities represents advance consideration from customers which the performance obligation under the Group's existing contracts were unfulfilled. Contract liabilities remained stable as at 30 June 2023 as compared to 31 December 2022.

The interest-bearing bank balances increased by RMB1.9 million to approximately RMB297.6 million as at 30 June 2023, after taking into account the additional bank borrowings of approximately RMB210.0 million, the loan repayment of approximately RMB178.3 million and reclassification of RMB29.8 million of loans to liabilities associated with assets classified as held for sale.

Loan from immediate holding company increased by RMB3.9 million to RMB92.9 million as at 30 June 2023. The loan is interest-free, unsecured and repayable within one year.

Assets classified as held for sale and liabilities associated with assets classified as held for sale represented assets and liabilities of Qingdao Kangda-Eurolap Rabbit Selection Co., Ltd.* (青島康大歐洲兔業育種有限公司) (“**Kangda-Eurolap Rabbit**”), and certain properties, machinery and equipment and investment properties for breeding rabbits. For details of the transactions, please refer to section “SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS”. The disposal is still underway as at 30 June 2023 as certain conditions precedent have not been met. Assets of Kangda-Eurolap Rabbit and certain assets for breeding rabbits had been classified as “Assets classified as held for sale”, liabilities of Kangda-Eurolap Rabbit had been classified as “Liabilities associated with assets classified as held for sale”. The Directors are of the view that the disposal highly probable to be completed within twelve months from the date of classification.

CAPITAL STRUCTURE

As at 30 June 2023, the Group had net assets of approximately RMB555.4 million (31 December 2022: RMB561.7 million), comprising of non-current assets of approximately RMB577.8 million (31 December 2022: RMB645.7 million), and current assets of approximately RMB919.5 million (31 December 2022: RMB688.2 million). The Group recorded a net current assets position of approximately RMB30.5 million as at 30 June 2023 (31 December 2022: net current liabilities of RMB25.0 million), which primarily consisted of cash and bank balances amounted to approximately RMB215.5 million (31 December 2022: RMB198.0 million). Moreover, inventories amounted to approximately RMB174.0 million (31 December 2022: RMB163.0 million) and trade receivables amounted to approximately RMB91.7 million (31 December 2022: RMB161.4 million) are also major current assets. Major current liabilities are trade and bills payables and interest-bearing bank borrowings amounted to RMB276.6 million (31 December 2022: RMB167.3 million) and RMB297.6 million (31 December 2022: RMB286.0 million), respectively.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders of the Company and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2023, the Group had cash and bank balances of approximately RMB215.5 million (31 December 2022: RMB197.9 million) and had interest-bearing bank borrowings, loan from immediate holding company and amount due to a related company of approximately RMB297.6 million, RMB92.9 million and RMB38.7 million, respectively (31 December 2022: RMB295.7 million, RMB88.9 million and RMB1.5 million, respectively). The Group's interest-bearing bank borrowings bear interests ranging from 3.65% to 4.75% (31 December 2022: 3.65% to 4.75%) per annum.

The gearing ratio for the Group was 87.2% as at 30 June 2023 (31 December 2022: 77.7%), based on net debt of RMB474.4 million (31 December 2022: RMB428.2 million) and equity attributable to owners of the Company of RMB544.3 million (31 December 2022: RMB550.9 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.

FOREIGN CURRENCY EXPOSURE

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

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

CAPITAL COMMITMENTS

As at 30 June 2023, the Group's capital commitment which had been contracted for but not provided in the financial statements amounted to approximately RMB5.5 million (31 December 2022: RMB9.0 million).

CHARGE ON GROUP'S ASSETS

Total interest-bearing bank borrowings include secured liabilities of approximately RMB297.6 million as at 30 June 2023 (31 December 2022: RMB295.7 million).

As at 30 June 2023, the Group's interest-bearing bank borrowings are secured by the Group's certain short-term pledged deposit, properties, plants and equipment and land use rights, certain of the Group's related party's and a former subsidiary's properties, plants and equipment and land use rights, and guaranteed by certain related parties of the Group.

CONTINGENT LIABILITIES

As at 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 30 June 2023, the Group employed a total of 2,264 employees (as at 31 December 2022: 1,998 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 RMB81.4 million (for the six months ended 30 June 2022: RMB83.0 million). The Company does not have share option scheme for its employees.

INTERIM DIVIDEND

The Board resolved not to declare the distribution of any interim dividend for HY2023 (HY2022: Nil).

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

On 2 December 2022, the Group entered into several sale and purchase agreements ("SPAs") in relation to the disposal of all the equity interest (being 70.0286%) of Kangda-Eurolap Rabbit, a non-wholly owned subsidiary of the Company and certain properties, machinery and equipment for breeding rabbits held by the Group to connected persons at an aggregate cash consideration of RMB74,940,000 ("Disposals"). On 20 March 2023, the special general meeting of the Company (the "SGM") was held and the resolutions concerning the Disposals were passed at the SGM. Except for the assets of RMB2.0 million for breeding rabbits was disposed, the Disposals are still underway as at 30 June 2023 and the date of this announcement as certain terms and conditions of the SPAs have not been fully fulfilled.

On 2 December 2022, the Group entered into a sale and purchase agreement with an independent third party in relation to the acquisition of properties, machinery and equipment in relation to breeding chicken held by an independent third party at an aggregate cash consideration of RMB17,800,000 ("Acquisition"). The Acquisition is still underway as at 30 June 2023 and the date of this announcement as certain terms and conditions of the Acquisition have not been fully fulfilled.

Save as disclosed above, and except for investment in subsidiaries, the Group did not hold any significant investments in equity interest in other companies nor have any material acquisitions or disposals of subsidiaries or associated companies during the six months ended 30 June 2023.

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 2023.

AUDIT COMMITTEE

The audit committee of the Board (the “**Audit Committee**”) consists of all the independent non-executive Directors, namely Mr. Ma Siu Kit, Mr. Li Wai Pui and Ms. Lee Ho Yee. The chairman of the Audit Committee is Mr. Ma Siu Kit. The Audit Committee has reviewed with the management the accounting principles and standards adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the Company’s unaudited financial statements for the six months ended 30 June 2023 and this results announcement.

CODE ON CORPORATE GOVERNANCE PRACTICE

During the six months ended 30 June 2023, the Company has complied with all the code provisions (the “**Code Provision(s)**”) set out in the Corporate Governance Code as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), save for the deviation as listed below.

Code Provision C.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 as set out in Appendix 10 of the Listing Rules (the “**Model Code**”). Having made specific enquiry to all the Directors, all Directors confirmed that they had complied with the required standards as set out in the Model Code for the six months ended 30 June 2023 and up to the date of this announcement.

EVENTS AFTER REPORTING PERIOD

On 19 July 2023, the Company entered into a loan agreement of RMB39.0 million with a related party for funding of the daily operation of the Company and repayment of specific loans from third parties. The loan is interest-free, unsecured and repayable within one month. Pursuant to the loan agreement, upon maturity and consent by the lender, the loan shall automatically extend by one month. Since the loan agreement is conducted on normal commercial terms or better, it is fully exempt under the Listing Rules. As at the date of this announcement, the loan was extended by one month. The Company is seeking renewal of the loan and exploring the availability of alternative source of financing.

PUBLICATION OF UNAUDITED INTERIM RESULTS AND INTERIM REPORT

The Company's 2023 interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk), SGX-ST (www.sgx.com) and the Company (www.kangdafood.com). The Company's 2023 interim report will also be published on the aforesaid websites in due course.

APPRECIATION

I would like to extend my gratitude and sincere appreciation to all management and staff members for their diligence and dedication, and also to our business partners and the Company's shareholders for their continuing support.

On behalf of the Board

China Kangda Food Company Limited

Fang Yu

Chairman, Executive Director and Chief Executive Officer

Hong Kong, 30 August 2023

As at the date of this announcement, the executive directors of the Company are Mr. Fang Yu (Chairman and Chief Executive Officer), Mr. An Fengjun, Mr. Gao Yanxu, Mr. Luo Zhenwu and Mr. Li Wei; and the independent non-executive directors of the Company are Mr. Ma Siu Kit, Mr. Li Wai Pui and Ms. Lee Ho Yee.