

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



中糧肉食控股有限公司
COFCO Meat Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01610)

**UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR
 THE YEAR ENDED DECEMBER 31, 2019**

The board of directors (the “**Board**”) of COFCO Meat Holdings Limited (the “**Company**” or “**we**”, “**our**” or “**us**”) announces the unaudited consolidated results and financial position⁽¹⁾ of the Company and its subsidiaries (the “**Group**”) for the year ended December 31, 2019, together with the comparative figures for the corresponding period in 2018 as follows:

HIGHLIGHTS

KEY OPERATING DATA

	2019 (Unaudited)	2018 (Audited)	Change (%)
Average selling price of finishing hogs (RMB/kg) ⁽²⁾	16.16	11.56	39.8%
Hog production volume (unit: ' 000 heads) ⁽²⁾	1,985	2,550	-22.2%
Fresh pork sales volume (unit: ' 000 tons) ⁽³⁾	146	190	-23.3%
Branded small-packed fresh pork sales volume (unit: ' 000 boxes) ⁽⁴⁾	26,426	18,202	45.2%
Ratio of revenue from branded business of total fresh pork business ⁽⁴⁾	32.0%	30.8%	1.2 percentage points
Meat import sales volume (unit: ' 000 tons) ⁽⁵⁾	179	93	93.3%

KEY FINANCIAL DATA

	2019		2018	
	Before biological assets fair value adjustments RMB' 000 (Unaudited)	After biological assets fair value adjustments RMB' 000 (Unaudited)	Before biological assets fair value adjustments RMB' 000 (Audited)	After biological assets fair value adjustments RMB' 000 (Audited)
Revenue ⁽⁶⁾	11,078,665	11,078,665	7,168,488	7,168,488
Profit for the period ⁽⁷⁾	373,406	1,522,223	-216,667	-646,649
Profit attributable to the owners of the Company ⁽⁸⁾	424,910	1,573,727	-204,052	-627,667
Basic earnings per share ⁽⁹⁾	RMB 0.1094	RMB 0.4033	RMB -0.0523	RMB -0.1609

Notes:

1. Due to the recent epidemic of the COVID-19 and the curbing and quarantine policies adopted and/or implemented by the Chinese government, Deloitte Touche Tohmatsu, the auditor of the Company, encountered significant practical difficulties in compiling its report as it was unable to go to certain locations of the Company (including Wuhan) for performing audit work. Accordingly, it was unable to complete the audit of the Group's annual results for the year ended December 31, 2019 by March 31, 2020 in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").
2. With domestic severe epidemic of African swine fever this year, the Group strengthened its capabilities of disease prevention and control under biosecurity system through comprehensive upgrade of related infrastructures to ensure hog supply. Despite the 22.2% year-on-year decrease in hog production volume in 2019, the income and profit from hog production business increased significantly due to the year-on-year increase in average selling price of finishing hogs by 39.8% as a result of decreased hog supply across the country.
3. Affected by the country-wide shortage of hog supply, hog procurement volume of the Group's fresh pork segment declined. In addition, the Group also increased certain pork inventory strategically. Fresh pork sales volume decreased year on year due to the above-mentioned two reasons.
4. "Ratio of revenue from branded business of total fresh pork business" refers to revenue from branded fresh pork divided by total fresh pork revenue. The ratio increased by 1.2 percentage points year on year, benefiting from brand promotion and channel development. Despite adverse circumstances, branded small-packed fresh pork sales volume increased significantly by 45.2% year on year.
5. To deal with the tightening domestic meat supply, the Group expanded its import procurement and sales volume, and the meat import sales volume increased significantly by 93.3% year on year.
6. Revenue amounted to RMB11,079 million, representing a year-on-year increase of 54.5%, including the revenue of RMB5,175 million from the meat import business, representing a year-on-year increase of 123.4%. Hog production, fresh pork and processed meat products also recorded a year-on-year increase in revenue.
7. Profit for the period before biological assets fair value adjustments amounted to RMB373 million, representing a year-on-year increase of RMB590 million. The Group focused on epidemic prevention and control, channel optimization and cost management, significantly increased the results of the hog production segment and the meat import segment year on year, and greatly improved the overall performance of the Group.
8. Profit attributable to the owners of the Company amounted to RMB1,574 million. The fair value of biological assets was adjusted based on hog prices as at the end of December 2019. Compared with December 31, 2018, the price of hogs significantly increased while hog stock decreased.
9. The basic earnings per share represents the profit attributable to the owners of the Company divided by the weighted average number of ordinary shares for the respective year.

The Board recommended the declaration of final dividend for the year ended December 31, 2019. The dividends to be declared and paid will in aggregate amount to 40% of the profit attributable to the owners of the Company before biological assets fair value adjustments for the year 2019. The specific amount will be determined based on the audited financial report. The Company will issue further announcement after the Board has approved the details of declaration of final dividend.

FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2019

		2019			2018		
		Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total
NOTES		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Audited)	RMB'000 (Audited)	RMB'000 (Audited)
Revenue	2	11,078,665	–	11,078,665	7,168,488	–	7,168,488
Cost of sales		<u>(10,087,973)</u>	<u>(897,894)</u>	<u>(10,985,867)</u>	<u>(6,830,957)</u>	<u>(326,441)</u>	<u>(7,157,398)</u>
Gross profit		990,692	(897,894)	92,798	337,531	(326,441)	11,090
Other income	4	173,424	–	173,424	217,447	–	217,447
Other gains and losses	5	(8,831)	–	(8,831)	(23,793)	–	(23,793)
Other expenses	4	–	–	–	(98,500)	–	(98,500)
Selling and distribution expenses		(344,697)	–	(344,697)	(283,251)	–	(283,251)
Administrative expenses		(265,945)	–	(265,945)	(230,941)	–	(230,941)
Share of gain/(loss) of joint ventures		360	–	360	(566)	–	(566)
Gain/(loss) arising from agricultural produce at fair value less costs to sell at the point of harvest		–	867,562	867,562	–	(133,872)	(133,872)
Gain arising from changes in fair value less costs to sell of biological assets		–	1,179,149	1,179,149	–	30,331	30,331
Finance costs	6	<u>(162,331)</u>	<u>–</u>	<u>(162,331)</u>	<u>(124,168)</u>	<u>–</u>	<u>(124,168)</u>
Profit/(loss) before tax	7	382,672	1,148,817	1,531,489	(206,241)	(429,982)	(636,223)
Income tax expense	8	<u>(9,266)</u>	<u>–</u>	<u>(9,266)</u>	<u>(10,426)</u>	<u>–</u>	<u>(10,426)</u>
Profit/(loss) for the year		<u>373,406</u>	<u>1,148,817</u>	<u>1,522,223</u>	<u>(216,667)</u>	<u>(429,982)</u>	<u>(646,649)</u>
Other comprehensive (expense)/income, net of income tax:							
Items that will not be reclassified subsequently to profit or loss							
Fair value (loss)/gain on equity instrument at fair value through other comprehensive income				<u>(193,253)</u>			<u>6,715</u>

	2019			2018		
	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total	Results before biological assets fair value adjustments	Biological assets fair value adjustments	Total
NOTES	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
<i>Items that may be reclassified subsequently to profit or loss</i>						
Exchange differences arising on translation of foreign operations			375			14,123
Other comprehensive (expense)/income for the year, net of income tax			(192,878)			20,838
Total comprehensive income/ (expense) for the year			1,329,345			(625,811)
Profit/(loss) for the year attributable to:						
Owners of the Company			1,573,727			(627,667)
Non-controlling interests			(51,504)			(18,982)
Profit/(loss) for the year			1,522,223			(646,649)
Total comprehensive income/(expense) for the year attributable to:						
Owners of the Company			1,380,849			(606,829)
Non-controlling interests			(51,504)			(18,982)
			1,329,345			(625,811)
Earnings/(loss) per share:						
Basic and diluted			RMB40.33 cents			RMB(16.09) cents

10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2019

		At December 31	
	NOTES	2019	2018
		RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Goodwill		100,609	100,609
Property, plant and equipment		6,668,052	5,970,933
Right-of-use assets		401,351	—
Prepaid lease payments		—	207,562
Intangible assets		2,565	2,046
Investments in joint ventures		—	20,804
Equity instrument at fair value through other comprehensive income		205,969	399,222
Biological assets		475,706	468,294
Prepayments for purchase of property, plant and equipment		10,515	6,052
Deferred tax assets		15,299	237
Other prepayments		2,130	—
		<u>7,882,196</u>	<u>7,175,759</u>
Current assets			
Inventories		3,180,887	535,681
Biological assets		1,449,250	995,532
Accounts receivables	11	182,239	155,567
Prepayments, deposits and other receivables		534,600	209,964
Other current assets	12	2,171,879	—
Amounts due from related companies		82,617	23,938
Pledged and restricted bank deposits		9,762	23,281
Cash and bank balances		630,415	1,140,035
		<u>8,241,649</u>	<u>3,083,998</u>

	<i>NOTES</i>	At December 31	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Current liabilities			
Accounts and bills payables	13	462,689	500,687
Other payables, accruals and deposits received		666,867	563,268
Lease liabilities		17,000	—
Contract liabilities		324,917	137,092
Bank borrowings		6,301,064	2,057,045
Amounts due to related companies		230,023	61,480
Loans from related companies		113,200	475,540
Financial liabilities at fair value through profit or loss		50,518	2,170
Current tax payable		17,081	200
		<u>8,183,359</u>	<u>3,797,482</u>
Net current assets/(liabilities)		<u>58,290</u>	<u>(713,484)</u>
Total assets less current liabilities		<u>7,940,486</u>	<u>6,462,275</u>
Non-current liabilities			
Bank borrowings		1,332,893	1,448,279
Loans from a related company		91,869	89,339
Deferred income		153,385	139,881
Deferred tax liabilities		10,108	10,536
Long-term payable		47,000	—
Lease liabilities		145,058	—
		<u>1,780,313</u>	<u>1,688,035</u>
Net assets		<u><u>6,160,173</u></u>	<u><u>4,774,240</u></u>
Capital and reserves			
Share capital		1,668,978	1,668,978
Reserves		4,387,615	3,006,766
		<u>6,056,593</u>	<u>4,675,744</u>
Equity attributable to the owners of the Company		103,580	98,496
Non-controlling interests			
Total equity		<u><u>6,160,173</u></u>	<u><u>4,774,240</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

1. GENERAL

COFCO Meat Holdings Limited (the “Company”) was incorporated on March 11, 2014 and acts as an investment holding company. The address of the Company’s registered office is P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands. The address of its principal place of business is COFCO Fortune Plaza, No.8, Chao Yang Men South Street, Chao Yang District, Beijing, the People’s Republic of China (the “PRC”).

The shares of the Company have been listed on The Stock Exchange of Hong Kong Limited with effect from November 1, 2016.

The Company is an investment holding company. The principal activities of the Company’s subsidiaries (the Company and its subsidiaries are here in after collectively referred to as the “Group”) are hog production and sales, sales of fresh and frozen meats, manufacture and sales of meat products, and import and trade of meat products.

The consolidated financial statements are presented in Renminbi (“RMB”), which is the same as the functional currency of the Company and most of its subsidiaries, and all values are rounded to the nearest thousand except when otherwise indicated.

2. REVENUE

(i) Disaggregation of revenue from contracts with customers

Segments	For the year ended December 31, 2019				
	Hog production and sales RMB’000 (Unaudited)	Sales of fresh pork RMB’000 (Unaudited)	Sales of processed meat products RMB’000 (Unaudited)	Sales of imported meat products RMB’000 (Unaudited)	Total RMB’000 (Unaudited)
Types of goods					
Hogs	2,445,353	–	–	–	2,445,353
Fresh pork	–	3,137,058	–	–	3,137,058
Processed meat products	–	–	442,800	–	442,800
Imported meat products	–	–	–	5,053,454	5,053,454
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Geographical markets					
Mainland China	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Timing of revenue recognition					
A point in time	2,445,353	3,137,058	442,800	5,053,454	11,078,665
Total	2,445,353	3,137,058	442,800	5,053,454	11,078,665

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended December 31, 2019		
	Segment revenue <i>RMB'000</i> (Unaudited)	Eliminations <i>RMB'000</i> (Unaudited)	Consolidated <i>RMB'000</i> (Unaudited)
Hog production and sales	3,504,562	(1,059,209)	2,445,353
Sales of fresh pork	3,217,090	(80,032)	3,137,058
Sales of processed meat products	447,014	(4,214)	442,800
Sales of imported meat products	5,175,128	(121,674)	5,053,454
Revenue from contracts with customers	12,343,794	(1,265,129)	11,078,665
Total revenue	12,343,794	(1,265,129)	11,078,665

For the year ended December 31, 2018					
Segments	Hog production and sales <i>RMB'000</i> (Audited)	Sales of fresh pork <i>RMB'000</i> (Audited)	Sales of processed meat products <i>RMB'000</i> (Audited)	Sales of imported meat products <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
Types of goods					
Hogs	1,702,073	–	–	–	1,702,073
Fresh pork	–	2,808,095	–	–	2,808,095
Processed meat products	–	–	371,537	–	371,537
Imported meat products	–	–	–	2,286,783	2,286,783
Total	1,702,073	2,808,095	371,537	2,286,783	7,168,488
Geographical markets					
Mainland China	1,702,073	2,808,095	371,537	2,286,783	7,168,488
Total	1,702,073	2,808,095	371,537	2,286,783	7,168,488
Timing of revenue recognition					
A point in time	1,702,073	2,808,095	371,537	2,286,783	7,168,488
Total	1,702,073	2,808,095	371,537	2,286,783	7,168,488

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the year ended December 31, 2018		
	Segment revenue <i>RMB'000</i> (Audited)	Eliminations <i>RMB'000</i> (Audited)	Consolidated <i>RMB'000</i> (Audited)
Hog production and sales	3,043,869	(1,341,796)	1,702,073
Sales of fresh pork	2,844,476	(36,381)	2,808,095
Sales of processed meat products	376,390	(4,853)	371,537
Sales of imported meat products	2,316,362	(29,579)	2,286,783
Revenue from contracts with customers	8,581,097	(1,412,609)	7,168,488
Total revenue	8,581,097	(1,412,609)	7,168,488

(ii) Performance obligations for contracts with customers

The Group sells hogs, fresh pork, processed meat products and imported meat products and provides meat procurement agency services in Mainland China. Revenue is recognised when control of the goods or services has transferred, being at the point when the goods have been delivered to the customers at the locations agreed between the Group and the customers or the services have been completed.

Except for certain reputable customers, the Group requires fully prepayments from customers. For credit sales, the normal credit term is within 180 days upon delivery.

All contracts are for periods of one year or less. As permitted by HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

3. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers (“CODM”), for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. Specifically, the Group has four reportable operating segments under HKFRS 8 as follows:

Hog production segment	represents hog breeding and sales of hogs
Fresh pork segment	represents slaughtering, wholesale and retail sales of fresh and frozen meats
Processed meat products segment	represents manufacture, wholesale and retail sales of processed meat products
Meat import segment	represents sales of imported meat products

No operating segments have been aggregated in arriving at the reportable segments of the Group.

Segment revenues and results

The following is an analysis of the Group’s revenue and segment results by reportable operating segment.

	Hog production <i>RMB'000</i> (Unaudited)	Fresh pork <i>RMB'000</i> (Unaudited)	Processed meat products <i>RMB'000</i> (Unaudited)	Meat import <i>RMB'000</i> (Unaudited)	Segment total <i>RMB'000</i> (Unaudited)	Inter- segment elimination <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<i>For the year ended December 31, 2019</i>							
Segment revenue							
External customers	2,445,353	3,137,058	442,800	5,053,454	11,078,665	–	11,078,665
Inter-segment sales	1,059,209	80,032	4,214	121,674	1,265,129	(1,265,129)	–
Segment revenue	<u>3,504,562</u>	<u>3,217,090</u>	<u>447,014</u>	<u>5,175,128</u>	<u>12,343,794</u>	<u>(1,265,129)</u>	<u>11,078,665</u>
Segment results	<u>276,776</u>	<u>83,049</u>	<u>(10,679)</u>	<u>103,376</u>	<u>452,522</u>	<u>–</u>	<u>452,522</u>
Unallocated corporate income							165,198
Unallocated corporate expenses							(73,077)
Fair value adjustments on biological assets							1,148,817
Share of profit of joint ventures							360
Finance costs							(162,331)
Profit before tax							<u>1,531,489</u>

	Hog production RMB'000 (Audited)	Fresh pork RMB'000 (Audited)	Processed meat products RMB'000 (Audited)	Meat import RMB'000 (Audited)	Segment total RMB'000 (Audited)	Inter- segment elimination RMB'000 (Audited)	Total RMB'000 (Audited)
For the year ended December 31, 2018							
Segment revenue							
External customers	1,702,073	2,808,095	371,537	2,286,783	7,168,488	–	7,168,488
Inter-segment sales	<u>1,341,796</u>	<u>36,381</u>	<u>4,853</u>	<u>29,579</u>	<u>1,412,609</u>	(1,412,609)	<u>–</u>
Segment revenue	<u>3,043,869</u>	<u>2,844,476</u>	<u>376,390</u>	<u>2,316,362</u>	<u>8,581,097</u>	(1,412,609)	<u>7,168,488</u>
Segment results	<u>(279,099)</u>	<u>106,687</u>	<u>93,452</u>	<u>36,227</u>	<u>(42,733)</u>	–	(42,733)
Unallocated corporate income							26,796
Unallocated corporate expenses							(65,570)
Fair value adjustments on biological assets							(429,982)
Share of loss of joint ventures							(566)
Finance costs							<u>(124,168)</u>
Loss before tax							<u>(636,223)</u>

Segment profit/(loss) represents the profit earned by/(loss from) each segment without allocation of corporate income and expenses including central administration costs and directors' emoluments, fair value adjustments on biological assets, share of profit (loss) of joint ventures, and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prices agreed between group entities.

Segment assets and segment liabilities

The CODM makes decisions according to operating results of each segment. No analysis of segment asset and segment liability is presented as the CODM does not regularly review such information for the purposes of resources allocation and performance assessment. Therefore, only segment revenue and segment results are presented.

Other segment information

	Hog production RMB'000 (Unaudited)	Fresh pork RMB'000 (Unaudited)	Meat products RMB'000 (Unaudited)	Meat import RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Year ended December 31, 2019					
<i>Amounts included in the measure of segment profit:</i>					
Depreciation and amortisation*	57,982	26,786	20,502	441	105,711
Impairment/(reversal of impairment) of accounts receivable, net	20	152	(62)	–	110
Impairment of other receivable, net	–	92	71	–	163
Loss/(gain) on disposal of property, plant and equipment, net	3,213	118	(524)	–	3,855
Write-down/(write-back) of inventories	713	(1,892)	5,228	61,241	65,290
Impairment of property, plant and equipment	2,079	–	–	–	2,079
	<u>57,982</u>	<u>26,786</u>	<u>20,502</u>	<u>441</u>	<u>105,711</u>
	Hog production RMB'000 (Audited)	Fresh pork RMB'000 (Audited)	Meat products RMB'000 (Audited)	Meat import RMB'000 (Audited)	Total RMB'000 (Audited)

Year ended December 31, 2018

<i>Amounts included in the measure of segment profit:</i>					
Depreciation and amortisation*	16,292	22,243	13,940	50	52,525
Impairment of accounts receivable, net	–	585	58	238	881
Impairment/(reversal of impairment) of other receivable, net	–	247	(8)	570	809
Loss/(gain) on disposal of property, plant and equipment, net	79,502	–	(67,005)	–	12,497
Gain on disposal of prepaid lease payment, net	–	–	(21,045)	–	(21,045)
Write-down/(write-back) of inventories	–	1,575	809	(27)	2,357
Impairment of property, plant and equipment	33,308	–	–	–	33,308
	<u>16,292</u>	<u>22,243</u>	<u>13,940</u>	<u>50</u>	<u>52,525</u>

* Depreciation and amortisation not included in the measure of segment profit or loss for the year ended December 31, 2019 amounted to RMB344,000 (2018: RMB426,000).

Geographical information

All of the revenue of the Group is derived from the Mainland China based on location of the operations for both 2019 and 2018.

All the Group's non-current assets at December 31, 2019 and 2018 are located in the Mainland China based on geographical location of the assets.

Information about major customers

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue in each of the reporting periods for both 2019 and 2018.

4. OTHER INCOME AND OTHER EXPENSE

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

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Interest income from banks	22,966	25,717
Interest income from a related company	2,055	1,614
	25,021	27,331
Dividend income from equity instrument at fair value through other comprehensive income	10,552	–
Government grants	137,851	88,415
Income from sales of feed ingredients	–	101,701
	173,424	217,447

Other expenses in 2018 represent the cost of feed ingredients the Group sold to third parties.

5. OTHER GAINS AND LOSSES

An analysis of the Group's other gains/(losses) is as follows:

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Exchange gain, net	5,007	5,984
Loss on disposal of property, plant and equipment, net	(3,855)	(12,497)
Gain on disposal of prepaid lease payment	–	21,045
Write-down of inventories to net realisable value	(65,290)	(2,357)
Impairment on accounts receivable, net	(110)	(881)
Impairment on other receivables, net	(163)	(809)
Impairment of property, plant and equipment	(2,079)	(33,308)
Realised and unrealised (loss)/gain on fair value changes in respect of foreign currency forward contracts, net	(54,562)	6,491
Realised and unrealised gain on fair value changes in respect of commodity future, net	128,687	–
Loss on disposal of joint ventures	(2,720)	–
Others	(13,746)	(7,461)
	(8,831)	(23,793)

6. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	Year ended December 31	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Interest on:		
Bank borrowings	166,300	117,389
Loans from a non-controlling equity holder	–	77
Loans from related companies	17,409	21,758
Lease liabilities from third parties	7,674	–
	<hr/>	<hr/>
Total borrowing costs	191,383	139,224
Less: Borrowing costs capitalised in the cost of qualifying assets	(29,052)	(15,056)
	<hr/>	<hr/>
	162,331	124,168
	<hr/>	<hr/>

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Year ended December 31	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Cost of sales (represented the cost of inventories recognised as expenses during the year)	10,087,973	6,830,957
Gain on fair value changes in respect of biological assets	897,894	326,441
	<hr/>	<hr/>
Total cost of sales	10,985,867	7,157,398
	<hr/>	<hr/>
Employee benefits expense:		
Salaries and other allowances	634,454	546,230
Retirement benefit schemes contributions	53,667	52,339
Equity-settled share option expense	–	12,204
Less: Capitalised in biological assets and construction in progress	(441,280)	(437,663)
	<hr/>	<hr/>
	246,841	173,110
	<hr/>	<hr/>
Depreciation of property, plant and equipment	282,685	251,563
Depreciation of right-of-use assets	26,485	–
Amortisation of prepaid lease payments	–	13,471
Amortisation of intangible assets	1,032	903
	<hr/>	<hr/>
Total depreciation and amortisation	310,202	265,937
Less: Capitalised in biological assets	(204,147)	(212,986)
	<hr/>	<hr/>
	106,055	52,951
	<hr/>	<hr/>
Auditors' remuneration	1,700	1,700
	<hr/>	<hr/>

8. INCOME TAX EXPENSE

An analysis of the Group's income tax expense is as follows:

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Current tax:		
PRC Enterprise Income Tax (the "EIT")	<u>24,756</u>	<u>156</u>
Over provision in prior years:		
PRC Enterprise Income Tax	<u>-</u>	<u>(29)</u>
Deferred tax:		
Current year	<u>(15,490)</u>	<u>10,299</u>
	<u>9,266</u>	<u>10,426</u>

No provision for Hong Kong profits tax during the year have been made as the Group had no assessable profit generated in Hong Kong for the year (2018: nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the year (2018: 25%).

Certain operations of the Company's certain subsidiaries were exempted from PRC income taxes during both 2019 and 2018. According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from primary processing for agriculture products are exempted from EIT. In addition, pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from projects of animal-husbandry and poultry feeding, is also entitled to exemption from EIT. Accordingly, the income from the above-mentioned operations of certain subsidiaries of the Group were exempted from EIT in the years ended December 31, 2018 and 2019.

9. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2019 and 2018. Since the end of the reporting period, the Board recommended the declaration of final dividend for the year ended December 31, 2019. The dividends to be declared and paid will in aggregate amount to 40% of the profit attributable to the owners of the Company before biological assets fair value adjustments for the year 2019.

10. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings

	Year ended December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Earnings/(loss) for the purpose of basic earnings per share		
Profit/(loss) for the year attributable to owners of the Company	<u>1,573,727</u>	<u>(627,667)</u>

Number of shares

	Year ended December 31	
	2019	2018
	'000	'000
	(Unaudited)	(Audited)
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	<u>3,901,998</u>	<u>3,901,998</u>

The calculation of the basic earnings/(loss) per share attributable to the owners of the Company is based on profit for the year attributable to owners of the Company of RMB1,573,727,000 (2018: loss of RMB627,667,000). The denominators used are the same as those detailed above for basic earnings per share.

No diluted earnings/(loss) per share for both 2019 and 2018 were presented as there were no potential ordinary shares in issue for both 2019 and 2018.

11. ACCOUNTS RECEIVABLES

	At December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Accounts receivables contracts with customers	182,691	156,763
Less: Allowance for credit losses	<u>(452)</u>	<u>(1,196)</u>
Total accounts receivables	<u>182,239</u>	<u>155,567</u>

An aged analysis of the accounts receivables as at the end of the reporting period, based on the delivery dates and net of allowance for credit losses, is as follows:

	At December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 90 days	178,012	153,127
90 to 180 days	3,382	2,111
180 days to 1 year	472	317
Over 1 year	373	12
	<u>182,239</u>	<u>155,567</u>

As at December 31, 2019, included in the Group's accounts receivables are debtors with aggregate carrying amount of RMB13,631,000 (2018: RMB3,849,000) which are past due as at the reporting date. Out of the past due balances, RMB903,000 (2018: RMB814,000) has been past due 90 days or more and is not considered as in default. The Group does not hold any collateral over these balances.

12. OTHER CURRENT ASSETS

As at December 31, 2019, other current assets represented the costs recoverable for meat products the Group purchased pursuant to an agency arrangement where the Group was requested to purchase meat products and sell the meat products to designated buyers. The Group is responsible for the procurement and delivery of the meat products to designated buyers and earns agreed agency fees. Under the arrangement, the purchase of meat products are financed by bank loans from a designated bank in the PRC.

13. ACCOUNTS AND BILLS PAYABLES

An analysis of accounts and bills payables is as follows:

	At December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Accounts payables	460,789	424,477
Bills payables	1,900	76,210
	<u>462,689</u>	<u>500,687</u>

The accounts payables are non-interest-bearing and are normally with credit periods ranging from 15 to 60 days. Bills payables are normally repayable within 180 days.

An aged analysis of the accounts payables as at the end of the reporting period, based on the invoice date, is as follows:

	At December 31	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Within 1 year	444,973	415,474
1 to 2 years	9,683	4,735
Above 2 years	6,133	4,268
	<u>460,789</u>	<u>424,477</u>

MANAGEMENT DISCUSSION AND ANALYSIS

I. Company Profile

Company Introduction

The Company is a meat business platform under COFCO Corporation (“**COFCO**”) and was listed on the main board of The Stock Exchange of Hong Kong Limited on November 1, 2016 (stock code: 1610).

The main businesses of the Company include feed production, hog production, slaughtering and cutting, production, distribution and sale of fresh pork and processed meat products, import and distribution of meat products (including pork, beef, poultry and mutton). As a leading meat enterprise with operations covering the integrated value chain in China, the Company seized the opportunity of industrial transformation and upgrading and formed a strategic layout throughout the country, so that the scale of hog production and fresh pork business has been rapidly growing. We adhere to the operation principle of “leading the safety standards in the industry and assuring meat safety for citizens” through providing consumers with high-quality meat products. “Joycome” chilled pork and “Maverick” low-temperature meat products continue to rise in popularity in major first-tier cities.

Business Segments Introduction

Hog Production

Hog production segment includes businesses such as feed production, hog breeding and hog farming. The Company has established modern hog production bases and in-house feed mills in provinces and cities including Jilin, Inner Mongolia, Tianjin, Hebei, Henan, Jiangsu and Hubei and planned to further expand its hog production capacity.

Fresh Pork

Fresh pork segment includes hog slaughtering and cutting, distribution and sale of fresh pork, and the main products are chilled pork. The Company owns two modern slaughtering and processing bases in Jiangsu and Hubei, and is building a new slaughtering and processing base in Hubei. The Company vigorously develops branded business through the “Joycome” brand, which covers the pork consumption market in major cities and areas such as Shanghai and the Yangtze River Delta, Beijing and Wuhan.

Processed Meat Products

The processed meat products segment includes the production, distribution and sale of various types of processed meat products (mainly western-style low-temperature processed meat products). The Company owns three modern processed meat product processing bases in Jiangsu, Hubei and Guangdong. Our two brands, namely “Maverick” and “Joycome”, cover the processed meat products consumption market in major domestic first-tier cities.

Meat Import

Meat import segment includes import of meat products (including pork, beef, poultry and mutton) and by-products and distribution in the PRC. The Company combines imported raw materials with domestic processing capacity and key account service, and provides high value-added products to well-known domestic food processors, large chain catering enterprises, etc.

II. Market overview

With the intensive and complicated situation for prevention and control of the African swine fever, the upgrading of the meat industry is accelerating

The African swine fever has polluted a relatively large portion of China ever since its introduction into the country in August 2018. Due to the complicated ways of transmission of the epidemic while vaccines are still under research and development, the prevention and control of the African swine fever will be a prolonged battle. Under such circumstances, the transformation and upgrading of the meat industry is accelerating. Firstly, the entry barrier for hog production has been greatly raised and large-scale enterprises will secure higher market shares and profits. Secondly, the policies have imposed severe crack down on illegal transportation and private slaughter and encouraged the shifting of “transporting hog” into “transporting pork”, while the slaughtering capacity will transfer to the major areas of hog production and a large number of backward and inefficient slaughtering capacity will be eliminated. Thirdly, the industry chains for hog production and slaughtering will extend to each other and enterprises covering whole industry chains will have first-mover advantage during the industry transformation.

Significant decrease in hog production across the country driving rapid rise in hog prices

In 2019, domestic hog production volume was 544 million heads, representing a year-on-year decrease of 21.6%; pork output was 43 million tons, representing a year-on-year decrease of 21.3%. The supply gap drove hog prices to rise rapidly and reach RMB41.0/kg in early November.

In the fourth quarter, the basic inventory of sows in China showed a rebound momentum but a full recovery will take time

The second half of 2019 saw significant decrease in domestic hogs and sow stocks. With the government’s introduction of a number of measures to promote production, inventory of sows recorded month-on-month growth for three consecutive months in December 2019. As it took time for resumption of capacity, coupled with the short-term difficulties in replenishment caused by the outbreak of the COVID-19, tightened domestic supply of hogs will persist in 2020, which in turn will support hog prices for the whole year.

Consumption upgrading led to brand-oriented pork consumption

Driven by consumption upgrades and the impact of the African swine fever, product quality and food safety became the focus of consumers’ attention. Branded pork with excellent quality, safety and healthiness will be more favored and gain higher brand premium and loyalty.

Year-round significant increase in meat imports

In 2019, China’s pork (excluding by-products) imports amounted to 2,108 thousand tons, representing an increase of 75% year on year and accounting for approximately 5.0% of domestic pork production; beef imports amounted to 1,659 thousand tons, representing an increase of 59.7% year on year and accounting for approximately 24.9% of domestic beef production.

III. Results of operation

In 2019, amid complicated external environment, the Company strengthened prevention and control of epidemic diseases, promoted brand building, and expanded the scale of meat import and sales. During the reporting period, profit attributable to the owners of the Company before biological assets fair value adjustment was RMB425 million, representing a year-on-year increase of RMB629 million, mainly driven by the increase in hog production segment and meat import segment.

Hog production business

Improving hardware facilities to enhance the prevention and control capabilities against African swine fever

The Company strengthened construction of biosecurity system to enhance the capabilities of prevention and control of the African swine fever. Firstly, in terms of hardware, we comprehensively upgraded facilities by the new construction of nearly 80 high-standard vehicle cleaning and disinfection stations and high-temperature drying rooms as well as the addition of high-temperature ripening devices for the feed plants. Secondly, in respect of the management of vehicles, personnel and materials flows, vehicles are docked to designated hog farm after thorough decontamination and drying. Personnel must strictly implement off-site and on-site isolation before entering the production area, while all materials are centrally delivered on site by special cars after concentrated disinfection in regional warehouses. Thirdly, in respect of disease prevention and control, frequency of hog farm patrols are increased and abnormal hogs are disposed of in a timely manner. Fourthly, in respect of production management, experience for prevention and control of African swine fever are shared through weekly regular meetings.

Accelerating the progress of production and actively expanding sow stocks to ensure output

In 2019, the Company's hog production volume was 1,985 thousand heads, representing a decrease of 22.2% year on year, and the average finishing weight was at 107.1 kg/head, which was stable year on year.

The Company accelerated its operations of new sites and rehabilitation of old sites. By the end of 2019, a total hog production capacity of 5,024 thousand heads was reached, representing an increase of 936 thousand heads compared with the beginning of the year. Standard rehabilitation process was developed to accelerate the progress of resuming production, with sow stocks increasing steadily during the second half of 2019. Plans for introducing the nucleus herds were actively promoted to provide breeding source.

Optimizing incentive mechanisms to improve production efficiency

To fully mobilize the enthusiasm and sense of responsibility of employees, the Company has optimized the production incentive mechanism. Basic salary and batch performance bonus for front-line employees were increased, with monthly batch performance bonuses increasing by 45%; incentives were established for production management staff for prevention and control of major epidemics and excessive hog production volume.

Fresh pork business

Strict control of process risks with 100% product pass rate

The Company carried out advance inspections in areas of supplier access, entry and exit of personnel and vehicles as well as factory environment disinfection, and enabled full coverage of process risks through inspection of live hogs before their entrance at the factory as well as during and after they are slaughtered. In all 234 batches of government spot checks in 2019, the Company's pass rate of fresh pork and processed meat products was 100%.

Strengthening brand promotion with growing proportion of revenue from branded fresh pork business

In 2019, the Company adequately increased its pork inventory, recording sales volume of fresh pork of 146 thousand tons, representing a decrease of 23.3% year on year. With continuous strengthening of brand construction, revenue from branded fresh pork grew by 17.1% to reach RMB1,027 million, and the ratio of branded fresh pork revenue increased by 1.2 percentage points year on year to 32.0%.

As "A partner of China Space", the Company continued to carry out activities centering around the positioning of "Safety with Zero Mistake" such as "Aerospace Science Campus Events" and "Aerospace Launch Viewing Ceremony", and further enhanced the brand awareness and reputation. In August 2019, Joycome became a "guaranteed preparation product for competition by national team athletes of National Sports Training Center (NSTC)", successively supplying pork products for the 2nd National Youth Games and the 7th Military World Games by achieving "zero" failure in cold chain transportation, "zero" detection of stimulants, and "zero" accidents in food quality and safety. The Company will continue to polish every production process with "champion quality" to provide national team athletes and consumers with safe, reliable, healthy and nutritious high-quality meat.

Improving production capacity layout to cater for the trend from "transporting hogs" to "transporting pork"

To cater for the trend from "transporting hogs" to "transporting pork", the Company accelerated its slaughtering capacity layout. The main structure of Huanggang, Hubei new plant with an annual slaughtering capacity of 1 million heads has been completed, and the arrangement for production will subsequently be made according to hog sources. The slaughtering capacity layout will continue to proceed in Northeast and North China.

Sales of small-packed fresh pork showing explosive growth, and the opening up of e-commerce retail channels for fresh food has first shown effectiveness

The Company's small-packed fresh pork recorded annual sales volume of 26.4 million boxes, representing an increase of 45.2% year on year with daily sales volume exceeding 72 thousand boxes. The Company carried out in-depth cooperation with new retail channels, and its small-packed fresh pork has entered 134 stores of a certain mid-to-high-end fresh food e-commerce company. The opening up of e-commerce retail channels for fresh food has also shown effectiveness, with the growth in sales and revenue from e-commerce channels exceeded 100% year on year.

Meat import business

Expanding import procurement and sales volume to deal with tightening domestic meat supply

In 2019, amid tightening domestic meat supply, the Company enhanced its procurement that covered almost hundred suppliers in 20 countries. The sales volume of the segment was 179 thousand tons, representing an increase of 93.3% year on year, of which sales volume of beef was 72 thousand tons, representing an increase of 86.3% year on year; sales volume of pork was 66 thousand tons, representing an increase of 105.8% year on year; revenue from the segment amounted to RMB5,175 million, representing an increase of 123.4% year on year.

Continuous optimization of channel structure

The Company continued to further its penetration into regions and channels, with its terminal (catering, corporate customers and retail) business revenue increasing by 131.6% year on year. The sales volume of imported chilled pork, beef and high-end grain-fed products increased rapidly, with the loyalty of high-end retail and catering customers further strengthened.

IV. Financial Review

Overall Performance

In 2019, the revenue of the Group was RMB11,079 million, representing a year-on-year increase of RMB3,911 million as compared with RMB7,168 million for the same period in 2018. Before biological assets fair value adjustments, the net profit of the Group was RMB373 million, turning around from a loss to a profit as compared with losses of RMB217 million for the same period in 2018, with an increase in profit of RMB590 million.

Revenue

In 2019, the revenue of the Group was RMB11,079 million, representing a year-on-year increase of 54.5% as compared with RMB7,168 million for the same period in 2018, mainly due to the year-on-year increase of 93.3% in sales volume of the meat import business. Meanwhile, the average selling price of finishing hogs in the hog production business was RMB16.16/kg for the year, representing a year-on-year increase of 39.8%.

Gross Profit Margin

In 2019, the gross profit margin before biological assets fair value adjustments of the Group was 8.9%, representing a year-on-year increase of 4.2 percentage points, mainly due to the rapid rise of domestic hog prices in the second half of the year; meanwhile, trade opportunities emerged and the profitability of meat import business improved.

Selling and Distribution Expenses/Administrative Expenses

In 2019, the total selling and distribution expenses and administrative expenses of the Group amounted to RMB611 million, representing a year-on-year increase of 18.9% as compared with RMB514 million for the same period last year, mainly due to the increase in refrigeration charges and freight costs incurred by the significant expansion of scale of the meat import business during the year.

Finance Costs

In 2019, the Group's finance costs amounted to RMB162 million, representing an increase of RMB38 million as compared with RMB124 million in 2018, mainly due to the expansion of scale of the meat import business, which in turn resulted in increased borrowings.

Other Income, Other Expenses, Other Gains and Losses

In 2019, the Group's other income, other expenses, other gains and losses amounted to RMB165 million in total, representing a year-on-year increase of RMB69 million as compared with that of the same period in 2018, mainly due to gains from commodity future contracts of RMB128 million for the year.

Profit/Loss for the Period

For the reasons above, the Group recorded profit before biological assets fair value adjustments of RMB373 million in 2019, turning around from a loss to a profit as compared with losses of RMB217 million for the same period in 2018, with an increase in profit of RMB590 million.

Significant Investments and Acquisitions and Disposals of Subsidiaries

Save as disclosed in this results announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries in 2019.

Major Financial Ratios

The financial ratios of the Group as at December 31, 2019 and December 31, 2018 are set forth below:

	December 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Return on equity ⁽¹⁾	27.8%	-13.3%
Return on assets ⁽²⁾	11.5%	-6.7%
Interest coverage ratio ⁽³⁾	8.85 times	-3.68 times
Current ratio ⁽⁴⁾	1.01	0.81
Net debt-to-equity ratio ⁽⁵⁾	117.0%	61.4%

Notes:

- (1) Equals profit/loss for the year divided by the average of the beginning and ending total equity for that year and multiplied by 100%.
- (2) Equals profit/loss for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.
- (3) Equals profit/loss before finance costs and income tax expense for the year divided by finance costs (with capitalised interest added back) for that year and multiplied by 100%.
- (4) Equals current assets divided by current liabilities as at the balance sheet date.
- (5) Equals total interest-bearing bank loans and loans from the related parties less cash and bank balances divided by total equity as at the balance sheet date and multiplied by 100%.

Analysis on Capital Resources

Liquidity and Financial Policy

Adhering to the steady financial policy, externally, the Group was committed to expanding financing channels and strengthening financing capability construction, as well as strengthening the cooperation with banks to obtain adequate credit facilities and ensure the capital liquidity. Internally, the Group implemented intensive management for surplus capital to improve the turnover efficiency for inventories and receivables and the generation capability for cash flow. The finance department of the Group regularly and closely examined the overall condition of cash and liabilities, and flexibly arranged financing plans based on finance costs and expiry conditions.

In order to allocate and utilise capitals more effectively, the Group entered into the financial services agreements and entrusted loans framework agreement through COFCO Finance Corporation Limited (“**COFCO Finance**”). At the same time, the Group also used the capital pool in Mainland China, so as to be more effective in utilising cash, reducing average borrowing costs of the Group, and accelerating clearing services among the companies under the Group.

Certain subsidiaries of the Group that are engaged in meat import business or that own foreign currency borrowings may expose us to exchange rate risks mainly related to U.S. dollars. We paid close attention to exchange rate fluctuations and timely adopted currency forward contracts to hedge the majority of exchange rate risks.

As at December 31, 2019, the cash and bank balances owned by the Group amounted to approximately RMB630 million (December 31, 2018: approximately RMB1,140 million). The decrease was mainly due to the rapid expansion of scale of the meat import business during the year.

As at December 31, 2019, our current ratio was 1.01 (December 31, 2018: 0.81). As at December 31, 2019, our unused bank credit facilities were RMB7,478 million.

EBITDA and Cash Flow

Our operation capital mainly came from cash generated from operation activities, bank borrowings and shareholders' capital contributions. Our cash demand was mainly borne on production and operation activities, capital expenditure, repayment of matured liabilities, interest payment and unexpected cash needs as well.

In 2019, the EBITDA of the Group (before biological assets fair value adjustments) was RMB929 million (same period in 2018: RMB322 million). Net cash used in our operating activities was RMB1,049 million (generated during the same period in 2018: RMB42 million). Net cash generated in our investment activities was RMB4 million (used during the same period in 2018: RMB1,955 million), including RMB966 million for the purchase of property, plant and equipment (same period in 2018: RMB1,333 million). Net cash generated from our financing activities was RMB1,441 million (generated during the same period in 2018: RMB1,256 million). Our time deposits over three months decreased by RMB866 million as compared to that at the beginning of 2019. In summary, in 2019, our net decrease in cash and bank balances was RMB510 million.

Capital Structure

As at December 31, 2019, the total number of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at December 31, 2019, the Group had interest-bearing bank loans of approximately RMB7,634 million (December 31, 2018: approximately RMB3,505 million). The annual interest rate on bank loans ranged from 2.58% to 4.99% (December 31, 2018: from 2.14% to 4.99%). Most of the bank loans were based on floating interest rates.

Details of the maturity of interest-bearing bank loans are as follows:

<i>Unit: RMB in million</i>	December 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Within 1 year	6,301	2,057
1 to 2 years	256	335
3 to 5 years	714	921
Over 5 years	363	193
Total	7,634	3,505

Details of the fixed-rate borrowings and variable-rate borrowings are as follows:

<i>Unit: RMB in million</i>	December 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Fixed-rate borrowings	5,801	756
Variable-rate borrowings	1,833	2,749
Total	7,634	3,505

As at December 31, 2019, the Group had approximately RMB205 million loans from related parties (December 31, 2018: approximately RMB565 million).

As at December 31, 2019, the Group had net assets of approximately RMB6,160 million (December 31, 2018: approximately RMB4,774 million). Net debts of the Group¹ amounted to approximately RMB7,209 million (December 31, 2018: approximately RMB2,930 million), while the net debt to equity ratio was approximately 117.0% (December 31, 2018: approximately 61.4%).

Note:

1. Net debts of the Group refer to interest-bearing bank loans and loans from related parties less cash and bank balances.

Contingent Liabilities and Pledge of Assets

As at December 31, 2019 and December 31, 2018, the Group had no significant contingent liabilities.

As at December 31, 2019 and December 31, 2018, the Group had no bank loans secured by buildings, land use rights and time deposits of the Group.

Capital Expenditure

Capital expenditure of the Group was mainly used for the construction of our hog farms, as well as other production and ancillary facilities. We funded our capital expenditures primarily with shareholders' capital contributions, borrowings and our internal funds.

In 2019, the Group's capital expenditure was RMB982 million (same period in 2018: RMB1,422 million). The following table sets forth our capital expenditure for the years indicated:

<i>Unit: RMB in million</i>	2019 (Unaudited)	2018 (Audited)
Payments for property, plant and equipment	966	1,333
Payments for prepaid lease payments	14	88
Payments for other intangible assets	2	1
Total	982	1,422

As of December 31, 2019, our demand for capital expenditure mainly came from the construction of hog farms and facilities in Jilin Province, Henan Province and the Inner Mongolia Autonomous Region, as well as slaughter house and facilities in Hubei Province.

Capital Commitment

Capital commitment of the Group is mainly related to the construction of hog farms and other production and ancillary facilities. As at December 31, 2019, capital commitment of the Group was RMB433 million (December 31, 2018: RMB522 million).

Biological Assets

Biological assets of the Group primarily consist of commodity pigs at different growth stages and breeding hogs used to give birth to animals in the future. As at December 31, 2019, We owned 167 thousand breeding and replacement hogs in total, representing a decrease of 9.2% as compared with 184 thousand heads as at December 31, 2018. The fair value of our biological assets was RMB1,925 million as at December 31, 2019 and RMB1,464 million as at December 31, 2018. Our results have been and are expected to be affected by changes in fair value of biological assets.

Our cost of sales is adjusted for changes in fair value of biological assets, with fair value gains increasing our costs of sales and fair value losses decreasing our cost of sales, although the timing of these adjustments is not necessarily the same as the related gains or losses. We adjust the cost of sales for each period based on (i) changes in fair value of live hogs for that period less cost of sales; and (ii) changes in fair value less cost of sales of biological assets recognized in the previous periods.

During the same periods in 2019 and 2018, such adjustments have increased our cost of sales by RMB898 million and RMB326 million, respectively. Additionally, gains arising from fair value of agricultural products at the point of harvest less cost of sales amounted to RMB868 million (same period in 2018: loss of RMB134 million); gains arising from changes in fair value of biological assets less cost of sales amounted to RMB1,179 million (same period in 2018: gains of RMB30 million). In general, the net effect of adjustment in fair value of biological assets on profit was gains of RMB1,149 million during the current period and losses of RMB430 million during the same period in 2018.

V. Human Resources

The continuing operations of the Group hired 6,442 employees as at December 31, 2019 (December 31, 2018: 6,989 employees). Remuneration for employees was determined based on their job nature, personal performance and the market trends. For the year ended December 31, 2019, total remuneration amounted to approximately RMB688 million (2018: RMB611 million).

The Group adopted a share incentive scheme on March 27, 2015 to provide incentives for its directors and eligible employees, aiming to stimulate them to work for the cause of increasing the value of the Company and its shares. On March 27, 2017, the Board approved to revise the share incentive scheme under the consensus reached by MIY Corporation, Promise Meat Investment II Ltd., Baring Private Equity Asia V Holding (16) Limited, TLS Beta Pte. Ltd. and Shiny Joyful Limited after negotiation. For details, please refer to the prospectus of the Company and our announcement dated March 27, 2017.

The Group provides basic social insurance and housing accumulation fund for company employees as required by the PRC law. Apart from the above, we encouraged all employees to become well-rounded and enhance their knowledge and abilities related to their career through continuous training, seminars and online learning in order to unearth their own potentials.

VI. Significant Risks and Uncertainties

The results and business operations of the Group are affected by a number of risks and uncertainties directly or indirectly related to the business of the Group. Primary risk factors known to the Group are outlined as follows:

Epidemic Risks

Epidemic risks are the major risks faced by the development of animal husbandry. The epidemics spreading in hog production mainly include porcine reproductive and respiratory syndrome, classical swine fever, porcine respiratory disease, porcine epidemic diarrhea, porcine pseudorabies, porcine circovirus, etc. In 2019, African swine fever epidemic continued all across the country. There are three categories of risks brought about by epidemics. First, the outbreak of epidemic diseases will lead to hog mortalities, which will directly cause a decrease in hog production and result in direct economic losses for the Company. Second, the epidemic diseases will put hog farms under enormous pressure and increase the amount of resources used by the Company in epidemic prevention. In addition, the epidemic will continuously affect the production in hog farms because the purification process reduces the production efficiency of the farms and increases the operating costs, resulting in reduced effectiveness. Third, the large-scale outbreak and spread of epidemic diseases may cause panic among most consumers and thus lower the total demand for related products, which adversely affects the sales of hogs. To solve epidemic risks, the Group has formulated regulations such as The Incentive Measures for Prevention and Control of Major Outbreak of Epidemic Diseases (《重大疫情防控激勵辦法》) and refined the contingency plan for major animal disease prevention and control to improve the level and capacity of biosecurity control as well as to comprehensively prevent and curb major animal diseases such as African swine fever.

In addition, at the end of 2019, the COVID-19 epidemic broke out in China and further spread to other countries. Until now, tens of thousands of people nationwide have been infected. The risks brought by the COVID-19 can be classified into three categories. Firstly, the disease is relatively contagious, and poses direct threats to the health and safety of employees. Secondly, various disease prevention and transportation control measures could affect work resumption of employees, transportation of all sorts of materials for production as well as inter-province (region) sales of products, thus decreasing the production and operation efficiency of the Company. Thirdly, the disease may lower the demand for catering channels in the near future, adversely affecting the sales of meat of the Company. To cope with the risks caused by the COVID-19, the Group set up a team to lead disease-prevention work, formulated a comprehensive and stringent prevention and control plan according to the development trend of the epidemic and national policies, and strived to ensure employee safety, stable production and smooth sales.

Price Risks

Price risks refer to the losses of costs increase or profits decrease due to the fluctuation of the purchase price and the sales price. We operate in a highly fragmented and competitive industry, where the primary raw materials and finished products are commodities, all of which have been subject to significant price fluctuations. In our pork business, we are exposed to the risk of fluctuations of commodity prices, including prices of corn and soybean meals (which are our primary feed ingredients), live hogs and pork in China. In our meat import business, we are exposed to the risk of fluctuations in the price differentials between the Chinese and overseas markets of frozen meat products such as pork, beef, poultry, mutton and lamb. Fluctuations in these commodity prices, especially the prices of live hogs, have had and are expected to continue to have an effect on our profitability. Commodity prices generally fluctuate with market conditions, including supply and demand, diseases, government policies and weather conditions in major agricultural and farming regions.

Food Safety Risks

Food safety risks refer to risks of severe customer complaints, large-scale product recalls and other negative effects resulted from unqualified product and food safety indicators due to deficient food safety management system, unsound risk identification and assessment mechanism and unfulfilled food safety control measures as well as early warning mechanism. To solve possible food safety risks, the Group continued to enhance its food safety management systems, and has stipulated standards for food safety management system, such as, Provisions for the Food Safety Management of COFCO Meat, Food Safety Responsibility System of COFCO Meat, Standards for Meat Industry Chain of COFCO Group and Prohibition on Food Safety of COFCO Meat, and has formulated specific early warning indicators and bottom line indicators. The Group has defined that the decisive department of risk management of food safety is the Quality and Safety Management Department. The Quality and Safety Management Department organized and carried out food safety training and guidance, conducted regular supervision inspection and supervision examination of samples, and evaluated and reviewed the results. All grassroots enterprises strictly implement the food safety management requirements and actively prevent food safety risks.

Safe Production Risks

Safe production risks refer to risks of corporate property loss, temporary production suspensions or tarnished reputation due to production safety accidents caused by deficient safety management system or inadequate accident preventive measures. The Group has formulated Regulations on Safety Production Management of COFCO Meat, Measures for Administration of Production Safety Accidents of COFCO Meat and Comprehensive Emergency Plans for Production Safety Accidents of COFCO Meat to standardize safety risks management and prevent accidents. The Group has defined that the decisive department of risk management of safe production is the Quality and Safety Management Department, and has formulated the early warning indicators and bottom line indicators. The Quality and Safety Management Department organizes all grassroots enterprises to conduct all-round risk identification, evaluation and classification, and formulate corresponding management and control measures; to formulate special risk prevention and control measures for major risks; to organize all grassroots enterprises to perfect inspection system, organize regular safety inspection and confirm the effectiveness of risk management and control measures; and to conducts regular supervision and inspection to evaluate the operation of management system and risk management and control and promote the improvement and development of grassroots enterprises.

Environmental Protection Risks

Environmental protection risks refer to risks of corporate property loss and bad influence on social image due to excessive emission of pollutants and environmental pollution resulted from deficient environmental protection facilities and unstable operation. The Group has formulated standards, such as Regulations of Administration on Energy Conservation and Emission Reduction of COFCO Meat, Energy Conservation and Emission Reduction Responsibility System of COFCO Meat and Emergency Plans for Environmental Pollution Accidents of COFCO Meat, which defined the requirements of environmental protection compliance and standardized the management of environmental pollution accidents to effectively carry out environmental protection risk prevention. The Group has defined that the decisive department of risk management of environmental protection risks is the Quality and Safety Management Department, and has formulated the early warning indicators and bottom line indicators. The Quality and Safety Management Department regularly carried out environmental inspection, systematically checked the environmental protection problems of each unit, followed up the implementation of rectifications to sort environmental compliance issues of each unit, organized all units to carry out compliance rectifications, and established environmental risk warning and monitoring system to detect and provide early warnings on environmental protection risks in a timely manner and to effectively implement the responsibility of environmental protection.

VII. The Outlook

Epidemics such as the African swine fever and the COVID-19 will bring greater challenges to the industry in the short term, but industry opportunities are brought by the crisis. In 2020, we will prepare ourselves in the following aspects:

Firstly, we are determined to carry out prevention and control work on African swine fever to safeguard the smooth and stable operation of our farming system. On this basis, we will continue to speed up hog production layout and accelerate sow introduction and hog production.

Secondly, we will vigorously carry out the differentiated and branded operation of our fresh pork business, expand the sales of small-packed products, and convert high-quality hogs into high-premium pork products.

Thirdly, we will take advantage of the industrial link between the domestic and foreign businesses, expand the volume of import procurement and sales, continuously push forward the trade plus processing business model, and enhance the profit contribution from our import business.

Fourthly, prevention work on the COVID-19 will be implemented properly. The outbreak of the COVID-19 in the end of 2019 has had different degrees of impact on the recovery of meat production capacity in various aspects. Facing adverse factors such as transportation restrictions, difficulties of personnel in returning to factories as well as short-term declining demand for catering, the Company set up a team to lead disease-prevention work in a timely manner to formulate a comprehensive and stringent prevention and control plan to safeguard its production and supply. In respect of transportation, the Company actively reported to and communicated with governments at all levels to ensure the smooth transportation of feed, medicines and hogs. In respect of production, the Company made great efforts to conduct disinfection for epidemic prevention in production sites, and realized commencement of operation of all factories as of February 11, 2020. In respect to sales, we focused on ensuring supply to supermarkets, e-commerce platforms and sales of small-packed products in the short term, while maintaining good relationships with mid- and high-end customers in the catering and processing channels so as to prepare ourselves for the consumption growth after the end of the epidemic.

Due to the strict prevention and control measures, the Company's business operations have been stable since 2020. In particular, as hog production is a business of continuous production, the production volume was less affected by the COVID-19, while the sales in other segments for February 2020 recorded a month-on-month decline affected by the delayed resumption of work and demand in the market, which is expected to pick up after the COVID-19 is under control. The Company will continue to implement the prevention work on the COVID-19 to safeguard employee safety, stable production and smooth sales.

OTHER EVENTS

Compliance with the Corporate Governance Code

The Board and the management of the Company are committed to achieving and maintaining high standards of corporate governance, which they consider to be essential to safeguard the integrity of the Company's operations and maintain investors' trust in the Company. The management of the Company also actively observes the latest corporate governance requirements in the PRC, Hong Kong and abroad. The Board considers that the Company has complied with the provisions of the Corporate Governance Code contained in Appendix 14 of the Listing Rules for the year ended December 31, 2019.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules as a code of conduct regarding securities transactions by the directors of the Company. The Company has made specific enquiries with each director and each of them confirmed that he or she had complied with all required standards under the Model Code for the year ended December 31, 2019.

Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities for the year ended December 31, 2019.

Subsequent Events

As at the date of this announcement, the Group has no material subsequent events after December 31, 2019 which are required to be disclosed.

Final Dividend

The Board recommended the declaration of final dividend for the year ended December 31, 2019. The dividends to be declared and paid will in aggregate amount to 40% of the profit attributable to the owners of the Company before biological assets fair value adjustments for the year 2019. The specific amount will be determined based on the audited financial report. The Company will issue further announcement after the Board has approved the details of declaration of final dividend.

Review of Unaudited Annual Results

For the reasons explained above under Note 1 on page 2 of the announcement, the unaudited annual results contained herein have not yet been agreed with the Company's auditors. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The audit committee of the Company has reviewed the unaudited annual results contained herein.

Further Announcement

Following the completion of the auditing process, the Company will issue further announcement in relation to the audited results for the year ended December 31, 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein. In addition, the Company will issue further announcement as and when necessary if there are other material development in the completion of the auditing process.

Publication of Annual Report

The annual report of the Company will be published on the website of the Company and the website of Hong Kong Exchanges and Clearing Limited, and dispatched to the shareholders of the Company in due course.

The financial information contained herein in respect of the annual results of the Group has not been audited and has not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

By order of the Board
COFCO Meat Holdings Limited
Jiang Guojin
Chairman and executive Director

Beijing, PRC, March 24, 2020

As at the date of this announcement, the Board comprises Mr. Jiang Guojin as the chairman of the Board and the executive director, Mr. Xu Jianong as the executive director, Ms. Yang Hong, Mr. WOLHARDT Julian Juul, Dr. Cui Guiyong, Mr. Zhou Qi, Mr. Zhang Lei and Dr. Huang Juhui as non-executive directors, and Mr. Fu Tingmei, Mr. Li Michael Hankin, Mr. Lee Ted Tak Tai and Dr. Ju Jiandong as independent non-executive directors.