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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)

**INTERIM RESULTS ANNOUNCEMENT FOR THE
SIX MONTHS ENDED JUNE 30, 2020**

The board of directors (the “**Board**”) of COFCO Meat Holdings Limited (the “**Company**”, “**we**”, “**our**” or “**us**”) is pleased to announce the unaudited condensed consolidated results and financial position of the Company and its subsidiaries (the “**Group**”) for the six months ended June 30, 2020, together with the comparative figures for the corresponding period in 2019 as follows:

HIGHLIGHTS

Key Operating Data

	Six months ended June 30,		
	2020	2019	year-on-year (%)
Average selling price of finishing hogs (RMB/kg) ⁽¹⁾	32.63	12.42	162.6%
Hog production volume (unit: '000 heads) ⁽¹⁾	801	1,451	-44.8%
Fresh pork sales volume (unit: '000 tons) ⁽²⁾	51	86	-40.0%
Branded small-packed fresh pork sales volume (unit: '000 boxes)	15,654	13,201	18.6%
Ratio of revenue from branded business of total fresh pork business ⁽³⁾	40.7%	31.3%	9.4 percentage points
Meat import sales volume (unit: '000 tons) ⁽⁴⁾	175	59	194.1%

Key Financial Data

	Six months ended June 30,			
	2020		2019	
	Before biological assets fair value adjustments RMB'000	After biological assets fair value adjustments RMB'000	Before biological assets fair value adjustments RMB'000	After biological assets fair value adjustments RMB'000
Revenue ⁽⁵⁾	9,168,271	9,168,271	4,402,821	4,402,821
Profit/Loss for the Period ⁽⁶⁾	1,383,821	2,053,272	-276,325	93,264
Profit/Loss attributable to the owners of the Company ⁽⁷⁾	1,385,437	2,054,888	-204,052	142,257
Basic earnings/Loss per share ⁽⁸⁾	RMB0.3550	RMB0.5266	RMB-0.0523	RMB0.0365

Notes:

1. In the first half of 2020, amid double challenges of the COVID-19 epidemic and the African swine fever, the Group stepped up its efforts in enhancing disease prevention and control, improving production management and striving to ensure hog supply. Despite the Group's hog production volume reaching 801 thousand heads, representing a year-on-year decrease of 44.8%, the average selling price of finishing hogs increased by 162.6% year-on-year to RMB32.6/kg.
2. In the first half of 2020, affected by the country-wide shortage of hog supply, hog procurement volume of the Group's fresh pork segment declined. As a result, fresh pork sales volume decreased year-on-year.
3. "Ratio of revenue from branded business of total fresh pork business" refers to revenue from branded fresh pork divided by total fresh pork revenue. Seizing the opportunities of rapid growth in household consumption during the COVID-19 epidemic, the Group vigorously developed its branded business, which increased the ratio of revenue from branded fresh pork by 9.4 percentage points year-on-year to 40.7%.
4. To deal with the tightening domestic meat supply, meat import sales volume of the Group in the first half of 2020 increased significantly by 194.1% year-on-year.
5. Revenue amounted to RMB9,168 million, representing a year-on-year increase of 108.2%, of which the revenue from the meat import business amounted to RMB4,850 million, representing a year-on-year increase of 186.3%. Hog production, fresh pork and processed meat products segments also recorded a year-on-year increase in revenue.
6. Profit for the period before biological assets fair value adjustments amounted to RMB1,384 million, representing a year-on-year increase of RMB1,660 million. The Group focused on epidemic prevention and control and cost management, significantly increased the results of the hog production segment year on year, and greatly improved the overall performance of the Group.
7. Profit attributable to the owners of the Company amounted to RMB2,055 million. The biological assets fair value was adjusted based on the hog price at the end of June 2020. The number and market price of our live hogs increased as compared to those as of June 30, 2019.
8. The basic earnings/loss per share represents the profit/loss attributable to the owners of the Company divided by the weighted average number of ordinary shares for the period.

The Board recommended the payment of an interim dividend for the six months ended June 30, 2020 in the amount of HK\$0.118 per share and in the aggregate amount of approximately HK\$460 million, and the interim dividend is expected to be paid on or around September 30, 2020 to shareholders whose names appear on the register of members of the Company on September 14, 2020.

FINANCIAL INFORMATION

The following financial information is a summary of the unaudited condensed consolidated financial statements for the six months ended June 30, 2020 of the Group, which have been reviewed by Deloitte Touche Tohmatsu, the independent auditor of the Company, and the audit committee of the Board (the “**Audit Committee**”).

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED JUNE 30, 2020

		Six months ended June 30,					
		2020			2019		
		Results before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)	Results before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<i>NOTES</i>							
Revenue	3	9,168,271	–	9,168,271	4,402,821	–	4,402,821
Cost of sales		(7,059,542)	(1,876,102)	(8,935,644)	(4,532,806)	(22,805)	(4,555,611)
Gross (loss)/profit		2,108,729	(1,876,102)	232,627	(129,985)	(22,805)	(152,790)
Other income	5	93,851	–	93,851	78,217	–	78,217
Other gains and losses, net	6	(360,455)	–	(360,455)	142,629	–	142,629
Distribution and selling costs		(244,472)	–	(244,472)	(158,724)	–	(158,724)
Administrative expenses		(120,881)	–	(120,881)	(120,963)	–	(120,963)
Share of profit of joint ventures		–	–	–	366	–	366
Gain/(loss) arising from agricultural produce at fair value less costs to sell at the point of harvest		–	696,954	696,954	–	(7,526)	(7,526)
Gain/(loss) arising from changes in fair value less costs to sell of biological assets		–	1,848,599	1,848,599	–	399,920	399,920
Finance costs	7	(128,901)	–	(128,901)	(84,312)	–	(84,312)
Profit/(loss) before tax	8	1,347,871	669,451	2,017,322	(272,772)	369,589	96,817
Income tax expense	9	35,950	–	35,950	(3,553)	–	(3,553)
Profit/(loss) for the period		1,383,821	669,451	2,053,272	(276,325)	369,589	93,264

Six months ended June 30,

	2020			2019		
	Results before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)	Results before biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Biological assets fair value adjustments <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
<i>NOTES</i>						
Other comprehensive income (expense), net of income tax:						
<i>Item that will not be reclassified to profit or loss:</i>						
Fair value (loss)/gain on equity instrument at fair value through other comprehensive income			(64,885)			13,885
<i>Items that may be reclassified subsequently to profit or loss:</i>						
Exchange differences arising on translation of foreign operation			1,831			3,565
Other comprehensive (expense)/income for the period, net of income tax			(63,054)			17,450
Total comprehensive income/expense for the period			1,990,218			110,714
Profit for the period attributable to:						
Owners of the Company			2,054,888			142,257
Non-controlling interests			(1,616)			(48,993)
			2,053,272			93,264
Total comprehensive income/expense attributable to:						
Owners of the Company			1,991,834			159,707
Non-controlling interests			(1,616)			(48,993)
			1,990,218			110,714
Earnings per share:			RMB52.66			RMB3.65
Basic			cents			cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT JUNE 30, 2020

		June 30, 2020	December 31, 2019
	<i>NOTES</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Goodwill		100,609	100,609
Property, plant and equipment		6,868,293	6,668,052
Right-of-use assets		596,367	401,351
Intangible assets		4,070	2,565
Equity instrument at fair value through other comprehensive income (“FVTOCI”)		141,084	205,969
Biological assets		852,084	475,706
Deposits paid for purchase of property, plant and equipment		36,367	10,515
Deferred tax assets		65,970	15,299
Other prepayments		–	2,130
		8,664,844	7,882,196
Current assets			
Inventories		4,994,202	3,180,887
Biological assets		2,206,711	1,449,250
Accounts receivables	<i>12</i>	681,246	182,239
Prepayments, deposits and other receivables		1,183,520	534,600
Other current assets		5,687,196	2,171,879
Financial assets at fair value through profit or loss		61	–
Amounts due from related companies	<i>13</i>	171,632	82,617
Pledged and restricted bank deposits		81,254	9,762
Cash and bank balances		763,485	630,415
		15,769,307	8,241,649

		June 30, 2020	December 31, 2019
	<i>NOTES</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
Current liabilities			
Accounts and bills payables	14	720,801	462,689
Lease liabilities		26,575	17,000
Contract liabilities		477,915	324,917
Bank borrowings		12,740,931	6,301,064
Other payables, accruals and deposits received		947,221	666,867
Amounts due to related companies	13	88,623	230,023
Loans from related companies		265,770	113,200
Financial liabilities at fair value through profit or loss		9	50,518
Current tax liabilities		2,244	17,081
		<u>15,270,089</u>	<u>8,183,359</u>
Net current assets		<u>499,218</u>	<u>58,290</u>
Total assets less current liabilities		<u>9,164,062</u>	<u>7,940,486</u>
Non-current liabilities			
Bank borrowings		586,875	1,332,893
Loans from a related company		93,185	91,869
Deferred income		152,024	153,385
Long-term payable		47,000	47,000
Deferred tax liabilities		11,737	10,108
Lease liabilities		294,555	145,058
		<u>1,185,376</u>	<u>1,780,313</u>
Net assets		<u><u>7,978,686</u></u>	<u><u>6,160,173</u></u>
Capital and reserves			
Share capital		1,668,978	1,668,978
Reserves		6,207,744	4,387,615
		<u>7,876,722</u>	<u>6,056,593</u>
Equity attributable to the owners of the Company		7,876,722	6,056,593
Non-controlling interests		101,964	103,580
Total equity		<u><u>7,978,686</u></u>	<u><u>6,160,173</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2020

1. BASIS OF PREPARATION AND PRESENTATION

The unaudited condensed consolidated financial statements of COFCO Meat Holdings Limited (the “**Company**”) and its subsidiaries (together the “**Group**”) for the six months ended June 30, 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended December 31, 2019.

These condensed 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.

1A SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

Due to the impact of the COVID-19 pandemic, market demands and prices of certain frozen meat products decreased, especially from customers engaged in the catering business in the PRC, during the six months ended June 30, 2020, resulting in a decrease of gross margin from the Group’s sales of certain frozen meat products as well as an increase of write-down of inventories to net realisable value. Details are set out in respective notes to the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for biological assets and certain financial instruments which are measured at fair values, as appropriate.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatory effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts of application on Amendments to HKAS 1 and HKAS 8 “*Definition of Material*”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending December 31, 2020.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

Segments	For the six months ended June 30, 2020				
	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 or service					
Hogs	2,369,726	–	–	–	2,369,726
Fresh pork	–	1,737,896	–	–	1,737,896
Processed meat products	–	–	306,133	–	306,133
Imported meat products	–	–	–	4,754,516	4,754,516
Total	2,369,726	1,737,896	306,133	4,754,516	9,168,271
Timing of revenue recognition					
A point in time	2,369,726	1,737,896	306,133	4,754,516	9,168,271
Total	2,369,726	1,737,896	306,133	4,754,516	9,168,271
For the six months ended June 30, 2019					
Segments	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	1,113,587	–	–	–	1,113,587
Fresh pork	–	1,417,378	–	–	1,417,378
Processed meat products	–	–	192,255	–	192,255
Imported meat products	–	–	–	1,679,601	1,679,601
Total	1,113,587	1,417,378	192,255	1,679,601	4,402,821
Timing of revenue recognition					
A point in time	1,113,587	1,417,378	192,255	1,679,601	4,402,821
Total	1,113,587	1,417,378	192,255	1,679,601	4,402,821

4. 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

Each reportable segment derives its revenue from the sales of products based on the location of operations. They are managed separately because each segment requires different production and marketing strategies.

4. SEGMENT INFORMATION (CONTINUED)

Segment revenue and segment results

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

	Hog production RMB'000 (unaudited)	Fresh pork RMB'000 (unaudited)	Processed meat products RMB'000 (unaudited)	Meat import RMB'000 (unaudited)	Segment total RMB'000 (unaudited)	Inter- segment elimination RMB'000 (unaudited)	Total RMB'000 (unaudited)
Six months ended June 30, 2020							
Segment revenue							
External customers	2,369,726	1,737,896	306,133	4,754,516	9,168,271	–	9,168,271
Inter-segment sales	390,520	21,506	476	95,919	508,421	(508,421)	–
Segment revenue	2,760,246	1,759,402	306,609	4,850,435	9,676,692	(508,421)	9,168,271
Segment results	1,761,402	(63,783)	(44,134)	(100,378)	1,553,107	–	1,553,107
Unallocated corporate income							19,755
Unallocated corporate expenses							(96,090)
Fair value adjustments on biological assets							669,451
Finance costs							(128,901)
Group's profit before tax							2,017,322
Six months ended June 30, 2019							
Segment revenue							
External customers	1,113,587	1,417,378	192,255	1,679,601	4,402,821	–	4,402,821
Inter-segment sales	702,053	26,026	3,877	14,775	746,731	(746,731)	–
Segment revenue	1,815,640	1,443,404	196,132	1,694,376	5,149,552	(746,731)	4,402,821
Segment results	(435,658)	52,591	2,464	36,525	(344,078)	–	(344,078)
Unallocated corporate income							175,026
Unallocated corporate expenses							(23,491)
Share of gain of joint ventures							366
Fair value adjustments on biological assets							369,589
Finance costs							(80,595)
Group's profit before tax							96,817

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 certain 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 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.

5. OTHER INCOME

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

	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income from banks	1,057	15,504
Interest income from a related company	3,147	777
	<hr/>	<hr/>
Interest income	4,204	16,281
	<hr/>	<hr/>
Promotion service income	5,803	–
Dividend income from equity instrument at FVTOCI	42,000	–
Government grants*	41,844	61,936
	<hr/>	<hr/>
	93,851	78,217
	<hr/>	<hr/>

* Government grants are mainly related to innocuous treatment of died hogs and construction of hog farms. There are no unfulfilled conditions or contingencies relating to these grants.

Government grants related to acquisition of lands use rights and acquisition/construction of property, plant and equipment projects are included in deferred income and are credited to profit or loss on a systematic basis over the useful lives of the related assets. Included in the above balances are government grants released from deferred income of RMB1,361,000 for the six months ended June 30, 2020 (six months ended 30 June 2019: RMB1,792,000).

6. OTHER GAINS AND LOSSES, NET

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

	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Exchange (loss)/gain, net	(3,713)	1,288
Loss on disposal of property, plant and equipment	(578)	(131)
Loss on disposal of a joint venture	–	(3,536)
Impairment of inventories	(260,271)	(2,456)
Impairment on trade receivables, net	(144)	(19)
Reversal/(impairment on) of impairment on other receivables, net	21	(39)
Impairment of property, plant and equipment	–	(400)
Realised and unrealised (loss)/gain on fair value changes in respect of commodity future, net	(98,579)	160,394
Realised and unrealised gain/(loss) on fair value changes in respect of foreign currency forward contracts, net	16,969	(5,802)
Others	(14,160)	(6,670)
	<hr/>	<hr/>
	(360,455)	142,629
	<hr/>	<hr/>

7. FINANCE COSTS

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

	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on:		
Bank borrowings	121,970	77,159
Loans from related companies	8,250	15,866
Lease liabilities from the third parties	7,608	3,717
	<hr/>	<hr/>
Total borrowing costs	137,828	96,742
	<hr/>	<hr/>
Less: borrowing costs capitalized in the cost of qualifying assets	(8,927)	(12,430)
	<hr/>	<hr/>
	128,901	84,312
	<hr/> <hr/>	<hr/> <hr/>

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended June 30,	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of sales (represented the cost of inventories recognised as expenses during the period)	7,059,542	4,532,806
Gain on fair value changes in respect of biological assets	1,876,102	22,805
	<hr/>	<hr/>
Total cost of sales	8,935,644	4,555,611
	<hr/>	<hr/>
Depreciation of property plant and equipment	164,622	134,605
Depreciation of right-of-use assets	17,322	16,366
Amortisation of intangible assets	525	441
	<hr/>	<hr/>
Total depreciation and amortisation	182,469	151,412
Less: capitalized in biological assets	(151,967)	(104,837)
	<hr/>	<hr/>
	30,502	46,575
	<hr/> <hr/>	<hr/> <hr/>

9. INCOME TAX EXPENSE

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

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax:		
People's Republic of China ("PRC")		
– Enterprise Income Tax	<u>13,092</u>	<u>3,553</u>
Deferred tax:		
– Current year	<u>(49,042)</u>	<u>–</u>
Income tax expenses relating to continuing operations	<u>(35,950)</u>	<u>3,553</u>

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 six months ended June 30, 2020 (six months ended 30 June 2019: 25%).

Certain of the Company's subsidiaries operating in the PRC are eligible for certain tax concessions and certain of their operations were exempted from PRC income taxes during both 2020 and 2019. 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 during the current and prior periods.

10. EARNINGS PER SHARE

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

Earnings

	Six months ended June 30,	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings for the purpose of basic earnings		
per share earnings for the period		
attributable to the owners of the Company	<u>2,054,888</u>	<u>142,257</u>

Number of shares

	Six months ended June 30,	
	2020	2019
	'000	'000
Weighted average number of ordinary shares for the		
purpose of basic earnings per share	<u>3,901,998</u>	<u>3,901,998</u>

Diluted earnings per share

No diluted earnings per share were presented for both period as there were no potential ordinary shares in issue for both periods.

11. DIVIDEND

On June 2, 2020, a final dividend of Hong Kong Dollar (“**HKD**”) 0.048 (equivalent to RMB0.044) per share, equivalent to dividend of HKD187, 296,000 (equivalent to RMB171,705,000) was declared to shareholders for the year ended December 31, 2019 by the Company. The dividend was paid in July 2020. In August 2020, the board of directors of the Company recommended the declaration of final dividend of HK\$0.118 per share and in aggregate of approximately HK\$460 million (2019: HK\$187 million) for the six months ended June 30, 2020.

12. ACCOUNTS RECEIVABLES

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Accounts receivables	681,842	182,691
Impairment loss	(596)	(452)
	681,246	182,239

As at June 30, 2020, included in the Group's accounts receivables are debtors with aggregate carrying amount of RMB20,827,000 (December 31, 2019: RMB13,631,000) which are past due as at the reporting date. Out of the past due balances, RMB4,135,000 (December 31, 2019: RMB903,000) 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.

An aged analysis of the accounts receivables as at the end of the reporting period, based on the delivery date and net of impairment loss, is as follows:

	June 30, 2020 RMB'000 (Unaudited)	December 31, 2019 RMB'000 (Audited)
Within 3 months	671,534	178,012
3 to 6 months	6,464	3,382
6 months to 1 year	2,617	472
Over 1 year	631	373
	681,246	182,239

13. BALANCES WITH RELATED COMPANIES

Related companies include entities controlled by COFCO Corporation, a major shareholder of the Company.

Included in amounts due from related companies as at June 30, 2020 were receivables in trade nature of RMB74,655,000 (December 31, 2019: RMB33,236,000). These receivables are unsecured, interest-free and repayable according to relevant sales contracts. An aged analysis of these receivables as at the end of the reporting period, based on the delivery date and net of impairment loss, is as follows:

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Within 3 months	21,350	33,234
Over 3 months but less than 1 year	53,305	2
	74,655	33,236

The remaining balances of amounts due from related companies include prepayments in connection with the purchase of goods and current account balances, which are unsecured, interest-free and repayable on demand.

Included in amounts due to related companies as at June 30, 2020 were payables in trade nature of RMB33,714,000 (December 31, 2019: RMB15,062,000), which are unsecured, interest-free and repayable according to the relevant purchase contracts.

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Within 1 year	33,662	15,050
Over 1 year but less than 2 years	52	12
	33,714	15,062

The remaining balances of amounts due to related companies mainly included prepayments from related parties connection with agent procurement of meat products.

14. ACCOUNTS AND BILLS PAYABLES

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Account payables	720,701	460,789
Bills payable	100	1,900
	<u>720,801</u>	<u>462,689</u>

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

	June 30, 2020 <i>RMB'000</i> (Unaudited)	December 31, 2019 <i>RMB'000</i> (Audited)
Within 1 year	708,212	444,973
1 to 2 years	7,183	9,683
Over 2 years	5,306	6,133
	<u>720,701</u>	<u>460,789</u>

MANAGEMENT DISCUSSION AND ANALYSIS – BUSINESS REVIEW AND OUTLOOK

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 and second-tier cities.

Business Segments Introduction

Hog Production

The 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

The 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 new slaughtering and processing bases in Hubei, Inner Mongolia, and Jilin. The Company vigorously develops branded business through the “Joycome” brand, which covers the pork consumption market in major cities and regions 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 and second tier cities, and serve large chain catering enterprises.

Meat Import

The meat import segment includes import of meat products (including pork, beef, poultry and mutton) and by-products and their 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.

BUSINESS REVIEW

II. Market Overview

The prevention and control of the African swine fever is a prolonged battle, which accelerates the upgrading of the meat industry

In the first half of 2020, the African swine fever in the industry was brought under control to a certain extent. However, illegal transportation of hogs in many places as well as summer floods in southern China have intensified the pressure for epidemic prevention and control. Currently, the vaccines for the African swine fever are still under research and development. The prevention and control of African swine fever is expected to be a prolonged battle that boosts the transformation and upgrade of the meat industry.

Firstly, the technology and investment requirements for hog production have been continuously rising and large-scale enterprises secured higher market share and profits. Secondly, a series of initiatives such as the construction of African swine fever-free communities, the “antibiotics ban” for feed, the identity registration of hog purchase and transportation entities, have been introduced, leading to a more regulated industry. Thirdly, as the shift of “transporting hogs” toward “transporting pork” was encouraged by government policies, the industry value chains for hog production and slaughtering will extend to each other and enterprises covering the integrated value chain will gain first-mover advantage during the industry transformation.

Hog production across the country saw an overall recovery, but hog supply remains tightened

In the first half of 2020, domestic hog production volume was 251 million heads, representing a year-on-year decrease of 19.9%; pork output was 19,980 thousand tons, representing a year-on-year decrease of 19.1%.

In the end of June 2020, domestic sow stocks realized a year-on-year increase for the first time over the past 27 months, and hog production continued to recover. However, commercial sows accounted for a relatively high proportion in the industry, leaving a gap in effective production capacity. Meanwhile, the floods in southern China which caused capacity losses in certain areas and difficulties in hogs transportation, added strains to the tightening hog supply, and resulted in the hog price remaining at a high level.

The COVID-19 epidemic reshaped the consumption patterns, resulting in the rise of online consumption of fresh products and the growth in branded pork

Pork consumption saw a brand-oriented trend driven by consumption upgrading. Since the outbreak of the COVID-19 epidemic, food safety and quality have gained more attention, and the household consumption, especially the online fresh product consumption has grown rapidly. Branded pork products characterized by safety, convenience and freshness are more favored by consumers and gain higher brand premium and loyalty during the epidemic.

Meat imports increased significantly during the first half of the year. However, many foreign meat processing plants have ceased operation due to the COVID-19 epidemic

In the first half of 2020, China's pork imports (excluding by-products) amounted to 2,123 thousand tons, representing a year-on-year increase of 142.7% and accounting for approximately 10.6% of domestic pork production; beef imports (excluding by-products) amounted to 997 thousand tons, representing a year-on-year increase of 42.9% and accounting for approximately 35.9% of domestic beef production.

However, ever since the second quarter of the year, many major foreign meat processing plants successively closed due to clusters of COVID-19 infections. With their export of products to China suspended, it is expected that the meat import volume for the second half of the year will likely be affected.

III. Results of Operation

In the first half of 2020, amid double challenges of the COVID-19 epidemic and the African swine fever, the Company stepped up its efforts in enhancing epidemic prevention and control, improving production management and striving to ensure hog supply, and set a record high in the performance of the hog production segment. The fresh pork business, on the other hand, was facing a greater operational challenge under the market condition of tightening hog supply and weak market demand. However, the Company actively responded to the changes in market conditions and consumption patterns and continued to optimize its product and channel structure, maintaining a steady growth of its branded business. Likewise, the meat import business was also affected by weak demand, especially by the decline in demand for catering channels. The Company focused on lowering procurement costs and expanding retail customers to cope with the challenges. During the reporting period, profit attributable to the owners of the Company before biological assets fair value adjustments was RMB1,385 million.

Hog production business

Recording new high in segment results and defining long-term expansion

In the first half of 2020, the Company's hog production volume was 801 thousand heads, representing a period-on-period increase of 50.0%, the average price of finishing hogs was RMB32.6/kg, and the average finishing weight was 121.6 kg/head. Due to the Company's efficient cost control and flexible marketing strategies, the segment achieved a record performance of RMB1,761 million with an industry-leading profit per head in the first half of the year.

The Company has a clear objective for long-term expansion. A hog production capacity of 5,024 thousand heads was reached by the end of 2019, and new constructions for hog production in northern China with a capacity of 0.5 to 1 million heads have been commenced in the first half of 2020, which are promising growth in scale.

Effectively preventing and controlling the African swine fever and optimizing incentive mechanism to improve production efficiency

The Company realized effective prevention and control of the African swine fever through its leading experiences and principles in epidemic prevention and control. In terms of hardware, the Company has built high-standard decontamination and drying rooms, added ripening devices for feed plants and installed air filters for newly constructed sow farms as well as increased testing frequency and coverage with full application of PCR detectors. In terms of the management of hog farms, vehicles were 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. In terms of strengthening organization, the Company established an expert panel for epidemic prevention and control, which collectively formulated epidemic prevention and production resumption plans, and implement batch production in a comprehensive scale. Furthermore, the Company utilized the results of batch production to enhance the accuracy of the employee assessments, to fully stimulate employee's enthusiasm and responsibility.

In the first half of 2020, benefiting from the effective prevention and control of the African swine fever, adequate employee incentives and refined production management, the production volume of the Company recorded a quarter-on-quarter increase while the production cost continued to decrease.

Actively promoting rehabilitation and breeding stock introduction to ensure production volume

The Company accelerated the progress of resuming production. At the end of June 2020, we owned 241 thousand heads of breeding and replacement hogs (including breeding boars), which supported the subsequent hog production volume.

The Company actively promoted plans for introducing the nucleus herds and newly imported over 1,500 heads of French nucleus herds into Jilin in May 2020 to support capacity expansion with high-quality breeding sources.

Fresh pork business

Fighting the COVID-19 epidemic to fully safeguard the supply

Facing the unexpected COVID-19 epidemic, the Company, especially our Wuhan region fresh pork team, has been fighting at the forefront of the market, providing fresh pork to Wuhan citizens through over fifty stores, and has been awarded the Wuhan "Enterprise with outstanding contribution for safeguarding market supply during the epidemic prevention and control for the whole city (全市疫情防控市場保供作出突出貢獻企業)".

The ratio of revenue from branded business of total fresh pork business was constantly growing, while the brand influence was enhancing

In the first half of 2020, due to insufficient hog supply in the industry, the Company's sales volume of fresh pork was 51 thousand tons, representing a year-on-year decrease of 40.0%. However, the Company seized the growing household consumption opportunities during the epidemic, and worked hard to develop its branded business. As a result, revenue from the branded business grew by 58.9% to RMB717 million, and the ratio from branded business of total fresh pork business revenue increased by 9.4 percentage points year-on-year to 40.7%.

The Company has paid close attention to China's sports development and has provided safe and high-quality pork products for a number of national teams, provincial sports units and sports team for many years. In June 2020, COFCO Joycome became the Exclusive Meat Products Supplier for the Chinese Weightlifting Team and provided safe meat products with champion quality for the weightlifting team in preparation for the Tokyo Olympics, safeguarding the "China Strength." As "A partner of China Space", the Company continued to carry out "Aerospace Science Campus Events." During the epidemic, the Company organized online activities such as an aerospace-themed live streaming event and a call for comic stories for the "Planet Meat and Captain Pig (肉肉星球和猪局长)", which further enhanced brand awareness and reputation.

Promoting the transformation and upgrade of products and channels to cope with the changed consumption patterns during the epidemic

To adapt to changes of consumption patterns during the epidemic, the Company increased its efforts in the development of e-commerce and new retail channels and vigorously promoted its branded small-packed products. By seizing market opportunities to tap into the defrosting product market, the Company was able to lower its frozen product inventory adequately. During the first half of the year, revenue from e-commerce channels increased 85.4% year-on-year, with sales of small-packed products amounted to 16 million boxes, representing a year-on-year increase of 18.6%, while the average daily sales exceeded 86 thousand boxes.

Meat import business

Taking multiple measures to adapt to the changes of market conditions

In the first half of the year, under the tightening domestic meat supply, the Company's meat import sales volume was 175 thousand tons, representing a year-on-year increase of 194.1%; revenue from the segment amounted to RMB4,850 million, representing a year-on-year increase of 186.3%.

In the first half of 2020, due to the impact of the COVID-19 epidemic, meat consumption fell sharply and the market conditions of imported frozen meat changed significantly. Therefore, the Company has focused on lowering costs and inventories. On one hand, we reduced procurement costs through bargaining. Meanwhile, the Company significantly reduced its risk exposure by increasing the proportion of back-to-back lock orders.

Seizing the growth opportunities from retail consumption and continuously optimizing channel structure

The Company continued to further its penetration into regions and development of channels, with its terminal (catering, corporate customers and retail) business revenue increasing by 111.8% year-on-year. In response to the changed consumption environment due to the COVID-19 epidemic, the Company grasped the growth opportunities in defrosting products and retail consumption to rapidly expand the number of its retail customers to 126, including slaughtering and processing companies, e-commerce companies, convenience food brands, regional catering brands, with an increase of revenue from these retail customers by 417.7% year-on-year accordingly.

IV. Financial Review

Overall Performance

In the first half of 2020, the revenue of the Group was RMB9,168 million, representing an increase of RMB4,765 million as compared with RMB4,403 million for the same period in 2019. Prior to biological assets fair value adjustments, the net profit of the Group was RMB1,384 million, which made a turnaround from loss to profit as compared with losses of RMB276 million for the same period in 2019, with an increase in profit of RMB1,660 million.

Revenue

In the first half of 2020, the revenue of the Group was RMB9,168 million, representing an increase of 108.2% as compared with RMB4,403 million for the same period in 2019, mainly due to the year-on-year increase of 194% in the sales volume of the meat import business. Meanwhile, the average selling price of finishing hogs in the production business amounted to RMB32.63/kg for the year, representing a year-on-year increase of 162.6%.

Gross Profit Margin

In the first half of 2020, the gross profit margin before biological assets fair value adjustments of the Group was 23.0%, representing a year-on-year increase of 26.0 percentage points, mainly due to the effective epidemic prevention and control and cost management by the Group that spurred a rapid growth in the profit from the hog production business.

Selling and Distribution Expenses/Administrative Expenses

In the first half of 2020, based on the rapid growth of business scale, the total selling and distribution expenses and administrative expenses of the Group amounted to RMB365 million, representing a year-on-year increase of 30.4% as compared with RMB280 million for the same period last year, including the increase in refrigeration charges of the meat import business under the impact of the COVID-19.

Finance Costs

In the first half of 2020, the Group's finance costs amounted to RMB129 million, representing a year-on-year increase of RMB45 million as compared with RMB84 million for the same period in 2019, mainly due to the expansion of scale in the meat import business, which in turn resulted in increased borrowings.

Other Income, Other Gains and Losses

In the first half of 2020, the Group's other income, other gains and losses amounted to a total of RMB-267 million, turning around from profit to loss as compared with RMB221 million of the same period in 2019, which was mainly due to inventory impairment of RMB260 million provided in the year.

Profit/Loss for the Period

For the reasons above, the Group recorded profit before biological assets fair value adjustments of RMB1,384 million during the first half of 2020, which made a turnaround from loss to profit as compared with the loss of RMB276 million for the same period in 2019, with an increase in profit of RMB1,660 million.

Significant Investments, Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures

Save as disclosed in this results announcement, the Group had neither other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures during the first half of 2020.

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 accounts 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 June 30, 2020, the cash and bank balances owned by the Group amounted to approximately RMB763 million (December 31, 2019: approximately RMB630 million).

As at June 30, 2020, our current ratio was 1.03 (December 31, 2019: 1.01). As at June 30, 2020, our unused bank credit facilities were RMB12,718 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 the first half of 2020, the earnings of the Group's EBITDA (before biological assets fair value adjustments) were RMB1,659 million (same period in 2019: loss of RMB8 million). Cash used in our operating activities was RMB1,484 million (used during the same period in 2019: RMB159 million). Cash used in our investment activities was RMB462 million (generated during the same period in 2019: RMB348 million), including RMB357 million for the purchase of property, plant and equipment (same period in 2019: RMB397 million). Cash generated from our financing activities was RMB2,068 million (generated during the same period in 2019: RMB330 million).

Capital Structure

As at June 30, 2020, the total number of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at June 30, 2020, the Group had interest-bearing bank loans of approximately RMB13,328 million (December 31, 2019: approximately RMB7,634 million). The annual interest rates on bank loans ranged from 1.08% to 4.99% (December 31, 2019: from 2.58% to 4.99%). Most of the bank loans were based on fixed interest rates.

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

<i>Unit: RMB in million</i>	June 30, 2020	December 31, 2019
Within 1 year	12,741	6,301
1 to 2 years	126	256
3 to 5 years	253	714
Over 5 years	208	363
Total	<u>13,328</u>	<u>7,634</u>

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

<i>Unit: RMB in million</i>	June 30, 2020	December 31, 2019
Fixed-rate borrowings	10,094	5,801
Variable-rate borrowings	3,234	1,833
Total	<u>13,328</u>	<u>7,634</u>

As at June 30, 2020, the Group had loans from related parties of approximately RMB359 million (December 31, 2019: approximately RMB205 million).

As at June 30, 2020, the Group had net assets of approximately RMB7,979 million (December 31, 2019: approximately RMB6,160 million). Net debts of the Group¹ amounted to approximately RMB12,923 million (December 31, 2019: approximately RMB7,209 million), while the net debt-to-equity ratio was approximately 162.0% (December 31, 2019: approximately 117.0%).

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 June 30, 2020, the Group had no significant contingent liabilities.

As at June 30, 2020, the Group had no bank borrowings pledged by the 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 our other production and ancillary facilities. We funded our capital expenditures primarily with shareholders' capital contributions, borrowings and our internal funds.

In the first half of 2020, the Group's capital expenditure was RMB370 million (same period in 2019: RMB427 million). The following table sets forth our capital expenditure for the years indicated:

<i>Unit: RMB in million</i>	Six months ended June 30,	
	2020	2019
Payments for property, plant and equipment	357	397
Payments for right-of-use assets	11	29
Payments for other intangible assets	2	1
	<hr/>	<hr/>
Total	370	427
	<hr/>	<hr/>

In the first half of 2020, our demand for capital expenditure mainly came from the construction of hog production farms in Jilin Province and the Inner Mongolia Autonomous Region as well as slaughterhouses in Jilin Province and 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 June 30, 2020, the capital commitment of the Group was RMB437 million (December 31, 2019: RMB433 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 June 30, 2020, we owned 241 thousand heads of breeding and replacement hogs in total, representing an increase of 44.5% as compared with 167 thousand heads as at December 31, 2019. The fair value of our biological assets was RMB3,059 million as at June 30, 2020 and RMB1,925 million as at December 31, 2019. 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 that of the related gains or losses. We have adjusted 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 period.

During the first half of 2020 and the same period in 2019, such adjustments have made our cost of sales increase by RMB1,876 million and RMB23 million, respectively. Additionally, gains arising from fair value less cost of sales of agricultural products at the point of harvest amounted to RMB697 million (same period in 2019: losses of RMB8 million); gains arising from changes in fair value of biological assets less cost of sales amounted to RMB1,849 million (same period of 2019: gains of RMB400 million). In general, the net effect of adjustments in fair value of biological assets on profit was gains of RMB669 million during the current period and gains of RMB370 million during the same period in 2019.

V. Human Resources

The continuing operations of the Group hired 6,673 employees as at June 30, 2020 (June 30, 2019: 6,168 employees). Remuneration for employees was determined according to their job nature, personal performance and the market trends. For the six months ended June 30, 2020, total remuneration of the Group amounted to approximately RMB384 million (2019: RMB336 million).

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 the first half of 2020, 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, in the first half of 2020, the COVID-19 epidemic broke out in China and other countries. The risks brought by the COVID-19 can be classified into three categories. Firstly, the disease is relatively contagious, and may pose 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 interprovincial 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 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.

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 formulated specific early warning indicators and bottom line indicators, and 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.

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 formulated the early warning indicators and bottom line indicators, and organized 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.

VII. Outlook

The impact of the African swine fever and the COVID-19 epidemic still reverberates, followed by new challenges arising from the floods in southern China. In the second half of 2020, the Company will be determined to prepare ourselves in the following aspects:

Firstly, we will continue to strengthen capabilities of disease prevention and control under biosecurity measures, increase overall hog production volume and solidify our cost advantages through refined management.

Secondly, we will accelerate the construction of our hog production capacity and that of our slaughtering capacity in northern China to strengthen our upstream and downstream businesses matching.

Thirdly, we will take active measures in response to the changes to consumption patterns caused by the COVID-19 epidemic, create market-oriented new products, continuously expand new retail channels and carry out differentiated and branded operation of our fresh pork business to enhance brand influence.

Fourthly, we will leverage on the advantage of the industrial link between the domestic and foreign businesses, continue to further our penetration into channels, raise risk control awareness and enhance the profit contribution from our import business.

OTHER EVENTS

INTERIM DIVIDEND

The Board recommended the payment of an interim dividend for the six months ended June 30, 2020 in the amount of HK\$0.118 per share and in the aggregate amount of approximately HK\$460 million (for the six months ended June 30, 2019: HK\$0), and the interim dividend is expected to be paid on or around September 30, 2020 to shareholders whose names appear on the register of members of the Company on September 14, 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from September 10, 2020 to September 14, 2020, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the 2020 interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration before 4:30 p.m. on September 9, 2020.

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 Group'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. In the opinion of the Board, the Company has complied with the provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the six months ended June 30, 2020.

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 for 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 six months ended June 30, 2020.

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 six months ended June 30, 2020.

SUBSEQUENT EVENTS

As at the date of this announcement, the Group has no material subsequent events after June 30, 2020 which are required to be disclosed.

REVIEW OF INTERIM RESULTS

The Audit Committee has reviewed the unaudited interim results of the Group for the six months ended June 30, 2020. The Audit Committee is of the view that the interim report of the Group is prepared in accordance with applicable accounting standards, rules and regulations and appropriate disclosures have been duly made.

The unaudited condensed consolidated interim financial statements of the Group for the six months ended June 30, 2020 have been reviewed by the auditor of the Company, Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

PUBLICATION OF INTERIM REPORT

The interim report of the Company will be published on the website of the Company (www.cofcomeat.com) and the HKExnews website of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and dispatched to the shareholders of the Company in due course.

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

Beijing, PRC, August 25, 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, Dr. Cui Guiyong, Mr. Zhou Qi and Mr. Zhang Lei 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.