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## **C.P. POKPHAND CO. LTD.**

*(Incorporated in Bermuda with limited liability)*

*(Stock Code: 43)*

### **ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019**

#### **UNAUDITED CONSOLIDATED RESULTS**

The board of directors (the “Board”) of C.P. Pokphand Co. Ltd. (the “Company” or “CPP”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2019 as follows:

#### **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

		<b>Six months ended 30 June</b>	
		<b>2019</b>	<b>2018</b>
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
			<i>(Note (a))</i>
<b>REVENUE</b>	4	<b>3,237,381</b>	3,169,321
Cost of sales		<u><b>(2,705,439)</b></u>	<u>(2,746,342)</u>
Gross profit		<b>531,942</b>	422,979
Net change in fair value of biological assets	5	<u><b>(46,053)</b></u>	<u>84,121</u>
		<b>485,889</b>	507,100
Other income, net	6	<b>19,112</b>	16,747
Selling and distribution costs		<b>(144,764)</b>	(135,649)
General and administrative expenses		<b>(161,586)</b>	(147,571)
Finance costs	7	<b>(70,169)</b>	(39,971)
Share of profits and losses of:			
Joint ventures		<b>973</b>	1,991
Associates		<u><b>9,599</b></u>	<u>6,806</u>
<b>PROFIT BEFORE TAX</b>	8	<b>139,054</b>	209,453
Income tax	9	<u><b>(34,604)</b></u>	<u>(52,995)</u>
<b>PROFIT FOR THE PERIOD</b>		<u><b>104,450</b></u>	<u>156,458</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** *(Continued)*

	<b>Six months ended 30 June</b>	
	<b>2019</b>	2018
<i>Note</i>	<b>US\$'000</b>	US\$'000
	<b>(Unaudited)</b>	(Unaudited)
		<i>(Note (a))</i>
<b>OTHER COMPREHENSIVE INCOME</b>		
Items that will not be reclassified subsequently to profit or loss:		
Equity investments at fair value through other comprehensive income (non-recycling)	<b>4,303</b>	1,971
Income tax effect	<b>(1,076)</b>	(472)
Disposal of other financial assets	<b>638</b>	–
	<u><b>3,865</b></u>	<u>1,499</u>
Items that may be reclassified subsequently to profit or loss:		
Exchange differences related to translation of foreign operations	<b>287</b>	(27,465)
Release of reserves upon step acquisition of a subsidiary	–	(1,309)
Share of other comprehensive income of:		
Joint ventures	<b>(18)</b>	(410)
Associates	<b>108</b>	(2,390)
	<u><b>377</b></u>	<u>(31,574)</u>
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX</b>	<u><b>4,242</b></u>	<u>(30,075)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u><b>108,692</b></u>	<u>126,383</u>
<b>Profit attributable to:</b>		
Shareholders of the Company	<b>82,472</b>	107,433
Non-controlling interest	<b>21,978</b>	49,025
	<u><b>104,450</b></u>	<u>156,458</u>

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** (*Continued*)

		<b>Six months ended 30 June</b>	
		<b>2019</b>	2018
	<i>Note</i>	<b>US\$'000</b>	US\$'000
		<b>(Unaudited)</b>	(Unaudited)
			<i>(Note (a))</i>
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		<b>87,729</b>	81,293
Non-controlling interest		<b>20,963</b>	45,090
		<u><b>108,692</b></u>	<u>126,383</u>
<b>EARNINGS PER SHARE</b>			
<b>ATTRIBUTABLE TO SHAREHOLDERS</b>			
<b>OF THE COMPANY</b>			
	11	<i>US cents</i>	<i>US cents</i>
Basic and diluted		<u><b>0.326</b></u>	<u>0.424</u>

Details of the interim dividend are disclosed in note 10 to this interim financial information.

*Note:*

- (a) The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information in the consolidated statement of comprehensive income is not restated. Details of changes in accounting policy are disclosed in note 2 to this interim financial information.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2019	31 December 2018
	<i>Note</i>	<i>US\$'000</i> (Unaudited)	<i>US\$'000</i> (Audited) <i>(Note (b))</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		1,835,934	1,781,312
Investment properties		16,310	19,047
Land lease prepayments		178,778	174,168
Other right-of-use assets		391,005	–
Non-current biological assets		65,306	71,460
Intangible assets		23,519	26,297
Investments in joint ventures		17,981	17,114
Investments in associates		138,090	128,714
Other financial assets		18,197	15,042
Goodwill		35,521	35,461
Other non-current assets		67,546	29,494
Deferred tax assets		12,767	11,553
<b>Total non-current assets</b>		<b>2,800,954</b>	<b>2,309,662</b>
<b>CURRENT ASSETS</b>			
Inventories		699,799	629,057
Current biological assets		499,293	484,632
Trade and bills receivables	12	389,573	353,515
Prepayments, deposits and other receivables		477,592	391,538
Pledged deposits		24,507	34,835
Time deposits with maturity over three months		3,047	15,233
Cash and cash equivalents		435,670	392,890
<b>Total current assets</b>		<b>2,529,481</b>	<b>2,301,700</b>
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	13	581,840	476,807
Other payables and accruals		483,592	463,896
Lease liabilities		34,641	–
Bank borrowings		1,164,322	842,230
Corporate bond		145,531	145,041
Income tax payables		24,038	25,324
<b>Total current liabilities</b>		<b>2,433,964</b>	<b>1,953,298</b>
<b>NET CURRENT ASSETS</b>		<b>95,517</b>	<b>348,402</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>2,896,471</b>	<b>2,658,064</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*

	<b>30 June</b>	31 December
	<b>2019</b>	2018
<i>Note</i>	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
		<i>(Note (b))</i>
<b>NON-CURRENT LIABILITIES</b>		
Lease liabilities	<b>407,403</b>	–
Bank borrowings	<b>716,092</b>	824,096
Other non-current liabilities	<b>59,451</b>	49,748
Deferred tax liabilities	<b>53,159</b>	81,996
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>1,236,105</b>	955,840
	<hr/>	<hr/>
<b>NET ASSETS</b>	<b>1,660,366</b>	1,702,224
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<b>EQUITY</b>		
<b>Equity attributable to shareholders of the Company</b>		
Issued capital	<b>253,329</b>	253,329
Reserves	<b>1,053,180</b>	1,017,731
Dividend	<b>25,982</b>	84,443
	<hr/>	<hr/>
	<b>1,332,491</b>	1,355,503
Non-controlling interest	<b>327,875</b>	346,721
	<hr/>	<hr/>
<b>TOTAL EQUITY</b>	<b>1,660,366</b>	1,702,224
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*Note:*

- (b) The Group has initially applied IFRS 16 at 1 January 2019. Under the transition method chosen, comparative information in the consolidated statement of financial position is not restated. Details of changes in accounting policy are disclosed in note 2 to this interim financial information.

## NOTES

### 1. BASIS OF PREPARATION

This interim financial information is unaudited and has been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting* issued by the International Accounting Standards Board (the “IASB”) and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The accounting policies and the basis of preparation adopted in the preparation of this interim financial information are consistent with those adopted in the annual financial statements for the year ended 31 December 2018, which were prepared in accordance with International Financial Reporting Standards (“IFRSs”) (which include all International Financial Reporting Standards, IASs and Interpretations) issued by the IASB, except for the accounting policy changes as set out in note 2 below. This interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018.

### 2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The IASB has issued a number of new standards, amendments to IFRSs and interpretation that are first effective for the current interim period. Of these, the following new standards, amendments and interpretation may be relevant to the Group:

IFRS 16	<i>Leases</i>
Amendments to IAS 28	<i>Long-term Interest in Associates and Joint Ventures</i>
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i>
IFRS Interpretations Committee – Interpretation 23	<i>Uncertainty over Income Tax Treatments</i>

Except for IFRS 16 *Leases*, none of the amendments have had a significant financial effect on this interim financial information. The Group has not applied any new standard or interpretation that is not yet effective for the current period.

IFRS 16 replaces IAS 17 *Leases* and introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Group had non-cancellable operating leases commitments of US\$619,613,000 as at 31 December 2018 and some of these amounts have been recognised as lease liabilities, with corresponding right-of-use assets upon the adoption of IFRS 16.

Previously under IAS17, the Group recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised.

Under IFRS16, the Group has recognised new assets and liabilities for its operating leases of assets under IFRS16. The nature of expenses related to those leases are now changed because the Group has recognised a depreciation charge for right-of-use assets and interest expenses on lease liabilities.

## 2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (Continued)

The Group has applied IFRS 16 initially on 1 January 2019, using the modified retrospective approach and does not restate comparative information. Right-of-use assets are measured on transition as if the new rules had always been applied. Lease liability are measured at the present value of the remaining lease payments, discounted using the related companies' incremental borrowing rate at the date of initial application. The cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening balance of retained earnings as at 1 January 2019, resulting in a decrease of US\$36,938,000 in both net assets and total equity (US\$26,298,000 is included in retained profits attributable to shareholders of the Company) as at 1 January 2019.

There are recognition exemptions for short-term leases and leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or assets with value of less than US\$5,000. The Group continues to recognise the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The following table summarises the estimated impact of the adoption of IFRS 16 on the consolidated financial statements for the six months ended 30 June 2019, by comparing the amounts reported under IAS 17. The tables show only those line items impacted by the adoption of IFRS 16.

### Consolidated statement of comprehensive income (Extract)

#### Six months ended 30 June 2019

	As reported US\$'000	Adjustments US\$'000	Hypothetical amounts without adoption of IFRS 16 US\$'000
Cost of sales	(2,705,439)	(15,927)	(2,721,366)
Gross profit	485,889	(15,927)	469,962
Selling and distribution costs	(144,764)	(170)	(144,934)
General and administrative expenses	(161,586)	(417)	(162,003)
Finance costs	(70,169)	22,678	(47,491)
Profit before tax	139,054	6,164	145,218
Income tax	(34,604)	(1,134)	(35,738)
Profit for the period	<u>104,450</u>	<u>5,030</u>	<u>109,480</u>

2. **CHANGES IN ACCOUNTING POLICY AND DISCLOSURES** *(Continued)*

**Consolidated statement of comprehensive income (Extract)** *(Continued)*

Six months ended 30 June 2019

	<b>As reported</b>	<b>Adjustments</b>	<b>Hypothetical amounts without adoption of IFRS 16</b>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
<b>OTHER COMPREHENSIVE INCOME</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences related to translation of foreign operations	287	(187)	100
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX</b>	4,242	(187)	4,055
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u>108,692</u>	<u>4,843</u>	<u>113,535</u>
<b>Profit attributable to:</b>			
Shareholders of the Company	82,472	3,646	86,118
Non-controlling interest	<u>21,978</u>	<u>1,384</u>	<u>23,362</u>
	<u>104,450</u>	<u>5,030</u>	<u>109,480</u>
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company	87,729	3,509	91,238
Non-controlling interest	<u>20,963</u>	<u>1,334</u>	<u>22,297</u>
	<u>108,692</u>	<u>4,843</u>	<u>113,535</u>



**2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES** (Continued)

**Consolidated statement of financial position (Extract)**

**At 30 June 2019**

	<b>As reported</b> <i>US\$'000</i>	<b>Adjustments</b> <i>US\$'000</i>	<b>Hypothetical amounts without adoption of IFRS 16</b> <i>US\$'000</i>
Non-current assets			
Land lease prepayments	178,778	(4,655)	174,123
Other right-of-use assets	391,005	(391,005)	–
Deferred tax assets	12,767	(308)	12,459
Current assets			
Prepayments, deposits and other receivables	477,592	4,655	482,247
Current Liabilities			
Lease liabilities	34,641	(34,641)	–
Non-current liabilities			
Lease liabilities	407,403	(407,403)	–
Deferred tax liabilities	53,159	8,950	62,109
Net assets	<u>1,660,366</u>	<u>41,781</u>	<u>1,702,147</u>
Equity			
Reserves	1,053,180	29,807	1,082,987
Non-controlling interest	327,875	11,974	339,849
Total equity	<u>1,660,366</u>	<u>41,781</u>	<u>1,702,147</u>

**Condensed consolidated statement of cash flows (Extract)**

**Six months ended 30 June 2019**

	<b>As reported</b> <i>US\$'000</i>	<b>Adjustments</b> <i>US\$'000</i>	<b>Hypothetical amounts without adoption of IFRS 16</b> <i>US\$'000</i>
Cash flows from operating activities			
Cash generated from operations	189,692	(45,642)	144,050
Short-term lease payments	(6,288)	6,288	–
Interest element of lease rental paid	(22,678)	22,678	–
Net cash flows generated from operating activities	50,503	(16,676)	33,827
Cash flows from financing activities			
Capital element of lease rental paid	(16,676)	16,676	–
Net cash flows generated from financing activities	<u>111,433</u>	<u>16,676</u>	<u>128,109</u>

The Group does not expect the adoption of IFRS 16 to impact its ability to comply with the covenant of bank borrowings.

### 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into the following three reportable operating segments based on their products and services:

- the China agri-food segment is engaged in (i) manufacture and sale of animal feed, (ii) breeding, farming and sale of livestock, and (iii) manufacture and sale of value-added, processed food products in the People's Republic of China (the "PRC");
- the Vietnam agri-food segment is engaged in (i) manufacture and sale of animal feed, (ii) breeding, farming and sale of livestock and aquatic animals, and (iii) manufacture and sale of value-added, processed food products in the Socialist Republic of Vietnam ("Vietnam"); and
- the investment and property holding segment is engaged in leasing properties owned by the Group and investments in group companies.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that bank interest income and finance costs on bank borrowings and corporate bond are excluded from such measurement.

Segment assets exclude pledged deposits, time deposits, cash and cash equivalents, deferred tax assets and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude bank borrowings, corporate bond, income tax payables and deferred tax liabilities as these liabilities are managed on a group basis.

Revenue from contracts with customers is recognised at a point in time when our customer obtains control of promised goods, i.e. when the products are collected by the customers from our premises or when the products are delivered to the location designated by the customers. The remaining performance obligation is part of a contract that has an original expected duration of one year or less, therefore such information is not disclosed as a practical expedient in paragraph 121 of IFRS 15. Disaggregation of revenue from major product lines is disclosed in note 3(a) and 4. Disaggregation of revenue by geographical location of customers is disclosed in note 3(b)(i).

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### (a) Reportable operating segments

The following tables present revenue, profit or loss and certain assets, liabilities and expenditure information for the Group's reportable operating segments during the period.

#### Six months ended 30 June 2019

	China agri-food operations <i>US\$'000</i> (Unaudited)	Vietnam agri-food operations <i>US\$'000</i> (Unaudited)	Investment and property holding operations <i>US\$'000</i> (Unaudited)	Total <i>US\$'000</i> (Unaudited)
<b>Segment revenue</b>				
Sales to external customers	<u>1,995,869</u>	<u>1,241,397</u>	<u>115</u>	<u>3,237,381</u>
<b>Segment results</b>				
The Group	128,095	50,752	(5,077)	173,770
Share of profits and losses of:				
Joint ventures	991	(18)	–	973
Associates	<u>9,599</u>	<u>–</u>	<u>–</u>	<u>9,599</u>
	<u>138,685</u>	<u>50,734</u>	<u>(5,077)</u>	184,342
Reconciliation:				
Bank interest income				2,203
Finance costs on bank borrowings and corporate bond				<u>(47,491)</u>
Profit before tax				<u>139,054</u>
<b>Other segment information</b>				
Depreciation and amortisation	47,182	62,827	514	110,523
Capital expenditure*	62,663	63,686	7	126,356
Additions of other non-current assets**	<u>27,513</u>	<u>21,336</u>	<u>–</u>	<u>48,849</u>

\* Including additions to property, plant and equipment and land lease prepayments.

\*\* Including additions to non-current biological assets and other non-current assets.

**3. OPERATING SEGMENT INFORMATION** *(Continued)*

**(a) Reportable operating segments** *(Continued)*

**At 30 June 2019**

	<b>China agri-food operations US\$'000 (Unaudited)</b>	<b>Vietnam agri-food operations US\$'000 (Unaudited)</b>	<b>Investment and property holding operations US\$'000 (Unaudited)</b>	<b>Total US\$'000 (Unaudited)</b>
<b>Segment assets</b>	<b><u>2,922,800</u></b>	<b><u>1,841,488</u></b>	<b><u>391,760</u></b>	<b>5,156,048</b>
Reconciliation:				
Elimination of intersegment receivables				(325,718)
Unallocated assets				<u>500,105</u>
Total assets				<u><u>5,330,435</u></u>
<b>Segment liabilities</b>	<b><u>1,192,456</u></b>	<b><u>695,677</u></b>	<b><u>4,512</u></b>	<b>1,892,645</b>
Reconciliation:				
Elimination of intersegment payables				(325,718)
Unallocated liabilities				<u>2,103,142</u>
Total liabilities				<u><u>3,670,069</u></u>
<b>Other segment information</b>				
Investments in joint ventures	17,762	219	–	17,981
Investments in associates	<u>138,090</u>	<u>–</u>	<u>–</u>	<u>138,090</u>

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### (a) Reportable operating segments *(Continued)*

Six months ended 30 June 2018

	China agri-food operations <i>US\$'000</i> (Unaudited)	Vietnam agri-food operations <i>US\$'000</i> (Unaudited)	Investment and property holding operations <i>US\$'000</i> (Unaudited)	Total <i>US\$'000</i> (Unaudited)
<b>Segment revenue</b>				
Sales to external customers	1,996,785	1,172,458	78	3,169,321
<b>Segment results</b>				
The Group	74,781	168,391	(4,175)	238,997
Share of profits and losses of:				
Joint ventures	1,991	–	–	1,991
Associate	6,806	–	–	6,806
	<u>83,578</u>	<u>168,391</u>	<u>(4,175)</u>	<u>247,794</u>
Reconciliation:				
Bank interest income				1,630
Finance costs				<u>(39,971)</u>
Profit before tax				<u>209,453</u>
<b>Other segment information</b>				
Depreciation and amortisation	44,128	39,627	476	84,231
Capital expenditure*	81,183	26,212	16	107,411
Additions of other non-current assets**	<u>13,065</u>	<u>36,168</u>	<u>–</u>	<u>49,233</u>

\* Including additions to property, plant and equipment and land lease prepayments, but excluding assets from step acquisition of a subsidiary.

\*\* Including (i) non-current assets acquired from step acquisition of a subsidiary, and (ii) additions to non-current biological assets and other non-current assets.

**3. OPERATING SEGMENT INFORMATION** *(Continued)*

**(a) Reportable operating segments** *(Continued)*

At 31 December 2018

	China agri-food operations <i>US\$'000</i> (Audited)	Vietnam agri-food operations <i>US\$'000</i> (Audited)	Investment and property holding operations <i>US\$'000</i> (Audited)	Total <i>US\$'000</i> (Audited)
<b>Segment assets</b>	<u>2,721,918</u>	<u>1,349,727</u>	<u>517,011</u>	4,588,656
Reconciliation:				
Elimination of intersegment receivables				(450,457)
Unallocated assets				<u>473,163</u>
Total assets				<u>4,611,362</u>
<b>Segment liabilities</b>	<u>1,214,860</u>	<u>222,076</u>	<u>3,972</u>	1,440,908
Reconciliation:				
Elimination of intersegment payables				(450,457)
Unallocated liabilities				<u>1,918,687</u>
Total liabilities				<u>2,909,138</u>
<b>Other segment information</b>				
Investments in joint ventures	16,875	239	–	17,114
Investments in associates	<u>128,714</u>	<u>–</u>	<u>–</u>	<u>128,714</u>

### 3. OPERATING SEGMENT INFORMATION *(Continued)*

#### (b) Geographical information

##### (i) Revenue from external customers

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Mainland China	1,995,342	1,999,235
Vietnam	1,216,160	1,133,441
Elsewhere	25,879	36,645
	<u>3,237,381</u>	<u>3,169,321</u>

The revenue information shown above is based on the location of the customers.

##### (ii) Non-current assets

	30 June 2019 US\$'000 (Unaudited)	31 December 2018 US\$'000 (Audited)
	Mainland China	1,803,659
Vietnam	907,350	499,374
Elsewhere	58,981	60,233
	<u>2,769,990</u>	<u>2,283,067</u>

The non-current assets information shown above is based on the location of assets and excludes other financial assets and deferred tax assets.

#### 4. REVENUE

An analysis of revenue is as follows:

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
		(Note)
<i>Revenue from contracts with customers</i>		
<i>(within the scope of IFRS 15)</i>		
Sales of goods from:		
China agri-food operations		
– Feed business	1,568,962	1,669,653
– Farm business	304,697	220,980
– Food business	122,210	106,152
Vietnam agri-food operations		
– Feed business	461,441	393,995
– Farm business	734,022	740,275
– Food business	45,934	38,188
	<u>3,237,266</u>	<u>3,169,243</u>
<i>Revenue from other sources</i>		
Rental income from investment and property holding operations	115	78
	<u>115</u>	<u>78</u>
	<u><u>3,237,381</u></u>	<u><u>3,169,321</u></u>

*Note:* Comparative figures have been reclassified to conform to the current period's presentation (certain raw meat products were reclassified from food business to farm business.)

#### 5. NET CHANGE IN FAIR VALUE OF BIOLOGICAL ASSETS

Net change in fair value of biological assets represent the difference in fair value from 1 January 2019 to 30 June 2019. Net fair value change consists of (i) negative realised fair value changes of US\$152,772,000 (six months ended 30 June 2018: US\$59,633,000) in respect of biological assets held as at 1 January 2019 and (ii) positive unrealised fair value changes of US\$106,719,000 (six months ended 30 June 2018: US\$143,754,000) in respect of biological assets stated at fair value as at 30 June 2019.



## 6. OTHER INCOME, NET

An analysis of other income, net, is as follows:

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Bank interest income	2,203	1,630
Other interest income	4,043	4,358
Rental income	1,593	2,037
Government grants	5,084	3,838
Income from sales of consumables and packaging materials	3,143	2,935
Gain on step acquisition of a subsidiary	–	2,574
Net changes in fair value of derivative financial instruments	1,117	8,367
Foreign exchange differences, net	(318)	(11,924)
Others	2,247	2,932
	<u>19,112</u>	<u>16,747</u>

Government grants included above are subsidies or incentives from the government in respect of certain investments of the Group in the agricultural industry and areas promoted by the government in the PRC. There are no unfulfilled conditions or contingencies relating to these grants. Government grants received for which related expenditure has not yet been undertaken are included in deferred income in the consolidated statement of financial position.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019 US\$'000 (Unaudited)	2018 US\$'000 (Unaudited)
Interest expense on bank borrowings	49,655	41,322
Interest expense on corporate bond	2,964	3,158
Interest expense on lease liabilities	22,678	–
Less: Interest expense capitalised*	(5,128)	(4,509)
	<u>70,169</u>	<u>39,971</u>

\* Interest expense was capitalised at a rate of 4.9% – 5.3% per annum (six months ended 30 June 2018: 4.5% – 4.9%).

## 8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	2,705,439	2,746,342
Depreciation of property, plant and equipment	62,816	61,807
Amortisation of land lease prepayments	2,309	2,252
Depreciation of other right-of-use assets	22,835	–
Depreciation of biological assets stated at cost less accumulated depreciation and impairment	21,292	18,818
Amortisation of intangible assets	1,271	1,354
Impairment of trade receivables, net	655	2,739
Loss on disposal of property, plant and equipment, net	7	44

## 9. INCOME TAX

No provision for Hong Kong profits tax has been made for the period as the Group did not generate any assessable profits in Hong Kong during the period (six months ended 30 June 2018: nil).

The subsidiaries operating in the PRC and Vietnam are subject to income tax at the rate of 25% (six months ended 30 June 2018: 25%) and 20% (six months ended 30 June 2018: 20%) respectively on their taxable income according to the PRC and Vietnam corporate income tax laws. In accordance with the relevant tax rules and regulations in the PRC and Vietnam, certain subsidiaries of the Group in the PRC and Vietnam enjoy income tax exemptions or reductions.

	Six months ended 30 June	
	2019	2018
	US\$'000	US\$'000
	(Unaudited)	(Unaudited)
Current – the PRC		
Charge for the period	47,607	34,057
Over-provision in prior years	(5,218)	(5,689)
Current – Vietnam		
Charge for the period	15,533	6,477
Deferred	(23,318)	18,150
Total tax expense for the period	34,604	52,995

## 10. INTERIM DIVIDEND

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
Interim – HK\$0.008 (equivalent to approximately US 0.103 cents) (six months ended 30 June 2018: HK\$0.017) (equivalent to approximately US 0.218 cents) per ordinary share and convertible preference share	<b>25,982</b>	<b>55,213</b>

The interim dividend in respect of the six months ended 30 June 2019 was declared by the Board on 13 August 2019. The total amount of the interim dividend was calculated based on the number of shares in issue on the date of this announcement.

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of basic and diluted earnings per share is based on the profit for the period attributable to shareholders of the Company and the weighted average number of ordinary shares and convertible preference shares in issue during the period.

The calculation of basic and diluted earnings per share is based on the following data:

	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>US\$'000</b>	<b>US\$'000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Earnings</b>		
Profit for the period attributable to shareholders of the Company, used in the basic and diluted earnings per share calculation	<b>82,472</b>	<b>107,433</b>
	<b>Six months ended 30 June</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>Shares</b>		
Weighted average number of ordinary shares and convertible preference shares in issue during the period, used in the basic and diluted earnings per share calculation	<b>25,332,914,980</b>	<b>25,332,914,980</b>

## 12. TRADE AND BILLS RECEIVABLES

Depending on the requirements of the market and business, the Group may extend credit to its customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by management and interest may be charged by the Group for overdue trade receivables at rates determined by the Group with reference to market practice. In the opinion of the directors, there is no significant concentration of credit risk. An aging analysis of the Group's trade and bills receivables, based on the date of delivery of goods, is as follows:

	<b>30 June 2019 US\$'000 (Unaudited)</b>	31 December 2018 US\$'000 (Audited)
60 days or below	<b>252,400</b>	240,375
61 to 180 days	<b>115,965</b>	108,117
Over 180 days	<b>21,208</b>	5,023
	<b>389,573</b>	353,515

## 13. TRADE AND BILLS PAYABLES

An aging analysis of the Group's trade payables as at the end of the reporting period, based on the date of receipt of goods, is as follows:

	<b>30 June 2019 US\$'000 (Unaudited)</b>	31 December 2018 US\$'000 (Audited)
60 days or below	<b>372,209</b>	290,466
61 to 180 days	<b>26,790</b>	40,170
Over 180 days	<b>8,691</b>	9,098
	<b>407,690</b>	339,734
Bills payable	<b>174,150</b>	137,073
	<b>581,840</b>	476,807

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **GROUP RESULTS**

For the six months ended 30 June 2019 (“1H19”), profit attributable to shareholders of the Group decreased 23.2% to US\$82 million. The decline was primarily due to reduced swine prices in Vietnam in 1H19 resulting in a negative net change in fair value of biological assets, compared to a positive net change in fair value of biological assets in the corresponding period last year. The negative effect on the Group’s performance was partially offset by better performance of our business in China.

In 1H19, the Group’s revenue increased 2.1% to US\$3,237 million (1H18: US\$3,169 million). Agri-food business in China contributed 61.7% of the Group’s revenue while agri-food business in Vietnam contributed 38.3% of the Group’s revenue. Gross profit margin in 1H19 was 16.4% (1H18: 13.3%).

Basic and diluted earnings per share for the six months ended 30 June 2019 were both US 0.326 cents (1H18: US 0.424 cents). The Board has resolved to declare an interim dividend per share of HK\$0.008 for the six months ended 30 June 2019 (1H18: HK\$0.017).

### **BUSINESS REVIEW**

#### **Agri-food Business in China**

The government continues to push forward the reform of the entire agri-food production chain with higher food safety standards and stricter regulations. As one of the leaders in the agri-food industry, we have benefitted from the ongoing industry consolidation process. Furthermore, while African swine fever resulted in a sizable decline in the overall swine population in China, it had less impact on larger players as they have more resources and knowledge to defend themselves against the disease.

In 1H19, revenue of the Group’s agri-food business in China was US\$1,996 million (1H18: US\$1,997 million). Feed business accounted for 78.6% of agri-food business revenue in China while farm and food businesses combined contributed the remaining 21.4%. Overall gross profit margin for the Group’s China agri-food business increased from 13.3% in 1H18 to 16.6% in 1H19. Feed business margin remained solid and the margin of our combined farm and food businesses improved.

The Group’s overall China feed sales volume increased 1.4% to 3.39 million tons. However, feed revenue decreased 6.0% to US\$1,569 million in 1H19, reflecting lower average selling prices due to changes in product mix – from swine feed to poultry and other feed products – and the weakening of Renminbi (“RMB”). Swine feed continued to be the largest component of the Group’s China feed segment, accounting for 52.1% of revenue in this segment. Poultry feed, aqua feed, other feed products and premix contributed 28.2%, 8.5%, 6.8% and 4.4%, respectively.

The Group's swine feed sales volume in 1H19 in China declined 2.6% to 1.76 million tons mainly due to lower swine population in the country and revenue decreased 9.7% to US\$817 million. We have increased marketing effort for other animal species to lessen the pressure from reduced swine feed sales. Poultry feed sales volume increased 4.2% to 1.12 million tons while revenue decreased 2.0% to US\$442 million. Aqua feed sales volume increased 3.3% to 0.21 million tons while revenue decreased 6.1% to US\$134 million.

Combined farm and food revenue in China increased 30.5% to US\$427 million in 1H19. The increase in revenue came mainly from our newly commissioned food factories – the ones that commenced commercial operations in late 2017 and late 2018. Higher swine and poultry prices in 1H19, when compared to the same period last year, also lifted the top-line of our combined farm and food businesses segment.

### **Agri-food Business in Vietnam**

In Vietnam, while swine prices were favourable in the beginning of the year, prices plunged towards the end of first quarter 2019 following the official announcement of African swine fever outbreak in February 2019. The spread of this disease across Vietnam resulted in lower swine population and affected demand for swine feed. Nonetheless, better performance from other feed products softened the negative ramifications caused by African swine fever. The Group's agri-food business revenue in Vietnam increased 5.9% to US\$1,241 million. Feed business accounted for 37.2% while farm and food businesses combined accounted for the remaining 62.8%. Gross profit margin for the Group's agri-food business in Vietnam was at 16.1% (1H18: 13.4%) mainly due to strengthened feed margins.

In 1H19, total feed sales volume increased by 4.5% year-on-year to 0.88 million tons, with swine feed reducing by 7.6%. Revenue of the Group's feed business in Vietnam rose 17.1% to US\$461 million, of which swine, poultry, aqua and other feed products accounted for 31.8%, 23.9%, 42.9% and 1.4%, respectively. Our swine feed sales slowed along with the lower swine population in Vietnam. This unfavourable development was compensated by an increase in sales of aqua and poultry feed. In particular, revenue contribution from shrimp feed, which has higher average selling prices and higher margin, increased.

The combined revenue of the Group's farm and food businesses in Vietnam was US\$780 million in 1H19 (1H18: US\$778 million). Swine farming continued to be the major revenue contributor of this segment. While the average selling price of our fattening pigs in the first quarter of 2019 was approximately 52% higher than the same period in 2018, swine prices in the second quarter of 2019 dropped by approximately 16% year-on-year. A negative net change in fair value of biological assets of US\$46 million was recorded in 1H19 versus a positive net change in fair value of biological assets of US\$84 million in 1H18. Consequently, the performance of this segment in 1H19 was adversely affected.

## **OUTLOOK**

Looking ahead, in view of market uncertainties, especially animal protein prices, in China and Vietnam, we remain cautious for the second half of 2019.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 June 2019, the Group had total assets of US\$5,330.4 million, representing an increase of 15.6% as compared to US\$4,611.4 million as at 31 December 2018.

Net debt (30 June 2019: US\$1,562.7 million, 31 December 2018: US\$1,368.4 million) to equity ratio (defined as total bank borrowings and corporate bond minus cash and deposits divided by total equity) was 0.94 as compared to 0.80 as at 31 December 2018.

Total bank borrowings and corporate bond of the Group are denominated in US\$ (30 June 2019: US\$739.6 million, 31 December 2018: US\$792.9 million), Vietnamese Dong (“VND”) (30 June 2019: US\$452.8 million, 31 December 2018: US\$348.8 million) and RMB (30 June 2019: US\$833.5 million, 31 December 2018: US\$669.7 million).

As at 30 June 2019, the Group’s current portion of long-term borrowings amounted to US\$260.8 million (31 December 2018: US\$190.4 million) and fixed interest rate borrowings amounted to US\$421.3 million (31 December 2018: US\$342.8 million).

All domestic sales in the PRC and Vietnam are transacted in RMB and VND respectively and export sales are transacted in foreign currencies. Foreign currencies are required for purchase of certain raw materials, equipment etc. The Group monitors foreign exchange movements and determines appropriate hedging activities when necessary. During the period, the Group has entered into forward exchange contracts to manage its exchange rate exposures of US\$ denominated liabilities against RMB and VND. As at 30 June 2019, the aggregate notional principal amount of these outstanding derivative financial instruments for US\$ against RMB was US\$181.8 million.

## **CAPITAL STRUCTURE**

The Group finances its working capital requirements through a combination of funds generated from operations and borrowings. The Group had time deposits and cash and cash equivalents of US\$438.7 million as at 30 June 2019, a decrease of US\$30.6 million as compared to 31 December 2018.

## **CHARGES ON GROUP ASSETS**

As at 30 June 2019, out of the total borrowings of US\$2,025.9 million (31 December 2018: US\$1,811.4 million) obtained by the Group, US\$155.3 million (31 December 2018: US\$169.8 million) was secured and accounted for 7.7% (31 December 2018: 9.4%) of the total borrowings. Certain of the Group’s property, plant and equipment and land lease prepayments with an aggregate net book value of US\$239.8 million (31 December 2018: US\$225.5 million) were pledged as security.

## **CONTINGENT LIABILITIES**

Guarantees were given by certain subsidiaries in the Group to financial institutions in the PRC for certain indebtedness of independent third party customers of the Group. In the case of financial guarantees provided which exceed the net asset value of the relevant subsidiaries, our maximum contingent liabilities are limited to the net asset value of these subsidiaries. The net asset value of the relevant subsidiaries as at 30 June 2019 was approximately US\$38.6 million (31 December 2018: US\$54.5 million). The contingent liabilities of the Group in respect of such guarantees as at 30 June 2019 were US\$11.6 million (31 December 2018: US\$14.9 million).

## **EMPLOYEE AND REMUNERATION POLICIES**

As at 30 June 2019, the Group employed around 40,000 staff in the PRC, Vietnam and Hong Kong. The Group remunerates its employees based on their performance, experience and prevailing market rates while performance bonuses are granted on a discretionary basis. Other employee benefits include, for example, medical insurance and training.

## **INTERIM DIVIDEND**

The Board has declared an interim dividend for the six months ended 30 June 2019 in the amount of HK\$0.008 (six months ended 30 June 2018: HK\$0.017) per share to the ordinary share holders and convertible preference share holders of the Company. The interim dividend will be paid on 31 October 2019 to ordinary share holders and convertible preference share holders, whose names appear on the registers of members of the Company on 18 October 2019.

## **CLOSURE OF THE REGISTERS OF MEMBERS**

The registers of members holding ordinary shares and convertible preference shares of the Company respectively will be closed from 17 October 2019 to 18 October 2019, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the interim dividend for 2019, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong before 4:30 p.m. on 16 October 2019.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

The Company is committed to maintaining a high corporate governance standard, the principles of which are to uphold a high standard of ethics, transparency, accountability and integrity in all aspects of business and to ensure that affairs are conducted in accordance with applicable laws and regulations.

In the opinion of the Board, the Company has applied the principles and complied with all of the code provisions prescribed in the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2019.



## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"), as the code of conduct for dealings in the Company's securities by its directors. In response to a specific enquiry by the Company, all directors of the Company have confirmed that they complied with the required standard set out in the Model Code during the six months ended 30 June 2019.

## **REVIEW OF INTERIM RESULTS**

The interim results for the six months ended 30 June 2019 are unaudited, but have been reviewed by KPMG, 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, whose unmodified review report is included in the interim report to be sent to shareholders of the Company.

The audit committee of the Company has also reviewed the interim results for the six months ended 30 June 2019.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

By Order of the Board  
**Arunee Watcharananan**  
*Director*

Hong Kong, 13 August 2019

*As at the date of this announcement, the Board comprises eight executive directors, namely, Mr. Soopakij Chearavanont, Mr. Adirek Sripratak, Mr. Suphachai Chearavanont, Mr. Narong Chearavanont, Mr. Bai Shanlin, Mr. Sooksunt Jiumjaiswanglerg, Mrs. Arunee Watcharananan and Mr. Yu Jianping; two non-executive directors, namely, Mr. Meth Jiaravanont and Mr. Yoichi Ikezoe; and five independent non-executive directors, namely, Mr. Ma Andrew Chiu Cheung, Mr. Sombat Deo-isres, Mr. Sakda Thanitcul, Mr. Vinai Vittavasgarnvej and Mrs. Vatchari Vimooktayon.*