中粮 COFCO

# 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

# 2018 ANNUAL REPORT

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# Corporate Information

## Legal Name of the Company
COFCO Meat Holdings Limited

## Place of Listing and Stock Code
The shares of the Company were listed on the Main Board of the Stock Exchange on November 1, 2016

Stock Code: 1610

## Company Website
www.cofcomeat.com

## Directors
### Chairman of the Board and Executive Director
Mr. Jiang Guojin

### Executive Director
Mr. Xu Jianong

### Non-executive Directors
Ms. Yang Hong
Mr. Wolhardt Julian Juul
Dr. Cui Guiyong
Mr. Zhou Qi
Mr. Zhang Lei
Dr. Huang Juhui

### Independent Non-executive Directors
Mr. Fu Tingmei
Mr. Li Michael Hankin
Mr. Lee Ted Tak Tai
Dr. Ju Jiandong

## Joint Company Secretaries
Dr. Zhang Nan
Ms. Chau Hing Ling

## Audit Committee
Mr. Lee Ted Tak Tai (Chairman)
Mr. Fu Tingmei
Dr. Cui Guiyong
Mr. Li Michael Hankin

## Nomination Committee
Mr. Jiang Guojin (Chairman)
Mr. Fu Tingmei
Dr. Ju Jiandong

## Remuneration Committee
Mr. Li Michael Hankin (Chairman)
Mr. Lee Ted Tak Tai
Mr. Jiang Guojin

## Food Safety Committee
Mr. Xu Jianong (Chairman)
Dr. Huang Juhui
Ms. Yang Hong

## Auditor
Deloitte Touche Tohmatsu

## Legal Advisers
*As to Hong Kong law:*
Clifford Chance

*As to Cayman Islands law:*
Maples and Calder

## Principal Banks
Agricultural Bank of China Limited
Beijing Branch of Bank of Communications Co., Ltd.
Industrial and Commercial Bank of China Limited

## Authorised Representatives
Mr. Xu Jianong
Ms. Chau Hing Ling

## Share Registrar and Transfer Office
**Principal**
Maples Fund Services (Cayman) Limited
PO Box 1093, Boundary Hall, Cricket Square
Grand Cayman, KY1-1102
Cayman Islands

**Hong Kong Branch**
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

## Registered Office
P.O. Box 31119
Grand Pavilion, Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

# Corporate Information

## Principal Place of Business in Hong Kong

33/F, COFCO Tower
262 Gloucester Road
Causeway Bay
Hong Kong

## Head Office in the PRC

COFCO Fortune Plaza
No.8, Chao Yang Men South St.
Chao Yang District, Beijing,
China

# Major Events in COFCO Meat in 2018

## February

COFCO Joycome (Jilin) Co., Ltd. entered into a cooperation agreement with the People's Government of Changling County, Songyuan, Jilin Province to commence the hog production poverty alleviation project in Changling County so as to develop hog production business and meanwhile assist the poor in Changling County to get rid of poverty and achieve prosperity.

## April

COFCO Meat Investments Co., Ltd. entered into a tripartite agreement with Jilin Branch of Agricultural Bank of China Limited and Changling County People's Government to provide financial support to the hog production poverty alleviation project in Changling County.


## June

The signing ceremony of the Million Hogs Slaughtering and Processing Project at the COFCO Meat Hubei Industrial Park was held in Huanggang, Hubei.


## July

COFCO Meat entered into a strategic cooperation agreement with PICC Property and Casualty Company Limited at COFCO Fortune Plaza.

### August

COFCO Meat held the Signing and Endorsement Ceremony of "Made with Integrity, Serving the Best Quality: COFCO Meat as a Partner of China Space" at COFCO Meat Industrial Chain Base in Dongtai, Jiangsu Province, where COFCO Meat officially became a partner of China Space.

### October

The Signing Ceremony of COFCO Corporation Service Provision to the first China International Import Expo was held at the National Exhibition and Convention Centre (Shanghai), when COFCO Joycome officially commenced its preparation for serving the China International Import Expo. As the leading national meat brand in China, COFCO Meat aims to present the world with the branding philosophy of China-made quality products and contribute to the establishment of an international cooperation platform featuring joint-discussion, joint-contribution and benefits sharing.



### October

At the "Belt and Road" Conference of Ministers of Energy held in Suzhou, COFCO Joycome fresh pork products were unveiled at the "Night in Suzhou" dinner party to welcome the guests from around the world. COFCO Joycome fresh pork products successfully showcased the unparalleled charm of Chinese brand and food with premium quality and strong capability at the international conference.

### November

COFCO Meat participated in the first China International Import Expo in Shanghai, at which COFCO Meat signed the Beef and Lamb Procurement Memorandum with JBS Food Company from Australia and Anzco Group from New Zealand, with the transaction amount reaching RMB1.2 billion. The signing of the memorandum not only strengthened the long-term strategic cooperation partnership between COFCO Meat and large-scale international meat suppliers, but was also of great significance in terms of providing better service to consumers in China.


# Major Events in COFCO Meat in 2018

**December**

The 2018 BOAO Forum for Entrepreneurs was held in Bo'ao, Hainan Province, at which COFCO Meat was the designated refreshment supplier, serving Chinese entrepreneurs throughout the summit while promoting its brand power and quality.


**December**

COFCO Joycome received the "2018 Social Responsibility Outstanding Enterprise Award" at the 2018 China Social Responsibility Public Welfare Ceremony & the 11th Corporate Social Responsibility Summit held in Beijing.

**December**

COFCO Meat's distributor representatives fully participated in the series of activities for "Passing on the Aerospace Spirit, Driving Force for Unity" held in Xichang, Sichuan Province, where they witnessed the beginning of mankind's first ever exploration to the far side of the Moon with the launch of the Chang'e-4 probe.

# Financial Highlights

## Key operating data

| | 2018 | 2017 | Change |
|---|---|---|---|
| Hog production volume (unit: '000 heads) [1] | **2,550** | 2,226 | 14.5% |
| Fresh pork sales volume (unit: '000 tons) [1] | **190** | 172 | 10.6% |
| including: branded fresh pork sales volume (unit: '000 tons) [1] | **43** | 33 | 32.2% |
| Ratio of revenue from branded business [2] | **17.48%** | 15.58% | 1.9 percentage points |

## Key financial data

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | **Before biological assets fair value adjustments** | **After biological assets fair value adjustments** | Before biological assets fair value adjustments | After biological assets fair value adjustments |
| | ***RMB'000 (unless otherwise stated)*** | | *RMB'000 (unless otherwise stated)* | |
| Revenue [3] | **7,168,488** | **7,168,488** | 6,960,567 | 6,960,567 |
| Profit/loss for the period [4] | **-216,667** | **-646,649** | 496,725 | 444,807 |
| Profit/loss attributable to the owners of the Company [5] | **-204,052** | **-627,667** | 503,547 | 451,629 |
| Basic earnings/loss per share[6] | **RMB-0.0523** | **RMB-0.1609** | RMB0.1290 | RMB0.1157 |

*Notes:*

1. *The core businesses maintained a growth rate. The production volume of hog and sales volume of fresh pork increased by 14.5% and 10.6% year-on-year, respectively, among which sales volume of branded fresh pork increased significantly by 32.2% year-on-year.*

2. *The ratio of revenue from branded business means the revenue of branded fresh pork and processed meat products business divided by the revenue of the Company. The revenue of branded business increased by 15.5% and the ratio of revenue increased by 1.9 percentage points year-on-year, benefiting from brand promotion and channel development.*

3. *Revenue amounted to RMB7,168 million, representing a year-on-year increase of 3.0%. The rapid growth of sales volume has driven the increase in revenue.*

4. *Loss before biological assets fair value adjustments amounted to RMB217 million, representing a year-on-year decrease of 143.6%. The decline was mainly caused by the hog price, which decreased by 19.8% year-on-year. However, the Group focused on capacity expansion, cost management and control, customer development and brand promotion, and successfully expanded the sales volume and gained higher profit margin from branded business. The above-mentioned operation improving measures partially offset the effect brought by the decrease of hog price.*

5. *Loss attributable to the owners of the Company amounted to RMB628 million. The biological assets fair value was adjusted based on the hog price at the end of December 2018. The number of our live hogs increased by 21.9% as compared with that as at December 31, 2017, but the hog price decreased.*

6. *The basic earnings/loss per share means the profit/loss attributable to the owners of the Company divided by the weighted average number of ordinary shares for the year.*

The Board did not recommend the declaration of final dividend for the year ended December 31, 2018.

# Chairman's Statement

Dear Shareholders,

2018 was a year of ups and downs. Despite various challenges such as slumping hog prices, spread of African swine fever and upgrading of environmental protection, the Company overcame difficulties and focused on improving its operation and management, thereby each of its businesses developed steadily:

First, the core business operation was upgraded and its scale increased, with hog production and fresh pork sales increased by 14.5% and 10.6% respectively year-on-year.

Second, we actively responded to the changes in the industry brought about by African swine fever, continued to improve entire industry value-chain performance, further optimized the matching between upstream and downstream processes, and enhanced the risk resilience.

Third, the branded fresh pork segment developed rapidly, the cooperation with new retail channels continued to be improved, and the brand influence continued to be expanded.

Fourth, the meat import segment recorded stable profits in spite of the significant changes in market conditions, policies and exchange rates.

As the Chinese saying goes: adversity makes one stronger, just as polishing makes jade finer. African swine fever has brought challenges to the Company in terms of its short-term performance and yet also brought opportunities arising from the reshuffling of the industry. In 2019, the Company will focus on building on its strengths, seize opportunities, continue to carry forward its entrepreneurial spirit, promote the high-quality development process and ride the waves of changes in the industry. Furthermore, we will:

On top of upgrading biosecurity measures, continue to expand hog production capacity, improve the production efficiency, and build up core competitive advantages.

While accelerating the construction of slaughtering facilities in northern China, vigorously develop differentiated and branded operation of fresh pork segment so as to cope with new changes in the industry.

Strengthen the coordination between our domestic and foreign resources in order to grasp the opportunities brought by African swine fever.

Further improve the incentive mechanism and foster the initiative and creativity of our teams so as to promote value creation.

I, on behalf of the Board and the management, hereby express my sincere gratitude to our Shareholders and partners for their trust and support and all employees for their hard work and dedication. In 2019, the Company will grab opportunities to pursue growth and forge ahead with determination to write a new chapter.

**Jiang Guojin**
*Chairman of the Board*

March 26, 2019

# Management Discussion and Analysis

## I. Company Profile

### Company Introduction

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

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

### Business Segments Introduction

*Hog Production*

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

*Fresh Pork*

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

*Processed Meat Products*

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

*Meat Import*

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

## II. Market Overview

### African swine fever hit multiple provinces and cities in the PRC and had profound influence on the pork industry

In August 2018, the first case of African swine fever was reported in the country, and then the fever spread to more than twenty provinces. According to the reports of the Ministry of Agriculture and Rural Affairs, as of mid-January of 2019, 916 thousand hogs have been culled nationwide. To control the outbreaks of African swine fever, the government launched a series of policies.

The outbreak of African swine fever had a great impact on the pork industry, but it also accelerated the industry upgrading. Large-scale enterprises with higher efficiency covering integrated industry chain will be able to take greater advantage from the upgrading. First, it will be more difficult for backyard farms to survive, while development of large-scale farming will accelerate. Second, government policy direction has changed from "transporting hogs" to "transporting meat", and slaughtering enterprises are required to adjust their layouts by transfering their production capacity to the main hog production area. Third, single sector of the industry will be exposed to greater risks, while hog production and slaughtering industry will be extended to each other and thus become inter-connected.

### Average hog price in 2018 reached a record low for the past eight years with hog production industry recording losses. Considering stricter environmental protection requirements and the impact of African swine fever, it is expected that hogs will be in short supply over the next two years

In 2018, domestic hog price showed a downward trend in the first half of the year, rebounded seasonally in the second half of the year and polarized between hog production and sales areas after the outbreak of African swine fever. Average hog price for the year dropped to the bottom of the cycle at RMB12.7/kg and hog production industry recorded losses. Due to the impact of stricter environmental protection requirements and African swine fever, hog and sow stocks decreased significantly. According to the Ministry of Agriculture and Rural Affairs, in February 2019, domestic hog and sow stocks both dropped to the lowest level for the past ten years, of which hog stock and sow stock decreased by 16.6% and 19.1%, respectively. Domestic hogs for 2019 and 2020 are expected to be in short supply.

### Consumption upgrading led to brand-oriented pork consumption

With consumption upgrading and consumers' increasing request for food safety and quality, pork consumption tends to be brand-oriented. In 2018, hog price remained sluggish, but high-end branded pork price stayed strong. The pork industry is transforming from price competition to brand competition, and enterprises focusing on providing consumers with high quality and better consumer experience will benefit from the transformation and upgrading, and thus secure higher brand premium and consumer loyalty.

### Adjustments of international trade policies led to a slight decrease in pork import volume in 2018

In 2018, the tariff rate for pork imported from the US to China was adjusted twice from 12% to 62%. China's pork import volume (excluding pork by-products) amounted to 1,193 thousand tons, representing a year-on-year decrease of 2.0%.

## III. Operation Review

In 2018, though faced with complicated external environment, the Company focused on operation improvements and brand building. As a result, the Company's core businesses continued to grow and the branded businesses developed rapidly.

However, the decrease in hog price has greater impact on profits. The Group achieved a profit for the period before biological assets fair value adjustments of RMB-217 million for the year, representing a year-on-year decrease of RMB713 million, of which: (1) profits from the hog production business segment dropped by RMB833 million year-on-year, which was mainly caused by the year-on-year decrease of 19.8% in the average selling price of hogs; (2) profits from the fresh pork business segment hit a record high, amounting to RMB107 million, achieving growth in both total sales volume and profit; (3) profits from the processed meat products business segment amounted to RMB93 million as improved layout of production capacity and channel re-arrangement led to a year-on-year increase of 16.8% in segment sales; (4) profits from the meat import business segment amounted to RMB36 million and maintained stable despite of the operating environment with volatile market conditions and changing policies.

## Hog Production Business

### *Strategically reserved production capacity and improved the level of production management*

In 2018, hog production volume of the Company was 2,550 thousand heads, representing a year-on-year increase of 14.5%. The average finishing weight of commodity pig reached 108.4 kg per head, representing a year-on-year increase of 3.5 kg per head. But segment revenue and results dropped due to the influence of the decreased hog price.

Given a downward market trend, the Company strategically reserved production capacity. As of the end of 2018, economies of scale improved with hog production capacity of 4,089 thousand heads, representing a year-on-year increase of 17.1%. The Company focused on promoting batch production, enhancing disease prevention and control as well as improving the uniformity of hogs in average finishing weight. The Company also had a performance appraisal system which was cost reduction oriented and the rewards offered to frontline employees were strengthened.

### *Continued to increase the proportion of self-supplied feed, while keeping close attention to the feed ingredients market*

As of the end of 2018, the Company had built up a feed production capacity of 900 thousand tons with its feed self-sufficiency rate increasing from 43.9% for the same period in 2017 to 55.9%, and the rate is expected to increase to over 65% in the coming years. In 2018, as the price of feed ingredients rose, the Company strengthened information sharing with COFCO Group's ingredients procurement team and established corn and soybean meal stock at low prices. In order to further reduce our operating risks and production costs, the Company plans to use futures contracts in 2019 to hedge feed ingredient prices.

### *Improved the level of epidemic prevention to ensure the smooth operation of our production system*

The Company's farms have relatively high standards for construction and equipment, with a two-point layout of "sow area + nursery and finishing area" with adequate distance in between for epidemic prevention purpose. We have also set up hog transfer stations and vehicle cleaning and disinfection stations outside the farms for better epidemic prevention effect. Since the onset of the African swine fever in China, the Company has kept a close watch of the epidemic and comprehensively raised the bio-security level, setting up new disinfection facilities and disinfection procedures, with strict control over the personnel, vehicles and materials entering and exiting the hog farms. With improved support from upstream and downstream facilities, the movement of our feed and hogs was kept within our entire industry value chain system as far as possible, which is conducive to ensuring biosecurity.

## Fresh Pork Business

### *Both the sales volume and profits of our fresh pork business increased, with the segment results and branded business performance hitting new high*

In 2018, the sales volume of our fresh pork segment increased by 10.6% year-on-year to 190 thousand tons, of which the sales volume of branded fresh pork increased by 32.2% to 43 thousand tons, driving the ratio of revenue from branded fresh pork to the segment revenue up by 5.6 percentage points to 30.8%. The number of branded sales terminals increased by 15.2% year-on-year to 1,877 and the segment results amounted to RMB107 million, representing a year-on-year increase of 18.8%, hitting a record high.

### *The construction of a new factory with a slaughtering capacity of one million heads in Central China has commenced, and the expansion of our factory in the North continued to make progress*

The capacity utilization rate of our fresh pork segment has reached 89.1%, increasing by 7.9 percentage points year-on-year. Specifically, our factory in Wuhan, Hubei Province with an annual slaughtering capacity of 500,000 heads has been operating at its full capacity for six consecutive years, among which the capacity utilization rate in 2017 and 2018 were 100.4% and 104.7%, respectively, laying a solid foundation in the market. The slaughtering capacity utilization rate of our factory in Dongtai, Jiangsu Province with an annual slaughtering capacity of 1.5 million heads also increased from 74.8% for the same period in 2017 to 84.0%. In 2018, the Company started construction of a new factory with an annual slaughtering capacity of one million heads in Huanggang, Hubei Province, which will commence trial production in the second half of 2019, aiming to fully cover the Central China market.

Since the outbreak of African swine fever in China, the Company has been closely monitoring the development of the situation, and has conducted an in-depth analysis of its impact on China's slaughtering industry, and based on which it is actively implementing its plan on capacity expansion in North China and Northeast China.

### *Worked closely with the new retail channels to craft a small-packed super pork product, aiming to lead consumption upgrades*

The Company took advantage of the changes in consumption trends and started close cooperation with the new retail channels. Sales volume of small-packed pork has increased significantly by 76.9% year-on-year to 18 million packs, and the product has been on the market through 53 stores of a mid and high-end fresh food enterprise in China, and such a safe, fresh, convenient and finely cut product is well received by consumers.

In order to further enhance our brand image and premium, the Company has launched a new series of high-end small-packed "linseed pork" products, aiming to attract consumers with its distinct feature known as "a healthy new life with good fats". Since its launch on the market of Wuhan and the Yangtze River Delta in May 2018, the product has been well-received by consumers and sales were steadily increasing.

### *The quality of our product has won double endorsements from the Olympic and China Space, enjoying continuously increasing brand influence*

In 2018, "Joycome" brand appeared on CCTV for 3 times, and served the Meeting held by the Minister of Energy on the "Belt and Road" Initiative, the First China International Import Expo, and the 2018 Boao Forum for Chinese Entrepreneurs, and won a number of awards and honors such as the "2018 Most Valuable Brand in China's Meat Product Industry". In August 2018, the Company officially became a partner of China Space. In view of this and together with the endorsements from its role as a supplier of the Chinese sports delegation, the Company launched a full range of online and offline activities under the theme of "five checkpoints for product safety and quality assurance from company owned farms". "Joycome" brand has achieved 42% "Unaided Brand Awareness" in the Company's major sales area, representing a year-on-year increase of 9 percentage points. 24% of the consumers consider "Joycome" as their top choice in terms of fresh pork products.


## Processed Meat Products Business

### *Improved our production capacity layout and optimized our distribution channel structure*

In 2018, our factory in Heshan, Guangdong Province completed the follow-up work of relocation and our new factory in Dongtai, Jiangsu Province was officially put into operation, which focused on the deep processing of imported beef and food catering services. The improvement of our production capacity layout has laid a good foundation for the channel transformation of the processed meat products business, resulting in a year-on-year increase of 119.8% in the sales volume of our catering channels, driving the segment sales volume up by 16.8% year-on-year to 12.5 thousand tons.

### *Developed best sellers with intensive study of market demand*

Following the successful launch of our best-selling star products i.e. "cheese-filled sausage" and "chewy meat stick", the Company continued to delve into customers' needs and understand market demands, with a total of 53 new products launched on the market during the year of 2018, accomplishing a sales volume of new products over 1,000 tons, and further optimized product portfolios.

## Meat Import Business

### *Actively coped with risks in relation to market conditions, policies, exchange rates, and achieved growth in a depressed market*

In 2018, our meat import segment actively responded to the adverse factors such as the decline in domestic hog prices, the increase in the US pork and beef tariffs, the Brazilian government's survey on "anti-dumping", and the depreciation of the Renminbi, and achieved a segment sales volume of 93 thousand tons, representing a year-on-year increase of 8.6%. The segment recorded a revenue of RMB2,316 million, representing a year-on-year increase of 20.9%. The Company made a right judgment on the market trends, resulting in low-cost inventory building, while adopting back-to-back deal signing and high turnover to reduce risks. We continued to optimize our procurement system featuring purchase in all categories and from multiple countries, aiming to expand import sources and reduce procurement risks.

*Continued to penetrate into the sales region and channel, resulting in a significant increase in beef sales*

Expanding the sales of imported beef is the strategic focus of meat import business segment. In 2018, the sales volume of beef was 38 thousand tons, representing a substantial increase of 81.7% year-on-year. Our meat import segment continued its penetration into the region and channel, with its beef-based (catering, corporate customers and retail) business revenue increasing by 90.7% year-on-year to RMB980 million. Our effort to acquire high-end retail and catering customers also met with encouraging results, realizing the normalization of chilled beef imports, which is conducive to increasing product premiums and enhancing customer loyalty.

## IV. Financial Review

### Overall Performance

In 2018, revenue of the Group was RMB7,168 million, representing a year-on-year increase of 3.0% as compared with RMB6,961 million for the same period in 2017. Before the adjustments of fair value of biological assets, net profit of the Group was loss of RMB217 million, representing a decrease of RMB713 million as compared with gains of RMB497 million for the same period in 2017, representing a year-on-year decrease of 143.6%.

### Revenue

In 2018, revenue of the Group was RMB7,168 million, representing an increase of RMB208 million as compared with RMB6,961 million for the same period in 2017, mainly benefiting from the rapid growth of beef import business. Meanwhile, hog production volume recorded a year-on-year increase of 14.5%, which jointly offset the effect from the year-on-year decrease of commodity pig price during the reporting period.

### Gross Profit Margin

In 2018, gross profit margin of the Group before biological assets fair value adjustments decreased from 15.5% for the same period in 2017 to 4.7%, mainly due to the effect of the decrease of commodity pig price in 2018 as compared with that for the same period in 2017, which was offset in part by the increased space of overall gross profit of branded business including fresh pork.

### Selling and Distribution/Administrative Expenses

In 2018, total selling and distribution expenses and administrative expenses of the Group amounted to RMB514 million, representing a year-on-year slight increase of 2.4% as compared with RMB502 million for the same period in 2017, mainly due to the increase in branded business investments.

### Finance Costs

In 2018, finance costs of the Group were RMB124 million, representing an increase of RMB43 million as compared with RMB81 million for the same period in 2017, which was mainly because that the Company continued to advance project investment and properly increased capital reserve in 2018.

### Other Income, Other Expenses, Other Gains and Losses

In 2018, other income of the Group were RMB217 million, representing an increase of RMB133 million as compared with that for the same period in 2017, which was mainly due to revenue from sales of feed ingredients of RMB102 million.

In 2018, other expenses of the Group were RMB99 million, which mainly included cost of sales of feed ingredients.

In 2018, other gains and losses of the Group were losses of RMB24 million, representing an increase of RMB56 million as compared with that for the same period in 2017, which was mainly due to stricter environmental protection requirements, relocation of the Maverick factory, asset disposals and impairment of certain farms with compensations and losses resulting in total losses of RMB23 million. Meanwhile, volatility in the exchange rates caused exchange losses and fair value losses of foreign exchange forward contract amounting to RMB66 million in total in 2017.

### Profit/Loss for the Period

For the reasons above, the Group recorded losses before biological assets fair value adjustments of RMB217 million in 2018, representing a decrease of RMB713 million as compared with RMB497 million for the same period in 2017.

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

Save as disclosed in this annual report, the Group has neither any other significant investments nor significant acquisitions and disposals of relevant subsidiaries, associates and joint ventures in 2018.

## Major Financial Ratios

The financial ratios of the Group as at December 31, 2018 and December 31, 2017 are set forth below:

| | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Return on equity(1) | **-13.3%** | 9.5% |
| Return on assets(2) | **-6.7%** | 5.2% |
| Interest coverage ratio(3) | **-3.68 times** | 5.59 times |
| Current ratio(4) | **0.81** | 1.15 |
| Net debt-to-equity ratio(5) | **61.4%** | 31.5% |

*Notes:*

*(1) Equals profit/loss for the year divided by the average of the beginning and ending total equity for that year and multiplied by 100%.*

*(2) Equals profit/loss for the year divided by the average of the beginning and ending total assets for that year and multiplied by 100%.*

*(3) Equals profit/loss before finance costs and income tax expense for the year divided by finance costs (with capitalised interest added back) for that year, and multiplied by 100%.*

*(4) Equals current assets divided by current liabilities as at the balance sheet date.*

*(5) Equals total interest-bearing bank loans and loans from the related parties less cash and bank balances, divided by total equity as at the balance sheet date and multiplied by 100%.*

## Analysis on Capital Resources

### *Liquidity and Financial Policy*

Adhering to the steady financial policy, externally, the Group was committed to expanding financing channels and strengthening financing capability construction, as well as strengthening the cooperation with banks to obtain adequate credit facilities and ensure the capital liquidity. Internally, the Group implemented intensive management for surplus capital to improve the turnover efficiency for inventories and receivables and 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. At the same time, the Group also used the capital pool in Mainland China, so as to be more effective in utilising cash, reducing average borrowing costs of the Group, and accelerating clearing services among the companies under the Group.

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

As at December 31, 2018, cash and bank balances owned by the Group amounted to approximately RMB1,140 million (December 31, 2017: approximately RMB1,185 million). The decrease was primarily attributable to expenditures on construction of fixed assets.

As at December 31, 2018, our current ratio was 0.81 (December 31, 2017: 1.15). As at December 31, 2018, our unused bank credit facilities were RMB7,639 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 2018, the EBITDA of the Group (before biological assets fair value adjustments) was RMB322 million (same period in 2017: RMB911 million). Net cash generated from our operating activities was RMB42 million (same period in 2017: RMB586 million). Net cash used in our investment activities was RMB1,955 million (same period in 2017: RMB524 million), including RMB1,333 million for the purchase of property, plant and equipment (same period in 2017: RMB972 million). Net cash generated from our financing activities was RMB1,256 million (same period in 2017: RMB5 million). Our time deposits over three months increased by RMB634 million as compared with that in the beginning of 2018. In summary, in 2018, our net decrease in cash and bank balances was RMB45 million.

## *Capital Structure*

As at December 31, 2018, the total number of issued shares of the Company remained unchanged at 3,901,998,323 shares.

As at December 31, 2018, the Group had interest-bearing bank loans of approximately RMB3,505 million (December 31, 2017: approximately RMB2,300 million). The annual interest rate on bank loans ranged from 2.14% to 4.99% (December 31, 2017: from 1.66% to 4.90%). Most of the bank loans were based on floating interest rates.

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

| Unit: RMB in million | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Within one year | **2,057** | 1,360 |
| One to two years | **335** | 227 |
| Three to five years | **921** | 619 |
| More than five years | **193** | 94 |
| Total | **3,505** | 2,300 |

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

| Unit: RMB in million | **December 31, 2018** | December 31, 2017 |
|---|---|---|
| Fixed-rate borrowings | **756** | 524 |
| Variable-rate borrowings | **2,749** | 1,776 |
| Total | **3,505** | 2,300 |

As at December 31, 2018, the Group had approximately RMB565 million loans from related parties (December 31, 2017: approximately RMB441 million).

As at December 31, 2018, the Group had net assets of approximately RMB4,774 million (December 31, 2017: approximately RMB4,945 million). Net debts of the Group[1] amounted to approximately RMB2,930 million (December 31, 2017: approximately RMB1,556 million), while the net debt to equity ratio was approximately 61.4% (December 31, 2017: approximately 31.5%).

*Note:*

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

## *Contingent Liabilities and Pledge of Assets*

As at December 31, 2018 and December 31, 2017, the Group had no significant contingent liabilities.

As at December 31, 2018 and December 31, 2017, the Group had no bank loans secured by buildings, land use rights and time deposits of the Group.

### *Capital Expenditure*

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

In 2018, the Group's capital expenditure was RMB1,422 million (same period in 2017: RMB995 million). The following table sets forth our capital expenditure for the years indicated:

| Unit: RMB in million | **2018** | 2017 |
|---|---|---|
| Payments for property, plant and equipment | **1,333** | 972 |
| Payment for prepayment for lease payments | **88** | 22 |
| Payments for other intangible assets | **1** | 1 |
| Total | **1,422** | 995 |

As of December 31, 2018, our demand for capital expenditure mainly came from the construction of hog farms in Jilin Province, the Inner Mongolia Autonomous Region, Hubei Province, Hebei Province and Henan Province.

### *Capital Commitment*

Capital commitment of the Group is mainly related to the construction of hog farms and other production and ancillary facilities. As at December 31, 2018, capital commitment of the Group was RMB522 million (December 31, 2017: RMB529 million).

### *Biological Assets*

Biological assets of the Group primarily consist of commodity pigs at different growth stages and breeding hogs used to give birth to animals in the future. As at December 31, 2018, we owned 1,745 thousand live hogs in total, including 1,592 thousand commodity pigs and 153 thousand breeding hogs, representing an increase of 21.9% as compared with 1,431 thousand heads as at December 31, 2017. The fair value of our biological assets was RMB1,464 million as at December 31, 2018 and RMB1,566 million as at December 31, 2017. Our results have been and are expected to be affected by changes in fair value of biological assets.

Our cost of sales is adjusted for changes in fair value of biological assets, with fair value gains increasing our costs of sales and fair value losses decreasing our cost of sales, although the timing of these adjustments is not necessarily the same as the related gains or losses. We 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 same period in 2018 and 2017, such adjustments have increased our cost of sales by RMB326 million and RMB1,021 million, respectively. Additionally, losses arising from fair value less cost of sales of agricultural products at the point of harvest amounted to RMB134 million (same period in 2017: gains of RMB509 million); gains arising from changes in fair value less cost of sales of biological assets amounted to RMB30 million (same period in 2017: gains of RMB460 million). In general, the net effect of biological assets fair value adjustments on profit was losses of RMB430 million during the current period and was losses of RMB52 million during the same period in 2017.

## V. Human Resources

The continuing operations of the Group hired 6,989 employees as of December 31, 2018 (December 31, 2017: 6,172 employees). Remuneration for employees was determined according to their job nature, personal performance and the market trends. For the year ended December 31, 2018, total remuneration amounted to approximately RMB611 million (2017: RMB580 million).

The Group adopted a share incentive scheme on March 27, 2015 to provide incentives for its directors and eligible employees, aiming to stimulate them to work for the cause of increasing the value of the Company and its shares. On March 27, 2017, the Board approved to revise the share incentive scheme under the consensus reached by MIY, KKR, Baring, Temasek and Boyu after negotiation. For details, please refer to the prospectus of the Company and our announcement dated March 27, 2017.

The Group provides basic social insurance and housing accumulation fund for 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:

### Price Risks

Price risks refer to the losses of costs increase and 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 a significant effect on our profitability. Commodity prices generally fluctuate with market conditions, including supply and demand, outbreaks of diseases, government policies and weather conditions in major farming regions.

### Epidemic Risks

Epidemic risks are the major risks faced in the development of animal husbandry. The epidemic spreading in hog production mainly includes blue-ear disease, classical swine fever, porcine respiratory disease, porcine epidemic diarrhea, porcine pseudorabies, porcine circovirus, etc. In 2018, African swine fever broke out throughout the country and is likely to continue to spread in 2019. 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. Second, the epidemic diseases will put hog farms under relatively considerable 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 a panic among some 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.

## Food Safety Risks

Food safety risks refer to risks of customer complaints, product recalls and other negative effects resulted from unqualified food quality and safety indicators due to deficient food security system, unsound risk identification and assessment mechanism and unfulfilled food safety control measures and early warning mechanism. To solve possible food safety risks, the Group has formulated standards for quality and safety system, such as, Provisions for the Food Safety Management of COFCO Meat, Standards for Meat Industry Chain of COFCO Group (Fascicule of Livestock Meat Chain Industry), Prohibition on Food Safety of COFCO Meat and Food Safety Responsibility System of COFCO Meat, established management mechanism, carried out quality and safety training and guidance, conducted regular supervision and inspection and evaluated and reviewed the results. All departments strictly comply with relevant standards and actively prevent food safety risks. To solve food safety risks, the Group has defined that the decisive department of risk management of food safety is the Quality and Safety Management Department, and has formulated the early warning indicators and bottom line indicators.

## Safe Production Risks

Safe production risks refer to risks of safety accidents, interrupted operation or tarnished corporate reputation due to the lack of sound safety management system and preventive measures. The Group has formulated Measures for Administration of Production Safety Accidents of COFCO Meat and Comprehensive Emergency Plans for Production Safety Accidents of COFCO Meat to standardize management and implement accidents prevention. The Group has defined that the decisive department of risk management of safe production is the Quality and Safety Management Department, and has formulated the early warning indicators and bottom line indicators. The Quality and Safety Management Department organizes all grassroots enterprises to conduct all-round risk identification and to identify the safety risks in the enterprise production and operation; to evaluate and classify the identified risks 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. The Company also conducts regular supervision and inspection to evaluate the operation of management system and risk management and control and promote the improvement and development of grassroots enterprises.

## Environmental Protection Risks

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

### Procurement Risks

Procurement risks refer to factors such as unreasonably arranged procurement plan, inaccurate price forecast of raw materials, weak management of procurement contracts and orders, or imperfect systems of acceptance and return, which may lead to shortage of stock or overstock, or oversight and fraud in procurement business, resulting in the risk of infringement of the legitimate rights and interests of the Company. To solve procurement risks, the Group has formulated measures such as Tendering and Procurement Management Measures (《招標採購管理辦法》), Veterinary Drugs Procurement Management Measures (《獸藥採購管理辦法》), Feed Supplier Management System (《飼料供應商管理制度》) and Department of Trade Import Procurement Management System (《貿易部進口採購管理制度》). Each business department selects appropriate procurement methods in strict compliance with the Company's systems and regulations, and precisely implements various risk control measures in the procurement process. At the same time, the supervisory department regularly carries out special inspection or internal control evaluation of the procurement to identify possible internal control defects in the procurement business in a timely manner and urge the responsible parties to rectify the defects as soon as possible.

## VII. The Outlook

2018 was a year of fluctuation, and unfavorable factors such as the downturn in hog prices, African swine fever, and trade friction between China and the United States cast a shadow over the meat industry. However, the crisis will reshape the industry and bring great development opportunities to the Company. In 2019, we will prepare ourselves in the following aspects:

Firstly, we will remain vigilant against and cautiously prevent the African swine fever, lifting the level of biosecurity, and defend the lifeline of our farming system. On this basis, we will continue to speed up capacity layout, improve production efficiency, and reduce costs, aiming at establishing core competitive advantages.

Secondly, we will accelerate the construction of fresh pork capacities in North China, vigorously carrying out the differentiated and branded operation of our fresh pork business, expanding cooperation with the new retail channels, and converting high-quality hogs into high-premium pork products.

Thirdly, we will take advantage of the interaction between our domestic and foreign resources to foster synergies between our meat import segment and fresh pork segment so as to seize the opportunities brought about by the African swine fever.

After nearly ten years of exploration, the Company's business positioning has become increasingly clear, supported with a complete industrial value chain, and gradually improved market status. Difficulties always coexist with opportunities, and challenges arrive before developments, in light of which the Company will carefully study and make good use of the opportunities, striving to make a difference in this industry transformation and create greater value for its shareholders with brilliant performance.

# Biographies of Directors and Senior Management

## Board of Directors

The Board consists of twelve Directors, of whom two are executive Directors, six are non-executive Directors and the remaining four are independent non-executive Directors.

**JIANG Guojin**

*Chairman of the Board and Executive Director*

Mr. JIANG Guojin (江國金), aged 51, was appointed as an executive Director and the Chairman of the Board on January 4, 2018. Mr. Jiang joined COFCO Group in 1989 and was the general manager of COFCO Malt (Dalian) Co., Ltd. from December 1995 to August 2000, the general manager of the malt division of China Foods (Beijing) Company from August 2000 to December 2007 and a deputy general manager and the general manager of the brewing materials division of China Agri (a company listed on the Stock Exchange, stock code: 606) from December 2007 to July 2008. Mr. Jiang served as the general manager of COFCO Meat Investments from July 2008 to September 2013. Mr. Jiang was the Managing Director and an executive director of China Foods Limited (a company listed on the Stock Exchange, stock code: 506) from September 2013 to December 2017. Mr. Jiang serves as the chairman of the board of Jiugui Liquor Co., Ltd. (a company listed on Shenzhen Stock Exchange, stock code: 799) from January 2016 to February 2018.

Mr. Jiang graduated from Beijing Institute of Light Industry (北京輕工業學院) (now Beijing Technology and Business University (北京工商大學)) with a Bachelor's degree in engineering and holds a degree of Executive Master of Business Administration from China Europe International Business School and has extensive experience in food, oil and meat as well as brand business and general management of enterprise.

**XU Jianong**

*Executive Director*

Mr. XU Jianong (徐稼農), aged 54, was appointed as a Director on April 17, 2014 and was designated as a Managing Director on April 27, 2016 and an executive Director on May 23, 2016. Mr. Xu is also the general manager of the Company. The primary responsibilities of Mr. Xu include implementing the Board's decisions, formulating the Company's corporate and business strategies, monitoring the daily operations of our Group, and making decisions and advising on issues relating to the appointments of the senior management.

Mr. Xu has been the general manager of COFCO Meat Investments since September 2013. Mr. Xu has more than 27 years of experience in agricultural commodities and foods processing in the PRC. Mr. Xu first joined COFCO in August 1987 and has carried out managerial functions in several members of COFCO Group since October 1994. Prior to joining our Group, Mr. Xu was the deputy general manager, the executive deputy general manager and the general manager of the brewing materials division of China Agri from August 2000 to September 2008, from September 2008 to May 2010 and from May 2010 to September 2013, respectively.

Mr. Xu obtained his bachelor's degree in economics from the Shanghai University of International Business and Economics (上海對外經貿大學) (formerly known as Shanghai Institute of Foreign Trade (上海對外貿易學院)) in the PRC in July 1987, and obtained his executive master of business administration from China Europe International Business School (中歐國際工商學院) in the PRC in October 2011.

**YANG Hong**
*Non-executive Director*

Ms. YANG Hong (楊紅), aged 52, was designated as a non-executive Director on December 9, 2016. Ms. Yang is primarily responsible for assisting the Chairman and Managing Director in formulating the corporate and business strategies and making major corporate and operational decisions of the Company. Ms. Yang is also currently a director of COFCO Meat Investments.

Ms. Yang joined COFCO in 1989 and currently serves as a director of COFCO Sugar Limited (中糧糖業有限公司) and a director of China Foods Trading Limited (中國食品貿易有限公司). Ms. Yang held positions as vice president and the general manager of sugar division at COFCO Tunhe Co., Ltd. (中糧屯河股份有限公司) (a company listed on the Shanghai Stock Exchange, stock code: 600737, currently known as COFCO Tunhe Sugar Co., Ltd. (中糧屯河糖業股份有限公司)), and served as a director from June 2013 to November 2016, and served as the chairlady of Tully Sugar Limited (塔裡糖業有限公司). She has over 27 years' experience in sugar business and has extensive experience in enterprise management.

Ms. Yang graduated from the University of International Business and Economics in Beijing and obtained a master's degree of arts. She is also a senior international business operator.

**WOLHARDT Julian Juul**
*Non-executive Director*

Mr. WOLHARDT Julian Juul, aged 45, was appointed as a Director on May 28, 2014 and was designated as a non-executive Director on May 23, 2016. Mr. Wolhardt is primarily responsible for assisting the Chairman and Managing Director in formulating the corporate and business strategies and making major corporate and operational decisions of the Company. Mr. Wolhardt is also currently a director of COFCO Meat Investments.

Mr. Wolhardt is currently the CEO of DCP Advisors, Limited. (德弘資本集團) focusing on private equity transactions in the Greater China region. Prior to founding DCP Advisors, Limited, Mr. Wolhardt served as a partner of KKR Asia Limited, during which he was actively involved in advising on investments in Yageo Corporation (國巨公司) (a company listed on the Taiwan Stock Exchange, stock code: 2327), Far East Horizon Limited (遠東宏信有限公司) (a company listed on the Stock Exchange, stock code: 3360), Fujian Sunner Development Co., Ltd. (福建聖農發展股份有限公司) (a company listed on the Shenzhen Stock Exchange, stock code: 002299) and COFCO Meat Investments. Before joining KKR Asia Limited, Mr. Wolhardt was with Morgan Stanley Private Equity from 1998 to 2006 and was responsible for its private equity business in China. Mr. Wolhardt is currently a non-executive director of China Modern Dairy Holdings Ltd. (中國現代牧業控股有限公司) (a company listed on the Stock Exchange, stock code: 1117), an independent non-executive director of China Mengniu Dairy Company Limited (a company listed on the Stock Exchange, stock code: 2319) and a director of Niu Technologies (a Company listed on NASDAQ, stock code: NIU). Mr. Wolhardt was an independent non-executive director of China Cord Blood Corporation (中國臍帶血庫企業集團) (a company listed on the New York Stock Exchange, stock code: CO) from April 2012 to May 2015. He was a non-executive director of United Envirotech Ltd (a company listed in Singapore, stock code: CEE. SG, currently known as CITIC Envirotech Ltd.) from October 2011 to August 2012.

Mr. Wolhardt has been a certified public accountant since August 1995. He received a bachelor's degree in accounting from the University of Illinois (Urbana-Champaign) in the United States in May 1995.

**CUI Guiyong**
*Non-executive Director*

Dr. CUI Guiyong (崔桂勇), aged 56, was appointed as a Director on May 28, 2014 and was designated as a non-executive Director on May 23, 2016. Dr. Cui is primarily responsible for reviewing and supervising the financial reporting process and internal control system of our Group. Dr. Cui is also currently a director of COFCO Meat Investments.

Dr. Cui has been a Managing Director of Baring Private Equity Asia Co., Limited since January 2012 and is primarily responsible for investments in greater China Region. Prior to joining Baring Private Equity Asia Co., Limited, he worked as a Managing Director at HOPU Investment Management Co., Ltd. (厚樸投資管理有限公司) from May 2008 to September 2009 and became a partner since October 2009. He worked at Morgan Stanley Asia Limited (摩根士丹利亞洲有限公司) from April 2007 to April 2008 and acted as a Managing Director of the investment banking department. From March 2004 to April 2007, he worked with HSBC Group (滙豐集團) as a Managing Director of Global Investment Banking Asia Pacific – Resources and Energy at HSBC Markets (Asia) Limited. From June 2002 to August 2003, he was head of the investment banking division at ICEA Capital Limited. From September 1994 to June 2002, Dr. Cui held various positions in N M Rothschild & Sons including Managing Director of the investment banking division and the chief representative in N M Rothschild & Sons' Beijing Office. Dr. Cui has been a non-executive director of AAG Energy Holdings Limited (亞美能源控股有限公司) (a company listed on the Stock Exchange, stock code: 2686) since January 2015. He also served as a non-executive director of Winsway Enterprises Holdings Limited (永暉實業控股股份有限公司) (a company listed on the Stock Exchange, stock code: 1733) from June 2010 to January 2012, and a non-executive director of China Shengmu Organic Milk Limited (中國聖牧有機奶業有限公司) (a company listed on the Stock Exchange, stock code:1432) from March 2014 to June 2018.

Dr. Cui obtained his bachelor's degree in engineering and master's degree in engineering from the University of Science and Technology Beijing (北京科技大學) (formerly known as Beijing Iron and Steel College (北京鋼鐵學院)) in the PRC in April 1982 and June 1987, respectively, and his doctoral degree in philosophy from the University of Oxford in the United Kingdom in May 1995.

**ZHOU Qi**
*Non-executive Director*

Mr. ZHOU Qi (周奇), aged 37, was appointed as a Director on May 28, 2014 and was designated as a non-executive Director on May 23, 2016. Mr. Zhou is primarily responsible for assisting the Chairman and Managing Director in formulating the corporate and business strategies and making major corporate and operational decisions of the Company. Mr. Zhou is also currently a director of COFCO Meat Investments.

Mr. Zhou joined Boyu Capital in 2011 and is currently a partner at Boyu Capital. Prior to joining Boyu Capital, Mr. Zhou was an investment professional at Principal Investment Area of Goldman Sachs from 2007 to 2011. Mr. Zhou also served as an analyst at the Global Investment Research Division of Beijing GaoHua Securities Company Limited (北京高華證券有限責任公司) from 2005 to 2007.

Mr. Zhou obtained his bachelor's degree in accounting from Tsinghua University (清華大學) in the PRC in July 2003. Afterwards, Mr. Zhou also received his master's degree in accounting from Tsinghua University in July 2005.

# Biographies of Directors and Senior Management

**ZHANG Lei**
*Non-executive Director*

Mr. ZHANG Lei (張磊), aged 38, was appointed as a non-executive Director on December 12, 2017. Mr. Zhang is primarily responsible for assisting the Chairman of the Board and the Managing Director in formulating the corporate and business strategies and making major corporate and operational decisions of the Company.

Mr. Zhang joined Haier Financial Services China Co., Ltd.* (海爾融資租賃(中國)有限公司) ("**Haier Financial**") (principally engaged in the provision of integrated financial services, technology exchange services, management consulting services and diverse resource integration services) in 2015 and currently serves as the chief executive officer of Haier Financial. Mr. Zhang has extensive experiences in strategic planning, business management, financial innovation, financial internationalisation and financial lease. Prior to joining Haier Financial, in 2007, Mr. Zhang joined Zoomlion Financial Services Co., Ltd.* (中聯重科金融服務公司), a subsidiary of Zoomlion Heavy Industry Science and Technology Co., Ltd.* (中聯重科股份有限公司), a company listed on the Shenzhen Stock Exchange and the Stock Exchange respectively, its respective stock code being SZ.000157 and HK.01157, and served as deputy general manager from 2012 to 2015. He is one of the founders of Zoomlion Financial Services Co., Ltd., the founder of Zoomlion Global Financial Services System (Offshore)* (中聯重科全球金融服務體系(境外)) and a pioneer of leading local finance leasing companies in China to truly "Go Global".

Mr. Zhang obtained a bachelor's degree in business administration at Hebei University of Technology (河北工業大學) in July 2003 and subsequently obtained a master's degree in business administration at Nankai University (南開大學) in July 2006.

**HUANG Juhui**
*Non-executive Director*

Dr. HUANG Juhui (黃菊輝), aged 53, was appointed as a non-executive Director on December 12, 2017. Dr. Huang is primarily responsible for assisting the Chairman of the Board and the Managing Director in formulating the corporate and business strategies and making major corporate and operational decisions of the Company.

Dr. Huang serves as vice president of public affairs, Greater China for BRF S.A. (a company listed on the New York Stock Exchange and the Brazilian Stock Exchange respectively, its respective stock code being BRFS and BRFS3) since January 2017. Dr. Huang worked at the Green Food Development Center of China's Ministry of Agriculture from July 1994 to September 1996, and subsequently held senior positions on government affairs and business development in large multinational agriculture and food companies. He has over 21 years' experience in management in agriculture and food-related industries. Prior to joining BRF S.A., he served as senior director of government relations and chief representative of Beijing Representative Office for Archer Daniels Midland Company (a company listed on the New York Stock Exchange, its stock code being ADM) from January 2011 to December 2016. He also served as vice president of government affairs at the R&D-based Pharmaceutical Industry Association Committee under the China Association of Enterprises with Foreign Investment from November 2008 to December 2009, and director of government affairs and business development at Cargill Inc. from March 2003 to October 2008. He held positions as manager of biotechnology regulatory affairs and senior manager of government relations at Syngenta AG (a company listed on the New York Stock Exchange and the Swiss Stock Exchange respectively, its respective stock code being SYT and SYNN) and its predecessor Zeneca Agrochemicals from October 1996 to October 2002. Currently, he is also a co-chair of the Agricultural Forum of American Chamber of Commerce in China and one of the founders of US-China Agriculture and Food Partnership.

Dr. Huang graduated from China Agricultural University (中國農業大學) with a doctorate in agronomy in July 1994. He also obtained a master's degree in agronomy at Southwest University (西南大學) in July 1988 and a bachelor's degree of agronomy at Hunan Agricultural University (湖南農業大學) in July 1985.

**FU Tingmei**

*Independent Non-Executive Director*

Mr. FU Tingmei (傅廷美), aged 52, was appointed as an independent non-executive Director on May 23, 2016. Mr. Fu has over 21 years of experience in investment, finance, law and business management. From 1992 to 2003, he completed numerous corporate finance transactions and held directorships in several investment banking firms based in Hong Kong, including a director of Peregrine Capital Limited (百富勤融資有限公司), and a Managing Director of BNP Paribas Peregrine Capital Limited (法國巴黎百富勤融資有限公司). From July 2008 to June 2017, Mr. Fu served as an independent non-executive director in Beijing Enterprises Holdings Limited (北京控股有限公司) (a company listed on the Stock Exchange, stock code: 392). Mr. Fu is currently an independent non-executive director of CPMC Holdings Limited (中糧包裝控股有限公司) (a company listed on the Stock Exchange, stock code: 906), Guotai Junan International Holdings Limited (國泰君安國際控股有限公司) (a company listed on the Stock Exchange, stock code: 1788), China Resources Pharmaceutical Group Limited (華潤醫藥集團有限公司) (a company listed on the Stock Exchange, stock code: 3320) and Postal Savings Bank of China Co., Ltd. (中國郵政儲蓄銀行股份有限公司) (a company listed on the Stock Exchange, stock code: 1658).

Mr. Fu graduated from the University of London, the United Kingdom with a master's degree in Law and a doctoral degree in Law in November 1989 and March 1993, respectively.

**LI Michael Hankin**

*Independent Non-Executive Director*

Mr. LI Michael Hankin (李恆健), aged 54, was appointed as an independent non-executive Director on May 23, 2016. He has more than 22 years' experience in financial and accounting matters, fundraising, mergers and acquisitions, restructuring and international business development. Mr. Li served as an independent non-executive director of Huiyin Smart Community Co., Ltd. (匯銀智慧社區有限公司) (a company listed on the Stock Exchange, stock code: 1280) from August 2017 to June 2018, and a director of Banro Corporation from April 2017 to May 2018. Mr. Li worked at several listed companies as head of corporate finance, general manager of investor relations and mergers and acquisitions including as head of corporate finance of GCL-Poly Energy Holdings Limited (保利協鑫能源控股有限公司) (a company listed on the Stock Exchange, stock code: 3800) since July 2014 and as general manager of investor relations & mergers and acquisitions of Newton Resources Limited (新礦資源有限公司) (a company listed on the Stock Exchange, stock code: 1231) in 2013. Mr. Li also worked at several international banks where he had led numerous fund raising exercises in Hong Kong and the United States. During the period from March 1994 to June 2004, Mr. Li was the executive director (Corporate Finance) at BNP Paribas Capital (Asia Pacific) Limited (法國巴黎資本(亞太)有限公司). During the period from July 2004 to December 2005, Mr. Li was employed at GoldBond Capital (Asia) Limited (金榜融資(亞洲)有限公司) and was a Managing Director (investment banking) of Rothschild (Hong Kong) Limited (洛希爾(香港)有限公司) during the period from March 2007 to May 2011. Mr. Li is currently the deputy general manager of Shougang Concord Grand (Group) Limited (首長四方(集團)有限公司) (a company listed on the Stock Exchange, stock code: 730)

Mr. Li obtained a bachelor's degree in accountancy from California State University at Los Angeles in June 1985, and a master's degree in business administration from Columbia University, New York in May 1992.

**LEE Ted Tak Tai**
*Independent Non-Executive Director*

Mr. LEE Ted Tak Tai (李德泰), aged 68, was appointed as an independent non-executive Director on December 12, 2017. Mr. Lee has a long history of providing advice on cross border investments, mergers and acquisitions, and has extensive experience in providing audit and accounting services to international and multinational companies in China and the United States. Mr. Lee is currently the Managing Director of T Plus Capital Limited which primarily engages in the provision of strategic, financial and business development advisory services in China. Mr. Lee is currently also an independent non-executive director of Daphne International Holdings Limited (a company listed on the Stock Exchange, stock code: 210), ENM Holdings Limited (a company listed on the Stock Exchange, stock code: 128) and East West Bank (China) Limited (a wholly-owned China subsidiary of East West Bancorp listed on NASDAQ). Mr. Lee had also served as an executive director at Prax Capital, a private equity firm specializing in China-focused investments. Mr. Lee is a US certified public accountant (inactive) and was a senior partner at Deloitte, where he worked for over 31 years both in the United States and Asia prior to his retirement from the firm in 2007.

Mr. Lee graduated from California State University, Fresno with a bachelor's degree in accounting and obtained an MBA degree from University of Southern California.

**JU Jiandong[1]**
*Independent Non-Executive Director*

Dr. Ju Jiandong, aged 55, was appointed as an independent non-executive Director on November 21, 2018. Dr. Ju is a Unigroup Chair Professor at the PBC School of Finance, Tsinghua University, the director of the Center for International Finance and Economics Research of the PBC School of Finance and a distinguished professor under the Yangtze River Scholars Programme of the Ministry of Education of China. He was the dean and a professor at School of International Business Administration of Shanghai University of Finance and Economics from 2014 to 2017, a professor at School of Economics and Management and the director at the Center for International Economic Research in Tsinghua University from 2009 to 2015; an assistant professor, an associate professor (Tenure Track) and a professor at the Department of Economics of University of Oklahoma in the U.S.A. from 1995 to 2014, and a resident scholar in the International Monetary Fund and a consultant for World Bank from 2007 to 2009. Dr. Ju focuses his research on international trade, international finance and industrial organization. He has published various papers in American Economic Review, Journal of International Economics, Journal of Monetary Economics, American Economic Journal and other international leading academic journals, and won the "Pushan Award for Excellent Paper on International Economics" in 2016.

Dr. Ju obtained a bachelor's degree in mathematics from Nanjing University in July 1982, a master's degree in economics from Tsinghua University in July 1987, and a doctorate in economics from Pennsylvania State University in May 1995.

*Note:*

1. *As at November 21, 2018, Dr. Chen Huanchun resigned as an independent non-executive Director of the Company due to his other business commitments that require more of his dedication, and Ju Jiandong was appointed as an independent non-executive Director of the Company. For details, please refer to the announcement of the Company dated November 21, 2018.*

## Senior Management

Our senior management is responsible for the day-to-day management of our business.

**XU Jianong**

Mr. XU Jianong (徐稼農), aged 54, is an executive Director, the Managing Director and the general manager of the Company. Please see his biographical details in the paragraph headed "Board of Directors" in this section.

**LI Zhili**

Mr. LI Zhili (李志利), aged 56, serves as a deputy general manager of the Company and general manager of the hog production division. Mr. Li joined COFCO since April 1996 and has successively served as engineer, department manager, assistant general manager, deputy general manager and Deputy Managing Director of COFCO Malt (Dalian) Co., Ltd. He served as the general manager of COFCO Malt (Jiangyin) Co., Ltd. from June 2005 to August 2006. He served as the deputy general manager of brewing materials division of China Cereals, Oils and Foodstuffs (Group) Company Limited from August 2006 to May 2009. Since May 2009, Mr. Li has joined COFCO Meat as a general manager of engineering and production management division and has been the deputy general manager of COFCO Meat since December 2010. Mr. Li has served as the general manager of the hog production division of COFCO Meat since August 2017.

Mr. Li obtained a bachelor's degree of engineering in Mechanical Technology and Equipment from Beijing Institute of Technology (北京理工大學) in September 1990.

**LI Lei**

Mr. LI Lei (李雷), aged 37, is the chief financial officer of the Company and is primarily responsible for the relevant matters on overall accounting and financial management of our Group, including corporate finance, financial reporting and financial management. Mr. Li joined our Group in January 2015 and served as the general manager of the finance department of COFCO Meat Investments and was appointed as the chief financial officer of the Company in May 2016 and was appointed as assistant to general manager of the Company in May 2017. Mr. Li has extensive experience in financial management and the food and agriculture industries. Mr. Li joined COFCO in 2004 and served as the general manager of the finance department of China Agri's brewing materials division from August 2007 to July 2013 and served as assistant to general manager of the same division and the general manager of finance department from July 2013 to December 2014.

Mr. Li received his bachelor's degree in economics with a taxation major from the Central University of Finance and Economics (中央財經大學) in August 2004 and master's degree in business administration from Tsinghua University (清華大學) in June 2017.

**LI Zhengfang**

Ms. LI Zhengfang (李正芳), aged 44, was appointed as the general manager of the Company's international trading division on January 17, 2018. Ms. Li is responsible for the general management of pork, beef and lamb international trading business. Ms. Li first joined COFCO in October 1997 and has served several managerial positions in several COFCO Group entities since September 2008, including the general manager of the strategy department, the marketing department, the beef and lamb processing division and the pork import division of COFCO Meat Investments, and was appointed as a deputy general manger (executive) of the international trading division of the Company on April 27, 2016. Ms. Li has extensive experience in meat trade and procurement. Prior to the above, Ms. Li served as a clerk at business division No. 1 of COFCO Meat and Poultry Import and Export Co., Ltd. (中糧畜禽肉食進出口公司) and assistant to general manager at the meat and poultry department and subsequently the international meat department of COFCO Development Co., Ltd. (中糧發展有限公司).

Ms. Li obtained her bachelor's degree in Economics (International Trade) from the University of International Business and Economics in the PRC in July 1997.

**ZHANG Nan**

Dr. ZHANG Nan (張楠), aged 37, was appointed as the general manager of strategy department in May 2017 and is responsible for strategy planning, research and investment management. Dr. Zhang has been a deputy general manager of the strategy department of COFCO Meat Investments since March 2015. Dr. Zhang joined the strategy department of COFCO in April 2008 and joined COFCO Meat Investments in September 2010. Dr. Zhang has extensive experience in meat industry research and strategy planning. Since April 2014, Dr. Zhang has been in charge of the board affairs of COFCO Meat Investments, including communicating with directors and shareholders and organising board meetings and has developed experiences in corporate governance.

Dr. Zhang obtained her bachelor's degree in engineering and doctoral degree in management from Tsinghua University in the PRC in July 2002 and July 2008, respectively.

For the year ended December 31, 2018, there were no other changes to the information which are required to be disclosed and have been disclosed by the Directors and senior management pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules, save as disclosed above.

The Board is pleased to present the Corporate Governance Report of the Company for the year ended December 31, 2018.

## Corporate Governance

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 Company's management also actively observes the latest corporate governance requirements in the PRC, Hong Kong and abroad. This Corporate Governance Report explains the Company's corporate governance principles and practices, including how the Board manages the business to deliver long-term Shareholder value and to promote the development of the Group.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code for the year ended December 31, 2018.

## Directors' Securities Transactions

The Company has adopted the Model Code as the Code of Conduct for its own relevant securities transactions by the Directors. The Company has made specific enquiries with each Director and each of them confirmed that he or she had complied with all required standards under the Model Code for the year ended December 31, 2018.

## The Board

### 1. Roles and Responsibilities

For the year ended December 31, 2018, the Board, led by the Chairman, Mr. Jiang Guojin, determines and monitors Group-wide strategies and policies, annual budgets and business plans, evaluates the performance of the Company, and supervises the management of the Company.

The Board, which is accountable to Shareholders for the long-term performance of the Company, is responsible for directing the strategic objectives of the Company and overseeing the management of the business. Directors are charged with the task of promoting the success of the Company and making decisions in the best interests of the Company. The Board meets these obligations by ensuring the maintenance of high standards of governance in all aspects of the Company's business, setting strategies and plans for the Company and accepting appropriate levels of review, challenge and guidance in its relationship with the Company's management. The Board is responsible for ensuring that, as a collective body, it has appropriate skills, knowledge and experience to perform its role effectively.

The Board is collectively responsible for performing corporate governance duties including:

(a) to develop, review and implement the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the Code of Conduct applicable to employees and Directors; and

(e) to review the Company's compliance with the Corporate Governance Code which is amended from time to time, and its relevant disclosure in the corporate governance report.

The Board is responsible for making decisions of all material matters, while the management is responsible for executing instructions of the Board and dealing with normal operation and regular matters.

## 2. Board Composition

The Board members during the year ended December 31, 2018 and up to the date of this annual report are as follows:

**Chairman and Executive Director:**

Mr. JIANG Guojin *(appointed on January 4, 2018; Chairman of the Board and chairman of the Nomination Committee and member of the Remuneration Committee)*

**Executive Director:**

Mr. XU Jianong *(Managing Director, General Manager and member of the Food Safety Committee and appointed as chairman of the Food Safety Committee on November 21, 2018)*

**Former Chairman and Non-executive Director:**

Mr. MA Jianping *(resigned since January 4, 2018; former Chairman of the Board and chairman of the Nomination Committee and member of the Remuneration Committee)*

**Non-executive Directors:**

Ms. YANG Hong *(appointed as member of the Food Safety Committee on November 21, 2018)*

Mr. WOLHARDT Julian Juul

Dr. CUI Guiyong *(member of the Audit Committee)*

Mr. ZHOU Qi

Mr. ZHANG Lei

Dr. HUANG Juhui *(member of the Food Safety Committee)*

**Independent non-executive Directors:**

Dr. CHEN Huanchun *(resigned since November 21, 2018; former chairman of the Food Safety Committee and member of the Nomination Committee)*

Mr. FU Tingmei *(member of the Audit Committee and the Nomination Committee)*

Mr. LI Michael Hankin *(chairman of the Remuneration Committee and member of the Audit Committee)*

Mr. LEE Ted Tak Tai *(chairman of the Audit Committee and member of the Remuneration Committee)*

Dr. JU Jiandong *(appointed on November 21, 2018; member of the Nomination Committee)*

The members of the Board have their own strengths and profound experience with appropriate professional qualifications. Please refer to the section headed "Biographies of Directors and Senior Management" for the profiles of the Directors.

The Directors and senior management have no other financial, business, family or other material/relevant relationships with one another.

## 3. Chairman and Managing Director

The roles of the chairman and the chief executive officer should be segregated as required under code provision A.2.1 of the Corporate Governance Code, and should not be held by one person at the same time. For the year ended December 31, 2018 and currently, Chairman of the Board and Managing Director (namely, the chief executive officer of the Company) are two independent positions, and have specific scope of powers and functions, held by Mr. Jiang Guojin (appointed on January 4, 2018) as the Chairman of the Board (Mr. Ma Jianping was the former Chairman of the Board from January 1, 2018 to January 4, 2018) and Mr. Xu Jianong as the Managing Director, respectively. Chairman of the Board is responsible for supervising and formulating corporate and business strategies of the Company, while the responsibilities of Managing Director include implementation of decisions of the Board, formulation of corporate and business strategies of the Company, supervision of ordinary operation of the Company and making decisions and providing advice relating to the appointment of senior management.

## 4. Non-executive Directors and Independent Non-executive Directors

As of the date of this annual report, the Board had four independent non-executive Directors, being one-third of the Board and at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with one of them possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received annual confirmations from each of the four independent non-executive Directors in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive Directors are independent parties in accordance with the independence guidelines set out in the Listing Rules and free of any relationship that could materially interfere with the exercise of their independent judgments.

## 5. Appointment, Re-election and Removal of Directors

The Company adopts a formal and transparent procedure for the appointment of new Directors. Recommendations for the appointment of new Directors are received by the Board from the Nomination Committee. The Board then deliberates over such recommendations prior to approval. For the policy for nomination of directors, please refer to the paragraph head "Nomination Committee" in this section.

The executive Director has entered into a service contract with the Company, according to which he agrees to hold office for an initial term of three years commencing from the Listing Date or the date of appointment (as the case may be), and appointment of which will be terminated by either party giving to the other not less than three months prior notice in writing.

Each of the non-executive Directors has entered into a letter of appointment with the Company for a term of one year from the Listing Date or the date of appointment (as the case may be), the term shall be automatically renewed for one year upon expiry of the term. Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years commencing from the date of appointment. Such appointments are subject to provisions of retirement and rotation of Directors as stipulated in the Articles of Association.

## 6. Meetings

Pursuant to the code provision A.1.1 of the Corporate Governance Code, the Board should meet regularly and Board meetings should be held at least four times a year at approximately quarterly intervals.

Apart from regular Board meetings, the Chairman of the Board also held a meeting with all independent non-executive Directors, without presence of other Directors.

The attendance of each Director at the Board meetings, Board Committees meetings and Shareholders' meetings during the year ended December 31, 2018 and up to the date of this annual report is set out in the following table:

| Directors | Number of meetings present in person or by proxies/The number of meeting | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Board Meeting | | Audit Committee Meeting | | Remuneration Committee Meeting | | Nomination Committee Meeting | | Food Safety Committee Meeting | | Extraordinary General Meeting | | Annual General Meeting | |
| | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings | Number of meetings present in person/The number of meetings | Number of meetings present by proxy/The number of meetings |
| Mr. Ma Jianping[1] | 1/1 | 0/1 | N/A | N/A | 1/1 | 0/1 | 1/1 | 0/1 | N/A | N/A | N/A | N/A | N/A | N/A |
| Mr. Jiang Guojin[2] | 6/7 | 1/7 | N/A | N/A | 3/3 | 0/3 | 4/4 | 0/4 | N/A | N/A | 0/1 | 0/1 | 1/1 | 0/1 |
| Mr. Xu Jianong[3] | 8/8 | 0/8 | N/A | N/A | N/A | N/A | N/A | N/A | 2/2 | 0/2 | 1/1 | 0/1 | 1/1 | 0/1 |
| Ms. Yang Hong[4] | 7/8 | 1/8 | N/A | N/A | N/A | N/A | N/A | N/A | 1/1 | 0/1 | 1/1 | 0/1 | 1/1 | 0/1 |
| Mr. Wolhardt Julian Juul | 7/8 | 1/8 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0/1 | 0/1 | 0/1 | 0/1 |
| Dr. Cui Guiyong | 7/8 | 1/8 | 3/4 | 0/4 | N/A | N/A | N/A | N/A | N/A | N/A | 0/1 | 0/1 | 0/1 | 0/1 |
| Mr. Zhou Qi | 8/8 | 0/8 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0/1 | 0/1 | 1/1 | 0/1 |
| Mr. Zhang Lei | 5/8 | 0/8 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0/1 | 0/1 | 0/1 | 0/1 |
| Dr. Huang Juhui | 8/8 | 0/8 | N/A | N/A | N/A | N/A | N/A | N/A | 2/2 | 0/2 | 1/1 | 0/1 | 1/1 | 0/1 |
| Dr. Chen Huanchun[5] | 3/6 | 0/6 | N/A | N/A | N/A | N/A | 3/3 | 0/3 | 1/1 | 0/1 | N/A | N/A | 0/1 | 0/1 |
| Mr. Fu Tingmei | 8/8 | 0/8 | 4/4 | 0/4 | N/A | N/A | 4/4 | 0/4 | N/A | N/A | 1/1 | 0/1 | 1/1 | 0/1 |
| Mr. Li Michael Hankin | 8/8 | 0/8 | 4/4 | 0/4 | 3/3 | 0/3 | N/A | N/A | N/A | N/A | 1/1 | 0/1 | 1/1 | 0/1 |
| Mr. Lee Ted Tak Tai | 8/8 | 0/8 | 4/4 | 0/4 | 3/3 | 0/3 | N/A | N/A | N/A | N/A | 1/1 | 0/1 | 1/1 | 0/1 |
| Dr. Ju Jiandong[6] | 2/2 | 0/2 | N/A | N/A | N/A | N/A | 2/2 | 0/2 | N/A | N/A | 1/1 | 0/1 | N/A | N/A |

1. *Mr. Ma Jianping resigned as the Chairman of the Board and a non-executive Director of the Company, and ceased to be the chairman and a member of the Nomination Committee and a member of the Remuneration Committee since January 4, 2018.*

2. *Mr. Jiang Guojin was appointed as an executive Director of the Company, the Chairman of the Board, a member and the chairman of the Nomination Committee and a member of the Remuneration Committee on January 4, 2018.*

3. *Mr. Xu Jianong was appointed as the chairman of the Food Safety Committee on November 21, 2018.*

4. *Ms. Yang Hong was appointed as a member of the Food Safety Committee on November 21, 2018.*

5. *Dr. Chen Huanchun resigned as an independent non-executive Director of the Company, and ceased to be the chairman and a member of the Food Safety Committee and a member of the Nomination Committee since November 21, 2018.*

6. *Dr. Ju Jiandong was appointed as an independent non-executive Director of the Company and a member of the Nomination Committee on November 21, 2018.*

## 7. Training for Directors

Upon appointment to the Board, Directors will receive a package of orientation materials on the Group and are provided with a comprehensive induction to the Group's businesses by senior executives.

All newly appointed Directors have received the induction programmes and briefing on director's duties and obligations on corporate governance and regulating requirements prepared and delivered by our external legal advisor immediately prior to or on their respective date of appointment.

The Company encourages all Directors to participate in programmes of continuous professional development to develop and refresh their knowledge and skills. The Directors are provided with reading materials on corporate governance and the latest developments on the relevant laws, rules and regulations.

The Directors participated in the following trainings for the year ended December 31, 2018 and up to the date of this annual report:

| | **Continuous Professional Development** |
|---|---|
| **Name of Director** | **Attending briefings, seminars, conference and/or reading materials relevant to director's duties and responsibilities** |
| **Former Chairman of the Board and Non-executive Director** | |
| Mr. Ma Jianping *(resigned since January 4, 2018)* | ✗ |
| **Chairman of the Board and Executive Director** | |
| Mr. Jiang Guojin *(appointed on January 4, 2018)* | ✓ |
| **Executive Director** | |
| Mr. Xu Jianong | ✓ |
| **Non-executive Directors** | |
| Ms. Yang Hong | ✓ |
| Mr. WOLHARDT Julian Juul | ✓ |
| Dr. Cui Guiyong | ✓ |
| Mr. Zhou Qi | ✓ |
| Mr. Zhang Lei | ✓ |
| Dr. Huang Juhui | ✓ |
| **Independent Non-executive Directors** | |
| Dr. Chen Huanchun *(resigned since November 21, 2018)* | ✓ |
| Mr. Fu Tingmei | ✓ |
| Mr. Li Michael Hankin | ✓ |
| Mr. Lee Ted Tak Tai | ✓ |
| Dr. Ju Jiandong *(appointed on November 21, 2018)* | ✓ |

## Board Committees

The Company's corporate governance is implemented through a structured hierarchy, which includes the Board of Directors and four committees of the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Food Safety Committee. The terms of reference of the Board Committees are available on the HKExnews' and the Company's websites. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

Further details of the roles and functions of the Board Committees are set out below.

### 1. Audit Committee

The Audit Committee currently comprises one non-executive Director and three independent non-executive Directors, namely Mr. Lee Ted Tak Tai, Mr. Fu Tingmei, Dr. Cui Guiyong and Mr. Li Michael Hankin. Mr. Lee Ted Tak Tai was the chairman of the Audit Committee and a US certified public accountant (inactive), who has professional qualifications in accountancy. The Audit Committee held a total of 4 meetings during the year ended December 31, 2018 and up to the date of this annual report. Executive Directors, senior management and the external auditor of the Company were invited to join the discussions at the meetings.

The primary duties of the Audit Committee include the oversight of the Group's financial reporting system, risks management and internal control procedures, monitoring the integrity of the preparation of the Company's financial information including interim and annual results of the Group, reviewing the Group's financial and accounting policies and practices and monitoring the effectiveness of the internal audit function. The Audit Committee also provides oversight for and management of the relationship with the Group's external auditor, including reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards.

During the year ended December 31, 2018 and up to the date of this annual report, the Audit Committee has performed the following:

(a) met with the external auditors to discuss the general scope and findings of their audit and review works;

(b) reviewed the external auditor's management suggestion letter and management's response;

(c) reviewed and recommended to the Board for approval of the external auditors' remuneration;

(d) made recommendations to the Board on the re-appointment of the external auditor;

(e) reviewed the external auditors' independence, objectivity and the effectiveness of the audit process;

(f) reviewed and monitored the integrity of financial statements, annual reports and annual results announcements of the Company;

(g) reported to the Board on matters relating to the Audit Committee under the Corporate Governance Code;

(h) reviewed the Company's financial controls, internal control and risk management systems;

(i) discussed auditing, internal control, risk management and financial reporting matters before recommending them to the Board for approval;

(j) reviewed the arrangements that employees of the Company and those who deal with the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal controls or other matters.

## 2. Nomination Committee

Mr. Ma Jianping resigned as Chairman of the Board and a non-executive Director of the Company and ceased to be the chairman and a member of the Nomination Committee since January 4, 2018. Mr. Jiang Guojin was appointed as an executive Director of the Company, the Chairman of the Board, and a member and the chairman of the Nomination Committee on January 4, 2018. Dr. Chen Huanchun resigned as an independent non-executive Director of the Company and ceased to be a member of the Nomination Committee since November 21, 2018. Dr. Ju Jiandong was appointed as an independent non-executive Director of the Company and a member of the Nomination Committee on November 21, 2018. The Nomination Committee currently comprises three members, namely Mr. Jiang Guojin, being the Chairman of the Board and an executive Director, and two independent non-executive Directors, namely Mr. Fu Tingmei and Dr. Ju Jiandong. Mr. Jiang Guojin is the chairman of the committee. The Nomination Committee held a total of 4 meetings during the year ended December 31, 2018 and up to the date of this report.

The primary duties of the Nomination Committee are to review and make recommendations to the Board on the structure, composition size and diversity of the Board, to oversee the identification and assessment of potential candidates of Directors, to provide oversight and direction in respect of the succession planning for Directors and to determine the composition of Board Committees.

### *Diversity Policy*

According to Rule 13.92 of the Listing Rules, the listed company should adopt the policy of diversification of the board members. During the year ended December 31, 2018 and up to the date of this annual report, the Board has adopted the above said policy, and held discussion about all quantifiable targets established for implementing the policy. In 2019, the Board will continue to discuss and set specific quantifiable targets and disclose the targets in the annual report. The Company understands and believes the advantages of diversification of the Board members, aiming to ensure a balanced composition of their skills, experience and view appropriate for the requirements of the businesses of the Company. The Company continues to adopt the merit principle to appoint Directors and gives proper consideration to the advantages of diversification of the Board members. The selection criteria of candidates are based on diversified factors, including but not limited to gender, age, culture and education background, race, professional experience, skills, knowledge and term of service. The final decision will be made based on merit principle and contributions brought to the Board by the candidate to be appointed.

The Company will ensure that the recruitment and selection of directors are conducted in accordance with appropriate systematic procedures so as to attract candidates from a variety of backgrounds for the Company's consideration. The Company will also develop and implement relevant schemes to train a larger variety and diversity of employees with relevant working skills and experience, with an aim to foster future directors and senior management.

The Nomination Committee will discuss and agree on all quantifiable targets annually for implementing diversity of the Board and recommend the targets to the Board for adoption. At any given time, the Board may seek to improve one or more aspects of its diversity and measure progress accordingly.

### *Nomination Policy*

Where vacancies on the Board exist, the Nomination Committee evaluates skills, knowledge and experience required by the Board, and identifies if there are any special requirements for the vacancy. The Nomination Committee identifies appropriate candidates and convenes Nomination Committee meeting to discuss and vote in respect of the nominated Directors, and recommends candidates for Directors to the Board.

The Nomination Committee considers candidates with individual skills, experience and professional knowledge that can best assist and facilitate the effectiveness of the Board. The Nomination Committee takes the policy on Board diversity of the Company into consideration when it considers the balance of composition of the Board as a whole.

The Nomination Committee reviews the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to the Board to complement the Company's corporate strategy and on the appointment or reappointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

The Nomination Committee's procedures and criteria for selecting and making recommendations for appointment of Board members are designed to satisfy high standards of corporate governance. These processes also meet or exceed the Stock Exchange's requirements to ensure that every director of the Company has the requisite character, experience and integrity and is able to demonstrate a standard of competence, commensurate with his position as a director of a listed issuer, and that where nomination of independent non-executive Directors is under consideration, the requirements of Rule 3.13 of the Listing Rules shall be satisfied.

## 3. Remuneration Committee

Mr. Ma Jianping resigned as the Chairman of the Board and a non-executive Director of the Company, and ceased to be a member of the Remuneration Committee since January 4, 2018. Mr. Jiang Guojin was appointed as an executive Director of the Company, the Chairman of the Board, and a member of the Remuneration Committee on January 4, 2018. The Remuneration Committee currently comprises three members, namely Mr. Jiang Guojin, being the Chairman of the Board and an executive Director and two independent non-executive Directors, namely Mr. Li Michael Hankin and Mr. Lee Ted Tak Tai. Mr. Li Michael Hankin is the chairman of the committee. The Remuneration Committee held a total of 3 meetings during the year ended December 31, 2018 and up to the date of this annual report.

The Remuneration Committee has adopted the second model described in paragraph B.1.2(c) in Appendix 14 to the Listing Rules (i.e. to make recommendations to the board on the remuneration packages of individual executive directors and senior management).

The primary duties of the Remuneration Committee are to make recommendations and proposals to the Board in respect of remuneration policies according to the performance of Directors and the terms of the service contracts and to review and approve the remunerations which are determined based on the results and performance of the Company by making reference to the Company's objectives as approved from time to time by the Board. The Remuneration Committee shall consult the chairman and/or Managing Director about their remuneration proposals for the executive Directors and is provided with sufficient resources enabling it to discharge its duties. The Remuneration Committee would access to independent professional advice if necessary. Their written terms of reference are available on the websites of the Company and the "HKExnews".

During the year ended December 31, 2018 and up to the date of this annual report, the Remuneration Committee has performed the following works: evaluating the performance of the Directors and senior management, reviewing and approving the remuneration of the Directors and senior management, etc.

The remunerations of Directors are also determined with reference to their experience, qualifications, responsibilities involved in the Company and prevailing market conditions. Apart from benchmarking against the market, the Company looks at individual competence and contributions and the affordability of the Company in determining the exact level of remuneration for each Director. Appropriate benefits schemes are in place for the executive Directors, including the Share Incentive Scheme, same as those offered to other employees of the Group. Details of emoluments of Directors for the year 2018 are set out in Note 12 to the consolidated financial statements. The emoluments paid or payable to senior management during the year 2018 were within the following bands:

| RMB yuan | **Number of Senior Management** |
|---|---|
| 0 – 500,000 | 0 |
| 500,001 – 1,000,000 | 1 |
| 1,000,001 – 1,500,000 | 2 |
| 1,500,001 – 2,000,000 | 1 |
| Over 2,000,000 | 2 |

## 4. Food Safety Committee

Dr. Chen Huanchun resigned as an independent non-executive Director of the Company and ceased to be the chairman and a member of the Food Safety Committee since November 21, 2018. Mr. Xu Jianong, an executive Director, was appointed as the chairman of the Food Safety Committee on November 21, 2018. Ms. Yang Hong, a non-executive Director, was appointed as a member of the Food Safety Committee on November 21, 2018. The Food Safety Committee currently comprises three members, namely Mr. Xu Jianong, being an executive Director, and two non-executive Directors, namely Dr. Huang Juhui and Ms. Yang Hong. Mr. Xu Jianong is the chairman of the committee. The Food Safety Committee held a total of 2 meetings relating to the effective control of food quality and safety during the year ended December 31, 2018 and up to the date of this annual report, mainly reviewing food safety work of last year and work plan of next stage.

The primary duties of the Food Safety Committee are to review and assess the Company's food quality and safety policy, management and performance and give advice to ensure compliance with relevant rules and regulations and protect food safety.

## Joint Company Secretary

Dr. Zhang Nan (張楠), the joint company secretary of our Company, is responsible for making recommendations to the Board on corporate governance, and ensuring the compliance with the policies and procedure of the Board and applicable laws, rules and regulations.

To maintain good corporate governance and ensure the compliance with the Listing Rules and applicable Hong Kong laws, we also appointed Ms. Chau Hing Ling (周慶齡), a director of corporate services of Vistra Corporate Services (HK) Limited (a provider of company secretary service), as our another joint company secretary, to assist Dr. Zhang Nan to perform her duties as the joint company secretary of our Company. Her main contactor in our Company is Dr. Zhang Nan, the joint company secretary of our Company.

During the year ended December 31, 2018, Dr. Zhang Nan has taken not less than 15 hours of relevant professional training.

During the year ended December 31, 2018, Ms. Chau Hing Ling has taken not less than 15 hours of relevant professional training.

## Accountability and Audit

The Directors acknowledged their responsibility to prepare accounts and present a balanced, clear and understandable assessment in the consolidated financial statements of the annual and interim reports, other inside information announcements and other financial disclosures required under the Listing Rules, and to report to regulators as well as to disclose information required pursuant to statutory requirements. When the Directors were aware of material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue as a going concern, such uncertainties would be clearly and prominently disclosed and discussed in detail in this Corporate Governance Report.

The statement of the independent auditor of the Company about their reporting responsibilities and opinion on the financial statements of the Company for the year ended December 31, 2018 is set out in the Independent Auditor's Report on page 73 of this report.

## Risk Management and Internal Control

### 1. Mission and Goal

The Company attaches great importance to the building and improvement of the risk management and internal control system, and has enhanced its corporate governance and risk control capability through continuous summary and innovation in the years of business development. The Company has established a sound risk management and internal control system in accordance with the PRC Company Law, Accounting Law, Accounting Standards for Business Enterprises, Basic Internal Control Norms for Enterprises, Hong Kong Listing Rules, Corporate Governance Code, Internal Control Framework of the Committee of Sponsoring Organizations of the Treadway Commission (the "**COSO Framework**") and other relevant laws and regulations.

The Board is informed of its responsibilities, which ensures the Company's establishment and maintenance of the appropriate and effective risk management and internal control system set to manage rather than eliminate risks of failure to achieve the business goals and to provide reasonable rather than absolute guarantee only for losses resulting from significant misstatement.

The Board has reviewed the risk management and internal control system of the Group, and believes that the system is effective and sufficient.

The Board has also reviewed the internal audit function of the Group, and believes that the function is effective and sufficient.

### 2. Management Structure

#### *(a) The Board*

- Ensure and maintain the appropriate and effective risk management and internal control system;
- Establish the management structure based on well-defined responsibilities and powers;
- Determine the level of significant risks that the Company is willing to assume to achieve strategic goals, and formulate the Company's risk management strategies.

### *(b) Audit Committee*

- Examine the Company's risk management and internal control system;

- Conduct review and discussion with the management every year to ensure the management's performance of its responsibilities to maintain the effectiveness of the risk management and internal control system;

- On its own initiative or as delegated by the Board, research any major findings of investigations on risk management and internal control matters and the management's response thereto;

- Ensure work coordination between internal and external auditors; ensure sufficient resources operations for and appropriate status of the internal audit function in the Company, and review and supervise whether the internal audit function is effective.

### *(c) Management*

- Properly design, implement and monitor the risk management and internal control system, and ensure the system can be implemented effectively;

- Supervise risks and take measures to reduce risks on daily operations;

- Promptly respond to and follow up the investigation findings on internal supervision matters proposed by internal or external auditors;

- Make acknowledgement to the Board regarding the effectiveness of the risk management and internal control system.

### *(d) Audit Department*

- Analyze and independently evaluate the adequacy and effectiveness of the risk management and internal control system.

## 3. Risk Management

Risk management process includes risk identification, risk assessment, risk response and risk monitoring and review. The Company sets up an overall risk management system according to the COSO Framework, implements all-staff risk management idea, and conducts risk management in the head office and various subordinate outlets of the Company, which covers all risks occurring in operation and management. Moreover, it focuses the management on key risks.

Every year, the Company takes steps such as holding strategy and budget seminars to define its development goal, determine business operation plan and identify key risks. The senior management discusses and determines major issues through general manager's meetings. The business segments regularly convene operation analysis meetings to analyze the implementation of operation plans and budgets, risk control, supply, production and marketing.

In 2018, in accordance with the Comprehensive Risk Management Guidance for Central Enterprise of State-owned Assets Supervision and Administration Commission of the State Council and the requirements of COFCO Group's risk control work, the Company organized comprehensive risk management works, and compiled the Annual Comprehensive Risk Management Report of COFCO Meat. The management of the Company strengthened monitoring and management of key risks. The Audit Department of COFCO Meat was responsible for organizing and conducting comprehensive risk management work at the company level. Various risk gateway departments were responsible for supervising the implementation of risk management work in each business segment. Various business segments were responsible for implementing specific risk management work including risk identification, risk assessment, risk control, risk events response and risk management strategy formulation, and took primary responsibility for risk events in respective business segment.

At the beginning of 2018, the Audit Department of the Company organized all departments to conduct comprehensive risk assessment work, the scope of which covered all business departments and functional departments of COFCO Meat. Various departments scored 50 risks from two dimensions, which are the possibility of occurrence and the impact extent, respectively. The Audit Department summarized and ranked the score results on the basis of the collected score results of various departments and senior management of the Company. The top five most risky risks were identified as major risks in 2018, and the risk assessment results were submitted to senior management for review and approval according to procedures. Upon the approval of senior management, major risks of the Company in 2018 were eventually determined as environmental protection risks, safe production risks, price risks, food safety risks and procurement risks.

After identifying major risks in 2018, the Audit Department organized all risk-related departments to conduct risk analysis on key risks, identify the relevant gateway departments and the departments responsible for major risks, and determine various risk management strategies based on risk characteristics and risk preferences, set key risk indicators (KRI) corresponding to various types of risks and formulate risk solutions so that key risks could be effectively controlled.

Various departments of the Company actively carried out risk prevention and control work as well as focused on major risk supervision. In 2018, with collective efforts devoted by all employees of COFCO Meat, all major risks were under control, and we achieved good results in comprehensive risk management work.

## 4. Internal Control

The Company established corresponding internal control systems and procedures for various important business activities including procurement, sales, fund management, asset management, human resources, financial report and contract management. Under these systems and procedures, employees were required to carry out their respective duties and strictly follow the work standards. By strengthening professional skill training of employees, the Company achieved standardized operation as a way to minimize various business risks.

In 2018, the Audit Department of the Company actively conducted risk and problem-oriented internal audit according to the work requirements of relevant regulatory institutions and the Group, and compiled the Annual Internal Control Evaluation Report of COFCO Meat. A total of 25 projects of internal audit were carried out throughout the year, including 24 audit projects, one internal control evaluation project; the audit projects included 12 economic responsibility audits, 5 investment audits and 7 special audits. Internal audit has generally covered all the subordinate business sectors and the main aspects of the Company's operation and management without material omission. For various audit problems and internal control defects found in the internal audit process, the Audit Department regularly followed up and propelled the rectifications made by the audited entity.

By conducting internal control, the Company evaluated the operation mode and management status of the business segments and various subordinate outlets and improved the management, operating efficiency and internal control of the Company.

In addition, our Company formulated "Insiders Registration System on Inside Information" and "Information Disclosure Management System". The Board reviews such systems regularly, implements an insider registration and management system for the insiders, including but not limited to Directors and senior management, in order to enhance the confidentiality of inside information and supervises the information disclosure to prevent disclosure and leak of inside information. Our Company has implemented necessary internal control to restrict Directors, senior management and related employees to obtain or use the inside information without prior authorization by the Company.

After deliberating the work results of the Audit Committee, the management and internal and external auditors, the Board considered that the Company had established a proper risk management and internal control system which can continuously define, evaluate and manage the risks faced by the Company.

## Independent Auditor

The Group's independent auditor is Deloitte Touche Tohmatsu. It is responsible for auditing and forming an independent opinion on the Group's annual consolidated financial statements. The Group did not change auditor in the last three years.

The Audit Committee reviews and monitors the external auditor's independence and objectivity and effectiveness of the audit process. It receives each year a report from the external auditor confirming its independence and objectivity, and holds meetings with representatives of the external auditor to consider the scope of its audit, approve its fees, and the scope and appropriateness of non-audit services, if any, provided by it. The Audit Committee also makes recommendations to the Board on the appointment and retention of the external auditor.

## Auditors' Remuneration

For the year ended December 31, 2018, the total fees paid/payable in respect of services provided by the Group's external auditors are set out below:

| **Services rendered** | **Fees paid/payable** (RMB'000) |
|---|---|
| Audit services | 1,700 |
| Non-audit services | 780 |

Note: The non-audit services are mainly related to services rendered for interim review and continuing connected transactions, etc.

## Shareholders' Rights and Communication

As one of the measures to safeguard Shareholders' interests and rights, separate resolutions will be proposed at the general meetings on every substantial matter, including the election of individual Directors, for Shareholders' consideration and voting. Furthermore, the Company regards the annual general meeting and extraordinary general meetings as important events, and Directors, Chairmen of each Board Committee, senior management and external auditor make an effort to attend the annual general meeting and extraordinary general meetings of the Company to address Shareholders' queries. All resolutions proposed at the general meetings will be voted on by poll. The poll voting results will be posted on the websites of the "HKExnews" (www.hkexnews.hk) and the Company (www.cofcomeat.com) on the same day of the relevant general meetings.

Extraordinary general meeting may be convened by the Board on requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company pursuant to Article 12.3 of the Articles of Association. Such requisition must specify the main discussions of the meeting and signed by the petitioner and deposited to the principal office in Hong Kong of the Company or the Company's registered office. Shareholders should follow the requirements and procedures as set out in such Articles of Association for convening an extraordinary general meeting.

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the headquarters of the Company in Beijing for the attention of Zhang Nan.

The Company adheres to high standards with respect to the disclosure of its financial statements. The Company is committed to maximizing the use of its website as a channel to provide updated information in a timely manner, so as to strengthen the communication with both the Shareholders and the public.

There are no provisions allowing Shareholders to propose new resolutions at general meetings under the Cayman Islands Company Law. However, Shareholders who wish to propose a resolution may request to convene an extraordinary general meeting and propose resolutions in the meeting pursuant to Article 12.3 of the Articles of Association. The requirements and procedures of Article 12.3 of the Articles of Association are set out above.

## Investors Relations

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and investors of the Company, and acknowledges that the effective communication with investors is the key to build confidence of investors and attract new investors.

Our Company mainly communicates with Shareholders in the following ways:

(i) hold annual general meetings to offer opportunities for Shareholders to communicate directly with the Board;

(ii) issue announcements, annual reports, interim reports and/or circulars and press release by our Company pursuant to the requirements of the Listing Rules to keep providing the updated information of our Group;

(iii) periodically update our website and disclose information timely on our website and the website of the Stock Exchange; and

(iv) investors/analysts briefings and group/one-on-one meetings, roadshows (both domestic and international), media interviews, marketing activities and forums on specific topics etc. will be available on a regular basis and when necessary so as to facilitate communication between the Company, Shareholders and the investors. Shareholders and investors are welcome to visit the Company's website and raise inquiries via our investor relation department whose contact details are available on the website.

## Constitutional Documents

There was no change to the Company's memorandum and Articles of Association during the year ended December 31, 2018. A copy of the Company's memorandum and Articles of Association is available on the websites of the Company and the "HKExnews".

# Directors' Report

The Board is pleased to present its report and the audited financial statements of the Company and of the Group for the year ended December 31, 2018.

During the year ended December 31, 2018 and up to the date of this report, the members of the Board are as follows:

**Chairman and Executive Director:**
Mr. Jiang Guojin[1]

**Executive Director:**
Mr. Xu Jianong

**Former Chairman and Non-executive Director:**
Mr. Ma Jianping[1]

**Non-executive Directors:**
Ms. Yang Hong
Mr. Wolhardt Julian Juul
Dr. Cui Guiyong
Mr. Zhou Qi
Mr. Zhang Lei
Dr. Huang Juhui

**Independent Non-executive Directors:**
Dr. Chen Huanchun[2]
Mr. Fu Tingmei
Mr. Li Michael Hankin
Mr. Lee Ted Tak Tai
Dr. Ju Jiandong[2]

## Analysis of Principal Activities and Operations

The principal business of the Group is investment holding, 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).

## Business Review

A business review of the Group is set out in the section headed "Management Discussion and Analysis" in this annual report.

## Event after the Reporting Period

As at the date of this annual report, the Group had no material subsequent events happening after December 31, 2018 which need to be disclosed.

## Analysis of Key Financial Indicators

An analysis of the Group's performance during the year using financial key performance indicators is provided in the section headed "Management Discussion and Analysis" of this annual report.

## Major Risk and Outlook

The Group's operation is exposed to certain risks and uncertainties, some of which are beyond our control. Such risks and uncertainties include domestic and overseas economic conditions, credit policies and foreign exchange policies in the PRC, changes in relevant laws and regulations and enforcement policies. There are other unknown and insignificant uncertainty factors which would be proved significant in the future. A discussion and analysis as required under Schedule 5 of Companies Ordinance (Cap. 622 of the Laws of Hong Kong), including a fair review of the Group's business, a discussion of major risks and uncertainties to which the Group is exposed as well as an indication of future developments which the Group's business is likely to carry out, are set out in the sections headed "Chairman's Statement", "Management Discussion and Analysis" and "Notes to the Consolidated Financial Statements" in this annual report. The above-mentioned sections are part of this report.

## Financial Risk Management Objectives and Policies

The financial risk management objectives and policies of the Group is set out in note 49 to the consolidated financial statements.

## Results

Results of the Group for the year ended December 31, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 76 of this report.

## Dividend

The Board does not recommend to declare any dividend for the year ended December 31, 2018.

## Dividend Policy

The Company has adopted a dividend policy (the "**Dividend Policy**"), pursuant to which, the Company will declare and pay dividends to shareholders of the Company with the dividends expected to be declared and paid in aggregate amounting to

*Notes:*

1. *Mr. Ma Jianping resigned as the Chairman of the Board and a non-executive Director of the Company on January 4, 2018. On the same day, Mr. Jiang Guojin was appointed as an executive Director and the Chairman of the Board of the Company.*

2. *Dr. Chen Huanchun resigned as an independent non-executive Director of the Company on November 21, 2018. On the same day, Dr. Ju Jiandong was appointed as an independent non-executive Director of the Company.*

20% to 70% of the net profits before biological assets fair value adjustments of the Company for the year, upon satisfaction of the following conditions:

1. Declaration and payment of dividends of the Company will not affect the normal operation of the Group; and

2. Declaration and payment of dividends of the Company will not affect the significant investments to be made by the Group.

Declaration and payment of dividends of the Company is also subject to any restriction of the Articles of Association and the Cayman Islands Company Law. The Company will continue to review its dividend policy from time to time.

## Share Capital

There were no movements in the Company's registered or issued share capital during the year ended December 31, 2018.

## Use of Proceeds

After deducting the underwriting expenses and other related expenses payable by the Company in connection with the global offering, the Company raised a total of HK$1,847 million in 2016, equivalent to RMB1,613 million. As of December 31, 2018, we have used all the above-mentioned proceeds for the purposes as disclosed in the Prospectus.

## Share Premium and Reserves

Movements in the share premium and reserves of the Group during the year are set out on page 80 to the consolidated statement of changes in equity.

## Distributable Reserves

The Company's total distributable reserves as at December 31, 2018 amounted to RMB1,977 million.

## Donations

Charitable donations made by the Group during 2018 was RMB1,489,102 (2017: RMB388,268).

## Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

## Borrowings and Capitalization of Interests

Details of borrowings are set out in Note 33 to the consolidated financial statements. Details of the Group's capitalized interest expenses and other borrowing costs during the year are set out in Note 9 to the consolidated financial statements.

## Financial Summary

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out in the section headed "Financial Summary" of this annual report.

## Compliance with Relevant Laws and Regulations

The Company was incorporated in the Cayman Islands and has been listed on the Stock Exchange with its business operations mainly in China. The operation of the Group is governed by the laws of Hong Kong, Cayman Islands and China, including but not limited to the Hong Kong Companies Ordinance, the Listing Rules, the SFO as well as the PRC Company Law, Basic Internal Control Norms for Enterprises and other relevant laws, regulations, rules and ordinances, which include information disclosure, corporate governance and industry standard operation. The Group is also committed to maintaining a high level of corporate governance practices. As far as the Board is aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. For the year ended December 31, 2018, there was no material breach of or non-compliance with the relevant laws and regulations by the Group.

## Relationship with Employees, Customers and Suppliers

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its current and long-term business goals. For the year ended December 31, 2018, there was no material and substantial dispute between the Group and its employees, customers and suppliers.

## Remuneration Policy and Retirement Benefits of the Group

For remuneration policy of the Group, please refer to the section headed "Human Resources" under "Financial Review".

Details of the retirement benefit scheme for the year ended December 31, 2018 are set out in Note 44 to the consolidated financial statements.

## Purchase, Sale or Redemption of the Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities for the year ended December 31, 2018.

## Permitted Indemnity

During the year ended December 31, 2018, the Company has arranged directors' and officers' liability insurance for all Directors and senior management. These insurances provided protection to the liability incurred from related cost, fees, expense and legal actions resulting from corporate activities. Pursuant to Article 33.1 of the Articles of Association, every Director, auditor or other senior management of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or legal liabilities incurred or sustained by him or her as a Director, auditor or other senior management of the Company in defending any proceedings, whether civil or criminal, in which judgment is given in his or her favour, or in which he or she is acquitted.

## Directors' Service Contracts

None of the Directors had entered into any service contract with any member of the Group which was not terminable by the Group within one year without payment of compensation other than statutory compensation.

## Directors' Interests in Significant Transactions, Arrangements or Contracts

No transactions, arrangements or contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its fellow subsidiaries was a party and in which any Director of the Company had a material interest, whether directly or indirectly, were entered into during the year ended December 31, 2018.

## Directors' Rights to Purchase Shares or Debentures

Save for the share options granted pursuant to the New Share Incentive Scheme as set out below, at any time during the year ended December 31, 2018, none of the Company or any of its subsidiaries was a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18, were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate, or had exercised any such right.

## Changes in the Board and Directors' Information

The changes in the Board and Director's information since the date of the Company's 2018 interim report are set out below:

1. Dr. Chen Huanchun resigned as an independent non-executive Director of the Company, and ceased to be the chairman and a member of the Food Safety Committee and a member of the Nomination Committee since November 21, 2018 due to his other business commitments that require more of his dedication and time;

2. Dr. Ju Jiandong was appointed as an independent non-executive Director of the Company and a member of the Nomination Committee on November 21, 2018;

3. Mr. Xu Jianong was appointed as the chairman of the Food Safety Committee on November 21, 2018;

4. Ms. Yang Hong was appointed as a member of the Food Safety Committee on November 21, 2018;

5. Mr. Wolhardt Julian Juul has served as a director of Niu Technologies (a company listed on NASDAQ, stock code: NIU) since October 2018; and

6. Mr. Zhou Qi has served as a partner of Boyu Capital since February 2019.

Save as disclosed above, there has been no change in information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## Disclosure of Interests

### 1. Directors

As of December 31, 2018, the interests and short positions of the Directors and chief executive officer of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he or she was taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Interests in Shares or underlying Shares of the Company

| Name of Director | Capacity/Nature of Interest | Number of underlying Shares held in long position | Approximate percentage of shareholding interest |
|---|---|---|---|
| Xu Jianong | Beneficial owner | 5,071,599 | 0.13% |
| Wolhardt Julian Juul[1] | Interest in controlled corporation | 267,416,029 | 6.85% |

*Note:*

1. *These shares are held by Gourmet Bravo Ltd. which is wholly-owned by Epicure Bravo Ltd. Epicure Bravo Ltd. is wholly-owned by DCP Partners Limited which is wholly-owned by DCP, Ltd. Wolhardt Julian Juul owns 50% shareholding of DCP, Ltd. Wolhardt Julian Juul is deemed to be interested in the shares held by Gourmet Bravo Ltd. under the SFO.*

Save as disclosed above, as at December 31, 2018, so far as was known to any Director or chief executive of the Company, neither the Directors nor the chief executive had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO or as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## 2. Substantial Shareholders

As of December 31, 2018, so far as was known to any Director or chief executive officer of the Company, Shareholders (other than the Director or chief executive officer of the Company whose interests were disclosed above) who had interests or short positions in the Shares or underlying Shares which shall be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Interests in the Shares of the Company

| Substantial Shareholders and other persons | *Notes* | Capacity/Nature of Interests | Number of ordinary Shares of the Company held | Approximate percentage of aggregate interests in issued share capital of the Company |
|---|---|---|---|---|
| Mainfield | *(1)&(3)* | Beneficial owner | 1,078,377,782 | 27.64% |
| China Foods (Holdings) | *(1)&(3)* | Interest in controlled corporation | 1,078,377,782 | 27.64% |
| COFCO (HK) | *(1)&(3)* | Interest in controlled corporation | 1,078,377,782 | 27.64% |
| | | Beneficial owner | 57,015,000 | 1.46% |
| COFCO | *(1)&(3)* | Interest in controlled corporation | 1,135,392,782 | 29.10% |
| KKR | *(1),(4)&(8)* | Beneficial owner | 567,721,276 | 14.55% |
| Promise Meat Investment I Ltd. | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Asian Fund II L.P. | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Associates Asia II L.P. | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Asia II Limited | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Fund Holdings L. P. | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Fund Holdings GP Limited | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |

| Substantial Shareholders and other persons | *Notes* | Capacity/Nature of Interests | Number of ordinary Shares of the Company held | Approximate percentage of aggregate interests in issued share capital of the Company |
|---|---|---|---|---|
| KKR Group Holdings Corp. | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR & Co. Inc. (formerly known as KKR & Co. L.P.) | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| KKR Management LLC | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| Mr. Henry R. Kravis and Mr. George R. Roberts | *(1),(4)&(8)* | Interest in controlled corporation | 567,721,276 | 14.55% |
| Baring | *(1),(5)&(8)* | Beneficial owner | 549,764,603 | 14.09% |
| The Baring Asia Private Equity Fund V, L.P. | *(1),(5)&(8)* | Interest in controlled corporation | 549,764,603 | 14.09% |
| Baring Private Equity Asia GP V, L.P. | *(1),(5)&(8)* | Interest in controlled corporation | 549,764,603 | 14.09% |
| Baring Private Equity Asia GP V Limited | *(1),(5)&(8)* | Interest in controlled corporation | 549,764,603 | 14.09% |
| Jean Eric Salata | *(1),(5)&(8)* | Interest in controlled corporation | 549,764,603 | 14.09% |
| Temasek | *(1),(6)&(8)* | Beneficial owner | 232,765,723 | 5.97% |
| Temasek Life Sciences Private Limited | *(1),(6)&(8)* | Interest in controlled corporation | 232,765,723 | 5.97% |
| Fullerton Management Pte. Ltd. | *(1),(6)&(8)* | Interest in controlled corporation | 232,765,723 | 5.97% |
| Temasek Holdings (Private) Limited | *(1),(6)&(8)* | Interest in controlled corporation | 232,765,723 | 5.97% |
| Boyu | *(1)&(7)*<br>*(2)&(8)* | Beneficial owner | 228,259,069<br>6,847,772 | 5.85%<br>0.18% |
| Boyu Capital Fund I, L.P. | *(1)&(7)*<br>*(2)&(8)* | Interest in controlled corporation | 228,259,069<br>6,847,772 | 5.85%<br>0.18% |
| Boyu Capital General Partner I, L.P. | *(1)&(7)*<br>*(2)&(8)* | Interest in controlled corporation | 228,259,069<br>6,847,772 | 5.85%<br>0.18% |
| Boyu Capital General Partner I, Ltd. | *(1)&(7)*<br>*(2)&(8)* | Interest in controlled corporation | 228,259,069<br>6,847,772 | 5.85%<br>0.18% |
| Boyu Capital Holdings Ltd. | *(1)&(7)*<br>*(2)&(8)* | Interest in controlled corporation | 228,259,069<br>6,847,772 | 5.85%<br>0.18% |
| Haier Group (HK) Financial Holdings Limited | *(1)* | Beneficial owner | 222,740,000 | 5.71% |
| Gourmet Bravo Ltd. | *(1)&(9)* | Beneficial owner | 267,416,029 | 6.85% |
| Epicure Bravo Ltd. | *(1)&(9)* | Interest in controlled corporation | 267,416,029 | 6.85% |

| Substantial Shareholders and other persons | Notes | Capacity/Nature of Interests | Number of ordinary Shares of the Company held | Approximate percentage of aggregate interests in issued share capital of the Company |
|---|---|---|---|---|
| DCP Partners Limited | (1)&(9) | Interest in controlled corporation | 267,416,029 | 6.85% |
| DCP, Ltd. | (1)&(9) | Interest in controlled corporation | 267,416,029 | 6.85% |
| Liu Haifeng David | (1)&(9) | Interest in controlled corporation | 267,416,029 | 6.85% |

*Notes:*

(1) *Long position in the Shares of the Company.*

(2) *Short position in the Shares of the Company.*

(3) *Mainfield is a wholly-owned subsidiary of China Foods (Holdings). China Foods (Holdings) is wholly-owned by COFCO (HK), which in turn is wholly-owned by COFCO. Accordingly, each of COFCO, COFCO (HK) and China Foods (Holdings) is deemed to be interested in such Shares.*

(4) *Each of Promise Meat Investment I Ltd. (as the sole shareholder of KKR), KKR Asian Fund II L.P. (as the controlling shareholder of Promise Meat Investment I Ltd.), KKR Associates Asia II L.P. (as the general partner of KKR Asian Fund II L.P.), KKR Asia II Limited (as the general partner of KKR Associates Asia II L.P.), KKR Fund Holdings L.P. (as the sole shareholder of KKR Asia II Limited), KKR Fund Holdings GP Limited (as the general partner of KKR Fund Holdings L.P.), KKR Group Holdings Corp. (as the general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited), KKR & Co. Inc. (as the sole shareholder of KKR Group Holdings Corp.), KKR Management LLC (as the general partner of KKR & Co Inc.), and Mr. Henry R. Kravis and Mr. George R. Roberts (as designated members of KKR Management LLC) is deemed to be interested in such Shares. Mr. Henry R. Kravis and Mr. George R. Roberts disclaim beneficial ownership of such Shares.*

(5) *Each of The Baring Asia Private Equity Fund V, L.P. (as the controlling shareholder of Baring), Baring Private Equity Asia GP V, L.P. (as the general partner of The Baring Asia Private Equity Fund V, L.P.), Baring Private Equity Asia GP V Limited (as the general partner of Baring Private Equity Asia GP V, L.P.), and Mr. Jean Eric Salata (as the sole shareholder of Baring Private Equity Asia GP V Limited) is deemed to be interested in such Shares. Mr. Jean Eric Salata disclaims beneficial ownership of such Shares, except to the extent of his economic interest in such entities.*

(6) *Each of Temasek Life Sciences Private Limited (as the sole shareholder of Temasek), Fullerton Management Pte. Ltd. (as the sole shareholder of Temasek Life Sciences Private Limited) and Temasek Holdings (Private) Limited (as the sole shareholder of Fullerton Management Pte. Ltd.) is deemed to be interested in such Shares.*

(7) *Each of Boyu Capital Fund I, L.P. (as the sole shareholder of Boyu), Boyu Capital General Partner I, L.P. (as the general partner of Boyu Capital Fund I, L.P.), Boyu Capital General Partner I, Ltd. (as the general partner of Boyu Capital General Partner I, L.P.) and Boyu Capital Holdings Ltd. (as the sole shareholder of Boyu Capital General Partner I, Ltd.) is deemed to be interested in such Shares.*

(8) *Each of the Company, KKR, Baring, Temasek and Boyu has agreed to negotiate in good faith and use reasonable endeavours to reach an agreement in relation to the structure of the employee benefit trust (or any other structure of similar nature) proposed to be set up to administer the grant of options and, upon reaching such agreement and the fulfillment of certain other conditions, these Shares will be transferred to Acheson Limited as trustee to be set up for the purpose of the Former Share Incentive Scheme.*

(9) *Each of Epicure Bravo Ltd. (as the sole shareholder of Gourmet Bravo Ltd.), DCP Partners Limited (as the controlling shareholder of DCP, Ltd.), and Liu Haifeng David and Wolhardt Julian Juul (as the controlling shareholder of DCP, Ltd.) is deemed to be interested in such shares.*

Save as disclosed above, as of December 31, 2018, the Company has not been notified by any person who had any interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## Share Incentive Scheme and its Updates

To recognize and reward the contribution of certain employees to the Group, provide incentives to retain them to support the continued growth of the Group, and attract suitable personnel for further development, the Company adopted the Former Share Incentive Scheme on March 27, 2015 and amended the Former Share Incentive Scheme on March 27, 2017, after the discussion between the board of COFCO Meat Investments and the then Shareholders.

The Share Incentive Scheme does not involve the grant of the option to subscribe for any new Shares and therefore is not required to be subject to the provisions in Chapter 17 of the Listing Rules. It does not cause any effect to the total number of Shares outstanding and will not result in any dilution effect to the Shares.

Except for Mr. Xu Jianong, being the executive Director, none of the scheme participant holds directorship in our Company.

| | | Number of Options | | | | | |
|---|---|---|---|---|---|---|---|
| Name and Category of Participants | Date of Options Granted | At January 1, 2018 | Granted During the year | Exercised During the year | Adjustments based on performance | Lapsed During the year | At December 31, 2018 |
| **Director** | | | | | | | |
| Mr. Xu Jianong | March 27, 2015 | 4,310,860 | | | 253,580 | | 4,564,440 |
| Other employees | March 27, 2015 | 42,510,935 | | | (1,256,106) | (749,213) | 40,505,616 |
| Total | | 46,821,795 | – | – | (1,002,526) | (749,213) | 45,070,056 |

## Pre-Emptive Rights

There is no provision for pre-emptive rights under the Articles of Association or the laws of Cayman Islands, the jurisdiction in which the Company was incorporated, and there is no restriction against such rights which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

## Tax Relief

The Company is not aware of any relief from taxation available to Shareholders by reason of their holdings in the Shares.

## Competing Interests

For the year ended December 31, 2018, none of the Directors is considered to have an interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

## Corporate Governance Measures in Relation to Non-Competition Undertakings

The Company has received annual confirmations on compliance with the undertaking under the deed of non-competition from COFCO, COFCO(HK), China Foods (Holdings) and Mainfield, respectively, for the year ended December 31, 2018. The independent non-executive Directors have reviewed the same and the enforcement and confirmed that, as far as they can ascertain, there is no breach by any of the covenantors of the non-competition undertakings in the deed of non-competition. For details of the non-competition undertakings, please refer to the Prospectus.

## Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the year ended December 31, 2018.

## Major Suppliers and Customers

Nearly 4.66% and 12.73% of the Group's total sales were attributable to its largest customer and five largest customers for the year ended December 31, 2018, and nearly 4.32% and 15.80% of the Group's total purchases were attributable to its largest supplier and five largest suppliers for the year, respectively.

Except that COFCO, our substantial Shareholder, had interests in COFCO Feed (Dongtai) Co., Ltd. (中糧飼料(東台)有限公司), which is one of our five largest suppliers, none of the Directors, their associates, nor the other substantial Shareholders had any beneficial interest in the five largest suppliers or customers of the Group for the year ended December 31, 2018.

## Environmental Policies and Performance

The discussions on the environmental policies and performance of our Group are set out in section headed "Environmental, Social and Governance Report" in this annual report, and such section forms part of this annual report.

## Sufficient Public Float

Based on the information that is publicly available to our Company and to the knowledge of the Directors, as at the date of this report, our Company has maintained a sufficient public float of not less than 25% of our Company's issued Shares as required under the Listing Rules.

## Connected Transactions

### Non-exempt One-off Related Transactions

Wuhan COFCO Meat and COFCO Meat (Jiangsu) are wholly-owned subsidiaries of the Company, whereas China Merchandise Reserve and China Foodstuffs are wholly-owned subsidiaries of Huafu, and Huafu is a wholly-owned subsidiary of COFCO, a substantial shareholder of the Company. Accordingly they are connected persons (as defined in the Listing Rules) of the Company under Chapter 14A of the Listing Rules. The following transactions entered into with them constitute connected transactions of our Group under Chapter 14A of the Listing Rules, and shall be disclosed below under the requirement of Chapter 14A of the Listing Rules. The details of the connected transaction of the Company for the year ended December 31, 2018 and up to the date of this annual report are set out below:

On January 16, 2018, pursuant to the 2018 Central Reserved Pork P&S Agreements, Wuhan COFCO Meat and COFCO Meat (Jiangsu) purchase central reserved pork from China Foodstuffs through the bid trading system of Beijing China Merchandise Reserve Exchange. Wuhan COFCO Meat and COFCO Meat (Jiangsu) have respectively entered into the 2018 Central Reserved Pork P&S Agreement I and the 2018 Central Reserved Pork P&S Agreement II (collectively referred to as the "**2018 Central Reserved Pork P&S Agreements**") with China Merchandise Reserve and China Foodstuffs through the bid trading system of Beijing China Merchandise Reserve Exchange. Pursuant to the terms and conditions of the 2018 Central Reserved Pork P&S Agreements, China Foodstuffs has agreed to sell 298.8 tons of frozen lean pork cuts to Wuhan COFCO Meat and COFCO Meat (Jiangsu), respectively, and Wuhan COFCO Meat and COFCO Meat (Jiangsu) have agreed to purchase the said frozen lean pork cuts and pay a total of RMB11,420,136 to China Foodstuffs for purchasing such products.

The 2018 Central Reserved Pork P&S Agreements entered into by the Company are able to reduce the cost of raw materials and are favorable to the growth in revenue and profit of the Company, as the transaction prices of the transactions contemplated under the 2018 Central Reserved Pork P&S Agreements are determined by bidding through the electronic system of Beijing China Merchandise Reserve Exchange (the process of which is open and transparent) and are generally not higher than the market purchase price of similar products during the same period. In addition, the Company's active engagement in bidding and successfully participating in the supply of the central reserved pork represent its active response to the State's launch of delivery rotation policies of central reserved frozen meat from time to time. This demonstrates the Company's high sense of social responsibility and facilitates the promotion of the brands of the Company, thus enhancing the brand image and market recognition of the Company. Please refer to the announcement of the Company dated January 16, 2018 for details.

### Continuing Connected Transactions

The connected persons of our Company for the purpose under Chapter 14A of the Listing Rules include but are not limited to COFCO (being a substantial Shareholder), MIY (being a substantial Shareholder from January 1, 2018 to January 30, 2018, as the shareholding of MIY decreased to below 10% since January 31, 2018, MIY is no longer a substantial Shareholder), Mitsubishi (being a holding company and hence an associate of MIY), Itoham and Yonekyu (each being a subsidiary of Itoham Yonekyu Holdings, a 38.94%-controlled company of Mitsubishi and hence each an associate of MIY) and Genesus (being a substantial shareholder of Zhongyu Breeding Hogs (Dongtai) Co., Ltd. (中裕種豬(東台)有限公司) ("**Zhongyu Breeding Hogs**"), a subsidiary of our Company from January 1, 2018 to July 3, 2018, as Zhongyu Breeding Hogs was de-registered on July 4, 2018, Genesus is no longer a connected person of the Company). Accordingly, the following transactions entered into with COFCO, Mitsubishi, Itoham, Yonekyu and Genesus and their respective subsidiaries and/or associates, will constitute connected transactions of our Group under Chapter 14A of the Listing Rules, and shall be disclosed below under the requirement of Chapter 14A of the Listing Rules. We have applied for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement requirement under Rule 14A.35 (in respect of the partially exempt and non-exempt continuing connected transactions) and the independent Shareholders' approval requirement under Rule 14A.36 of the Listing Rules (in respect of the non-exempt continuing connected transactions), subject to the condition that the annual transaction values shall not exceed their respective estimated annual caps. The details of the continuing connected transactions of the Company for the year ended December 31, 2018 are set out below:

## Non-Exempt Continuing Connected Transactions

The following transactions are entered into by the Company in the ordinary and usual course of business and on normal commercial terms or better where, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules will be more than 5% on an annual basis. Therefore, the following transactions will be subject to the reporting, announcement, annual review and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### 1. Financial Services Agreement Entered into and Renewed with COFCO Finance

The Group has been obtaining various financial services from COFCO Finance. On October 12, 2016, our Company and COFCO Finance, an indirect wholly-owned subsidiary of COFCO, entered into the 2016 Financial Services Agreement. For the disclosures of the details of the 2016 Financial Services Agreement, please refer to the Prospectus. As the 2016 Financial Services Agreement expired on December 31, 2016, and the Group intended to continue to conduct a number of transactions contemplated under the 2016 Financial Services Agreement, on November 23, 2016 (after trading hours), the Company and COFCO Finance entered into the 2017 Financial Services Agreement, pursuant to which COFCO Finance will provide the Group with (i) deposit services; (ii) loan services; (iii) entrustment loan services; and (iv) other financial services. The 2017 Financial Services Agreement took effect upon consideration and approval by the general meeting of the Company on January 9, 2017, and will be valid until December 31, 2019.

For details of the 2017 Financial Services Agreement, please refer to the announcement of the Company dated November 23, 2016 and the circular dated December 20, 2016.

Pursuant to the 2017 Financial Services Agreement, COFCO Finance agreed to provide our Group with the following financial services during the period commencing on January 9, 2017 until December 31, 2019:

#### *(a) Deposit Services*

COFCO Finance will provide deposit services to the Group pursuant to the 2017 Financial Services Agreement. The Group will open and maintain deposit accounts with COFCO Finance.

The interest rates for the Group's deposits with COFCO Finance will be determined in accordance with the deposit benchmark interest rates promulgated by the PBOC from time to time. The interest rates on the Deposit Services to be offered by COFCO Finance to the Group will not be lower than the deposit interest rates promulgated by the PBOC for the same type of deposits of the same period and will not be lower than the deposit interest rates offered by the major PRC commercial banks for the same type of deposits of the same period.

For the year ended December 31, 2018, the maximum daily deposit amounts placed by the Group with COFCO Finance and the interests on deposits shall not exceed the amounts stated below:

| | **For the year ended December 31, 2018 (RMB'000)** |
|---|---|
| Deposit amounts | **1,000,000** |
| Interests on deposits | **8,110** |

In the event that the Group suffers any financial loss by reason of the default of COFCO Finance, COFCO Finance shall compensate the Group for such loss suffered by the Group in accordance with the rules and regulations of the PBOC.

For the year ended December 31, 2018, the above-mentioned maximum daily deposit amounts reached RMB237,804,000, and the interests on deposits was RMB1,614,000.

### (b) Loan Services

COFCO Finance will provide RMB loan services to the Group pursuant to the 2017 Financial Services Agreement.

The interest rates to be charged by COFCO Finance for the provision of the Loan Services to the Group will be determined by the Company and COFCO Finance with reference to the interest rates issued by PBOC from time to time. The interest rates on the Loan Services to be offered by COFCO Finance to the Group will not be higher than those offered by the major PRC commercial banks for the same type of loans in the same period. Moreover, no security over the assets of the Group will be granted in respect of the financial assistance given by COFCO Finance.

For the year ended December 31, 2018, the balance of the principal amounts of the loans provided by COFCO Finance and the interests on the loans payable by the Group to COFCO Finance in connection with the Loan Services shall not exceed the amounts stated below:

| | **For the year ended December 31, 2018 (RMB'000)** |
|---|---|
| Principal amounts | **1,200,000** |
| Interests on loans | **30,450** |

For the year ended December 31, 2018, the above-mentioned maximum daily balance of the principal amounts of the loans reached RMB70,000,000, and the interests on loans was RMB1,527,000.

### (c) Entrustment Loan Services

COFCO Finance will provide the Entrustment Loan Services to the Group in accordance with the permitted scope prescribed under the PRC financial policies and the Management Methods for Group Finance Companies (企業集團財務公司管理辦法) pursuant to the 2017 Financial Services Agreement. COFCO Finance will only act as an agent for the capital management entity of the Group (i.e. COFCO Meat Investments) and charge handling fees in connection with the Entrustment Loan Services. COFCO Finance will not require the Group to provide any type of guarantees or securities with respect to the Entrustment Loan Services.

For the year ended December 31, 2018, the maximum handling fees for the year to be charged by COFCO Finance in connection with the Entrustment Loan Services shall not be higher than RMB420,000. The handling fees to be charged by COFCO Finance in connection with the Entrustment Loan Services shall not be higher than those offered by other PRC financial institutions to the Group for similar type of services.

For the year ended December 31, 2018, the handling fees charged by COFCO Finance in connection with the Entrustment Loan Services amounted to RMB132,000.

### (d) Other Financial Services

COFCO Finance will provide other financial services to the Group in accordance with the permitted scope prescribed under the PRC financial policies and the Management Methods for Group Finance Companies (企業集團財務公司管理辦法) pursuant to the 2017 Financial Services Agreement. The handling fees and other services fees will be charged by COFCO Finance for other financial services provided to the Group pursuant to the 2017 Financial Services Agreement.

The handling fees and other services fees to be charged by COFCO Finance in connection with other financial services shall not be higher than those offered by other PRC financial institutions to the Group for similar type of services.

For the year ended December 31, 2018, the handling fees and other service fees payable by the Group to COFCO Finance in connection with other financial services shall not exceed RMB847,000.

For the year ended December 31, 2018, the handling fees and other service fees charged by COFCO Finance in connection with other financial services were 0.

*(e) Settlement Terms*

Set out below are the settlement terms of the respective services under the 2017 Financial Services Agreement:

*(i) Interest income from the Deposit Services*

COFCO Finance pays its interests on a quarterly basis where the interests will be automatically deposited into the demand deposit account of the Group companies opened at COFCO Finance on the 21st day of the end of each quarter;

*(ii) Interest expense of the Loan Services*

COFCO Finance charges its interests on a quarterly basis where the interests will be deducted automatically from the demand deposit account of the Group companies opened at COFCO Finance on the 21st day of the end of each quarter. In the event of early repayment, the interests will be settled on the repayment date and deducted from the demand deposit account;

*(iii) Handling fees and other service fees paid under the Entrustment Loan Services and other financial services*

COFCO Finance, as an agent of the Group for entrustment loans, will not require the Group to provide any type of guarantees or securities with respect of the Entrustment Loans Services provided to the Group (for internal uses within the Group only). The handling fees in connection with entrustment loans and other financial services will not be higher than those charged by finance companies or the eight network banks for operating similar businesses.

The handling fees for the Entrustment Loan Services shall be settled upon occurrence of each business or annually by the end of each year, and the interests of the entrustment loans are settled on a quarterly/monthly basis where the interests will be paid to the entrusting party on the interest settlement date. In the event of early repayment of the entrustment loans, the interests will be settled on the repayment date and will be paid to the entrusting party.

*(f) The Group may obtain financial services from other financial institutions in addition to those provided by COFCO Finance pursuant to the 2017 Financial Services Agreement.*

As the 2017 Financial Services Agreement will expire on December 31, 2019, and the Group intends to continue to conduct a number of transactions contemplated under the 2017 Financial Services Agreement, on November 23, 2018 (after trading hours), the Company and COFCO Finance entered into the 2018 Financial Services Agreement. The 2018 Financial Services Agreement took effect from January 1, 2019, and will be valid until December 31, 2021. For details of the 2018 Financial Services Agreement, please refer to the announcement of the Company dated November 23, 2018 and the circular dated February 4, 2019.

## 2. Mutual Supply of Products and Services with COFCO Group

From time to time, certain of our subsidiaries have traded in certain products and services with certain COFCO Group entities and/or associates of COFCO. On October 14, 2016, our Company and COFCO entered into a Mutual Supply Agreement in relation to the mutual supply of products and services, pursuant to which our Company agreed to trade in the following products and services:

- Mutual provision of feed processing services whereby COFCO Group and our Group provide feed processing services to each other;
- Purchase of feed, other materials and consultancy services by our Group from COFCO Group;
- Purchase of frozen meat products by our Group from COFCO Group;
- Purchase of poultry products by our Group from COFCO Group;
- Use of cold storage services by our Group from COFCO Group;
- Supply of meat products by our Group to COFCO Group; and
- Supply of frozen poultry products by our Group to COFCO Group.

The Mutual Supply Agreement has a term commencing on the Listing Date until December 31, 2018 and may be renewed by agreement between the parties. For the disclosures of the details of Mutual Supply Agreement, please refer to the Prospectus.

Pursuant to Rule 14A.81 of the Listing Rules, the aggregate transaction amounts payable under the Mutual Supply Agreement for the years ended December 31, 2016, 2017 and 2018 are expected to be approximately RMB913,010,000, RMB1,054,765,000 and RMB1,172,693,000, respectively.

For the year ended December 31, 2018, the aggregate transaction amount payable under the Mutual Supply Agreement was approximately RMB708,774,000.

### (a) Mutual Provision of Feed Processing Services

**Processing of Feed by COFCO**

Pursuant to the Mutual Supply Agreement, COFCO Group and/or its associates will process the feed ingredients provided by our Group into feed products, including but not limited to feed for piglets, nursery hogs, finishing hogs and breeding stock, mixed feed and other related products, at a processing fee determined based on prevailing market price.

**Processing of Feed by our Group**

Pursuant to the Mutual Supply Agreement, our Group will also process feed ingredients provided by COFCO Group and/or its associates into feed products, including but not limited to feed products for fish and other aquatic livestock, at a processing fee determined based on prevailing market price.

The annual caps of the processing fee payable by our Group to COFCO and payable by COFCO to our Group for the year ended December 31, 2018 were as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Processing fee payable by our Group to COFCO | **10,080** |
| Processing fee payable by COFCO to our Group | **300** |

The processing fee actually paid by our Group to COFCO and actually paid by COFCO to our Group for the year ended December 31, 2018 were approximately RMB6,902,000 and 0, respectively.

### (b) Purchase of Feed, Other Materials and Consultancy Services from COFCO Group

Pursuant to the Mutual Supply Agreement, our Group will purchase from COFCO Group and/or its associates various feed products, feed ingredients, materials for production such as protein powder and corn syrup, other related products and consultancy services based on prevailing market price. The purchase price of feed products, other materials and consultancy services payable is determined based on the quotations provided by other qualified third party suppliers for similar goods of similar quality.

The annual cap of the aggregate purchase amounts of feed products, other materials and consultancy services payable by our Group for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Purchase of feed products, feed ingredients, other materials and consultancy services | **701,474** |

The aggregate purchase amount of feed products, other materials and consultancy services actually paid by our Group for the year ended December 31, 2018 was approximately RMB693,568,000.

### (c) Purchase of Frozen Meat Products from COFCO Group

Pursuant to the Mutual Supply Agreement, our Group will purchase from COFCO Group and/or its associates various imported frozen meat products, including but not limited to frozen beef and poultry products and other related products, at cost price.

The annual cap of the aggregate purchase amounts of frozen meat products payable by the Group for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Purchase of frozen meat products | **200,000** |

As COFCO has not won the bid to import frozen meat products on behalf of us for the year ended December 31, 2018, no purchase amount was paid by our Group to COFCO.

### (d) Purchase of Poultry Products from COFCO Group

Pursuant to Mutual Supply Agreement, our Group will purchase from COFCO Group and/or its associates certain poultry products (the "**Poultry Products**"), at prevailing market prices. The purchase price of the Poultry Products is determined based on the quotation provided by other third party suppliers for similar goods of similar quality.

The annual cap of the aggregate purchase amounts of the Poultry Products payable for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Purchase of the Poultry Products | **57,380** |

The aggregate purchase amount of the Poultry Products actually paid by our Group for the year ended December 31, 2018 was approximately RMB7,563,000.

### (e) Use of Cold Storage Services from COFCO Group

Huafu is a wholly-owned subsidiary of COFCO Group and owns various cold storage facilities in Wuhan and Beijing (the "**Huafu Cold Storage Facilities**"). Please refer to the section headed "Relationship with Controlling Shareholders-Huafu Group" in our Prospectus for more details. Pursuant to the Mutual Supply Agreement, our Group obtained from Huafu and its subsidiaries and/or associates cold storage services provided by the Huafu Cold Storage Facilities. The service fee for the Huafu Cold Storage Facilities is determined based on the standard price offered to other third party users.

The annual cap of the aggregate service fee payable by our Group to COFCO for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Service Fee | **2,270** |

The aggregate service fee actually paid by our Group to COFCO for the year ended December 31, 2018 was approximately RMB741,000.

### (f) Supply of Meat Products to COFCO Group

Pursuant to the Mutual Supply Agreement, our Group will sell to COFCO Group and/or its associates various meat products and other related products, including but not limited to fresh pork and processed meat products such as ham, sausages and bacon, at prevailing market prices. The supply price of meat products is determined as follows:

(i) for products to be sold via womai.com, the price is determined based on the prices of similar products offered to other e-commerce sales channels;

(ii) for products to be sold for consumption, the price is determined based on the prices offered to other canteens or similar establishments; and

(iii) for products to be used for food production, the price is determined based on the prices offered to other food processors.

The annual cap of the aggregate sales revenue from the supply of meat products received by our Group for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Sales revenue from supply of meat products | **14,419** |

The aggregate sales revenue from the supply of meat products received by our Group for the year ended December 31, 2018 was approximately RMB8,258,000.

### *(g) Supply of Frozen Poultry Products to COFCO Group*

Pursuant to the Mutual Supply Agreement, our Group will sell to COFCO Group and/or its associates frozen poultry products purchased by international trading division of our Group at prevailing market prices.

In order to delineate the business of our Group with that of the Disposal Group, COFCO Group has committed not to undertake import business of frozen poultry products upon Listing. Please refer to the section headed "Relationship with Controlling Shareholders-Independence from COFCO Group-Operational Independence-Trading of poultry products by our Group" set out in our Prospectus for more details.

The supply price of frozen poultry products is determined based on the price of similar products offered to other third parties.

The annual cap of the aggregate sales revenue and import service fee from the supply of frozen poultry products received by our Group for the year ended December 31, 2018 was as follows:

| | **For the year ended December 31, 2018 (RMB'000)** |
|---|---|
| Sales revenue from the supply of frozen poultry products | **186,770** |

The aggregate sales revenue from the supply of frozen poultry products received by our Group for the year ended December 31, 2018 was approximately RMB102,302,000.

As the 2016 Mutual Supply Agreement has expired on December 31, 2018, and the Group intended to continue to conduct a number of transactions contemplated under the 2016 Mutual Supply Agreement, on November 23, 2018 (after trading hours), the Company and COFCO entered into the 2018 Mutual Supply Agreement. The 2018 Mutual Supply Agreement took effect from January 1, 2019, and will be valid until December 31, 2021. For details of the 2018 Mutual Supply Agreement, please refer to the announcement of the Company dated November 23, 2018 and the circular dated February 4, 2019.

## 3. Mutual Supply of Products and Services with Mitsubishi, Itoham and Yonekyu

On October 11, 2016, our Company, Mitsubishi, Itoham and Yonekyu entered into a mutual supply agreement in relation to the mutual supply of products (the "**MIY Mutual Supply Agreement**"), pursuant to which our Group agreed to trade in the following products:

- Purchase of products from Mitsubishi, Itoham and Yonekyu and their respective subsidiaries and/or associates; and
- Supply of meat products to Mitsubishi, Itoham and Yonekyu and their respective subsidiaries and/or associates.

The MIY Mutual Supply Agreement has a term commencing on the Listing Date until December 31, 2018 and may be renewed by agreement between the parties. Please refer to the Prospectus for disclosure of details of the MIY Mutual Supply Agreement.

Pursuant to Rule 14A.81 of the Listing Rules, the aggregate transaction amounts payable under the MIY Mutual Supply Agreement for the years ended December 31, 2016, 2017 and 2018 are expected to be approximately RMB172,546,000, RMB224,082,000 and RMB301,593,000, respectively.

The aggregate transaction amount payable under the MIY Mutual Supply Agreement as of January 30, 2018 was approximately RMB18,681,000.

### *(a) Purchase of Products from Mitsubishi, Itoham and Yonekyu*

Pursuant to the MIY Mutual Supply Agreement, our Group will purchase from Mitsubishi, Itoham, Yonekyu and their respective subsidiaries and/or associates imported beef and lamb, as well as various ancillary products, including but not limited to powders, coatings and other related products (the "**MIY Products**"), at prevailing market prices. The purchase price of the MIY Products is determined based on prices offered by Mitsubishi, Itoham or Yonekyu to other third parties.

The annual cap of the aggregate purchase amount of the MIY Products payable by our Group for the year ended December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Purchase of the MIY Products | **273,553** |

The aggregate purchase amount of the MIY Products payable by our Group as of January 30, 2018 was approximately RMB18,606,000.

*(b) Supply of Meat Products to Mitsubishi, Itoham and Yonekyu*

Pursuant to the MIY Mutual Supply Agreement, our Group will supply various processed meat products, including but not limited to ham, sausages and bacon, to Mitsubishi, Itoham, Yonekyu and their respective subsidiaries and/or associates at prevailing market prices. The supply price under the MIY Supply Agreement is determined based on prices offered to other third parties for products of similar quality.

The annual cap of the aggregate revenue from the supply of processed meat products received by our Group as of December 31, 2018 was as follows:

| | For the year ended December 31, 2018 (RMB'000) |
|---|---|
| Revenue from the supply of processed meat products | **28,040** |

The aggregate revenue from the supply of processed meat products received by our Group as of January 30, 2018 was approximately RMB75,000.

## Partially Exempt Continuing Connected Transactions

The following transactions are entered into in the ordinary and usual course of business and on normal commercial terms or better where, the highest applicable percentage ratio calculated for the purpose of Chapter 14A of the Listing Rules is more than 0.1% but less than 5% on an annual basis. Therefore, under Rule 14A.76(2)(a) of the Listing Rules, the following transactions are subject to the reporting, announcement and annual review requirements but will be exempted from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

### 4. Lease of Premises

We entered into the Beijing Property Leasing Contract, the Beijing Property Management Contract and the Hong Kong Tenancy Agreement (each as defined below). Pursuant to Rule 14A.81 of the Listing Rules, the aggregate amount of rental expenses, management fees and service charges payable to the COFCO Group for the leased premises under the Beijing Property Leasing Contract, the Beijing Property Management Contract and the Hong Kong Tenancy Agreement for the years ended December 31, 2016, 2017 and 2018 are expected to be approximately RMB9,494,000, RMB10,816,000 and RMB12,378,000, respectively.

The aggregate amount of rental expenses, management fees and service charges payable to the COFCO Group for the leased premises under the Beijing Property Leasing Contract, the Beijing Property Management Contract and the Hong Kong Tenancy Agreement for the year ended December 31, 2018 were approximately RMB6,830,000, RMB703,000 and 0, respectively.

*(a) Lease of Office Premises in Beijing*

On October 14, 2016, our Company entered into a property leasing contract with COFCO (the "**Beijing Property Leasing Contract**"), pursuant to which we leased from COFCO approximately 1,700 square meters of office premises of COFCO Fortune Plaza in Beijing and eight underground car parking spaces in COFCO Fortune Plaza for a term commencing on the Listing Date until December 31, 2018. The annual rent is determined based on prevailing market prices and is payable by three annual installments, with the first installment payable within three business days after the effective date of the Beijing Property Leasing Contract and each subsequent installment being payable on or before December 31 of the preceding year. We have the priority to renew the Beijing Property Leasing Contract on terms to be agreed between the parties. Should the Beijing Property Leasing Contract be renewed, we will comply with the requirements of Chapter 14A of the Listing Rules.

On October 14, 2016, our Company entered into a property management contract with COFCO Sunshine Property Management (Beijing) Co., Ltd. ("**COFCO Sunshine**") (the "**Beijing Property Management Contract**"), pursuant to which COFCO Sunshine agreed to provide to us various services for the maintenance and management of the leased premises for a term commencing on the Listing Date until December 31, 2018. The management fee is determined based on prevailing market prices and is payable in quarterly installments, with the first installment being payable on the date of the Beijing Property Management Contract and each subsequent installment being payable within 10 business days prior to the start of each quarter. The Beijing Property Management Contract may be renewed by agreement between the parties. Should the Beijing Property Management Contract be renewed, we will comply with the requirements of Chapter 14A of the Listing Rules. The annual rent and management fees under the Beijing Property Leasing Contract and the Beijing Property Management Contract are determined as follows:

(i) the rental price and management fees are agreed between the parties following their arm's length negotiations with reference to the prevailing market prices of other properties in the vicinity and the current prevailing market rates;

(ii) comparable rental price quotations offered by independent third parties for similar properties in the vicinity; and

(iii) rental prices and management fees offered by COFCO to other tenants.

The annual cap of the aggregate rental expenses and annual management fees payable by our Company for the year ended December 31, 2018 was as follows:

| | **For the year ended December 31, 2018 (RMB'000)** |
|---|---|
| Rental expenses and management fees | **11,191** |

The aggregate rental expenses and annual management fees payable by our Company for the year ended December 31, 2018 was approximately RMB7,533,000.

*(b) Lease of Office Premises in Hong Kong*

On October 11, 2016, our Company entered into a tenancy agreement with Bapton Company Limited ("**Bapton**"), an indirect subsidiary of COFCO (the "**Hong Kong Tenancy Agreement**"), pursuant to which our Company leased from Bapton approximately 1,800 square feet of office premises on the 6th floor of COFCO Tower at 262 Gloucester Road, Causeway Bay, Hong Kong for a term of two years commencing on the Listing Date. The annual rent and service charge are determined based on prevailing market prices. Our Company shall also be responsible for payment of government rates, at an annual rate percentage charge of 5% of the annual rent payable. The rent and service charge may be reviewed from time to time based on the market prevailing price. Should the Hong Kong Tenancy Agreement be renewed, we will comply with the requirements of Chapter 14A of the Listing Rules. The monthly rent and service charge under the Hong Kong Tenancy Agreement is determined as follows:

(i) the rental price is agreed between the parties following their arm's length negotiations with reference to the prevailing market prices of other properties in the vicinity and the current prevailing market rates;

(ii) comparable rental price quotations offered by independent third parties for similar properties in the vicinity; and

(iii) rental prices and management fees collected by Bapton from other tenants.

The annual cap of the aggregate annual rental expenses, service charge and rates payable by our Company for the year ended December 31, 2018 was as follows:

| | **For the year ended December 31, 2018 (HK$'000)** |
|---|---|
| Rental expenses, service charge and rates | **1,400 (approximately RMB1,187,000)** |

The aggregate annual rental expenses, service charge and rates payable by our Company for the year ended December 31, 2018 was 0.

As the Beijing Property Leasing Contract, the Beijing Property Management Contract and the Hong Kong Tenancy Agreement have expired on December 31, 2018, and the Group intended to continue to conduct the transactions contemplated under these contracts, on November 23, 2018 (after trading hours), the Company entered into a property leasing contract with COFCO (the "**2018 Beijing Property Leasing Contract**"), a property management contract with COFCO Sunshine (the "**2018 Beijing Property Management Contract**"), a Hong Kong tenancy agreement with Bapton (the "**2018 Hong Kong Tenancy Agreement**"), an administrative services agreement with COFCO (the "**2018 Administrative Services Agreement**"). For details of the 2018 Beijing Property Leasing Contract, 2018 Beijing Property Management Contract, 2018 Hong Kong Tenancy Agreement and 2018 Administrative Services Agreement, please refer to the announcement of the Company dated November 23, 2018.

## Annual Review of Continuing Connected Transactions

For the year ended December 31, 2018, the independent non-executive Directors have reviewed and confirmed that the above continuing connected transactions have been entered into:

1. in the ordinary and usual course of our Group's business;

2. either on normal commercial terms or on terms no less favourable to our Group than terms available to or from independent third parties; and

3. in compliance with fair and reasonable terms regulating various agreements of the above continuing connected transactions and in the interest of the Company and the Shareholders of our Company as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in pages 49 to 59 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The related party transactions set out in Note 51 to financial statements include related party transactions disclosed under accounting standards and related party transactions which also constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of directors and chief executives of the Company constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. However, these transactions are exempt from reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The related party transactions in respect of the remuneration of key management personnel (other than directors and chief executives) of the Company did not fall under the definition of connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. Unless otherwise disclosed in this report, the Directors believe, all other related party transactions set out in Note 51 to the financial statements do not fall within the definition of "connected transactions" or "continuing connected transactions" under Chapter 14A of the Listing Rules (as the case may be); therefore, we are not subject to any reporting, annual review, announcement or the independent shareholders' approval requirements under the Listing Rules. The Company confirmed that it was in compliance with the disclosure requirements in Chapter 14A of the Listing Rules for the year or a waiver from such provisions has been obtained from the Stock Exchange.

## Obligations of On-going Disclosure under the Listing Rules

The Company has no any other disclosure obligation under Rule 13.20, Rule 13.21 and Rule 13.22 of the Listing Rules.

## Auditors

The Company has appointed Deloitte Touche Tohmatsu as the auditor of the Company for the year ended December 31, 2018. There has been no change in the Company's auditor in any of the preceding three years. A resolution will be proposed for approval by Shareholders at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Jiang Guojin**
*Chairman of the Board*

Hong Kong, March 26, 2019

# Environmental, Social and Governance Report

COFCO Meat Holdings Limited has started to issue Environmental, Social and Governance (ESG) Report since 2016. This is our third ESG Report, approved by the Board of Directors and included in our annual report. Entities covered herein are the same as those in the Company's annual report. This report mainly discloses the business operations of the Group in respect of food safety, energy saving and environmental protection, social responsibilities and corporate governance from January 1 to December 31, 2018. This report is in accordance with relevant provisions regarding "comply or explain" and "recommended disclosures" in the Environmental, Social and Governance Reporting Guide of the Stock Exchange of Hong Kong Limited. Unless otherwise specified, the source of the financial data quoted in this report is the company's audited annual report, while other data come from the Group's internal official documents and relevant statistics.

## Corporate Responsibility

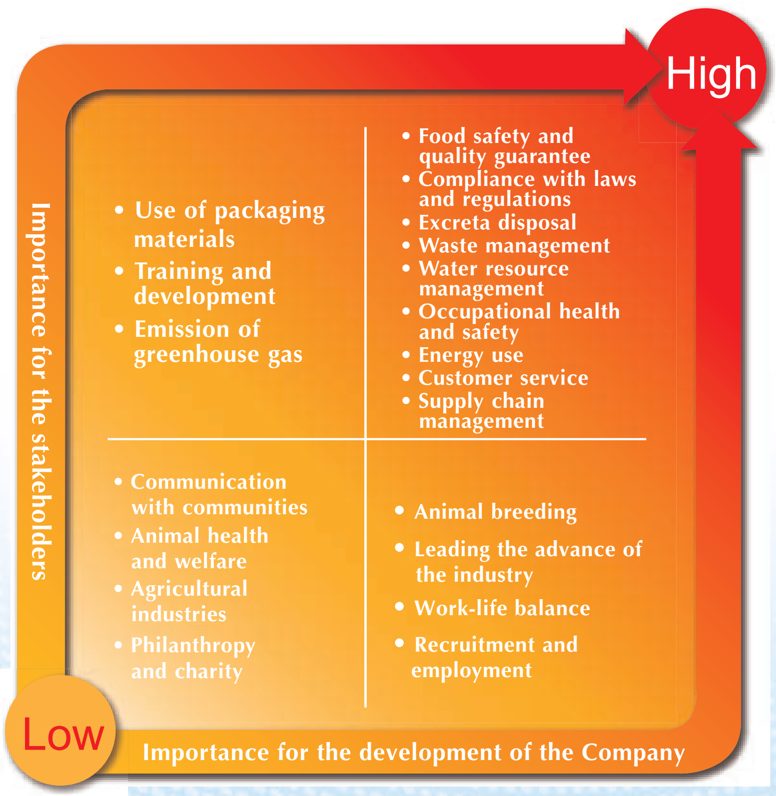
As one of the leading enterprises in China's meat industry, COFCO Meat adheres to the concept of social responsibility of "Leading the Safety Standards in the Industry and Assuring the Safety of Meat for the Consumers", relies on the vertical integration business model covering the integrated value chain, upholds integrity and compliance, is dedicated to providing nutritious and safe food to consumers, promotes the common development of stakeholders including shareholders, customers, environment, employees and the public, and therefore realizes the harmonious unity of economy efficiency, social efficiency and environmental efficiency.

## ■ Stakeholder Communication

We consider it vital to communicate with stakeholders. Through various channels, we spread our social responsibility ideas and practices, understand the needs of the stakeholders, and take measures to satisfy the reasonable expectations and demand of the stakeholders.

## ■ Material Issues Identification

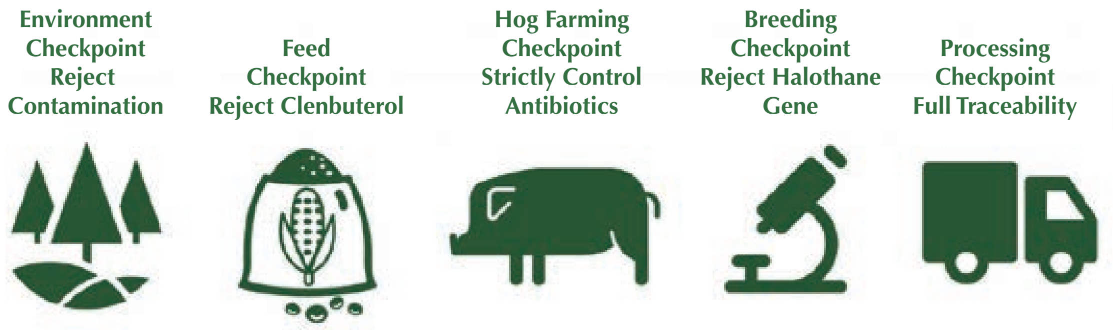
In order to make the report more targeted and responsive, we identify ESG issues that are material by seeking for advices from the management of the Company and internal and external stakeholders in accordance with the requirements of the Environmental, Social and Governance Reporting Guide of the The Stock Exchange of Hong Kong and making reference to the disclosure of ESG issues by relevant domestic enterprises, to make sure that the information disclosed in the report fully covers significant issues that affect the development of the Company and draw attention from stakeholders.



## Food Safety

Safety and quality are our top priorities. We have built a business system covering the integrated value chain including feed production, hog breeding, slaughtering and segmentation, fresh pork and processed meat product production, distribution and sale, and import and distribution of meat imports (including pork, beef, poultry and mutton) through strict control of the “five important procedures of safety”, rigorously controlled each link from the source to terminals, to make available high-quality, safe, healthy and nutritious meat products for thousands of households, and to ensure the safety of meat products for the citizenry.

In 2018, Market Administration departments at each level officially announced to sample 135 batches of our products, which were 100% qualified.




### ■ Integrated Value Chain Quality and Safety Management

We have learned from the advanced quality and safety management experience of relevant enterprises home and abroad and have formulated management regulations such as the Memorandum for Quality Safety Risk Control in accordance with the national regulations to define the quality and safety management standard and requirements for each aspect. We also take measures to ensure the quality and safety of each link to be controllable in order to fully guarantee the quality and safety of our products.

The feed processing of the Group, slaughter and processed meat processing enterprises have passed the certification of ISO_9001 quality management system, ISO_22000 food safety management system or HACCP system. Their advanced processing techniques coupled with cold chain preservation during the whole process from production to distribution also provide a strong guarantee for product quality and safety.

#### ■ *Source Management*

**Feed control.** We used feed produced from safe and pollution-free grain. Prior to warehousing, we have conducted tests in respect of pesticide residues, heavy metal and mycotoxin on the feed ingredients according to the requirements of each category, so as to ensure quality and safety. Throughout the production process, we feed in minerals, vitamins and other nutrient elements based on the hogs’ daily needs and monitor each every procedure in the production process in accordance with related national regulations and standards. We also carry out strict inspections and tests to ensure that the feed products we have produced are nutritious and healthy. We also strictly controlled the time from the completion of production to hog ingestion, so as to maximize the freshness and safety of the feed.

**Hog farming.** We have formulated standard operating procedures for each link in farming in accordance with requirements of the *Animal Husbandry Law of the People's Republic of China* (《中華人民共和國畜牧法》), the *Animal Epidemic Prevention Law of the People's Republic of China* (《中華人民共和國動物防疫法》) and other relevant laws and regulations, in compliance with General Requirements for Animal Husbandry and Farming Quality and Safety of COFCO Group and with reference to domestic and foreign leveraged enterprises, so as to standardize the whole hog farming process. We have adopted eleven animal welfare measures to respect the natural productive rhythm of hogs, which ensured the health growth of hogs through scientific feeding.

During the hog farming process, we comply with related national regulations and standards and throughoutly implement epidemic prevention procedures, and utilise veterinary drug in accordance with relevant laws and regulations. We would make sure that all hog productions were free of residue of veterinary drug, strictly implement the three-level auditing executed by the head of farm, the charger and feeders, so as to ensure the food safety of hog productions. We have strictly implemented the national animal inspection and quarantine standards to ensure that all hog productions can pass inspection by governmental regulators, and thus to carry out sales with certificate.

**Supplier management.** We support the goal of achieving a sustainable future, therefore we integrate energy conservation, social responsibility and corporate governance into our daily business operations. Based on our Measures for Quality and Safety Management of Suppliers, we developed management systems such as Regulation on Quality and Safety Management of Raw Materials Suppliers and Measures for Procurement Management of veterinary drugs. We also implement definite requirements on supplier basic qualifications, selection criteria, approval management, routine management, exit mechanisms and supervision and evaluation. We have also established a professional assessment team to closely monitor supplier qualifications, production process as well as upstream management and control. Meanwhile, we continually optimize our supplier structure and select large-scale suppliers with good reputation, while insisting priority on internal supply, and strengthening suppliers' management of corporate responsibility to jointly achieve sustainable development of our environment and society.

## ■ *Process Control*

We systematically managed the whole production process through quality management and food safety management system. During the production process, we strictly implemented the production standard operating procedures and quality requirements, conducted effective monitoring on key links by advanced devices to effectively control all parameters of the products.

We have integrated the quality and safety risk information from internal and external sources including relevant parties of the value chain, the company and our clients, establishing a risk surveillance index system to promptly receive alarm and handle the quality and safety risks effectively during the production and operation through real-time surveillance. In order to comprehensively and effectively monitor risks, the Company has developed and implemented corporate quality control standard which is stricter than the national standard in reliance on the National Non-staple Food Quality Supervision and Inspection Center (國家副食品質量監督檢驗中心) of COFCO Nutrition and Health Research Institute, established a inspect and test system with the regional laboratories as the main force, backed up by the primary level laboratories and combining with external third-party examinations, to ensure the quality of our products.

## ■ *Terminal Management*

We put emphasis on the "last kilometer" for food safety by strictly controlling the aspects of terminals such as cold-chain logistics, warehousing and stores, establishing procedures to standardize the admittance of, management for and exit of terminal-related parties, and implementing strict management and control for terminals in respect of six aspects: equipment and facilities, products protection, shelf life management, returns management, emergency management and traceability, so as to practically guarantee the quality and safety of terminal products.

## ■ *Product Traceability*

We have established a traceability system covering all links of the integrated value chain including feed, farming, slaughtering and cutting, meat product processing and sale, to regulate the records and label management of quality information in each link of the value chain.

We have started the establishment of an electronic tracking system since 2015 for the slaughtering and processing link, with each product given with an unique ID card through label coding, which allowed all data information uploading to cloud database, resulting in the realization of full traceability which was continuously optimized in application. Currently, it is possible to make a one-click product traceability query with the set of tracking system, thus, food safety of consumers can be ensured.

## ■ Professional and Efficient Client Service

In order to provide high-quality, professional and efficient client service to consumers, we have been continually improving our client service system as well as formulating and regulating our customer complaints handling procedures, to promptly provide feedback on, follow up and handle the complaints and to enhance customer satisfaction.

Through our consumer satisfaction survey we have collected, combined and summarized customer opinions. We analyzed the reasons for dissatisfaction and provided feedback to the relevant departments to propose an improvement plan, taking every opportunity for improvement seriously.

We place high priority on the information privacy of our clients in compliance with relevant laws and regulations, strictly controlling the information usage to completely avoid any client information leak.

## ■ Advertising and Trademarks

We enforce in strict standard the *Advertising Law of the PRC** (《中華人民共和國廣告法》) and *Administrative Measures for Business Promotion of COFCO Corporation (Trial)** (《中糧集團有限公司商業推廣管理辦法(試行)》) to ensure that our external business promotion activities are factual, lawful, rooted in science, accurate, not deceptive or misleading, and is strictly adhere to laws and regulations.

We also value the importance of trademark protection. The Company would enter into a "Distribution Agreement" with dealers in the course of businesses. This agreement specifically provides that the dealers shall not register or use all the trademarks, graphics, logos, scripts, clothing, collage of colors, the Olympic license and other related marks that carry "COFCO Meat", "Joycome", "Maverick" and the names of subsidiaries belong to the Company without prior written consent by the Company. We proactively registered domain names that are relevant to the Company's trademarks and business operations. A policy of "Network-wide protection" is also put in force with attention on the core keywords of "cofco-joycome" and "cofcomeat".

In addition to proactive protection on trademarks, we further safeguarded our rights by applying for patents of inventions and appearance design. In 2018, the Group applied for 2 patents for appearance design and 1 patent for invention.

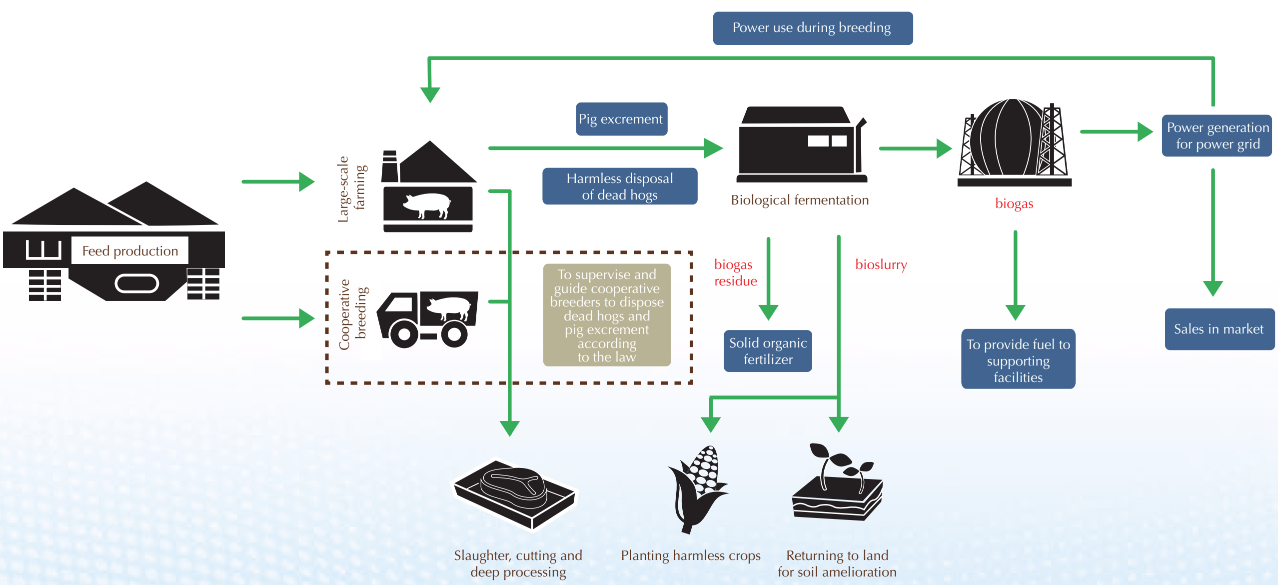
## Environmental Protection

Following the direction of national agricultural and environmental protection policies and regulations of the PRC, the Group further developed the eco-farming mode of "combination of farming and planting and integrated application", which minimized the impact of large-scale farming projects on environment, realized the utilization of excrement resources and led the farming industry to healthy and green development.

### ■ Eco-farming

Pursuant to policies and regulations such as *Regulation on the Prevention and Control of Pollution from Large-scale Breeding of Livestock and Poultry* (《畜禽規模養殖污染防治條例》), *Opinion of the General Office of the State Council on Accelerating the Utilization of Livestock and Poultry Waste Resources* (《國務院辦公廳關於加快推進畜禽廢棄物資源化利用的意見》) and *Action Plan for Utilization of Livestock and Poultry Excrement Resources (Year 2017 to 2020)* (《畜禽糞污資源化利用行動方案(2017-2020年)》), we adopted the farming mode of "eco-farming and combination of farming and planting" to address the industry challenges of pig excrement treatment during the large-scale pig breeding. Based on thorough consideration on the environmental carrying capacity, we optimized the proportion of scale of breeding to surrounding lands, implemented biogas for heating and electricity generation, promoted bioslurry-to-field, and facilitated the organic integration of livestock and crops, sparing no efforts in developing a green and recycling agricultural industry value chain. After anaerobic fermentation at the biogas station, the excrement will turn to biogas residue, biogas slurry and biogas. Biogas residue and biogas slurry are returned by growers to land as organic fertilizer, and biogas are used as energy for power generation of power grid and for use of boiler. Such mode realized the resource utilization of excrement during the breeding.

We built over 20 advanced energy (biogas) utilization stations for hog farming waste treatment nationwide as supporting facilities, laid more than 200 kilometers of bioslurry pipelines and provided bioslurry free-of-charge for soil amelioration and organic agriculture. These actions have led to an increase in both production and revenue for farmers working on over 200 thousand mu of farmlands which integrate livestock and crops. In 2018, over 16.60 million $m^3$ of biogas was created at the biogas station of the Group.




▲COFCO Meat green and recycling agricultural industrial value chain

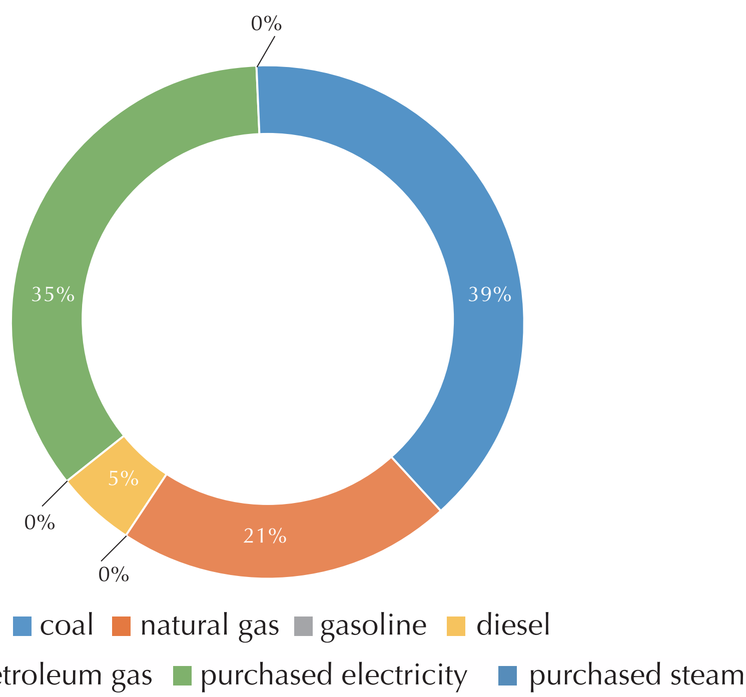
■ *Use of resources*

We clearly understand our duties as a responsible corporate citizen in protecting the environment and maintaining ecological balance. By strictly controlling resource and energy consumption in production and operation, we are gradually reducing our environmental impact and actively combat climate change. We have invested substantial resources and efforts into management, technology and process transformation. We have formulated scientific and feasible standards for energy and water consumption limits on products, established an assessment mechanism on energy and water consumption, actively renovated the equipment and facilities of our plant, and continuously improved resource utilization.

In 2018, for our production and operation in general, we consumed approximately 55,000 tons of energy (standard coal), with energy consumption density about 0.08 tons of standard coal/revenue of RMB10 thousand, representing a decrease of 10% compared with that of last year. Water consumption was about 6.50 million $m^3$ and water usage density about $9m^3$/revenue of RMB10 thousand.

Taking into consideration the impact on environment by packing materials, we strive for simple product packaging on the condition of quality assurance, in order to minimize the negative impact on the environment.

In 2018, total packing materials consumed by the Group including plastic bags, plastic films and cartons were approximately 2,000 tons, and the packing material usage density was about 3 kilograms/revenue of RMB10 thousand.




**Energy Utilization in 2018**

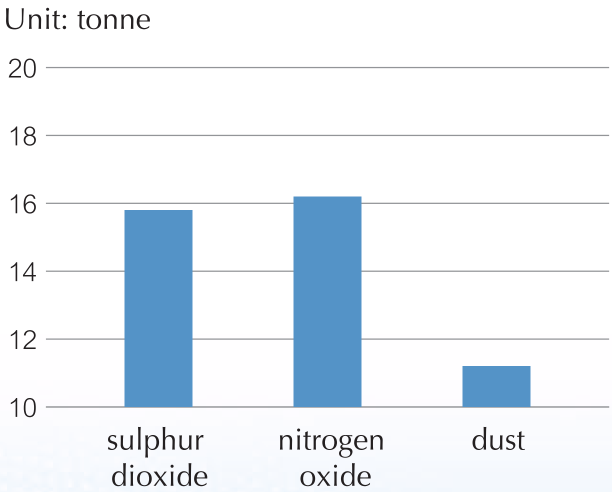
■ *Emission management*

We have strictly complied with relevant state laws and regulations such as *Environmental Protection Law of the People's Republic of China* (《中華人民共和國環境保護法》), *Prevention of Air Pollution of the People's Republic of China* (《中華人民共和國大氣污染防治法》) and the *Law of the People's Republic of China on the Prevention and Control of Environment Pollution Caused by Solid* (《中華人民共和國固體廢物污染環境防治法》) for the regulation and management of emission of pollutants, and meanwhile making substantial investments in reducing pollutants and greenhouse gases to ensure that our production and operations are within the environmental carrying capacity and to reduce the impact on the surrounding ecological environment.

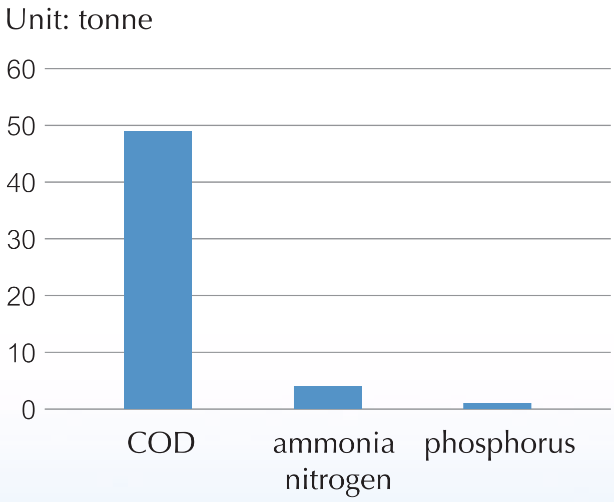
In 2018, the emissions produced by the Group included exhaust gas, sulphur dioxide, nitrogen oxide, and others. A total of approximately 200 million $m^3$ of exhaust gas and approximately 0.56 million $m^3$ of wastewater were emitted. Approximately 260,000 tons of greenhouse gases were emitted, with emission density about 0.36 tons/revenue of RMB10 thousand.

The non-hazardous wastes generated from our production and operation included dead pigs, pig viscera abandoned during slaughtering, boiler slag and domestic wastes. The hazardous wastes included medical wastes, machine oils, laboratory liquid wastes, waste ink and waste light tubes. All wastes were handled in strict accordance with the *Law on the Prevention and Control of Environment Pollution Caused by Solid* (《固體廢物污染環境防治法》), *Animal Epidemic Prevention Law of the People's Republic of China* (《中華人民共和國動物防疫法》and other relevant national laws and regulations. All non-hazardous solid wastes are treated and reused based on the principles of reduction, recycle and detoxification. Hazardous waste must be stored in the temporary storage for hazard wastes in strict adherence with relevant regulations, to be collected and processed by qualified third-party agencies for transfer and disposal.

In 2018, the Group has produced a total of approximately 35,000 tons of non-hazardous wastes (the emission density was about 0.05 tons/revenue of RMB10 thousand) and approximately 80 tons of hazardous wastes (the emission density was about 0.1 kilogram/revenue of RMB10 thousand).




**Emission of Main Pollutants – Waste Gas**




**Emission of Main Pollutants – Wastewater**

### ■ *Energy Conservation and Emission Reduction*

We emphases environmental protection and work hard on minimizing the environmental impact of our business operations. We want to try our utmost best to reduce our reliance on natural resources and to ensure sustainability of earth's ecology. To strengthen the awareness of energy conservation and emission reduction for all employees, we have formulated the Management Regulations for Energy Conservation and Emission Reduction in accordance with relevant laws and regulations including the *Energy Conservation Law of the People's Republic of China* and the *Environmental Protection Law of the People's Republic of China*, setting up a long-term effective management mechanism for energy conservation and emission reduction and fulfilling our responsibility for energy conservation and emission reduction across all levels. For example, we replaced the original T8-40W fluorescent lamp with the T8-LED15W lamp in our Jiangsu pigsties, which reduced power consumption by 520,000 kWh in 2018 while meeting the demand for illuminance.

Our businesses operations, ranging from farming, slaughtering to food processing, require large amounts of water to fulfill production and sanitation requirements. We therefore place great emphasis on upgrading our production facilities and business procedures so that we may utilize water resources in a more efficient manner. We comprehensively transform our water conservation and emission reduction designs by launching a multi-tier water utilization metering systems. We have also developed water utilization standards and assessment plans, and strengthened conservation awareness at the source with water utilization and assessment going hand in hand. In 2018, we deployed high-pressure cleaning equipment for washing transport vehicle. Our pigsties in Zhangbei pigsties also adopted water machines and drinking trays for hogs. These facilities not only ensured readily available drinking water for hogs at any time but also prevented hogs from messing up the water. These efforts resulted in approximately 20% year-on-year decrease in water consumption from hog raising.

In addition, we continuously advocated for using emission standard-complied treated water throughout our operations. We also raised our investment in sewage water treatment further and set up more stringent targets to raise the ratio of recycle water to be used. Recycled water usage in 2018 amounted to over 60,000 $m^3$. In 2018, there has been no issue with the Group in sourcing water that is fit for purpose.

We have taken various measures to reduce the production and emission of pollutants. We have significantly reduced the production and emission of pollutants by replacing coal-fired boilers with gas boilers and renovating the drainage of pigsties, etc.

## Win-win Cooperation in Harmony

We always adhere to the goal of simultaneous advancement of both industry and society during our business operation. Leveraging our technology, experience, talents, capital and all other advantages, we have formulated a set of industry standards and promoted the industry development. Through business development, we have also driven the overall regional economic development. Meanwhile, we always bear in mind our corporate social responsibilities, for which we have been vigorously promoting a healthy lifestyle to the public and trying our best to offer care and support to the underprivileged.

### ■ Promotion of Industrial Development

As one of the industry leaders, we always embrace the responsibility to lead the development of standards in the industry in a well-ordered manner and we have participated in the formulation and amendment of national and industry standards for quite a few times. In 2018, we communicated with several relevant organizations including the Ministry of Agriculture, China Food and Drug Administration and National Technical Committee on Meat, Poultry, Eggs and their Products of Standardization Administration of China, etc., and the Company has obtained certifications of environmental hazard-free pork products and green pork products, and has developed and launched new flaxseed fed pork products.

We actively participated in international and national industry exchanges including the GFSI Global Food Safety Initiative. We also engaged in technical exchanges with third party food technology service organizations such as the Centre Testing International Group and SGS in areas such as inspections, labels and tags.

## A Boost to the Local Economy

We took the initiative to take on the corporate social responsibilities. We were an obedient taxpayer and employer of local residents, driving the simultaneous growth of upstream and downstream enterprises in the relevant local industry value chains. Meanwhile, the Company strived to uphold the state strategy of targeted poverty alleviation, aligning the development of poverty alleviation with industry projects, key projects and policy pilot, and fuse the infrastructure construction in impoverished regions, modern urbanization, development of specialty industries and new rural construction together to lift the poor local farmers out of poverty and offer them a promising future through large-scale farming, which will in turn promote the local economic development.

### Case: Poverty Alleviation through Hog Production Industry

On August 23, 2018, we signed a framework cooperation agreement with the People's Government of Jiangkou Town with respect to the poverty alleviation project in hog cooperative production industry, in order to establish a community aiming at poverty alleviation by adopting the "COFCO Meat cooperative breeding +government coordination+wealth fund+poverty alleviation fund" mode. A total of approximately RMB68 million was invested in the industry poverty alleviation project, and we plan to invest biological assets of approximately RMB48 million into the development of 25 cooperative breeding bases, which is expected to save 267 households from poverty.


## Participating in Philanthropy and Charity

We cared for the underprivileged and actively held various public welfare activities, such as poverty alleviation and offering assistance to students in need and the poor. We formulated the Measures for the Administration of External Donations to standardize the management of external donations and fulfill our social responsibilities. We focus on the donations in line with its philosophy and related to the Company's social responsibilities, such as attaching importance to social sustainable development, poverty alleviation, and education aid.

In 2018, we vigorously promoted charitable causes, with a total annual amount of RMB1,489,102 in public welfare donations, including donations of RMB1 million to the targeted poverty alleviation area (Shiqu County, Sichuan Province), donations of RMB200,000 to Zhaolou Primary School in Peiqiao Town, Yongcheng City, Henan Province, and donations of RMB103,000 to provide disability services and subsidize poor children's enrollment in Heshan City.

By purchasing the handicraft products from the poverty-stricken area, we could pair with and assist the poverty-stricken area and motivate farmers to start up their own businesses, thereby promoting their development of sustainable productivity and influence, and help the growth of its next generation.

## Case: Supporting Public Welfare Ventures

In August 2018, we organized poverty relief charity activities in Guangzhou and Shenzhen, during which, Miao embroidery products were given out to patrons who had made a certain amount of purchase, enabling Miao embroidery products, which are "hidden in the mountains without the knowledge of the outside world", to be introduced and marketed to consumers.

All the embroidery products for the activity were purchased from Rongshui Miao Autonomous County, Liuzhou City, Guangxi Province, the local left-behind women mostly make a living by hand embroidery, which is well-known by the name of "Miao Embroidery". By virtue of its exquisite handcraft, traditional material and vivid color, Miao embroidery has been listed as an intangible cultural heritage of Rongshui County. However, it is unfortunate that the local Miao embroidery products have been lacking marketing channels due to its isolated geographic location and lack of information access.

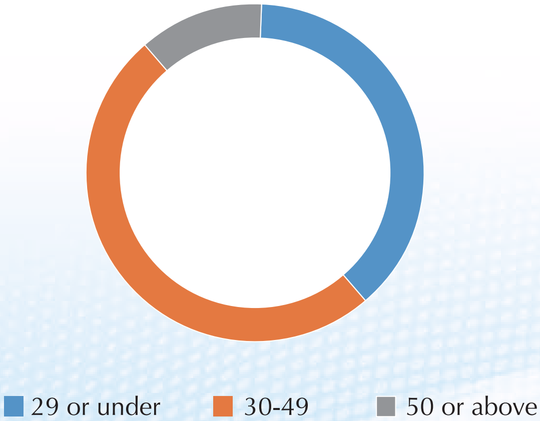
## Staff Development

We adhere to the people-oriented operation philosophy, which is reflected in our efforts to protect employees' legitimate rights and interests; to create a safe and comfortable work environment for employees; and to build a clear career path to employees, providing them a fair and value-sharing talent development platform.

### ■ Staff Employment

We have set up the Staff Recruitment and Management Measures, the Employee Onboarding and Offboarding Management Measures, the Labor Contract Management Measures and other systems and measures according to relevant laws and regulations including the *Labor Law of the People's Republic of China* (《中華人民共和國勞動法》) and *Labor Contract Law of the People's Republic of China* (《中華人民共和國勞動合同法》). We respect and treat every applicant and employee fairly, adhere to the recruitment principles of fairness, justice and openness and strictly follow legal employment rules to safeguard the legal interests of our employees, striving to treat all employees on a safe and reliable basis since their application and ensuring that no one is discriminated. As of the end of 2018, we had 6,989 employees in total, representing a year-on-year increase of 817 employees.


Number of Employees by Gender




Number of Employees by Age Group

### Remuneration Package

We have formulated the Remuneration Management Policy to determine the employees' salaries in accordance with industry standards, job requirements, personal performance and difference in individual abilities under the concept of "*determining salaries based on position, receiving remunerations according to performance, promoting capacity development, and maintaining internal fairness and competitiveness*", which realize effective remuneration management to entitle employees to the wages and insurance allowances that they legally enjoy. All of our employees are paid no less than the minimum wage regulated by the government. We have also implemented the "Employee Leave Management Measures" to ensure that our employees may enjoy national holidays, paid annual leave, paid sick leave, marriage leave, maternity leave, paternity leave, etc.

We organize recreational and sports activities in the Company, including regularly holding birthday parties for our employees, to make them feel at home and the care from their colleagues, the collective cohesion of our employees. We also organize team building activities to promote understanding and trust among employees and cultivate the spirit of teamwork.

### Case: Organizing a Soccer Game that Fosters Friendship

In 2018, we organized a soccer game in Guangdong to promote interactions between departments. The game emphasized the motto of "camaraderie first, competition second" to foster a harmonious corporate culture.

### ■ Staff Rights and Interests Protection

We fully respect and protect employees' legitimate rights and interests, protect the rights and interests of female staff, and put employees' occupational health and safety as top priority. We offer various channels for employees to protect their rights and interests, to promote the democratic management, participation and supervision within enterprises.

Regarding the employment of child labor and forced labor, no tolerance is given. We spare no effort in preventing the possibility of any labor issues. We strictly abide by the *Labor Law of the People's Republic of China* (《中華人民共和國勞動法》) and the requirements under relevant laws and regulations, and does not employ any person under 18 years of age; labor contracts were signed in accordance with laws to specify the conditions of employment, so as to ensure that employees gain a full understanding; our employment of employees does not involve any restrictive and unreasonable condition.

### ■ *Occupational Health*

We have formulated and implemented the *Management System for Occupational Health* (職業健康管理制度), the *Management System for Labor Protection Equipment* (勞動防護用品管理制度) and other systems following the laws and regulations in relation to occupational health such as the *Law of the People's Republic of China on the Prevention and Control of Occupational Diseases* (《中華人民共和國職業病防治法》), to create an effective occupational health management system.

We invite third parties on a regular basis to conduct occupational hazard assessment; establish outfit standards for personal protection supplies and ensure employees' correct usage; organize regular training programs on occupational health and issue notices of potential hazards, to ensure that every employee has the knowledge and skills of occupational health necessary to his work. In addition, we organize occupational disease check-up for employees regularly, and provide employees with injury insurance, accident insurance and other insurances, so as to protect employees' occupational health and safety.

### Democracy and Communication

We have established a democratic management system represented by the employees' representative meeting to ensure the institutional protection of the employees' right to know, participate, choose and supervise. We strengthen the communication with our employees in multiple ways to fully guarantee the rights of each employee. Furthermore, we take every suggestion and advice from our employees seriously so that the Company can keep improving and optimizing the approach to development.

### Caring for Female Employees

We guarantee the rights and interests of female employees by providing "private, safe and hygienic" rest and breastfeeding places for female employees who have breastfeeding needs, so that they can enjoy a more humanized and warm service.

## Development and Training

The growth of employees and the development of enterprises complement each other. Therefore, we attach great importance to the career development and training of our employees by building a clear and smooth career development channel, creating rich training opportunities for all employees, and rationally allocating resources for the purpose of supporting our employees to grow together with the Company in terms of systems and resources, and continuously improve their overall capabilities and professional quality.

### Occupational Promotions

Upholding the corporate culture of "integrity, team spirit, professionalism and innovation", we encourage employees to win a good professional reputation with excellent performance and noble professional integrity seize more opportunities for development with rich experience and outstanding professional level. We hold a talent development meeting annually to assess an employee's overall work performance and development during the year. We provide employees with satisfactory development opportunities according to their work experience and ability.

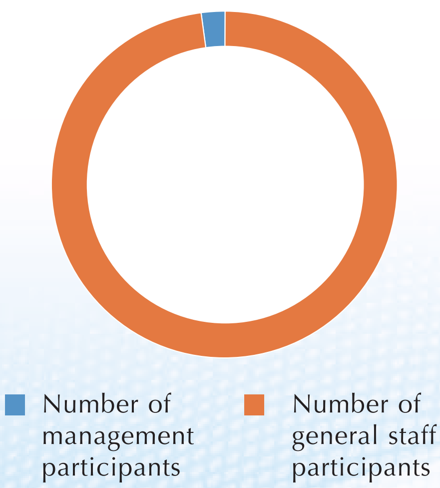
### Staff Training

We always attach importance to talent training. We initiate training activities regarding production, operation and management in accordance with our annual training program, after considering the strategic requirements for COFCO Group's development, to establish a training system focusing on the three core aspects of new employees, professionalism and leadership, creating abundant training opportunities for all employees. We organize training programs for new employees to facilitate their integration and enhance their business capability through advisership, mentorship and team building activities. We conduct professional training on production management, biosafety, epidemic prevention, and laws and regulations as well as special training on pollution, epidemic and accident prevention and control for general employees. We also established an university offering breeding courses to enhance the business capability and professionalism of our employees. We have initiated training sessions for manager associates under our "Sunrise" (晨曦) and "Excellence" (精銳) programs, aiming at expanding international horizons while enhancing the comprehensive level and leadership of our key talents in the accumulated training hours.

**Information on trainings of the Group in 2018:**

| | |
|---|---|
| Number of training sessions | 5,163 |
| Number of participants | 84,145 |
| Accumulated training hours | 138,183 |
| Training hours per head | 20 |


**Distribution of Training Participants by Gender**




**Distribution of Training Participants by Level**

## Anti-corruption Practice

We are strictly abided by the national laws and regulations, and the relevant provisions of COFCO Group, to advocate for professional integrity in all employees. Only by establishing a sound system with sound regulations, and through strict enforcement to check and monitor the exercise of power in light of every aspect in anti-corruption, can we be able to truly harness the incentive and regulatory capabilities of these mechanisms to set up a solid defense against corruption, and promote a culture of refusing to, can't going to and don't want to be corrupted. In 2018, we continued to optimize the 20 rules and regulations regarding anti-corruption practices including the *Measures for the Administration of Compensation Package and Business Expense* (人員履職待遇、業務支出管理辦法) and the *Measures for the Administration of Tendering and Procurement* (招標採購管理辦法).

We launched publicity and education on anti-corruption advocacy to maintain the positive atmosphere of integrity. We have organized party members, managers and key staff to start a series of anti-corruption training programs, which cover national rules and regulations, relevant provisions of COFCO Group and the Company, typical negative cases and others. We focus up close on the few critical and key positions and maintain close oversight on major areas including bidding, constructions, asset acquisition, marketing, etc. We also signed an Honesty and Integrity Undertaking (《廉潔承諾書》) with all managers, we continue to be firm on fighting corruption.

The various anti-corruption measures carried out by the Group has achieved significant success. In 2018, we are not aware of any anti-corruption cases.

Deloitte. 德勤

**TO THE MEMBERS OF COFCO MEAT HOLDINGS LIMITED**
**中糧肉食控股有限公司**
*(Incorporated in Cayman Islands with limited liability)*

## Opinion

We have audited the consolidated financial statements of COFCO Meat Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 160, which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matter

Key audit matter are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation of biological assets* | |
| We identified valuation of biological assets as a key audit matter due to the significance of the balance of biological assets, and the significant estimation uncertainty resulting in determining the fair value.<br><br>As disclosed in Note 23 to the consolidated financial statements, management estimated the fair value of the Group's biological assets at RMB1,464 million at December 31, 2018. Independent external valuations were obtained for all biological assets to assist management's estimates of the fair value of biological assets at December 31, 2018. Key assumptions adopted include estimated market prices and rearing costs.<br><br>Details of the related estimation uncertainty are disclosed in Note 4 to the consolidated financial statements. | Our procedures in relation to valuation of biological assets included:<br><br>• evaluating the independent external valuer's competence, objectivity and qualifications;<br><br>• evaluating the appropriateness of the methodologies used in valuing the biological assets by involving our internal valuation specialists; and<br><br>• evaluating the appropriateness of the key assumptions and inputs including estimated market prices and rearing costs, based on available market data and historical performance of the Group. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lung Wing Hung

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
March 26, 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2018

| | NOTES | 2018 Results before biological assets fair value adjustments RMB'000 | 2018 Biological assets fair value adjustments RMB'000 | 2018 Total RMB'000 | 2017 Results before biological assets fair value adjustments RMB'000 | 2017 Biological assets fair value adjustments RMB'000 | 2017 Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 5 | **7,168,488** | **–** | **7,168,488** | 6,960,567 | – | 6,960,567 |
| Cost of sales | 10 | **(6,830,957)** | **(326,441)** | **(7,157,398)** | (5,880,711) | (1,021,153) | (6,901,864) |
| Gross profit | | **337,531** | **(326,441)** | **11,090** | 1,079,856 | (1,021,153) | 58,703 |
| Other income | 7 | **217,447** | **–** | **217,447** | 84,306 | – | 84,306 |
| Other gains and losses | 8 | **(23,793)** | **–** | **(23,793)** | (80,080) | – | (80,080) |
| Other expenses | 7 | **(98,500)** | **–** | **(98,500)** | – | – | – |
| Selling and distribution expenses | | **(283,251)** | **–** | **(283,251)** | (271,864) | – | (271,864) |
| Administrative expenses | | **(230,941)** | **–** | **(230,941)** | (230,243) | – | (230,243) |
| Share of loss of joint ventures | | **(566)** | **–** | **(566)** | (1,229) | – | (1,229) |
| (Loss)/gain arising from agricultural produce at fair value less costs to sell at the point of harvest | | **–** | **(133,872)** | **(133,872)** | – | 508,922 | 508,922 |
| Gain arising from changes in fair value less costs to sell of biological assets | | **–** | **30,331** | **30,331** | – | 460,313 | 460,313 |
| Finance costs | 9 | **(124,168)** | **–** | **(124,168)** | (81,025) | – | (81,025) |
| (Loss)/profit before tax | 10 | **(206,241)** | **(429,982)** | **(636,223)** | 499,721 | (51,918) | 447,803 |
| Income tax expense | 11 | **(10,426)** | **–** | **(10,426)** | (2,996) | – | (2,996) |
| **(Loss)/profit for the year** | | **(216,667)** | **(429,982)** | **(646,649)** | 496,725 | (51,918) | 444,807 |
| **Other comprehensive income, net of income tax:** | | | | | | | |
| *Items that will not be reclassified subsequently to profit or loss* | | | | | | | |
| Fair value gain on equity instrument at fair value through other comprehensive income | | | | **6,715** | | | – |
| *Items that may be reclassified subsequently to profit or loss* | | | | | | | |
| Exchange differences arising on translation of foreign operations | | | | **14,123** | | | 3,769 |
| Fair value loss on hedging instruments in cash flow hedges | | | | **–** | | | (4,307) |
| Reclassification adjustments for fair value loss on hedging instruments in cash flow hedges | | | | **–** | | | 4,307 |
| Other comprehensive income for the year, net of income tax | | | | **20,838** | | | 3,769 |
| **Total comprehensive (expense)/income for the year** | | | | **(625,811)** | | | 448,576 |
| (Loss)/profit for the year attributable to: | | | | | | | |
| Owners of the Company | | | | **(627,667)** | | | 451,629 |
| Non-controlling interests | | | | **(18,982)** | | | (6,822) |
| **(Loss)/profit for the year** | | | | **(646,649)** | | | 444,807 |

| | NOTES | **2018** Results before biological assets fair value adjustments RMB'000 | **2018** Biological assets fair value adjustments RMB'000 | **2018** Total RMB'000 | 2017 Results before biological assets fair value adjustments RMB'000 | 2017 Biological assets fair value adjustments RMB'000 | 2017 Total RMB'000 |
|---|---|---|---|---|---|---|---|
| Total comprehensive (expense)/income for the year attributable to: | | | | | | | |
| Owners of the Company | | | | **(606,829)** | | | 455,398 |
| Non-controlling interests | | | | **(18,982)** | | | (6,822) |
| | | | | **(625,811)** | | | 448,576 |
| (Loss)/earnings per share: | 15 | | | | | | |
| Basic and diluted | | | | **RMB(16.09) cents** | | | RMB11.57 cents |

# Consolidated Statement of Financial Position

As at December 31, 2018

| | NOTES | At December 31<br>**2018**<br>**RMB'000** | <br>2017<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | 16 | **100,609** | 100,609 |
| Property, plant and equipment | 17 | **5,970,933** | 4,950,156 |
| Prepaid lease payments | 18 | **207,562** | 131,645 |
| Intangible assets | 19 | **2,046** | 2,225 |
| Investments in joint ventures | 20 | **20,804** | 21,370 |
| Equity instrument at fair value through other comprehensive income | 21 | **399,222** | – |
| Available-for-sale investments | 22 | **–** | 23,516 |
| Biological assets | 23 | **468,294** | 454,951 |
| Deposits paid for purchase of property, plant and equipment | | **6,052** | 7,558 |
| Deferred tax assets | 24 | **237** | – |
| Deposits paid for purchase of biological assets | | **–** | 3,178 |
| | | **7,175,759** | 5,695,208 |
| **Current assets** | | | |
| Inventories | 25 | **535,681** | 481,253 |
| Biological assets | 23 | **995,532** | 1,111,305 |
| Accounts receivables | 26 | **155,567** | 145,018 |
| Prepayments, deposits and other receivables | 27 | **209,964** | 192,348 |
| Amounts due from related companies | 28 | **23,938** | 59,847 |
| Pledged and restricted bank deposits | 29 | **23,281** | 40,457 |
| Cash and bank balances | 29 | **1,140,035** | 1,185,261 |
| | | **3,083,998** | 3,215,489 |
| **Current liabilities** | | | |
| Accounts and bills payables | 30 | **500,687** | 433,009 |
| Other payables, accruals and deposits received | 31 | **563,268** | 602,340 |
| Contract liabilities | 32 | **137,092** | – |
| Bank borrowings | 33 | **2,057,045** | 1,359,617 |
| Amounts due to related companies | 28 | **61,480** | 36,770 |
| Loans from a non-controlling equity holder | 34 | **–** | 39,205 |
| Loans from related companies | 35 | **475,540** | 315,200 |
| Financial liabilities at fair value through profit or loss | 36 | **2,170** | 8,099 |
| Current tax liabilities | | **200** | 51 |
| | | **3,797,482** | 2,794,291 |
| **Net current (liabilities)/assets** | | **(713,484)** | 421,198 |
| **Total assets less current liabilities** | | **6,462,275** | 6,116,406 |
| **Non-current liabilities** | | | |
| Bank borrowings | 33 | **1,448,279** | 940,498 |
| Loans from a related company | 35 | **89,339** | 86,928 |
| Deferred income | 37 | **139,881** | 143,662 |
| Deferred tax liabilities | 24 | **10,536** | – |
| | | **1,688,035** | 1,171,088 |
| **Net assets** | | **4,774,240** | 4,945,318 |

| | NOTES | At December 31 **2018** **RMB'000** | 2017 RMB'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 38 | **1,668,978** | 1,668,978 |
| Reserves | | **3,006,766** | 3,232,400 |
| Equity attributable to the owners of the Company | | **4,675,744** | 4,901,378 |
| Non-controlling interests | | **98,496** | 43,940 |
| **Total equity** | | **4,774,240** | 4,945,318 |

The consolidated financial statements on pages 76 to 160 were approved and authorised for issue by the board of directors on March 26, 2019 and are signed on its behalf by:

**Jiang Guojin**
*DIRECTOR*

**Xu Jianong**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2018

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** RMB'000 | **Share premium** RMB'000 | **Special reserve** RMB'000 | **Capital reserve** RMB'000 *(Note (a))* | **Statutory reserve** RMB'000 *(Note (b))* | **FVTOCI reserve** RMB'000 *(Note (c))* | **Translation reserve** RMB'000 | **(Accumulated loss)/ retained profits** RMB'000 | **Total** RMB'000 | **Non-controlling interests** RMB'000 | **Total equity** RMB'000 |
| **At January 1, 2017** | 1,668,978 | 1,645,960 | 858,459 | 65,875 | 80,372 | – | 46,277 | 69,026 | 4,434,947 | 3,312 | 4,438,259 |
| Profit for the year | – | – | – | – | – | – | – | 451,629 | 451,629 | (6,822) | 444,807 |
| Other comprehensive income for the year | – | – | – | – | – | – | 3,769 | – | 3,769 | – | 3,769 |
| Total comprehensive income/(expense) for the year | – | – | – | – | – | – | 3,769 | 451,629 | 455,398 | (6,822) | 448,576 |
| Statutory reserve appropriation | – | – | – | – | 43,658 | – | – | (43,658) | – | – | – |
| Recognition of equity-settled share-based payments granted by shareholders *(Note 40)* | – | – | – | 11,033 | – | – | – | – | 11,033 | – | 11,033 |
| Acquisition of a subsidiary *(Note 45)* | – | – | – | – | – | – | – | – | – | 47,450 | 47,450 |
| **At December 31, 2017** | 1,668,978 | 1,645,960 | 858,459 | 76,908 | 124,030 | – | 50,046 | 476,997 | 4,901,378 | 43,940 | 4,945,318 |
| Adjustment *(Note 2.2)* | – | – | – | – | – | 368,991 | – | – | 368,991 | – | 368,991 |
| **At January 1, 2018 (restated)** | 1,668,978 | 1,645,960 | 858,459 | 76,908 | 124,030 | 368,991 | 50,046 | 476,997 | 5,270,369 | 43,940 | 5,314,309 |
| Loss for the year | – | – | – | – | – | – | – | (627,667) | (627,667) | (18,982) | (646,649) |
| Other comprehensive income for the year | – | – | – | – | – | 6,715 | 14,123 | – | 20,838 | – | 20,838 |
| Total comprehensive income/(expense) for the year | – | – | – | – | – | 6,715 | 14,123 | (627,667) | (606,829) | (18,982) | (625,811) |
| Statutory reserve appropriation | – | – | – | – | 5,373 | – | – | (5,373) | – | – | – |
| Recognition of equity-settled share-based payments granted by shareholders *(Note 40)* | – | – | – | 12,204 | – | – | – | – | 12,204 | – | 12,204 |
| Capital contribution from a non-controlling equity holder *(Note (d))* | – | – | – | – | – | – | – | – | – | 76,496 | 76,496 |
| Disposal of a subsidiary *(Note (e))* | – | – | – | – | – | – | – | – | – | (2,958) | (2,958) |
| **At December 31, 2018** | 1,668,978 | 1,645,960 | 858,459 | 89,112 | 129,403 | 375,706 | 64,169 | (156,043) | 4,675,744 | 98,496 | 4,774,240 |

*Notes:*

*(a) The amounts of special reserve include:*

*(i) Prior to January 1, 2013, COFCO Meat Products (HK) Limited ("COFCO Meat Products (HK)") acquired the entire interests in COFCO Wuhan Meat Product Co., Ltd. ("Wuhan COFCO Meat"), Farasia Corporation, Shandong Furui Poultry Limited and Weifang Poultry Limited (Shandong Furui Poultry Limited and Weifang Poultry Limited subsequently merged as one entity, now known as COFCO Meat (Shandong)) (collectively the "Acquirees") from certain subsidiaries of COFCO Corporation, the ultimate holding company of COFCO Meat Products (HK) and COFCO Meat Holdings Limited (the "Company") before the Listing (as defined in Note 1 to the consolidated financial statements), for an aggregate cash consideration of RMB326,402,584. The difference between the consideration paid by COFCO Meat Products (HK) and the aggregate nominal value of the share capital of the Acquirees of RMB29,217,000 (credit balance) has been recorded in special reserve.*

*(ii) Pursuant to a part of a group reorganisation in preparation for the Listing, on April 22, 2014, the Company allocated and issued one ordinary share of US$1 to acquire two ordinary shares, being 100% equity interest, in the share capital of COFCO Meat Products (HK) from the then immediate holding company of the Company. The difference between the nominal value of the share capital issued by the Company and the aggregate nominal value of the share capital and the share premium of COFCO Meat Products (HK) of RMB829,242,000 (credit balance) has been recorded in special reserve.*

*(b) The capital reserve as at January 1, 2016 mainly included (i) contribution from a shareholder of RMB30,000,000 in prior years; and (ii) differences between the amount of which the non-controlling interests are adjusted and the fair value of consideration paid or received upon the changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries debited to capital reserve of RMB64,099,000 in prior years.*

*(c) The amount mainly represents statutory reserve of the companies registered in the People's Republic of China (the "PRC"). According to the relevant laws in the PRC, companies established in the PRC are required to transfer their net profit after tax, as determined under the PRC accounting regulations, to a non-distributable reserve fund before the distribution of a dividend to equity owners. Such reserve fund can be used to offset the previous years' losses, if any, and is non-distributable other than upon liquidation.*

*(d) The Group and the non-controlling equity holder agreed to proportionally increase capital to a subsidiary of the Group. By the end of 2018, total increased capital had been fully received from both parties, of which USD12,000,000 equivalent to approximately RMB76,496,000 was received from the non-controlling equity holder.*

*(e) During the year, the Group liquated a subsidiary which did not carry out any activities since establishment. The amount represents cash distributed to the non-controlling equity holder upon liquidation of the subsidiary.*

# Consolidated Statement of Cash Flows

For the year ended December 31, 2018

| | NOTES | Year ended At December 31<br>**2018**<br>**RMB'000** | <br>2017<br>RMB'000 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit for the year | | **(646,649)** | 444,807 |
| Adjustments for: | | | |
| Income tax expense | | **10,426** | 2,996 |
| Gain arising from changes in fair value less cost to sell of biological assets | | **(30,331)** | (460,313) |
| Interest income | 7 | **(27,331)** | (24,708) |
| Finance costs | 9 | **124,168** | 81,025 |
| Dividend income from available-for-sale investments | | **–** | (9,917) |
| (Gain)/loss on fair value changes in respect of foreign currency forward contracts | 8 | **(6,491)** | 35,351 |
| Equity-settled share based payments | 10 | **12,204** | 11,033 |
| Share of loss of joint ventures | 20 | **566** | 1,229 |
| Depreciation | 10 | **251,563** | 199,099 |
| Amortisation of prepaid lease payments | 10 | **13,471** | 10,531 |
| Amortisation of intangible assets | 10 | **903** | 882 |
| Recognition of deferred government grants | 37 | **(3,781)** | (3,887) |
| Loss on disposal of property, plant and equipment, net | 8 | **12,497** | 2,558 |
| Gain on disposal of prepaid lease payments, net | 8 | **(21,045)** | – |
| Impairment loss, net of reversal | 6 | | |
| – property, plant and equipment | | **33,308** | 3,066 |
| – accounts receivables, net | | **881** | (88) |
| – other receivables, net | | **809** | 66 |
| Write down of inventories to net realisable value | 8 | **2,357** | 90 |
| Exchange differences | | **63,165** | 42,001 |
| Operating cash flows before movements in working capital | | **(209,310)** | 335,821 |
| (Increase)/decrease in accounts receivables | | **(11,430)** | 14,541 |
| Increase in prepayments, deposits and other receivables | | **(2,804)** | (10,912) |
| Increase in inventories | | **(56,785)** | (71,520) |
| Decrease in biological assets | | **135,939** | 390,237 |
| Increase in accounts and bills payables | | **67,678** | 35,546 |
| Increase/(decrease) in other payables, accruals and deposits received | | **47,938** | (11,971) |
| Increase in derivative financial instruments | | **–** | (23,834) |
| Decrease in financial liabilities at fair value through profit or loss | | **562** | – |
| Decrease/(increase) in amounts due from related companies | | **35,909** | (41,675) |
| Increase/(decrease) in amounts due to related companies | | **5,373** | (26,965) |
| Increase in contract liabilities | | **28,875** | – |
| Cash generated from operations | | **41,945** | 589,268 |
| Income tax refund/(paid) | | **21** | (3,004) |
| **Net cash generated from operating activities** | | **41,966** | 586,264 |

| | NOTES | Year ended At December 31<br>2018<br>RMB'000 | 2017<br>RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Interest received | | **27,331** | 24,708 |
| Dividend received from available-for-sale investments | | **–** | 9,917 |
| Payments for property, plant and equipment | | **(1,332,880)** | (972,178) |
| Payments for prepaid lease payments | | **(88,102)** | (21,542) |
| Payments for intangible assets | | **(727)** | (745) |
| Proceeds from disposal of property, plant and equipment | | **52,505** | 1,845 |
| Proceeds from disposal of prepaid lease payment | | **4,141** | – |
| Placement of pledged and restricted bank deposits | | **(23,281)** | (40,457) |
| Withdrawal of pledged and restricted bank deposits | | **40,457** | 50,093 |
| Placement of time deposits with original maturity over three months when acquired | | **(1,169,272)** | (750,266) |
| Withdrawal of time deposits with original maturity over three months when acquired | | **535,250** | 1,152,951 |
| Investment in joint ventures | | **–** | (1,375) |
| Acquisition of a subsidiary | 45 | **–** | 8,808 |
| Deferred government grants received | | **–** | 13,792 |
| **Net cash used in investing activities** | | **(1,954,578)** | (524,449) |
| **Financing activities** | | | |
| Interest paid | | **(117,476)** | (92,365) |
| New bank borrowings | | **2,153,873** | 1,544,992 |
| Repayment of bank borrowings | | **(976,452)** | (1,801,369) |
| Loans from related companies | | **265,340** | 732,700 |
| Repayment of loans from related companies | | **(105,000)** | (420,000) |
| Loans from a non-controlling equity holder | | **–** | 39,205 |
| Repayment of loans from a non-controlling equity holder | | **(37,693)** | – |
| Distribution to the non-controlling equity holder upon liquidation of a subsidiary | | **(2,958)** | – |
| Contribution from a non-controlling equity holder | | **76,496** | 2,053 |
| **Net cash generated from financing activities** | | **1,256,130** | 5,216 |
| Net (decrease)/increase in cash and cash equivalents | | **(656,482)** | 67,031 |
| Cash and cash equivalents at beginning of the year | | **953,419** | 953,636 |
| Effect of foreign exchange rate changes | | **(22,766)** | (67,248) |
| Cash and cash equivalents at end of the year | | **274,171** | 953,419 |
| Cash and bank balances | 29 | **1,140,035** | 1,185,261 |
| Less: Time deposits with original maturity over three months when acquired | 29 | **(865,864)** | (231,842) |
| | | **274,171** | 953,419 |

## 1. GENERAL

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

Pursuant to a special resolution of the Company dated April 25, 2016, the name of the Company was changed from Charm Thrive Investments Limited to COFCO Meat Holdings Limited and the change was certified by the Registrar of Companies of Cayman Islands on May 12, 2016.

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

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

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| HKFRS 9 | *Financial Instruments* |
| HKFRS 15 | *Revenue from Contracts with Customers and the related Amendments* |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration* |
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions* |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts* |
| Amendments to HKAS 28 | *As part of the Annual Improvements to HKFRSs 2014-2016 Cycle* |
| Amendments to HKAS 40 | *Transfers of Investment Property* |

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

#### *2.1 HKFRS 15 Revenue from Contracts with Customers*

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, January 1, 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at January 1, 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Hog production and sales;
- Sales of fresh pork;
- Sales of processed meat products; and
- Sales of imported meat products.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

*Summary of effects arising from initial application of HKFRS 15*

The transition to HKFRS 15 does not have impact on the Group's retained profits at January 1, 2018.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at January 1, 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at December 31 2017 RMB'000 | Reclassification RMB'000 | Carrying amounts under HKFRS 15 at January 1 2018* RMB'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Contract liabilities | – | 108,216 | 108,216 |
| Other payables, accruals and deposits received | 602,340 | (108,216) | 494,124 |

* *The amounts in this column are before the adjustments from the application of HKFRS 9.*

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

### *2.1 HKFRS 15 Revenue from Contracts with Customers (Continued)*

*Summary of effects arising from initial application of HKFRS 15 (Continued)*

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at December 31, 2018 and its consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

**Impact on the consolidated statement of financial position**

| | As reported<br>RMB'000 | Adjustments<br>RMB'000 | Amounts without application of HKFRS 15<br>RMB'000 |
|---|---|---|---|
| **Current Liabilities** | | | |
| Other payables, accruals and deposits received | 563,268 | 137,092 | 700,360 |
| Contract liabilities | 137,092 | (137,092) | – |

**Impact on the consolidated statement of cash flows**

| | As reported<br>RMB'000 | Adjustments<br>RMB'000 | Amounts without application of HKFRS 15<br>RMB'000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Increase in other payables, accruals and deposits received | 47,938 | 28,875 | 76,813 |
| Increase in contract liabilities | 28,875 | (28,875) | – |

### *2.2 HKFRS 9 Financial Instruments*

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at January 1, 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at January 1, 2018. The difference between carrying amounts as at December 31, 2017 and the carrying amounts as at January 1, 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

*2.2 HKFRS 9 Financial Instruments (Continued)*

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement of financial assets and financial liabilities under HKFRS 9 and HKAS 39 at the date of initial application, January 1, 2018.

| | Available-for-sale RMB'000 | Equity instruments at FVTOCI RMB'000 | Amortised cost (previously classified as loans and receivables) RMB'000 | FVTOCI reserve RMB'000 |
|---|---|---|---|---|
| **Closing balance at December 31, 2017 – HKAS 39** | 23,516 | – | – | – |
| **Reclassification** | | | | |
| From available-for-sale *Note(a)* | (23,516) | 23,516 | 1,391,889 | – |
| From loans and receivables | | | | |
| **Remeasurement** | | | | |
| From available-for-sale investments *Note(a)* | – | 368,991 | – | (368,991) |
| **Opening balance at January 1, 2018** | – | 392,507 | 1,391,889 | (368,991) |

**(a) Available-for-sale ("AFS") investments**

*From AFS equity investments to fair value through other comprehensive income ("FVTOCI")*

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, RMB23,516,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, all of which related to unquoted equity investment previously measured at cost less impairment under HKAS 39. The fair value gain of RMB368,991,000 relating to those unquoted equity investments previously carried at cost less impairment was adjusted to equity instrument at FVTOCI and FVTOCI reserve as at January 1, 2018. The fair value gains of RMB368,991,000 relating to those investments previously carried at cost less impairment were adjusted to equity instruments at FVTOCI and FVTOCI reserve as at 1 January 2018.

**(b) Financial assets/liabilities at FVTPL**

Derivatives are classified as financial assets/liabilities at FVTPL under HKFRS 9. There was no impact on the amounts recognised in relation to the assets/liabilities from the application of HKFRS 9.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year (Continued)

*2.2 HKFRS 9 Financial Instruments (Continued)*

*Summary of effects arising from initial application of HKFRS 9 (Continued)*

**(c) Impairment under ECL model**

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for accounts receivable. To measure the ECL, accounts receivable have been grouped based on shared credit risk characteristics.

ECLs for other financial assets at amortised cost mainly comprise deposits and other receivables, amounts due from related companies, pledged and restricted bank deposits and cash and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

No additional credit loss allowance is recognised against retained profits as at January 1, 2018.

*2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | December 31, 2017 (Audited) RMB'000 | HKFRS 15 RMB'000 | HKFRS 9 RMB'000 | January 1, 2018 (Restated) RMB'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Equity instrument at fair value through other comprehensive income | – | – | 392,507 | 392,507 |
| Available-for-sale investments | 23,516 | – | (23,516) | – |

| | December 31, 2017 (Audited) RMB'000 | HKFRS 15 RMB'000 | HKFRS 9 RMB'000 | January 1, 2018 (Restated) RMB'000 |
|---|---|---|---|---|
| **Current liabilities** | | | | |
| Contract liabilities | – | 108,216 | – | 108,216 |
| Other payables, accruals and deposits received | 602,340 | (108,216) | – | 494,124 |
| **Capital and reserves** | | | | |
| Reserves | 3,232,400 | – | 368,991 | 3,601,391 |

*Note: For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.*

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|---|---|
| HKFRS 16 | *Leases*[1] |
| HKFRS 17 | *Insurance Contracts*[2] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[1] |
| Amendments to HKFRS 3 | *Definition of a Business*[4] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[1] |
| Amendments to HKFRS 10 and HKAS 28 | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| Amendments to HKAS 1 and HKAS 8 | *Definition of Materials*[5] |
| Amendments to HKAS 19 | *Plan Amendment, Curtailment or Settlement*[1] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[1] |
| Amendments to HKFRSs | *Annual Improvements to HKFRSs 2015-2017 Cycle*[1] |

1 Effective for annual periods beginning on or after January 1, 2019.
2 Effective for annual periods beginning on or after January 1, 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after January 1, 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

### *HKFRS 16 Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

### New and amendments to HKFRSs in issue but not yet effective (Continued)

#### *HKFRS 16 Leases (Continued)*

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Under HKAS 17, the Group has already recognised an asset for prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at December 31, 2018, the Group has non-cancellable operating lease commitments of RMB285,852,000 as disclosed in note 41. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for biological assets and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into accounts the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that a within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the assets or liability, either directly or indirectly, and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below:

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Basis of consolidation (Continued)

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interest (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company.

### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amount of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net amount of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

### Goodwill

Goodwill arising on the acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Goodwill (Continued)

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

### Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in joint ventures (Continued)

When the Group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2) (Continued)

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

### Revenue recognition (prior to January 1, 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

*Goods, services, interests and dividends*

Revenue from sale of goods is recognised when the goods are delivered and titles have passed.

Revenue from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;.

Tax refunds, when the acknowledgement of refunds from the tax bureau has been received.

Dividend income from investments is recognised when the rights to receive payment have been established.

Interest income is accrued on time apportionment basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

#### *Leasehold land and building for own use*

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted for as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case the exchange rates at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

### Retirement benefit costs and termination benefits

Payment to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The employees of the Group in the PRC are members of the state-managed retirement benefit schemes operated by the PRC government. The Group's PRC entities are required to contribute certain percentage of their payroll to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods and services, or for administrative purposes (other than construction in progress, as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Construction in progress, which represents assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such assets are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the basis as other assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible and intangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset (or as cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measureable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

### Biological assets

Biological assets represent live hogs (which fall into five categories: piglets, nursery hogs, medium and large finishing hogs, replacement studs and gilts, and breeding stock). Biological assets are measured on initial recognition and at the end of each reporting period at their fair value less costs to sell. A gain or loss arising on initial recognition of biological asset at fair value less costs to sell and from a change in fair value less costs to sell of a biological asset is included in profit or loss for the period in which it arises.

The agricultural produce harvested from the biological assets are measured at their fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying HKAS 2 Inventories. A gain or loss arising from agricultural produce at the point of harvest at fair value less costs to sell is included in profit or loss for the period in which it arises.

### Inventories

Inventories are stated at the lower of cost or the deemed cost for agricultural produce harvested from biological assets and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

Financial assets and financial liabilities are initially measured at fair value except for accounts receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since January 1, 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### *Financial assets*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations applies*.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (Continued)*

**(i) Amortised cost and interest income**

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

**(ii) Equity instruments designated as at FVTOCI**

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the FVTOCI reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to retained profits.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

**(iii) Financial assets at FVTPL**

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss The net gain or loss recognised in profit or loss excludes any dividend earned on the financial asset and is included in the "other gains and losses" line item.

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including accounts receivables, deposits, other receivables, pledged and restricted bank deposits and amounts due from related parties). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

The Group always recognises lifetime ECL for accounts receivables. The ECL on these assets are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

**(i) Significant increase in credit risk**

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

**(ii) Definition of default**

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

**(iii) Credit-impaired financial assets**

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

**(iv) Write-off policy**

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of accounts receivables, when the amounts are over three years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2) (Continued)*

**(v) Measurement and recognition of ECL**

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables and amounts due from customers are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of accounts receivables, other receivables and amounts due from related parties where the corresponding adjustment is recognised through a loss allowance account.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on January 1, 2018)*

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

**(i) Financial assets at FVTPL**

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the other gains and losses line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on January 1, 2018) (Continued)*

**(ii) AFS financial assets**

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Unlisted equity securities held by the Group are classified as AFS equity investments. AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period(see accounting policy on impairment loss on financial assets below).

**(iii) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including accounts receivables, deposits and other receivables, pledged and restricted bank deposits, cash and bank balances, and amounts due from related companies) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*Financial assets (Continued)*

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)*

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an accounts receivable or other receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### *Financial liabilities and equity instruments*

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Financial liabilities at amortised cost*

Financial liabilities (including accounts and bills payables, other payables, bank borrowings, amounts due to related companies, and loans from a non-controlling equity holder and related companies) are subsequently measured at amortised cost using the effective interest method.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

*Derivative financial instruments*

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

*Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Share-based payments

#### *Equity-settled share-based payment transactions*

*Share options granted to employees*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (capital reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the capital reserve. For share options that vest immediately at the date of grant, the fair value of the share option granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in the capital reserve will be transferred to retained earnings. When the share options are forfeited after the vesting date or are still not exercise at the expiry date, the amount previously recognised in capital reserve will be transferred to retained earnings.

Where the terms and conditions of an equity-settled share-based arrangement are modified, as a minimum, the services received measured at the grant date fair value of the equity instruments granted are recognised, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. In addition, the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the employee are recognised.

### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgement in applying accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

#### *Principal versus agent consideration (principal)*

The Group engages in trading of imported meat products. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customers after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods and the Group has inventory risk.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Fair value measurement of biological assets*

The Group's biological assets amounting to RMB1,463,826,000 as at 31 December 2018 (2017: RMB1,566,256,000) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these biological assets. See note 23 for further disclosures.

#### *Estimated impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating units to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash flows, a material impairment loss may arise. As at December 31, 2018, the carrying amount of goodwill was RMB100,609,000 (2017: RMB100,609,000). Details of the recoverable amount calculation are disclosed in Note 16.

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### *Estimated impairment of property, plant and equipment*

The carrying value of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts in Note 3. The recoverable amount of the property, plant and equipment is the higher of the fair value less costs of disposal and value in use.

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the fair value less costs of disposal or the value in use, i.e. the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the assets belongs.

Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

The net carrying amount of property, plant and equipment as at December 31, 2018 was RMB5,970,933,000, net of impairment (2017: RMB4,950,156,000).

#### *Fair value measurement of equity instrument at fair value through other comprehensive income*

Certain of the Group's financial assets, unquoted equity instrument amounting to RMB399,222,000 as at December 31, 2018 (2017: nil) is measured at fair value with fair value being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair value of this instrument. See note 50 for further disclosures.

#### *Provision of ECL for accounts receivables*

The Group uses provision matrix to calculate ECL for the accounts receivables. The provision rates are based on the aging as groupings of receivables that have similar loss patterns. The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, accounts receivables with significant balances and credit impaired are assessed for ECl individually.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivables are disclosed in notes 26 and 49 respectively

## 5. REVENUE

### A. For the year ended December 31, 2018

#### *(i) Disaggregation of revenue from contracts with customers*

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

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

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

## 5. REVENUE (Continued)

### A. For the year ended December 31, 2018 (Continued)

#### *(ii) Performance obligations for contracts with customers*

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

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

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

### B. For the year ended December 31, 2017

An analysis of the Group's revenue, which is also turnover of the Group is as follows:

| | Year ended 31/12/2017 RMB'000 |
|---|---|
| Hog production and sales | 1,879,010 |
| Sales of fresh pork | 2,860,162 |
| Sales of processed meat products | 349,613 |
| Sales of imported meat products | 1,871,782 |
| | 6,960,567 |

## 6. SEGMENT INFORMATION

Information reported to the 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 under brands of "Maverick" and "Joycome" |
| Meat import segment | represents sales of imported meat products |

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

## 6. SEGMENT INFORMATION (Continued)

### Segment revenues and results

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

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

## 6. SEGMENT INFORMATION (Continued)

### Segment revenues and results (Continued)

| | Hog production RMB'000 | Fresh pork RMB'000 | Processed meat products RMB'000 | Meat import RMB'000 | Segment total RMB'000 | Inter-segment elimination RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| ***For the year ended December 31, 2017*** | | | | | | | |
| **Segment revenue** | | | | | | | |
| External customers | 1,879,010 | 2,860,162 | 349,613 | 1,871,782 | 6,960,567 | – | 6,960,567 |
| Inter-segment sales | 1,414,459 | 53,553 | 545 | 44,659 | 1,513,216 | (1,513,216) | – |
| Segment revenue | 3,293,469 | 2,913,715 | 350,158 | 1,916,441 | 8,473,783 | (1,513,216) | 6,960,567 |
| **Segment results** | 554,136 | 89,804 | 5,511 | 37,050 | 686,501 | – | 686,501 |
| Unallocated corporate income | | | | | | | 25,333 |
| Unallocated corporate expenses | | | | | | | (129,859) |
| Fair value adjustments on biological assets | | | | | | | (51,918) |
| Share of loss of joint ventures | | | | | | | (1,229) |
| Finance costs | | | | | | | (81,025) |
| Profit before tax | | | | | | | 447,803 |

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 loss of joint ventures, and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

### Segment assets and segment liabilities

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

## 6. SEGMENT INFORMATION (Continued)

### Other segment information

| | Hog production RMB'000 | Fresh pork RMB'000 | Processed meat products RMB'000 | Meat import RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| ***Year ended December 31, 2018*** | | | | | |
| *Amounts included in the measure of segment profit or loss:* | | | | | |
| Depreciation and amortisation* | **16,292** | **22,243** | **13,940** | **50** | **52,525** |
| Impairment of accounts receivable, net | **–** | **585** | **58** | **238** | **881** |
| Impairment/(reversal of impairment) of other receivable, net | **–** | **247** | **(8)** | **570** | **809** |
| Loss/(gain) on disposal of property, plant and equipment, net | **79,502** | **–** | **(67,005)** | **–** | **12,497** |
| Gain on disposal of prepaid lease payment, net | **–** | **–** | **(21,045)** | **–** | **(21,045)** |
| Write-down/(write-back) of inventories | **–** | **1,575** | **809** | **(27)** | **2,357** |
| Impairment of property, plant and equipment | **33,308** | **–** | **–** | **–** | **33,308** |
| ***Year ended December 31, 2017*** | | | | | |
| *Amounts included in the measure of segment profit:* | | | | | |
| Depreciation and amortisation* | 12,551 | 23,541 | 10,201 | 49 | 46,342 |
| (Reversal of impairment)/impairment of accounts receivable, net | – | (139) | (53) | 104 | (88) |
| (Reversal of impairment)/impairment of other receivable, net | – | (152) | 218 | – | 66 |
| Loss on disposal of property, plant and equipment, net | 2,908 | 622 | 2,094 | – | 5,624 |
| (Write-back)/write-down of inventories | – | (78) | – | 168 | 90 |

* *Depreciation and amortisation not included in the measure of segment profit or loss for the year ended December 31 2018 amounted to RMB426,000 (2017: RMB378,000).*

### Geographical information

Over 90% of the revenue and operating results of the Group is derived from the PRC based on location of the operations for both 2018 and 2017.

All the Group's non-current assets at December 31, 2018 and 2017 are located in the PRC based on geographical location of the assets.

### Information about major customers

No revenue from transaction with single external customer is amounted to 10% or more of the Group's revenue in each of the reporting periods for both 2018 and 2017.

## 7. OTHER INCOME AND OTHER EXPENSE

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

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Interest income from banks | **25,717** | 23,529 |
| Interest income from a related company* | **1,614** | 1,179 |
| | **27,331** | 24,708 |
| Dividend income from available-for-sale investments | **–** | 9,917 |
| Government grants** | **88,415** | 49,681 |
| Income from sales of feed ingredients | **101,701** | – |
| | **217,447** | 84,306 |

* *The amount represents interest income for deposits placed in a non-banking financial institution, COFCO Finance Corporation Limited ("COFCO Finance"), a related company of the Company. Details of the deposits are set out in note 29.*

** *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. Further details are disclosed in note 37. Included in the above balances are government grants released from deferred income of RMB3,781,000 for the year ended December 31, 2018 (2017: RMB3,887,000).*

Other expenses in the current reporting period represent the cost of feed ingredients the Group sold to third parties.

## 8. OTHER GAINS AND LOSSES

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

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Exchange gain/(loss), net | **5,984** | (31,079) |
| Loss on disposal of property, plant and equipment, net* | **(12,497)** | (2,558) |
| Gain on disposal of prepaid lease payment* | **21,045** | – |
| Write-down of inventories to net realisable value | **(2,357)** | (90) |
| (Impairment)/reversal of impairment on accounts receivable, net | **(881)** | 88 |
| Impairment on other receivables, net | **(809)** | (66) |
| Impairment of property, plant and equipment** | **(33,308)** | (3,066) |
| Gain/(loss) on fair value changes in respect of foreign currency forward contracts | **6,491** | (35,351) |
| Others | **(7,461)** | (7,958) |
| | **(23,793)** | (80,080) |

## 8. OTHER GAINS AND LOSSES (Continued)

* *The detail of the (loss)/Gain on disposal of property, plant and equipment and prepaid lease payment is as follows:*

| | 2018 RMB'000 | 2017 RMB'000 |
|---|---|---|
| Gain from Maverick Food Products Co., Ltd. ("Maverick") *(Note a)* | **67,005** | – |
| Loss from two subsidiaries due to environmental protection requirements *(Note b)* | **(78,039)** | – |
| Others | **(1,463)** | (2,558) |
| | **(12,497)** | (2,558) |
| Gain on disposal of prepaid lease payment *(Note a)* | **21,045** | – |

*Notes:*

a. *During the year Maverick, a subsidiary of the Group, disposed of its farms, production plants and prepaid lease payments for land use rights amounting to RMB11,737,000 pursuant to a relocation requirement by the local government and in exchange the local government compensated Maverick with cash of RMB50,000,000, land use rights and properties and plants with an aggregate market value of RMB54,431,000, resulting in a gain on disposal of property, plant and equipment of RMB67,005,000 and a gain on disposal of prepaid lease payments for land use rights.*

b. *During the year, the Group's two subsidiaries disposed of their production equipments due to environmental protection requirements by local, resulting in an aggregate net loss of RMB78,039,000.*

** *During the year, the Group made provisions for impairment of property, plant and equipment of RMB33,308,000 as certain subsidiaries of the Group upgraded the production equipments due to more stringent environmental protection regulations.*

## 9. FINANCE COSTS

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

| | Year ended December 31 | |
|---|---|---|
| | 2018 RMB'000 | 2017 RMB'000 |
| Interest on: | | |
| Bank borrowings | **117,389** | 80,234 |
| Loans from a non-controlling equity holder *(Note 34)* | **77** | 409 |
| Loans from related companies *(Note 35)* | **21,758** | 14,021 |
| Total borrowing costs | **139,224** | 94,664 |
| Less: Borrowing costs capitalised in the cost of qualifying assets | **(15,056)** | (13,639) |
| | **124,168** | 81,025 |

Borrowing costs capitalised to qualifying assets during the years ended December 31, 2018 and 2017 were based on actual borrowing costs incurred for specific borrowings.

## 10. (LOSS)/PROFIT BEFORE TAX

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

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cost of sales (represented the cost of inventories recognised as expenses during the year) | **6,830,957** | 5,880,711 |
| Gain on fair value changes in respect of biological assets | **326,441** | 1,021,153 |
| Total cost of sales | **7,157,398** | 6,901,864 |
| Employee benefits expense (including Directors' remuneration as disclosed in Note 12): | | |
| Salaries and other allowances | **547,681** | 525,325 |
| Retirement benefit schemes contributions | **50,888** | 43,961 |
| Equity-settled share option expense | **12,204** | 11,033 |
| | **610,773** | 580,319 |
| Depreciation of property, plant and equipment | **251,563** | 199,099 |
| Amortisation of prepaid lease payments | **13,471** | 10,531 |
| Amortisation of intangible assets | **903** | 882 |
| Total depreciation and amortisation | **265,937** | 210,512 |
| Less: Capitalised in biological assets | **(212,986)** | (163,792) |
| | **52,951** | 46,720 |
| Auditors' remuneration | **1,700** | 1,700 |

Cost associated to sales of raw materials presented as other expenses.

## 11. INCOME TAX EXPENSE

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

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Current tax: | | |
| PRC Enterprise Income Tax (the "EIT") | **156** | 2,996 |
| Over provision in prior years: | | |
| PRC Enterprise Income Tax | **(29)** | – |
| Deferred tax: | | |
| Current year *(Note 24)* | **10,299** | – |
| | **10,426** | 2,996 |

## 11. INCOME TAX EXPENSE (Continued)

No provision for Hong Kong profits tax during the year have been made as the Group had no assessable profit generated in Hong Kong for the year (2017: nil).

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and the Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the year (2017: 25%).

Certain operations of the Company's certain subsidiaries were exempted from PRC income taxes during both 2018 and 2017. According to the Implementation Regulation of the EIT Law and the EIT exemptions regulation set out in the Circular of the Ministry of Finance and the State Administration on Releasing the Primary Processing Ranges of Agricultural Products Entitled to Preferential Policies on Enterprise Income Tax (Trial Implementation) (Cai Shui [2008] No. 149), and the requirements of Article 86 of the Implementation Regulation of the EIT Law, the income from primary processing for agriculture products are exempted from EIT. In addition, pursuant to related regulations in respect of the Implementation Regulation of the EIT Law, the income from projects of animal-husbandry and poultry feeding, is also entitled to exemption from EIT. Accordingly, the income from the above-mentioned operations of certain subsidiaries of the Group were exempted from EIT in the years ended December 31, 2017 and 2018.

Income tax expense for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| (Loss)/profit before tax | **(636,223)** | 447,803 |
| Tax at the domestic income tax rate of 25% (2017: 25%)* | **(159,056)** | 111,951 |
| Effect of different tax rates for entities of the Group operating in other jurisdictions | **(5,897)** | (3,555) |
| Effect of non-utilised losses incurred for agricultural business and other non-deductible expense | **82,910** | 17,502 |
| Tax effect of income not taxable for tax purpose | **(17,200)** | (2,479) |
| Tax effect of the fair value adjustments on biological assets | **107,495** | 12,979 |
| Effect of tax exemptions | **(9,121)** | (147,340) |
| Tax losses utilised from previous periods | **(7,627)** | (2,101) |
| Tax effect of tax losses not recognised | **18,005** | 15,641 |
| Tax effect of share of results of joint ventures | **142** | 307 |
| Others | **775** | 91 |
| Income tax expense for the year | **10,426** | 2,996 |

* *The domestic tax rate (which is the EIT rate) in the jurisdiction where the operation of the Group is substantially based is used.*

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and the Hong Kong Companies Ordinance, is as follows:

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries and other allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Bonus RMB'000 | Equity-settled share option expense RMB'000 | Total RMB'000 |
| ***Year ended December 31 2018*** | | | | | | |
| **Executive director:** | | | | | | |
| JIANG Guojin *(Note (f))* | – | 859 | 55 | 790 | – | 1,704 |
| XU Jianong | – | 1,059 | 55 | 1,484 | 1,037 | 3,635 |
| **Non-executive directors:** | | | | | | |
| WOLHARDT Julian Juul | – | – | – | – | – | – |
| CUI Guiyong | – | – | – | – | – | – |
| ZHOU Qi | – | – | – | – | – | – |
| YANG Hong | – | – | – | – | – | – |
| ZHANG Lei *(Note (a))* | – | – | – | – | – | – |
| HUANG Juhui *(Note (a))* | – | – | – | – | – | – |
| MA Jianping *(Note (g))* | – | – | – | – | – | – |
| **Independent non-executive directors:** | | | | | | |
| FU Tingmei | 307 | – | – | – | – | 307 |
| LI Michael Hankin | 307 | – | – | – | – | 307 |
| LEE Ted Tak Tai *(Note (d))* | 307 | – | – | – | – | 307 |
| JU Jiandong *(Note (h))* | 34 | – | – | – | – | 34 |
| CHEN Huanchun *(Note (i))* | 272 | – | – | – | – | 272 |
| Total | 1,227 | 1,918 | 110 | 2,274 | 1,037 | 6,566 |

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| | Directors' fees RMB'000 | Salaries and other allowances RMB'000 | Retirement benefit scheme contributions RMB'000 | Bonus RMB'000 | Equity-settled share option expense RMB'000 | Total RMB'000 |
| ***Year ended December 31 2017*** | | | | | | |
| **Executive director:** | | | | | | |
| XU Jianong | – | 1,053 | 51 | 742 | 1,093 | 2,939 |
| **Non-executive directors:** | | | | | | |
| MA Jianping | – | – | – | – | – | – |
| WOLHARDT Julian Juul | – | – | – | – | – | – |
| CUI Guiyong | – | – | – | – | – | – |
| ZHOU Qi | – | – | – | – | – | – |
| YANG Hong | – | – | – | – | – | – |
| ZHANG Lei *(Note (a))* | – | – | – | – | – | – |
| HUANG Juhui *(Note (a))* | – | – | – | – | – | – |
| WU Hai *(Note (b))* | – | – | – | – | – | – |
| XU Yang *(Note (c))* | – | – | – | – | – | – |
| **Independent non-executive directors:** | | | | | | |
| CHEN Huanchun | 213 | – | – | – | – | 213 |
| FU Tingmei | 213 | – | – | – | – | 213 |
| LI Michael Hankin | 213 | – | – | – | – | 213 |
| LEE Ted Tak Tai *(Note (d))* | 16 | – | – | – | – | 16 |
| WU Chi Keung *(Note (e))* | 198 | – | – | – | – | 198 |
| Total | 853 | 1,053 | 51 | 742 | 1,093 | 3,792 |

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (Continued)

The executive directors' remuneration shown above was for his services in connection with the management of the affairs of the Company and the Group. The non-executive directors' emoluments shown above were for their services as directors of the Company. The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

*Notes:*

(a) *This director was appointed as a non-executive director of the Company on December 12, 2017.*

(b) *This director resigned as a director of the Company on December 12, 2017.*

(c) *This director resigned as a director of the Company on December 12, 2017.*

(d) *This director was appointed as an independent non-executive director of the Company on December 12, 2017.*

(e) *This director resigned as a director of the Company on December 12, 2017.*

(f) *This director was appointed as an executive director of the Company on January 4, 2018.*

(g) *This director resigned as a director of the Company on January 4, 2018.*

(h) *This director was appointed as an independent non-executive director of the Company on November 21, 2018.*

(i) *This director resigned as a director of the Company on November 21, 2018.*

Bonus is determined by reference to the market, individual performance and their respective contribution to the Group.

During the year ended December 31, 2017 and prior years, a director was granted share options, in respect of his service to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 40. The amount of the benefits in relation to share options is determined by reference to the fair value of the share options at grant date.

During the current and prior years, no directors of the Company waived or agreed to waive any emoluments, and no emoluments were paid to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

## 13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year ended December 31 2018 included two (2017: one) Directors. Details of the emoluments of the three (2017: four) highest paid employees who are not a Directors are as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **4,703** | 4,036 |
| Retirement benefit schemes contributions | **166** | 202 |
| Equity-settled share option expense | **1,414** | 1,982 |
| | **6,283** | 6,220 |

The number of the highest paid employees who are not the Directors whose remuneration fell within the following bands is as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| HK$1,500,001 to HK$2,000,000 | **2** | 3 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |
| HK$3,500,001 to HK$4,000,000 | **1** | – |
| | **3** | 4 |

## 14. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company during 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

## 15. (LOSS)/EARNINGS PER SHARE

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

### Earnings

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| (Loss)/earnings for the purpose of basic earnings per share ((Loss)/profit for the year attributable to owners of the Company) | **(627,667)** | 451,629 |

## 15. (LOSS)/EARNINGS PER SHARE (Continued)

### Number of shares

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **'000** | '000 |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | **3,901,998** | 3,901,998 |

The calculation of the basic (loss)/earnings per share attributable to the owners of the Company is based on loss for the year attributable to owners of the Company of RMB627,667,000 (2017: profit of RMB451,629,000). The denominators used are the same as those detailed above for basic earnings per share.

No diluted (loss)/earnings per share for both 2018 and 2017 were presented as there were no potential ordinary shares in issue for both 2018 and 2017.

## 16. GOODWILL

The amounts of goodwill recognised in the consolidated statement of financial position, arising from the acquisition of subsidiaries in prior years, are as follows:

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cost and carrying amount | **100,609** | 100,609 |

For the purposes of impairment testing, goodwill has been allocated to the cash generating unit which manufactures and sells processed meat products with brand name "Maverick" in the processed meat products segment.

The basis of the recoverable amounts of the above CGU and the major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period (2017: five-year), and discount rate of 14% (2017: 14%). This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. During the year ended 31 December 2018 and 2017, management of the Group determines that there is no impairment on the unit. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the unit to exceed the aggregate recoverable amount of the unit.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings RMB'000 | Leasehold improvements RMB'000 | Equipment RMB'000 | Furniture and fixtures RMB'000 | Motor vehicles RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Cost:** | | | | | | | |
| At January 1, 2017 | 2,238,757 | 18,113 | 1,312,674 | 101,148 | 54,468 | 893,913 | 4,619,073 |
| Additions | 29,274 | – | 25,601 | 446 | 20,467 | 870,140 | 945,928 |
| Transfer | 1,197,946 | – | 70,805 | – | – | (1,268,751) | – |
| Acquired on acquisition of a subsidiary *(Note 45)* | – | – | – | 331 | 212 | 79,629 | 80,172 |
| Disposals | (36) | (303) | (2,101) | (5,490) | (1,947) | (3,066) | (12,943) |
| At December 31, 2017 | 3,465,941 | 17,810 | 1,406,979 | 96,435 | 73,200 | 571,865 | 5,632,230 |
| Additions | 86,655 | 6,381 | 33,887 | 25,508 | 12,487 | 1,235,883 | 1,400,801 |
| Transfer | 388,335 | – | 297,045 | – | – | (685,380) | – |
| Disposals | (24,404) | (4,010) | (76,108) | (14,543) | (6,012) | (690) | (125,767) |
| At December 31, 2018 | **3,916,527** | **20,181** | **1,661,803** | **107,400** | **79,675** | **1,121,678** | **6,907,264** |
| **Depreciation and impairment:** | | | | | | | |
| At January 1, 2017 | (290,040) | (11,096) | (129,289) | (34,356) | (23,668) | – | (488,449) |
| Charge for the year | (67,099) | (2,449) | (99,332) | (19,971) | (10,248) | – | (199,099) |
| Eliminated on disposals | 10 | 298 | 1,764 | 1,586 | 1,816 | – | 5,474 |
| At December 31, 2017 | (357,129) | (13,247) | (226,857) | (52,741) | (32,100) | – | (682,074) |
| Charge for the year | (84,387) | (2,534) | (134,000) | (17,958) | (12,684) | – | (251,563) |
| Impairment loss in profit or loss *(Note 8)* | (11,021) | – | (20,446) | (121) | – | (1,720) | (33,308) |
| Eliminated on disposals | 4,438 | 2,917 | 3,238 | 14,110 | 5,911 | – | 30,614 |
| At December 31, 2018 | **(448,099)** | **(12,864)** | **(378,065)** | **(56,710)** | **(38,873)** | **(1,720)** | **(936,331)** |
| **Net carrying values:** | | | | | | | |
| At December 31, 2018 | **3,468,428** | **7,317** | **1,283,738** | **50,690** | **40,802** | **1,119,958** | **5,970,933** |
| At December 31, 2017 | 3,108,812 | 4,563 | 1,180,122 | 43,694 | 41,100 | 571,865 | 4,950,156 |

The above items of property, plant and equipment, less their estimated residual value, if any, and except for construction in progress which is stated at cost less accumulated impairment, are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | 2.25% to 4.5% |
| Leasehold improvements | 10% to 25% (over the shorter of the term of the lease and estimated useful life) |
| Equipment | 4.5% to 30% |
| Furniture and fixtures | 18% to 45% |
| Motor vehicles | 9% to 18% |

Buildings ownership certificates in respect of certain leasehold properties of the Group in the PRC with an aggregate net carrying amount of approximately RMB30,049,000 as at December 31, 2018 (2017: RMB31,640,000) had not been issued by the relevant PRC authorities.

The Directors are of the opinion that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings, and the aforesaid matter did not have any significant impact on the Group's financial position as at December 31, 2018.

## 18. PREPAID LEASE PAYMENTS

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Analysed for reporting purposes as: | | |
| Current assets (included in prepayments, deposits and other receivables) | **26,152** | 10,531 |
| Non-current assets | **207,562** | 131,645 |
| | **233,714** | 142,176 |

All prepaid lease payments are related to land use rights in the PRC, with remaining lease terms ranging from 1 to 62 years.

## 19. INTANGIBLE ASSETS

The Group's intangible assets comprise purchased computer softwares.

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Cost:** | | |
| At beginning of the reporting period | **7,190** | 6,445 |
| Additions | **727** | 745 |
| Disposals | **(6)** | – |
| At end of the reporting period | **7,911** | 7,190 |

| | **2018** | 2017 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Accumulated amortisation:** | | |
| At beginning of the reporting period | **4,965** | 4,083 |
| Amortisation provided during year | **903** | 882 |
| Eliminated on disposals | **(3)** | – |
| At end of the reporting period | **5,865** | 4,965 |
| **Net carrying values:** | | |
| At end of the reporting period | **2,046** | 2,225 |

Purchased computer softwares are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 3 to 10 years.

## 20. INVESTMENTS IN JOINT VENTURES

Details of the Group's investments in joint ventures are as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cost of investment in joint ventures, unlisted | **21,968** | 21,968 |
| Share of post-acquisition losses | **(1,164)** | (598) |
| | **20,804** | 21,370 |

Details of the Group's joint ventures as at December 31, 2018 are as follows:

| Name of joint ventures | Place of establishment/ principal place of operations | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activities |
|---|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 | |
| Jiangsu Merit/CM Agricultural Development Co., Ltd.* (Jiangsu Merit CM) | PRC | **5%** | 40% | **5%** | 40% | Hog production |
| Jiangsu Merit/COFCO-joycome Agriculture Development Co., Ltd. | PRC | **40%** | 40% | **40%** | 40% | Hog production |

During the year, the other joint venture partner of Jiangsu Merit CM made capital contribution of US$24.5 million to Jiangsu Merit CM which reduced the Group's equity interest in Jiangsu Merit CM from 40% to 5%.

The solution of shareholders' meeting requires unanimous consent of the two joint venture partners. Therefore, the Group still accounts for Jiangsu Merit CM as a joint venture of the Group.

The joint ventures were still in the process of building the farms and production plants at December 31, 2018. None of the joint ventures above is material to the Group. The summarised aggregate financial information below represents amounts shown in the joint ventures' financial statements prepared in accordance with HKFRSs. The joint ventures are accounted for using the equity method in the consolidated financial statements.

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Revenue** | **–** | – |
| The Group's share of loss | **(566)** | (1,229) |
| The Group's share of other comprehensive income | **–** | – |
| The Group's share of total comprehensive expense | **(566)** | (1,229) |

## 21. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 31/12/2018<br>RMB'000 | 01/01/2018<br>RMB'000 |
|---|---|---|
| **Unlisted investment classified under non-current assets** | | |
| Equity investment: | **399,222** | 392,507 |

The above unlisted equity investment represents the Group's equity interest in a private entity established in the PRC. The Directors have elected to designate the investment as at FVTOCI.

## 22. AVAILABLE-FOR-SALE INVESTMENTS

| | 31/12/2017<br>RMB'000 |
|---|---|
| **Classified under non-current assets** | |
| Unlisted equity investment, at cost | 23,516 |

The above unlisted equity investment represents investment a private entity incorporated in the PRC. It is measured at cost less impairment at the end of the previous reporting period because the Directors are of the opinion that its fair value cannot be determined reliably. The Group does not intend to dispose of it in the near future.

## 23. BIOLOGICAL ASSETS

### Nature of the Group's agricultural activities

The biological assets of the Group are live hogs at various stages of development, including piglets, nursery hogs, medium and large finishing hogs, replacement studs and gilts, which are classified as current assets. Biological assets also include breeding stock, which are used to produce future live hogs and classified as non-current assets of the Group. The quantity of live hogs and breeding stock owned by the Group at the end of reporting period are as follows:

| | At December 31 | |
|---|---|---|
| | **2018<br>'000** | 2017<br>'000 |
| Live hogs: | | |
| – piglets | **203** | 198 |
| – nursery hogs | **461** | 361 |
| – medium and large finishing hogs | **896** | 700 |
| – replacement studs and gilts | **32** | 29 |
| | **1,592** | 1,288 |
| Breeding stock | **153** | 143 |
| | **1,745** | 1,431 |

## 23. BIOLOGICAL ASSETS (Continued)

### Nature of the Group's agricultural activities (Continued)

In general, once a sow is inseminated it will gestate typically around 114 days. New born hogs are classified as "piglets". The piglets will stay with their mother for 3 to 4 weeks at which time they will be weaned. Once the suckling hogs are weaned, they are transferred to the "nursery hogs".

The nursery facilities are designed to meet the needs of newly weaned hogs. They are fed a series of specially formulated diets to meet their changing nutritional needs. The hogs will stay in the nursery for approximately 6 to 7 weeks and then be transferred to the "medium and large finishing hogs" farm.

Medium and large finishing hogs typically stay in this phase for 15 to 16 weeks. During that time, they will be considered as a live hog with market value. Once the hog reaches the ideal weight, they are loaded onto specially designed trucks for transport to the processing facility.

Replacement studs and gilts just complete "nursery" stage and ready to transfer to the "medium and large finishing hogs" farm and maybe selected to be future breeding stock.

The Group is exposed to a number of risks related to its biological assets. The Group is exposed to the following operating risks:

### *Regulatory and environmental risks*

The Group is subject to laws and regulations in the location in which it operates breeding of hogs. The Group has established environmental policies and procedures aimed at compliance with local environmental and other laws. Management performs regular reviews to identify environmental risks and to ensure that the systems in place are adequate to manage these risks.

### *Climate, disease and other natural risks*

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has extensive processes in place aimed at monitoring and mitigating these risks, including regular inspections, disease controls, surveys and insurance.

### Carrying value of the Group's biological assets

| | **Live hogs and breeding stock RMB'000** |
|---|---:|
| At January 1, 2017 | 1,468,158 |
| Additions: breeding costs | 2,788,322 |
| Acquisition of a subsidiary *(Note 45)* | 19,172 |
| Gain arising from changes in fair value less costs to sell of biological assets | 969,235 |
| Transfer to cost at the point of harvest | (3,291,148) |
| Decrease due to culling | (387,483) |
| At December 31, 2017 | 1,566,256 |
| Additions: breeding costs | 3,575,335 |
| Loss arising from changes in fair value less costs to sell of biological assets | (103,541) |
| Transfer to cost at the point of harvest | (3,127,347) |
| Decrease due to culling | (446,877) |
| At December 31, 2018 | **1,463,826** |

## 23. BIOLOGICAL ASSETS (Continued)

### Carrying value of the Group's biological assets (Continued)

*Analysed for reporting purpose*

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Live hogs and breeding stock | **1,463,826** | 1,566,256 |
| Less: current portion | **(995,532)** | (1,111,305) |
| Non-current portion | **468,294** | 454,951 |

### Fair value measurement

The Group's biological assets were valued by Savills Valuation and Professional Services Limited ("Savills"), a firm of independent qualified professional valuers unrelated to the Group. The fair value less costs to sell of biological assets are determined with reference to the market-determined prices of items with similar age, breed and genetic merit or replacement costs where the market-determined prices are not available.

Changes in fair value less costs to sell of biological assets include changes in the fair value of the hogs at the end of each reporting period.

### Key assumptions and inputs

The major significant unobservable inputs to the valuation of the biological assets include estimated market price, rearing costs, survival rate, species and growing conditions.

Set forth below are the valuation techniques, key assumptions and inputs adopted in the valuation process to determine the fair values of the Group's biological assets as at December 31, 2018 and 2017.

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB** | RMB |
| **Live hogs and breeding stock** | | |
| Piglets *(Note (a))* | | |
| *Per head replacement cost* | **21 to 307** | 207 to 301 |
| Nursery hogs *(Note (b))* | | |
| *Per head market price* | **271 to 440** | 392 to 670 |
| Medium and large finishing hogs *(Note (c))* | | |
| *Per head market price* | **324 to 1,540** | 689 to 1,607 |
| Replacement studs and gilts *(Note (d))* | | |
| *Per head cost* | **780 to 33,354** | 842 to 29,220 |
| Breeding stock *(Note (e))* | | |
| *Per head replacement cost* | **1,924 to 17,822** | 1,399 to 17,359 |

## 23. BIOLOGICAL ASSETS (Continued)

### Key assumptions and inputs (Continued)

*Notes:*

*(a) As there was no active market for piglets, replacement cost approach has been adopted to reflect the depreciation of value due to use of breeding stock and other associated costs.*

*(b) As there were active markets for the nursery hogs in certain locations, the market prices of nursery hogs have been adopted. For the location that did not have an active market, similar approach as those for medium finishing hogs discussed below has been adopted as there is no alternative actively traded market accessible for nursery hogs within the region.*

*(c) Market prices have been adopted for large finishing hogs as there were active markets for the large finishing hogs as at respective valuation dates.*

*As there was no active market for the medium finishing hogs, the market price of medium finishing hogs has been estimated based on the market prices of large finishing hogs, less cost to completion, and adjusted with survival rate and risk in price uncertainty upon completion.*

*The unit cost to completion is estimated based on the unit cost of medium finishing hogs to the unit cost of large finishing hogs as at the respective valuation dates, under the assumption that the future cost in completing the remaining rearing cycle can be approximated by the historical cost. It is further adjusted by the number of pigs expected to be dead during this stage as no additional cost is necessary to feed those dead pigs.*

*The survival rate is estimated based on the historical statistic for respective location and category of pigs as at the respective valuation dates.*

*(d) As replacement studs and gilts are yet to generate income to the Group due to their immature physical condition and in the absence of a market price from an actively traded market for the replacement studs and gilts, cost approach has been adopted. The fair value of the replacement studs and gilts is determined based on the original cost plus the rearing costs (e.g. cost of vaccine, feeding, labour) subsequent to purchase or transfer.*

*(e) Since there was no active market for breeding stock at specific age, the replacement cost approach has been adopted. Market prices for different species of boar and gilt have been obtained as a basis for the replacement cost, and adjusted for the reduction/consumption of economic useful life by applying the respective metrics to estimate the fair value of breeding stock in different species.*

A significant increase/decrease in the estimated market price and the estimated rearing costs in isolation would result in a significant increase/decrease in the fair value of the biological assets.

The fair values of the Group's biological assets at December 31, 2018 are grouped into Level 3 of fair value measurement. There were no transfers into or out of Level 3 during the current and prior year.

## 24. DEFERRED TAX ASSETS

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets has been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

| | At December 31 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| Deferred tax assets | **237** | – |
| Deferred tax liabilities | **(10,536)** | – |
| | **(10,299)** | – |

As at December 31, 2018, the Group has unrecognised tax losses of RMB387,650,000 (2017: RMB450,382,000), and unrecognised deductible temporary differences in relation to impairment of accounts receivable, other receivables and write-down of inventories to net realizable values of RMB1,640,000 (2017: RMB437,000) available for offset against future taxable income.

As at December 2018,deferred tax assets of RMB237,000 has been recognised in respect of deductible temporary differences from processed meat products segment. Except that, As at December 31,2018 and 2017, no deferred tax assets have been recognised in respect of the tax losses and deductible temporary differences, as they have arisen in subsidiaries that it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at December 31, 2018, deferred tax liabilities of RMB10,536,000 has been recognised in respect of fair value adjustment on property, plant and equipments and prepaid lease payments relocation. Detail of the relocation is included in Note 8.

The unrecognised tax losses will expire in the following years:

| | At December 31 | |
|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 |
| To be expired on: | | |
| December 31, 2018 | **–** | 105,208 |
| December 31, 2019 | **160,150** | 171,093 |
| December 31, 2020 | **30,316** | 48,916 |
| December 31, 2021 | **62,603** | 62,603 |
| December 31, 2022 | **62,562** | 62,562 |
| December 31, 2023 | **72,019** | – |
| Total unused tax losses not recognised as deferred tax assets | **387,650** | 450,382 |

Under the EIT Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from January 1, 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated undistributable profits of the PRC subsidiaries amounting to RMB721,288,000 as at December 31, 2018 (2017: RMB547,125,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

## 25. INVENTORIES

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Raw materials and consumables | **214,990** | 229,865 |
| Work in progress | **11,738** | 10,017 |
| Finished goods | **308,953** | 241,371 |
| | **535,681** | 481,253 |

## 26. ACCOUNTS RECEIVABLES

| | At December 31, | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Accounts receivables | | |
| goods and services | **156,763** | 145,334 |
| Less: Allowance for credit losses | **(1,196)** | (316) |
| Total accounts receivables | **155,567** | 145,018 |

As at December 31, 2018 and January 1, 2018, accounts receivables from contracts with customers amounted to RMB156,763,000 and RMB145,334,000 respectively.

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

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within 90 days | **153,127** | 142,126 |
| 90 to 180 days | **2,111** | 1,991 |
| 180 days to 1 year | **317** | 199 |
| Over 1 year | **12** | 702 |
| | **155,567** | 145,018 |

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

## 26. ACCOUNTS RECEIVABLES (Continued)

As at December 31, 2017, the aged analysis of the accounts receivable that are past due but not impaired is as follows:

| | 31/12/2017<br>RMB'000 |
|---|---|
| Within 90 days past due | 11,921 |
| More than 90 days but less than 1 year past due | 1,423 |
| Over 1 year past due | 313 |
| | 13,657 |

Movements in the impairment loss on accounts receivable are as follows:

| | 31/12/2017<br>RMB'000 |
|---|---|
| At beginning of the reporting period | 404 |
| Impairment loss reversed, net | (88) |
| At end of the reporting period | 316 |

Details of impairment assessment of accounts receivables for the year ended December 31, 2018 are set out in note 49.

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

An analysis of the prepayments, deposits and other receivables are as follows:

| | **At December 31** | |
|---|---|---|
| | **2018<br>RMB'000** | 2017<br>RMB'000 |
| Value-added tax recoverable | **129,047** | 128,331 |
| Prepayments | **38,993** | 36,441 |
| Current portion of prepaid lease payments *(Note 18)* | **26,152** | 10,531 |
| Other receivables | **3,188** | 8,892 |
| Deposits | **13,626** | 8,611 |
| | **211,006** | 192,806 |
| Impairment loss on other receivables | **(1,042)** | (458) |
| | **209,964** | 192,348 |

## 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

The movements in the impairment loss on other receivables are as follows:

| | 2017<br>RMB'000 |
|---|---|
| At beginning of the reporting period | 418 |
| Impairment loss recognised *(Note 8)* | 66 |
| Write-offs | (26) |
| At end of the reporting period | 458 |

Details of impairment assessment of other receivables for the year ended December 31, 2018 are set out in note 49.

## 28. BALANCES WITH RELATED COMPANIES

Related companies include entities controlled by major shareholders.

Included in amounts due from related companies as at December 31, 2018 were receivables in trade nature of RMB12,861,000. The receivables in trade nature are unsecured, interest-free and repayable according to the relevant sales contracts. An aged analysis of these receivables as at the end of the reporting period, based on the delivery date and net allowance for credit losses, is as follows:

| | **At December 31** | |
|---|---|---|
| | **2018<br>RMB'000** | 2017<br>RMB'000 |
| Within 90 days | **12,548** | 2,192 |
| Over 90 days but less than 1 year | **207** | 256 |
| Over 1 year | **106** | 99 |
| | **12,861** | 2,547 |

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

## 28. BALANCES WITH RELATED COMPANIES (Continued)

Details of impairment assessment of amounts due from related companies (excluding prepayments to related companies) for the year ended December 31, 2018 are set out in note 49. Included in amounts due to related companies as at December 31, 2018 were payables in trade nature of RMB40,431,000 which are unsecured, interest-free and payable according to the relevant purchase contracts. An aged analysis of these payables as at the end of the reporting period, based on the invoice date, is as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within three months | **40,285** | 21,958 |
| Over three months but less than 1 year | **146** | 1,583 |
| Over 1 year | **–** | 6,712 |
| | **40,431** | 30,253 |

The remaining balances of amounts due to related companies include interest payable in respect of loans from related companies and current account balances, which are unsecured, interest-free and repayable on demand.

## 29. CASH, DEPOSITS AND BANK BALANCES

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Cash and bank balances | **140,974** | 140,305 |
| Time deposits with original maturity within three months when acquired | **107,398** | 800,559 |
| Time deposits with original maturity over three months when acquired | **865,864** | 221,842 |
| Time deposits with original maturity within three months when acquired with a non-bank financial institution * | **49,080** | 53,012 |
| Time deposits with original maturity over three months when acquired with a non-bank financial institution* | **–** | 10,000 |
| | **1,163,316** | 1,225,718 |

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Less: | | |
| Pledged and restricted bank deposits *(Note 43)*: | | |
| – for bills payables | **20,051** | 40,457 |
| – for letters of credit | **3,230** | – |
| | **23,281** | 40,457 |
| | **1,140,035** | 1,185,261 |

* *The amount represents deposits placed with COFCO Finance, and earn interest at market rates.*

Cash at banks earns interest at rates based on daily bank deposit rates. Short-term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the interest at market rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

## 30. ACCOUNTS AND BILLS PAYABLES

An analysis of accounts and bills payables is as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Accounts payables | **424,477** | 349,499 |
| Bills payables | **76,210** | 83,510 |
| | **500,687** | 433,009 |

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

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

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within 1 year | **415,474** | 343,742 |
| 1 to 2 years | **4,735** | 3,127 |
| Above 2 years | **4,268** | 2,630 |
| | **424,477** | 349,499 |

## 31. OTHER PAYABLES, ACCRUALS AND DEPOSITS RECEIVED

An analysis of other payables, accruals and deposits received is as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Bills payables for construction work | **13,842** | 54,762 |
| Construction costs payables | **255,151** | 186,732 |
| Receipt in advance from customers | **–** | 120,103 |
| Deposits received | **90,674** | 51,605 |
| Salaries and wages payables | **106,763** | 120,408 |
| Accruals | **54,567** | 47,802 |
| Tax element of contract liabilities | **12,094** | – |
| Other payables | **30,177** | 20,928 |
| | **563,268** | 602,340 |

## 32. CONTRACT LIABILITIES

| | **31/12/2018** | 1/1/2018* |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Hogs | **17,126** | 5,987 |
| Fresh pork | **30,453** | 31,296 |
| Processed meat products | **4,597** | 10,694 |
| Import meat products | **84,916** | 60,239 |
| | **137,092** | 108,216 |
| Current | **137,092** | 108,216 |
| | **137,092** | 108,216 |

* *The amounts in this column are after the adjustments from the application of HKFRS 15.*

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities.

| | **Hog production RMB'000** | **Fresh pork RMB'000** | **Processed meat products RMB'000** | **Sales of imported meat products RMB'000** |
|---|---|---|---|---|
| Revenue recognised that was included in the contract liability balance at the beginning of the year | 5,987 | 31,296 | 10,694 | 60,239 |

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

For sales of hogs, the Group requires 100% advance payments from customers before the Group delivers the hogs. For sales of fresh pork, processed meat products and imported meat products, the Group may grant credits to certain reputable corporate customers and requires 100% advance payments from the remaining customers before the Group delivers the products. The advance payments schemes result in contract liabilities being recognised when the advance payments are received but the controls of the goods have not been transferred.

## 33. BANK BORROWINGS

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Unsecured bank loans | **3,505,324** | 2,300,115 |
| Carrying amount of the above borrowings repayable*: | | |
| Within one year | **2,057,045** | 1,359,617 |
| In the second year | **335,109** | 226,949 |
| In the third to fifth year, inclusive | **920,653** | 619,190 |
| Beyond five years | **192,517** | 94,359 |
| | **3,505,324** | 2,300,115 |
| Less: Amounts due within one year shown under current liabilities | **(2,057,045)** | (1,359,617) |
| Amounts shown under non-current liabilities | **1,448,279** | 940,498 |

* *The amounts due are based on scheduled repayment dates set out in the respective loan agreements.*

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Fixed-rate borrowings | **756,477** | 523,566 |
| Variable-rate borrowings | **2,748,847** | 1,776,549 |
| | **3,505,324** | 2,300,115 |

The range of effective interest rates (which are also equal to contracted interest rates) on the Group's bank borrowings is as follows:

| | **2018** | 2017 |
|---|---|---|
| Effective interest rate per annum | **2.14% to 4.99%** | 1.66% to 4.90% |

## 34. LOANS FROM A NON-CONTROLLING EQUITY HOLDER

The loans from a non-controlling equity holder are unsecured, bear interest at 4.35% per annum and has been repaid this year.

## 35. LOANS FROM RELATED COMPANIES

The loans from related companies, which are entities controlled by a major shareholder, classified under current liabilities are unsecured and repayable within one year. Except for loans from related companies of RMB473,040,000(2017: RMB312,700,000) which bear interest ranging from 3.92% to 4.35% per annum, the remaining loans of RMB2,500,000 (2017 RMB2,500,000) are interest-free.

The loans from a related company classified under non-current liabilities represented loans from a major shareholder, which are unsecured, and the effective interest rate is 4.9% (2017: 4.9%) per annum and repayable in November 2035 and June 2036. See Note 37 for further details.

## 36. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities mandatorily measured at FVTPL:

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Classified under current liabilities: | | |
| Foreign currency forward contracts | **2,170** | 8,099 |

The Group entered into foreign currency forward contracts with certain banks to manage its exposure to the foreign currency risk arising from certain of its accounts payables denominated in United States Dollar ("USD") and Euro ("EUR").

## 37. DEFERRED INCOME

Deferred income represents PRC government subsidies obtained in relation to acquisition of land use rights and property, plant and equipment and certain logistic and technology improvement projects, which is included in the consolidated statement of financial position as deferred income and is credited to profit or loss on a systematic basis over the useful lives of the related assets.

| | Year ended December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| At beginning of the reporting period | **143,662** | 133,757 |
| Subsidies obtained during the year | **–** | 13,792 |
| Credited to profit or loss during the year | **(3,781)** | (3,887) |
| At end of the reporting period | **139,881** | 143,662 |

* *During the Year ended December 31 2016, the PRC government provided, through a state-owned policy bank, low-interest loans with an aggregate amount of RMB154,000,000 (the "Government Loans") to COFCO Corporation, the former ultimate holding company of the Company which became a related company upon the Listing, for the benefit of a logistic project of the Group in Jiangsu Province, the PRC, and a technology improvement project of the Group's facilities in Wuhan, the PRC, respectively. COFCO Corporation has advanced the Government Loans to the Group which were recorded as loans from a related company under non-current liabilities (the "Loans") (Note 35). The Loans are unsecured, bear nominal interest at 1.2% per annum and repayable in November 2035 and June 2036. The Group recorded the Loans by its present value of RMB82,807,000 at a discount rate of 4.9% which was determined by reference to the borrowing rate for loans over 5 years quoted by The Bank of China at initial recognition. The difference of RMB71,193,000 between the principal amount of the Loans of RMB154,000,000 and the present value of the Loans of RMB82,807,000 as mentioned above was recognised as deferred income.*

## 38. SHARE CAPITAL

| | **Number of shares** | **Amount USD** | **Equivalent to RMB'000** |
|---|---|---|---|
| Authorised: | | | |
| At January 1, 2017 and At 31 December 2017 and 2018 | 50,000,000,000 | 50,000 | 323 |

A summary of the transactions during the current and prior year in the Company's ordinary share capital is as follows:

| | **Number of shares in issue** | **Issued capital RMB'000** |
|---|---|---|
| At 1 January 2017 and At 31 December 2017 and 2018 | 3,901,998,323 | 1,668,978 |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| **Non-current assets** | | |
| Investment in subsidiaries | **2,615,888** | 2,282,544 |
| Amount due from a subsidiary | **619,932** | 590,974 |
| | **3,235,820** | 2,873,518 |
| **Current assets** | | |
| Loans to subsidiaries | **495,280** | 438,400 |
| Due from subsidiaries | **23,823** | 14,995 |
| Cash and bank balances | **974,226** | 1,018,765 |
| | **1,493,329** | 1,472,160 |
| **Current liabilities** | | |
| Bank borrowings | **559,351** | 532,537 |
| Loan from a related company | **398,040** | 287,700 |
| Due to subsidiaries | **105,878** | 319 |
| Due to a related company | **19,154** | 4,291 |
| Other payables and accruals | **659** | 808 |
| | **1,083,082** | 825,655 |
| **Net current assets** | **410,247** | 646,505 |
| **Net assets** | **3,646,067** | 3,520,023 |
| **Capital and reserves** | | |
| Share capital | **1,668,978** | 1,668,978 |
| Reserves *(Note)* | **1,977,090** | 1,851,045 |
| | **3,646,068** | 3,520,023 |

### Movement of reserves of the Company is as follows

| | **Share premium RMB'000** | **Special reserve RMB'000** | **Capital reserve RMB'000** | **(Accumulated retained losses)/ profits RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|
| At January 1, 2017 | 1,645,960 | 220,351 | 881 | 87,635 | 1,954,827 |
| Profit and total comprehensive expense for the year | – | – | – | (104,875) | (104,875) |
| Recognition of equity-settled share based payment granted by shareholder | – | – | 1,093 | – | 1,093 |
| At December 31, 2017 | 1,645,960 | 220,351 | 1,974 | (17,240) | 1,851,045 |
| Loss and total comprehensive expense for the year | – | – | – | 125,008 | 125,008 |
| Recognition of equity-settled share based payment granted by shareholder | – | – | 1,037 | – | 1,037 |
| At December 31, 2018 | **1,645,960** | **220,351** | **3,011** | **107,768** | **1,977,090** |

## 40. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on March 27, 2015 for the primary purpose of providing incentives to directors of the Company and eligible employees, and will expire on March 27, 2025. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to purchase shares of the Company held by certain shareholders of the Company, subject to the terms and conditions, including, among others, entering into an employment agreement with the Company or its subsidiaries for a term of five years and with a two-year non-compete undertaking upon cessation of such employment. An employee benefit trust (the "Trustee") have been set up by the shareholders to administer the options granted. The total number of shares in respect of which options may be granted under the Scheme is 3% of the shares held by the shareholders in the Company.

Details of options are as follows:

**Dates of grant:** March 28, 2015, December 9, 2016, July 1, 2017 and December 12, 2017

**Vesting period:**

Consecutively from the date of grant in equal shares to December 31, 2018, subject to adjustments based on the grantees' annual performance during the period from the respective grant date to December 31, 2018:

- if the department in which the Scheme participant is employed achieves less than 80% of the annual performance target during the relevant period, no option will be vested;
- if the department in which the Scheme participant is employed achieves between 80% and 120% of the annual performance target during the relevant period, the same percentage of option will be vested at December 31, 2018; and
- if the department in which the Scheme participant is employed achieves above 120% of the annual performance target during the relevant period, 120% of the option will be vested at December 31, 2018.

**Lock-up period:**

No vested options may be exercised until the first 12 months from the listing date of the Company (the "Listing Date"), after which a participant of the Scheme may exercise the vested options in accordance with the following schedule:

**Exercise date for options vested:**

| | |
|---|---|
| Maximum percentage of the vested options exercisable: | |
| On the date of the first anniversary of the Listing Date | 33.3% (one-third) |
| On the second anniversary of the Listing Date | 66.7% (two-third) |
| On the third anniversary of the Listing Date | 100% |

## 40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

**Exercise of the options:**

A participant of the Scheme shall exercise the vested options by sending a written notice to the Trustee, specifying the number of the option shares he intends to exercise. The Trustee shall arrange to sell the option shares concerned in an open market and pay the net proceeds, being the proceeds of sale less the exercise price and all relevant costs, expenses and taxes, to the relevant participant of the Scheme.

The following table discloses movements of the share options held by a director and employees during the years ended December 31, 2018 and 2017:

| | **2018** | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Director** | **Employees** | **Total** | Director | Employees | Total |
| At January 1, | **4,310,860** | **42,510,935** | **46,821,795** | 2,891,173 | 30,799,906 | 33,691,079 |
| Granted during the year | **–** | **–** | **–** | 1,457,633 | 13,280,230 | 14,737,863 |
| Adjustments based on performance | **253,580** | **(1,256,106)** | **(1,002,526)** | (37,946) | 843,296 | 805,350 |
| Lapsed during the year | **–** | **(749,213)** | **(749,213)** | – | (2,412,497) | (2,412,497) |
| At December 31, | **4,564,440** | **40,505,616** | **45,070,056** | 4,310,860 | 42,510,935 | 46,821,795 |

*Note: The exercise price for options granted in 2015 was RMB1 per share. Upon the share repurchase and cancellation in April 2016, the number of shares under the options granted and the exercise price were to 33,511,318 shares and RMB1.37 per share respectively on May 3, 2016 as a modification of the terms of the Scheme.*

The exercise price for all options granted was adjusted to RMB1.18 per share on July 1, 2017 as a modification of the terms of the Scheme.

Details of options granted in different grant dates are as follows:

| **Date of options granted** | **Fair value date** | **Fair value** | **Number of options** | **Exercise price: (HK$ equivalent of)** |
|---|---|---|---|---|
| March 28, 2015 | At grant date | RMB50.89 cents | 45,900,000 | RMB1 per share |
| | At May 3, 2016* | RMB70.33 cents | 33,511,318 | RMB1.37 per share |
| | At July 1, 2017* | RMB73.75 cents | 33,511,318 | RMB1.18 per share |
| December 9, 2016 | At grant date | RMB76.25 cents | 1,314,168 | RMB1.37 per share |
| | At July 1, 2017 | RMB74.33 cents | 1,314,168 | RMB1.18 per share |
| July 1, 2017 | At grant date | RMB73.77 cents | 14,046,281 | RMB1.18 per share |
| December 12, 2017 | At grant date | RMB69.50 cents | 691,582 | RMB1.18 per share |

* *adjusted after modification of the terms of the share option scheme.*

The above fair value of the share options were valued by Savills, independent qualified professional valuers not connected with the Group.

The fair value of the share options is determined using binomial option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions, and behavioural considerations. Expected volatility is based on the historical share price volatility. To allow for the effects of early exercise, it was assumed that executives and senior employees would exercise the options after vesting date when the share price was two and a half times the exercise price.

## 40. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

The variables and assumptions used in computing the fair value of the share options are based on the best estimate by the Directors. The value of an option varies with different variables of certain subjective assumptions.

| | Date of grant/modifications of the terms of the share option scheme | | | | |
|---|---|---|---|---|---|
| | March 28, 2015 | May 3, 2016 | December 9, 2016 | July 1, 2017 | December 12, 2017 |
| Share price | RMB1.00 | RMB1.38 | RMB1.47 | RMB1.36 | RMB1.31 |
| Exercise price | RMB1.00 | RMB1.37 | RMB1.37 | RMB1.18 | RMB1.18 |
| Expected volatility | 49.94% | 55.86% | 54.73% | 53.76% | 51.06% |
| Option life | 10 years | 8.9 years | 10 years | 9.74 years | 9.29 years |
| Dividend yield | 1.21% | 1.29% | 1.30% | – | – |
| Risk-free interest rate* | 4.08% | 2.89% | 3.10% | 3.59% | 3.94% |

* *Being the yield of PRC government bond with similar maturity.*

At December 31, 2018 and 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 45,070,057 and 46,821,795, respectively, representing approximately 1.2% and 1.2% of the shares of the Company in issue at the respective dates. No share option was exercised during both 2018 and 2017.

The Group recognised net expenses of RMB12,204,000 for the year ended December 31 2018 (2017: RMB11,033,000) in relation to share options granted by the Company.

## 41. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land use rights, office premises, retail shops and warehouses with fixed rentals, which fall due as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Within one year | **29,505** | 11,048 |
| In the second to fifth years inclusive | **55,374** | 34,519 |
| After five years | **200,973** | 238,026 |
| | **285,852** | 283,593 |

Leases for land use rights were negotiated for terms ranging from 1 to 70 years, and leases for office premises, retail shops and warehouses were negotiated for terms ranging from 1 to 8 years.

## 42. CAPITAL COMMITMENTS

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Contracted but not provided for: | | |
| Capital commitments in respect of: | | |
| Purchase of property, plant and equipment | **502,579** | 503,280 |
| Investments in joint ventures | **19,766** | 25,353 |

## 43. PLEDGE OF ASSETS

The carrying amount of the current assets pledged to banks to secure bills payable and letters of credit is as follows:

| | At December 31 | |
|---|---|---|
| | **2018** | 2017 |
| | **RMB'000** | RMB'000 |
| Bank deposits | **23,281** | 40,457 |

## 44. RETIREMENT BENEFIT SCHEME

The employees of the Group in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The Group is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions. The total expenses recognised in the consolidated statement of profit or loss and other comprehensive income amounted to approximately RMB50,888,000 for the year ended December 31, 2018 (2017: RMB43,961,000).

## 45. BUSINESS COMBINATION

During the last year, the Group injected additional capital of RMB34,871,000 to Jiangsu CM/Merit Agriculture Development Co., Ltd ("Jiangsu CM"), a joint venture of the Group, which is principally involved in hog production. Subsequent to the capital injection, the Group's equity interests in Jiangsu CM increased from 40% to 51% and the Group has obtained control over its board of Directors, Jiangsu CM became a subsidiary of the Group thereafter. Jiangsu CM was acquired to continue the expansion of the Group's hog production business.

## 45. BUSINESS COMBINATION (Continued)

### Fair value of assets and liabilities recognised at the date of the acquisition

| | RMB'000 |
|---|---|
| Property, plant and equipment | 80,172 |
| Prepaid lease payments | 4,911 |
| Biological assets | 19,172 |
| Deposits paid for purchase of property, plant and equipment | 408 |
| Deposits paid for purchase of biological assets | 1,239 |
| Inventories | 1,346 |
| Prepayments, deposits and other receivables | 418 |
| Amounts due from shareholders* | 36,924 |
| Cash and bank balances | 8,808 |
| Accounts payables | (3,390) |
| Other payables, accruals and deposits received | (53,170) |
| | **96,838** |

* *The gross contractual amounts of amounts due from shareholders acquired amounted to RMB36,924,000 at the date of acquisition and the amounts were fully settled before the end of the reporting period.*

### Goodwill arising on the acquisition

| | RMB'000 |
|---|---|
| Consideration: | |
| – Fair value of investment in a joint venture | 14,517 |
| – Capital injection to Jiangsu CM | 34,871 |
| Plus: Non-controlling interests (49% in Jiangsu CM) | 47,450 |
| Less: Net assets acquired | (96,838) |
| Goodwill arising on the acquisition | – |

The non-controlling interests (49%) in Jiangsu CM recognised at the acquisition date was measured by proportionate share of net assets acquired.

### Cash inflows from the acquisition

| | RMB'000 |
|---|---|
| Cash and bank balances acquired | 8,808 |

Since the acquisition date, Jiangsu CM contributed revenue of RMB9,395,000 and a net loss of RMB13,221,000 to the Group's consolidated revenue and profit for the year ended December 31, 2017, respectively. Had the acquisition been completed on January 1, 2017, the total revenue of the Group and the profit of the Group's for the year ended December 31, 2017 would have been RMB6,970,336,000 and RMB430,472,000, respectively. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on January 1, 2017, nor is it intended to be a projection of future results.

## 46. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | At January 1, 2018 RMB'000 | Financing cash flows RMB'000 | Interest accrual RMB'000 | Foreign exchange translation RMB'000 | At December 31, 2018 RMB'000 |
|---|---|---|---|---|---|
| Bank borrowings | 2,300,115 | 1,177,421 | – | 27,788 | **3,505,324** |
| Interest payable for bank borrowings | – | (117,389) | 117,389 | – | **–** |
| Loans from related parties | 402,128 | 160,340 | 2,411 | – | **564,879** |
| Interest payable for loans from related parties | – | (10) | 19,347 | – | **19,337** |
| Loans from a non-controlling equity holder | 39,205 | (37,693) | – | (1,512) | **–** |
| Interest payable for loans from a non-controlling equity holder | – | (77) | 77 | – | **–** |
| | 2,741,448 | 1,182,592 | 139,224 | 26,276 | **4,089,540** |

## 47. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the current and prior years.

The capital structure of the Group consists of net debt, which includes bank borrowings and loans from a non-controlling shareholder and related companies disclosed in Notes 33, 34 and 35, respectively, net of pledged and restricted bank deposits, cash and bank balances and equity attributable to owners of the Company, comprising issued share capital and reserves as disclosed in consolidated statement of changes in equity.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. Based on recommendations of the management, the Group will balance its overall capital structure through new share issues as well as the issue of new debt or the redemption of existing debts.

## 48. CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments at the end of each reporting period are as follows:

| | At December 31 | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| **Financial assets** | | |
| Financial assets at amortised cost | **1,350,589** | – |
| Equity instruments at FVTOCI | **399,222** | – |
| Loans and receivables (including cash and bank balances) | **–** | 1,391,889 |
| Available-for-sale investments | **–** | 23,516 |
| **Financial liabilities** | | |
| Amortised cost | **5,183,544** | 3,693,464 |
| Financial liabilities at fair value through profit or loss | **2,170** | 8,099 |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investment at FVTOCI, derivative financial instruments, accounts receivable, deposits and other receivables, accounts and bills payables, other payables, bank borrowings, loans and/or current account balances with related companies and a non-controlling shareholder, pledged and restricted bank deposits, amounts due from/to related companies and cash and bank balances. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risks

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

### *Currency risk*

The Group collects most of its revenue in RMB and most of the expenditures including costs incurred in sales of goods as well as capital expenditure are also denominated in RMB. Above 90% of the Group's sales and 60% of costs of sales are denominated in the group entity's respective functional currencies. The Group is exposed to foreign currency risk primarily with respect to USD and Hong Kong dollars ("HKD"), which is pegged with USD.

The carrying amounts of the Group's monetary assets and monetary liabilities that are denominated in currencies other than the functional currencies of the relevant group entities at the end of each reporting period are as follows:

| | **At December 31** | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| **Assets** | | |
| Denominated in HKD: | | |
| Cash and bank balances | **370** | 970 |
| Denominated in USD: | | |
| Cash and bank balances | **984,906** | 1,007,964 |
| | **985,276** | 1,008,934 |
| **Liabilities** | | |
| Denominated in USD: | | |
| Bank borrowings | **559,351** | 648,997 |
| | **559,351** | 648,997 |

The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposures and may enter into currency forward contracts, when necessary, to manage its foreign exchange exposure. During the year, certain currency forward contracts had been entered into by the Group.

The following table demonstrates the sensitivity at the end of the reporting period to reasonably possible changes in RMB to USD/HKD exchange rates ("RMB – USD/HKD"), with all other variables held constant, of the Group's profit after tax due to changes in the carrying value of monetary assets and liabilities. The sensitivity analysis also includes inter-company loans to foreign operations that form part of a net investment where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. A positive number below indicates an increase in post-tax profit and other equity where RMB weakening 5% (2017: 5%) against USD/HKD. For a 5% (2017: 5%) strengthen of RMB against the USD/HKD, there would be an equal and opposite impact on the profit and other equity and the balances below would be negative.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Market risks (Continued)

*Currency risk (Continued)*

| | Currency USD Impact | | Currency HKD Impact | |
|---|---|---|---|---|
| | **2018** **RMB'000** | 2017 RMB'000 | **2018** **RMB'000** | 2017 RMB'000 |
| Profit or loss | **15,958** | 13,461 | **14** | 36 |
| Equity | **–** | – | **29,265** | 27,919 |

Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group entities' profit/loss after tax measured in the respective functional currencies, translated into RMB at the exchange rates ruling at the financial year end date for presentation purpose.

*Interest rate risk*

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank balances, interest-bearing bank borrowings with a floating interest rate, for example, LIBOR and borrowing rate quoted by People's Bank of China. The effective interest rates and terms of repayment of the interest-bearing bank borrowings of the Group are disclosed in Note 33.

No sensitivity analysis has been presented for the exposure to interest rates for bank balances as the management of the Group considers that, taking into account that the fluctuation in interest rates on bank balances is minimal, the impact on profit or loss for the year is insignificant. The sensitivity analyses below have been determined based on the exposure to interest rates for bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis point increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates during the year.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2018 would decrease/increase by RMB21,081,000 (2017: RMB13,789,000). Results of the analysis above represent the effects on outstanding bank borrowings with a floating interest rate at the end of each reporting period.

### Credit risk and impairment assessment

As at December 31, 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group arising from these financial assets whose carrying amounts best present the maximum exposure to credit risk.

As at December 31, 2018, the Group's credit risk is primarily attributable to its accounts receivable, other receivables, amounts due from related companies, pledged and restricted bank deposits, and cash and bank balances. The Group monitors the exposure to credit risk on an ongoing basis and credit evaluations are performed on customers requiring credit over a certain amount. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk and impairment assessment (Continued)

#### *Accounts receivables*

The Group's trading terms with its customers are mainly not on credit where payment in advance is normally required, except for renowned and/or reputable customers. The credit period is normally within 180 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's accounts receivable relate to a large number of diversified customers, there is no significant concentration of credit risk by industry or geographical location. Accounts receivable are non-interest-bearing.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal system to assess the potential customer's credit quality and defines credit limits by customer. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances based on provision matrix. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

#### *Other receivables/loan receivables/amount due from related parties/bank balances*

For amounts due from related companies, the Directors are in the opinion that the failure of these entities to make required payments is unlikely after considering their past settlement records, forward looking information and/or financial position of these entities.

The credit risks of the Group's cash and bank balances and restricted and pledged bank deposits are limited as these balances are placed with reputable financial institutions.

The Group's internal credit risk grading assessment comprises the following categories:

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| **2018** | **12-month or lifetime ECL** | **Gross carrying amount** |
|---|---|---|
| | | **RMB'000** |
| **Financial assets at amortised costs** | | |
| Other receivables | 12-month ECL | 3,188 |
| Accounts receivables | | |
| – goods and services | Lifetime ECL (not credit impaired) (provision matrix) | 156,763 |

*Notes:*

*For accounts receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on these items by using a provision matrix, grouped by debtors' aging.*

For amounts due from related parties, pledged bank deposits and bank balances, the expected credit risk exposures are very low.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk and impairment assessment (Continued)

#### *Other receivables/loan receivables/amount due from related parties/bank balances (Continued)*

*Provision matrix – debtors' aging*

As part of the Group's credit risk management, the Group uses debtors' aging to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. During the year ended December 31, 2018, the Group provided RMB881,000 impairment allowance for accounts receivables, based on the provision matrix. The average loss rate of the Company's accounts receivable is very row and is not significant to the Company.

The following tables show reconciliation of loss allowances that has been recognised for accounts receivables and other receivables

| Accounts receivables | Lifetime ECL (not credit impaired) RMB'000 | Total RMB'000 |
|---|---|---|
| **As at January 1 2018 – As restated** | **316** | **316** |
| Changes due to financial instruments recognized as at January 1: | | |
| – Impairment losses recognized | **881** | **881** |
| **As at December 31 2018** | **1,196** | **1,196** |

| Other receivables | 12 m ECL RMB'000 | Total RMB'000 |
|---|---|---|
| **As at January 1 2018 – As restated** | **458** | **458** |
| Changes due to financial instruments recognized as at January 1: | | |
| – Impairment losses recognized | **809** | **809** |
| – Write-offs | **(225)** | **(225)** |
| **As at December 31 2018** | **1,042** | **1,042** |

### Liquidity risk management

In the management of the liquidity risk, the Group monitors and maintains a level of cash and bank balances deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk management (Continued)

*Liquidity risk tables*

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The amounts included below for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates different to those estimates of interest rates determined at the end of the reporting period.

| | Effective interest rate % | On demand or within 1 year RMB'000 | 1 – 5 years RMB'000 | Over 5 years RMB'000 | Total undiscounted cash flows RMB'000 | Total carrying amount RMB'000 |
|---|---|---|---|---|---|---|
| **At December 31, 2018** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| Accounts and bills payables | – | 500,687 | – | – | 500,687 | 500,687 |
| Other payables, accruals and deposits received | – | 551,174 | – | – | 551,174 | 551,174 |
| Bank borrowings | 2.14% to 4.99% | 2,130,353 | 1,390,019 | 233,682 | 3,754,054 | 3,505,324 |
| Amounts due to related companies | – | 61,480 | – | – | 61,480 | 61,480 |
| Loans from related companies classified under current liabilities | 0% to 4.35% | 485,883 | – | – | 485,883 | 475,540 |
| Loans from a related company classified under non-current liabilities | 4.9% | 1,848 | 7,392 | 176,176 | 185,416 | 89,339 |
| | | 3,731,425 | 1,397,411 | 409,858 | 5,538,694 | 5,183,544 |
| **At December 31, 2017** | | | | | | |
| *Non-derivative financial liabilities* | | | | | | |
| Accounts and bills payables | – | 433,009 | – | – | 433,009 | 433,009 |
| Other payables, accruals and deposits received | – | 482,237 | – | – | 482,237 | 482,237 |
| Bank borrowings | 1.66% to 4.90% | 1,404,144 | 929,272 | 112,901 | 2,446,317 | 2,300,115 |
| Amounts due to related companies | – | 36,770 | – | – | 36,770 | 36,770 |
| Loans from a non-controlling equity holder of a subsidiary | 4.35% | 40,910 | – | – | 40,910 | 39,205 |
| Loans from related companies classified under current liabilities | 0% to 4.35% | 322,056 | – | – | 322,056 | 315,200 |
| Loans from a related company classified under non-current liabilities | 4.9% | 1,848 | 7,392 | 178,024 | 187,264 | 86,928 |
| | | 2,720,974 | 936,664 | 290,925 | 3,948,563 | 3,693,464 |

The amounts included above of variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimate of interest rates determined at the end of the reporting period.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Liquidity risk management (Continued)

*Liquidity risk tables (Continued)*

The following table details the Group's liquidity analysis for its gross-settled derivative financial instruments. The table has been drawn up based on the undiscounted contractual gross inflows and outflows on those derivatives.

| | On demand or within 1 year RMB'000 | Total undiscounted cash flows RMB'000 | Carrying amount as (assets)/ liabilities RMB'000 |
|---|---|---|---|
| **At December 31, 2018** | | | |
| Foreign currency forward contracts: | | | |
| Inflows | **–** | **–** | **–** |
| Outflows | **2,170** | **2,170** | **2,170** |
| | **2,170** | **2,170** | **2,170** |
| **At December 31, 2017** | | | |
| Foreign currency forward contracts: | | | |
| Inflows | – | – | – |
| Outflows | 8,099 | 8,099 | 8,099 |
| | 8,099 | 8,099 | 8,099 |

## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Fair value of financial instruments that are measured at fair value on a recurring basis

Except for derivative financial instruments and equity instrument at fair value through other comprehensive income as set out below, there is no financial instrument measured at fair value on a recurring basis.

| | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At December 31, 2018** | | | | |
| *Financial assets at FVTOCI* | | | | |
| Equity instrument at fair value through other comprehensive income | **–** | **–** | **399,222** | **399,222** |
| *Financial liabilities* | | | | |
| Derivative financial instruments | **–** | **2,170** | **–** | **2,170** |
| **At December 31, 2017** | | | | |
| *Financial liabilities* | | | | |
| Derivative financial instruments | – | 8,099 | – | 8,099 |

## 50. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

### Fair value of financial instruments that are measured at fair value on a recurring basis (Continued)

| Financial assets/ financial liabilities | Fair value as at 31 December 2018 | Fair value as at 31 December 2017 | Fair value hierarchy | Valuation technique(s) and key input(s) |
|---|---|---|---|---|
| 1) Foreign currency forward contracts classified as financial assets at FVTPL in the condensed consolidated statement of financial position | **Liabilities – RMB2,170,000** | Liabilities – RMB8,099,000 | Level 2 | Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contracted forward rates, discounted at a rate that reflects the credit risk of various counter parties. |
| 2) Unquoted equity investment | **15% equity investment in McKey Food Services Ltd – RMB399,222,000** | 15% equity investment in McKey Food Services Ltd – measured at cost less impairment | Level 3 | Discount for lack of marketability determined by reference to the share price of listed entities in similar industries companies applied for 40 per cent (2017:N/A). |

There were no transfers between Level 1, 2 and 3 during the current and prior years.

The derivative financial instruments represent foreign currency forward contracts (Note 36). The fair value of these contracts is determined and calculated by discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

### Fair value of financial instruments that are not measured at fair value on a recurring basis

The fair values of financial assets and liabilities measured at amortised cost are determined in accordance with generally accepted pricing models based on discounted cash flows analysis. The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their respective fair values at the end of each reporting period.

## 51. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

| | Year ended December 31 | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Transactions with related companies: | | |
| Sales of goods* | **110,635** | 105,814 |
| Purchases of goods* | **724,895** | 566,797 |
| Office rental expense* | **7,202** | 7,403 |
| Property management fee expense* | **703** | 668 |
| Feeding materials processing fee expense* | **6,902** | 9,366 |
| Warehouse rental expense* | **741** | 869 |
| Interest income* | **1,614** | 1,179 |
| Interest expense* | **21,835** | 14,021 |
| Administrative expense | **2,171** | 1,753 |

* *These related party transactions included continuing connected transactions according to the Listing Rules.*

## 51. RELATED PARTY TRANSACTIONS (Continued)

The interest expense to related companies arose from the loans advanced therefrom. Details of the terms of these loans are set out in note 35.

The above sale and purchase transactions were carried out in accordance with the terms and conditions mutually agreed by the parties involved.

In addition, certain deposits included in cash and bank balances are placed with COFCO Finance, which is a non-bank financial institution regulated by the People's Bank of China (the "PBOC") and the China Banking Regulatory Commission. In the PRC, deposit rates are set by the PBOC which is applicable to all financial institutions. The interest rates offered by COFCO Finance are the same as the rates promulgated by the PBOC. The deposits placed with COFCO Finance by the Group at December 31, 2018 amounted to RMB49,080,000 (2017: RMB63,012,000). See note 29.

### Transactions with other government-related entities in the PRC

Before the Listing, the Group itself was part of a larger group of companies under COFCO Corporation, which is controlled by the PRC government. Thus, the Directors consider that the Group was ultimately controlled by the PRC government. In addition, the Group operates in an economic environment currently predenominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("PRC government-related entities"). Apart from the transactions with the ultimate holding company, the immediate holding company, related companies and fellow subsidiaries set out above and balances with them as disclosed in respective notes, the Group also conducts businesses with other PRC government-related entities in the ordinary course of business. Certain of the Group's bank deposits and bank borrowings are entered into with certain banks, which are PRC government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the Directors are of the opinion that separate disclosures would not be meaningful. In addition, the Group entered into various transactions, including purchases of land use rights, construction of properties and other operating expenses with other PRC government-related entities in the ordinary course of business. The pricing and the selection of suppliers and service providers are not dependent on whether the counterparties are PRC government-related entities or not. In the opinion of the management of the Group, the above transactions are collectively significant transactions of the Group with PRC government-related entities.

### Compensation of key management personnel of the Group

| | **Year ended December 31** | |
|---|---|---|
| | **2018**<br>**RMB'000** | 2017<br>RMB'000 |
| Salaries and other allowances | **8,852** | 6,967 |
| Retirement benefit scheme contributions | **749** | 304 |
| Equity-settled share option expense | **2,741** | 3,336 |
| | **12,342** | 10,607 |

The key management personnel of the Group includes the Directors and top executives of the Company. Further details of Directors' emoluments are included in note 12.

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries at December 31, 2018 and 2017 are as follows:

| Name of subsidiaries | Place and date of incorporation/ establishment and principal country of operations | Issue and fully paid up capital | Proportion of ownership interests and voting rights held by the Group as at December 31, | | Principal activities |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | |
| | | | **%** | % | |
| Zhuo Mao Limited (卓貿公司) | British Virgin Islands ("BVI")/Hong Kong | US$1 | **100** | 100 | Investment holding |
| COFCO Meat Products (HK) Limited (中糧肉食（香港）有限公司) | Hong Kong/ Hong Kong | HK$3,080,270,014 | **100** | 100 | Investment holding |
| 中糧肉食投資有限公司 (COFCO Meat Investments Company Limited*) *(Note (i))* | PRC/PRC | US$467,973,200 | **100** | 100 | Investment holding |
| 中糧肉食（北京）有限公司 (COFCO Meat (Beijing) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$10,000,000 | **100** | 100 | Import and sale of frozen meat products |
| 中糧肉食（天津）有限公司 (COFCO Meat (Tianjin) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$15,000,000 | **100** | 100 | Hog production |
| 中糧肉食（江蘇）有限公司 (COFCO Meat (Jiangsu) Co. Ltd.*) *(Note (ii))* | PRC/PRC | US$79,201,199 | **100** | 100 | Hog production, livestock slaughtering, manufacture and sale of fresh pork |
| 武漢中糧肉食品有限公司 (COFCO Wuhan Meat Product Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$77,290,439 | **100** | 100 | Hog production, livestock slaughtering, manufacture and sale of fresh pork and processed meat products |
| 中糧萬威客食品有限公司 (COFCO Maverick Food Products Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$38,100,000 | **100** | 100 | Manufacture and sale of processed meat products |
| 中糧家佳康（吉林）有限公司 (COFCO Joycome (Jilin) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$87,199,312 | **100** | 100 | Hog production |

## 52. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)

| Name of subsidiaries | Place and date of incorporation/ establishment and principal country of operations | Issue and fully paid up capital | Proportion of ownership interests and voting rights held by the Group as at December 31, | | Principal activities |
|---|---|---|---|---|---|
| | | | **2018** | 2017 | |
| | | | **%** | % | |
| 中糧家佳康（赤峰）有限公司 (COFCO Joycome (Chifeng) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$87,754,608 | **100** | 100 | Hog production |
| 中糧家佳康（張北）有限公司 (COFCO Joycome (Zhangbei) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$62,976,600 | **100** | 100 | Hog production |
| 中糧家佳康（鹽城）有限公司 (COFCO Joycome (Yancheng) Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$20,160,000 | **100** | 100 | Hog production |
| 江蘇中慕農業發展有限公司 (Jiangsu CM/Merit Agriculture Development Co., Ltd.*) *(Note (ii))* | PRC/PRC | US$39,183,700 | **51** | 51 | Hog production |

* *The English names of the Chinese companies marked with "*" are translations of their Chinese names and are included for identification purpose only, and should not be regarded as their official English translation.*

*Notes:*

*(i) This company is a wholly-foreign owned enterprise.*

*(ii) These companies are PRC limited liability companies.*

*(iii) Except for Zhuo Mao Limited, all subsidiaries were indirectly held by the Company as at December 31, 2018 and 2017.*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

## 53. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of establishment and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2018 RMB'000** | 2017 RMB'000 | **2018 RMB'000** | 2017 RMB'000 | **2018** | 2017 |
| Jiangsu CM | PRC | **49%** | 49% | **(18,683)** | (6,478) | **98,496** | 40,972 |
| Immaterial subsidiary with non-controlling interests | | | | | | **–** | 2,968 |
| | | | | | | **98,496** | 43,940 |

### Jiangsu CM

| | Year ended December 31 | |
|---|---|---|
| | **2018 RMB'000** | 2017 RMB'000 |
| Current assets | **42,893** | 69,518 |
| Non-current assets | **320,302** | 171,058 |
| Current liabilities | **(101,057)** | (115,152) |
| Non-current liabilities | **(60,000)** | – |
| Net assets | **202,138** | 125,424 |
| Equity attributable to the owners of the Company | **103,642** | 84,452 |
| Non-controlling interests of Jiangsu CM | **98,496** | 40,972 |
| | **202,138** | 125,424 |

| | **Year ended December 31,2018 RMB'000** | From date of acquisition to December 31, 2017 RMB'000 |
|---|---|---|
| Revenue | **31,609** | 9,395 |
| Expenses | **(69,737)** | (22,616) |
| Loss for the year/period | **(38,128)** | (13,221) |
| Loss attributable to the owners of the Company | **(19,445)** | (6,743) |
| Loss attributable to non-controlling interests of Jiangsu CM | **(18,683)** | (6,478) |
| | **(38,128)** | (13,221) |

# Financial Summary

A summary of the published results and the assets and liabilities of the Group for the last five financial years is set out below:

## CONSOLIDATED RESULTS

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Continuing operations** | | | | | |
| Revenue | **7,168,488** | 6,960,567 | 6,616,068 | 5,055,705 | 3,746,039 |
| Profit/(loss) for the year from continuing operations | **(646,649)** | 444,807 | 947,935 | 209,656 | (349,362) |
| **Discontinued operations** | | | | | |
| Profit/(loss) for the year from discontinued operations | **–** | – | 3,921 | (58,752) | (61,605) |
| Profit/(loss) for the year | **(646,649)** | 444,807 | 951,856 | 150,904 | (410,967) |
| Total comprehensive income/(expense) attributable to: | | | | | |
| Owners of the Company | **(606,829)** | 455,398 | 947,842 | 145,082 | (386,520) |
| Non-controlling interests | **(18,982)** | (6,822) | (56) | – | (25,772) |
| | **(625,811)** | 448,576 | 947,786 | 145,082 | (412,292) |

## ASSETS AND LIABILITIES

| | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **10,259,757** | 8,910,697 | 8,306,677 | 7,437,771 | 8,028,566 |
| Total liabilities | **(5,485,517)** | (3,965,379) | (3,868,418) | (4,793,583) | (5,591,917) |
| Total equity | **4,774,240** | 4,945,318 | 4,438,259 | 2,644,188 | 2,436,649 |
| Equity attributable to: | | | | | |
| Owners of the Company | **4,675,744** | 4,901,378 | 4,434,947 | 2,644,188 | 2,325,474 |
| Non-controlling interests | **98,496** | 43,940 | 3,312 | – | 111,175 |
| | **4,774,240** | 4,945,318 | 4,438,259 | 2,644,188 | 2,436,649 |

# Investors' Calendar

## Annual Results Announcement

March 26, 2019 (Tuesday)

## Closure of Register of Members

For determining the entitlement to attend and vote at the annual general meeting, the registration of transfers of shares of the Company will be closed from Tuesday, May 28, 2019 to Friday, May 31, 2019, both dates inclusive, during which period no transfer of shares will be registered.

## Annual General Meetings

May 31, 2019 (Friday)

## Dividend

The Board of Directors does not recommend to declare final dividend for the year ended December 31, 2018.

| | |
|---|---|
| "2016 Financial Services Agreement" | a financial services agreement entered into between our Company and COFCO Finance, an indirect wholly-owned subsidiary of COFCO, on October 12, 2016 |
| "2017 Financial Services Agreement" | the financial services agreement entered into between the Company and COFCO Finance, an indirect wholly-owned subsidiary of COFCO, on November 23, 2016 |
| "2018 Financial Services Agreement" | the financial services agreement entered into between the Company and COFCO Finance, an indirect wholly-owned subsidiary of COFCO, on November 23, 2018 |
| "2018 Central Reserved Pork P&S Agreement I" | the central reserved pork electronic purchase and sale agreement entered into among China Merchandise Reserve, Wuhan COFCO Meat and China Foodstuffs on January 16, 2018 |
| "2018 Central Reserved Pork P&S Agreement II" | the central reserved pork electronic purchase and sale agreement entered into among China Merchandise Reserve, COFCO Meat (Jiangsu) and China Foodstuffs on January 16, 2018 |
| "Central Reserved Pork P&S Agreement I" | the central reserved pork electronic purchase and sale agreement entered into among China Merchandise Reserve, Wuhan COFCO Meat and China Foodstuffs on May 26, 2017 |
| "Central Reserved Pork P&S Agreement II" | the central reserved pork electronic purchase and sale agreement entered into among China Merchandise Reserve, COFCO Meat (Jiangsu) and China Foodstuffs on May 26, 2017 |
| "China Foodstuffs" | China National Foodstuffs Group Corp.* (中國食品集團公司), a state-owned company incorporated in the PRC on May 9, 1989 and a wholly-owned subsidiary of Huafu |
| "China Merchandise Reserve" | China Merchandise Reserve Management Center* (華商儲備商品管理中心), a state-owned company incorporated in the PRC on January 21, 1998 and a wholly-owned subsidiary of Huafu |
| "Articles of Association" | the articles of association of the Company, as amended from time to time |
| "associate(s)" | has the meaning ascribed thereto under the Listing Rules |
| "Audit Committee" | the Audit Committee of the Board |
| "Baring" | Baring Private Equity Asia V Holding (16) Limited, a limited liability company incorporated in the BVI on February 20, 2014, and a Shareholder of our Company |
| "Board" or "Board of Directors" | our board of Directors |

# Glossary

| | |
|---|---|
| "Board Committee(s)" | four committees of the Board, namely the Audit Committee, the Nomination Committee, the Remuneration Committee and the Food Safety Committee |
| "Boyu" | Shiny Joyful Limited, an exempted company with limited liability incorporated in the Cayman Islands on February 10, 2014, and a Shareholder of our Company |
| "Boyu Capital" | Boyu Capital Advisory Company Limited |
| "China Agri" | China Agri-Industries Holdings Limited (中國糧油控股有限公司), a company incorporated in Hong Kong with limited liability on November 18, 2006, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 606), and an indirect subsidiary of COFCO |
| "China Foods (Holdings)" | China Foods (Holdings) Limited (中國食品(控股)有限公司) (formerly known as COFCO (BVI) No. 108 Limited), a company incorporated in the BVI with limited liability on August 30, 2000, and a wholly-owned subsidiary of COFCO (HK) |
| "COFCO" | COFCO Corporation (中糧集團有限公司), a wholly state-owned enterprise incorporated in the PRC in September 1952 currently under the purview of the SASAC and a major shareholder of our Company |
| "COFCO Finance" | COFCO Finance Corporation Limited (中糧財務有限責任公司), a non-bank financial institution incorporated with limited liability in the PRC on September 24, 2002, and an indirect wholly-owned subsidiary of COFCO |
| "COFCO Group" | COFCO and its subsidiaries other than our Group and including the Disposal Group (unless the context indicates otherwise) |
| "COFCO (HK)" | COFCO (Hong Kong) Limited (中糧集團(香港)有限公司), a company incorporated in Hong Kong with limited liability on August 14, 1981, and a direct wholly-owned subsidiary of COFCO and a major shareholder of the Company |
| "COFCO Meat", "Company" or "our Company" | COFCO Meat Holdings Limited (中糧肉食控股有限公司) (formerly known as Charm Thrive Investments Limited (燦旺投資有限公司)), a company incorporated in the BVI with limited liability on March 11, 2014 and re-domiciled to the Cayman Islands as an exempted company with limited liability on May 4, 2016 |
| "COFCO Meat Investments" | COFCO Meat Investments Co., Ltd. (中糧肉食投資有限公司), a limited liability company incorporated under the laws of the PRC on March 20, 2009 and an indirect wholly-owned subsidiary of our Company |
| "connected person" | has the meaning ascribed thereto in the Listing Rules |
| "Corporate Governance Code" | the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 of the Listing Rules |
| "non-competition undertakings" | the non-competition undertakings entered into by COFCO, COFCO (HK), China Foods (Holdings) and Mainfield in favor of the Company |

| | |
|---|---|
| "Director(s)" | director(s) of our Company |
| "Disposal Group" | the group consisting of 100% interest in COFCO Meat Farming (Shandong), COFCO Meat (Shandong) and COFCO Meat (Suqian) respectively prior to the Reorganization, which is engaged in the chicken farming, slaughtering and sales business and which was transferred to COFCO Poultry as part of the Reorganization |
| "Entrustment Loan Services" | the provision of entrustment loans among members of the Group through COFCO Finance, which will only act as agent of the Group, under the 2017 Financial Services Agreement |
| "Food Safety Committee" | the Food Safety Committee of the Board |
| "Former Share Incentive Scheme" | the pre-IPO share incentive scheme as disclosed under the section headed "Statutory and General Information" in Appendix IV of the Prospectus |
| "Genesus" | Genesus Inc., a limited liability company incorporated under the laws of Manitoba, Canada on April 1, 2013 |
| "Gourmet" | Gourmet Bravo Ltd., a company incorporated under the laws of the Cayman Islands with limited liability |
| "Group", "our Group", "we" or "us" | our Company and its subsidiaries or for the period before our Company became the holding company of our present subsidiaries, where the context so requires, the entities which carried on the business of the present Group at the relevant time |
| "Huafu" | China Huafu Trading & Development Group Corp. (中國華孚貿易發展集團公司), a company incorporated under the laws of the PRC on January 4, 1993 and a wholly-owned subsidiary of COFCO |
| "Itoham" | Itoham Foods Inc., a limited liability company incorporated under the laws of Japan on June 29, 1948 and a 21.29% shareholder of MIY |
| "Itoham Yonekyu Holdings" | Itoham Yonekyu Holdings Inc, a limited liability company incorporated under the laws of Japan on April 1, 2016, the shares of which are listed on the Tokyo Stock Exchange (stock code: 22960), and the sole shareholder of each of Itoham and Yonekyu |
| "KKR" | Promise Meat Investment II Ltd, an exempted company with limited liability incorporated in the Cayman Islands on March 18, 2014, and a Shareholder of our Company |
| "Listing Date" | the date, November 1, 2016, on which the Shares were listed and from which dealings therein were permitted to commence on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mainfield" | Mainfield International Limited (明暉國際有限公司), a limited liability company incorporated in the BVI on October 8, 2008, and a major shareholder of our Company |

# Glossary

| | |
|---|---|
| "Ministry of Agriculture" | Ministry of Agriculture of the PRC (中華人民共和國農業部) or its local counterpart |
| "Mitsubishi" | Mitsubishi Corporation, a limited liability company incorporated under the laws of Japan on April 1, 1950, the shares of which are listed on the Tokyo Stock Exchange (stock code: 80580), and a 57.42% shareholder of MIY |
| "MIY" | MIY Corporation, a limited liability company incorporated under the laws of Japan on January 18, 2011 |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules |
| "Mutual Supply Agreement" | the mutual supply agreement entered into by our Company and COFCO in relation to the mutual supply of products and services on October 14, 2016 |
| "2018 Mutual Supply Agreement" | the mutual supply agreement entered into by our Company and COFCO in relation to the mutual supply of products and services on November 23, 2018 |
| "New Share Incentive Scheme" | upon unanimous negotiation with MIY, KKR, Baring, Temasek and Boyu, the Board convened a meeting on March 27, 2017, considered and approved the amended Former Share Incentive Scheme and the related documents |
| "Nomination Committee" | the Nomination Committee of the Board |
| "PBOC" | the People's Bank of China, the central bank of the PRC (中國人民銀行) |
| "Prospectus" | the prospectus of the Company dated October 19, 2016 |
| "Remuneration Committee" | the Remuneration Committee of the Board |
| "RMB" or "Renminbi" | the lawful currency of the PRC |
| "SFO" or "Securities and Futures Ordinance" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time |
| "Share(s)" | shares in the capital of our Company with a nominal value of US$0.000001 each |
| "Shareholder(s)" | holder(s) of our Shares of the Company |
| "State Council" | State Council of the PRC (中華人民共和國國務院) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Temasek" | TLS Beta Pte. Ltd., a limited liability company incorporated in Singapore on January 7, 2005, and a Shareholder of our Company |
| "Wuhan COFCO Meat" | COFCO Wuhan Meat Product Co., Ltd.* (武漢中糧肉食品有限公司), a limited liability company incorporated in the PRC on September 30, 2002 and a wholly-owned subsidiary of the Company |
| "Yonekyu" | Yonekyu Corp., a limited liability company incorporated under the laws of Japan on February 26, 1969 and a 21.29% shareholder of MIY |